CAMBRIDGE INTERNATIONAL EXAMINATIONS

International General Certificate of Secondary Education

MARK SCHEME for the October/November 2012 series

0450 BUSINESS STUDIES

0450/13 Paper 1 (Short Answer/Structured Response), maximum raw mark 100

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1 (a) What is meant by a 'sole trader'? [2]

Clear understanding [2] Sole trader refers to a business where **ownership** lies in the hands of one individual.
Some understanding [1] e.g. Run/operated by one person.
Some understanding (of ownership) plus relevant feature can gain 2 marks.
Accept features [1 max] e.g. has unlimited liability.

(b) Identify <u>two</u> ways of measuring the <u>success</u> of a business. [2]

Knowledge [2x1] 1 mark per measure of success.
Measures include: achievement of objectives/growth/increase in market share/sales/profits/ survival in short run.

(c) Identify and explain <u>two</u> appropriate methods of communication between Rafa and his shop managers. [4]

Knowledge [2x1] award 1 mark per method.
Application /analysis [2x1] – award 1 mark for each relevant explanation (i.e. show how the method works and so why it is appropriate).
Methods could include:

- face to face meetings [k] which will give Rafa the opportunity for immediate feedback [an]
- emailing [k] so Rafa or managers can send info and access the information when it suits them [an]/helpful if a lot of details or sales information needs to be communicated [app]
- letters [k] useful if need to have written copy of information/decision e.g. formal warning [an]
- telephone [k] as it is quick so if there is an urgent message people don't have to wait to find out [an]
- text messages [k] because the same message can be sent to the many shop managers at same time [app].

(d) Identify and explain <u>three</u> main functions that a manager of a shop performs. [6]

Knowledge [3x1] – award 1 mark per identification of each function.
Application /Analysis [3x1] – award 1 mark for each relevant explanation (e.g. explain what this function will involve or why do it).
Points could include:

- recruit staff [k] as each shop will need sales people [an]
- order stock [k] to ensure there are enough products available for customers to buy [an]
- motivate/organise/supervise employees [k]
- decision making/problem solving [k]
- control [k]
- ensure customer service and customer satisfaction is high [k].

Note: Answer could focus either on generic management functions or more practical shop related functions.
Do not accept answers such as advertise, communicate, raise capital or pay bills.

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(e) Rafa thinks that if he continues to open more shops his business will become more profitable. Do you agree? Justify your answer. [6]

Knowledge [2] Identification of issues.
Application/Analysis [2] – develops the point to explain how or why issue needs to be considered.
Evaluation [2] reasoned judgement made as to whether more shops means business will be more profitable.
Note: A one sided answer can gain 6 marks but must address the profit issue.

Points include:
- opening more shops will increase the sales turnover of the business [k]
- however it will also mean incurring more costs [k] (e.g. rent, workers)
- other factors that could be discussed include – location of shops, demand for products/competition/overhead costs

Example: Opening more shops could increase the sales turnover of the business [k] as more customers will be able to find a shop near them [an]. However it will also mean incurring more costs [k] as the business will have to pay more employees and rent [an]. So whether it increases profits depends on the relationship between the changes in these two variables [eval]. If sales rise by more than the additional costs then Rafa's business could be more profitable [eval].

2 (a) What is meant by 'current assets'? [2]

Clear understanding [2] Current assets refer to those assets owned that can be quickly converted into cash.
Some understanding [1] e.g. explanation of what an asset OR feature e.g. short term asset
Some understanding plus example e.g. cash can gain 2 marks.
Do not credit examples on own e.g. money.

(b) Calculate the current ratio for C & C in 2011. [2]

Application [2] Correct answer [2] i.e. 1.25 (times).
Method [1] e.g. Current assets / current liabilities [1]; OR 500 / 400 [1].

(c) Identify and explain <u>two</u> situations when a business might use an overdraft to finance its activities. [4]

Knowledge [2x1] – award 1 mark per situation.
Analysis [2x1] – award 1 mark for each relevant explanation (i.e. show why overdraft is most suitable source for this situation rather than any other source of funds).
Situations include:
- working capital needs [k] when the capital need is short term [k] as its quick to arrange [an]
- when the need is for general expenditure not a specific purchase [k] as overdraft is flexible [an]
- no security available or required [k] as overdraft does not need any fixed assets to support it [an]
- cash flow problems [K] as these are likely to be temporary so only borrow money for time needed [an]
- when need quick access to funds [k] as an overdraft is easy to arrange [an].

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(d) Identify and explain <u>three</u> changes that occurred in the financial position of C & C between 2010 and 2011. [6]

Knowledge [3x1] – award 1 mark for identification of change.
Application/analysis [3x1] – award 1 mark for each relevant explanation (accept calculation of % change or explain reason for change).
Changes include:

- fixed assets risen [k] by 33.3% [an]/as bought new machinery or buildings [an]
- finance of expansion largely long term debt[k] as increased to 83.3% [an]/increase in long term debt [k] which was needed for fixed asset purchase [an]
- current ratio improved [k] which is good as it shows liquidity is stronger [an] OR as paid off some short term liabilities [an].

(e) How useful are the accounts of a business to any of <u>two</u> stakeholder groups? Justify your answer. [6]

Knowledge [2x1] identification of what the accounts show the stakeholder.
Analysis [2x1] explain how this might/might not be of use to identified stakeholder.
Evaluation [2x1] reasoned judgement as to how useful accounts might be for identified stakeholder.
Note: no marks for simply identifying stakeholders.

Stakeholders might include:

- employees – income statement and level of profit [k] if profits are high, they could get a bonus or a pay rise [an] OR would find the information perhaps of general interest but of no direct relevance [eval]
- lenders – shows the assets and liabilities/what the business is worth/owes/how it is financed. It is helpful because if the business has too many debts [an] it might be too risky to lend more [eval]
- potential investors – might want to know the ROCE [k] to see if it's worth investing in this business [an]
- shareholders – profit levels [k] as if high could lead to higher dividend payment [an]
- creditors – owed money so keen to see size of other debts of business [k] and what security exists – assess risk of default [an].

3 (a) What is meant by 'niche markets'? [2]

Clear understanding [2] Niche market is a subsection of a market [1] with specific needs and characteristics [1].
Some understanding [1] e.g. small part of a market [1].
For 2 marks must have reference to idea of 'small part of market' and 'specific characteristics'.
Do not accept 'small market' [0].

(b) Identify <u>two</u> ways of segmenting a market. [2]

Knowledge [2x1] 1 mark per way.
Ways include: Income/gender/location/socioeconomic groupings/race/age/interests.

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(c) Identify and explain <u>two</u> reasons why market research information might <u>not</u> be useful to a business in making decisions. [4]

Knowledge [2x1] award 1 mark per reason.
Analysis [2x1] Development marks for showing why the information might be of limited value.
Points might include:

- be out of date [k] / Only shows past not future [k]
- may not be relevant [k] as the information might have been collected for a different purpose [an]
- wrong questions asked [k] so unable to collect the necessary information
- biased and non representative of cohort [k] so information is not relevant to their specific market [an].

(d) Identify and explain <u>three</u> reasons why a holiday company would spend money on advertising. [6]

Knowledge [3x1] – award 1 mark per reason.
Application/analysis [3x1] – award 1 mark for each relevant explanation (i.e. show why spending is necessary.
Reasons might include:

- create customer awareness [k] which could lead to greater level of sales [an]
- persuade and influence customers [k]
- project a strong company image [k]
- to compete more effectively in a competitive environment [k] as rival businesses are also likely to spend money on advertising its holidays [an]
- spending is cost effective [k] as money spent should hopefully lead to higher levels of revenue [an].

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(e) Do you think offering cheaper holidays would be a good idea for Koni Travel? Justify your answer. [6]

Knowledge/application [2] – identification of relevant issues.
Analysis [2] – develops the point to explain how or why issue needs to be considered.
Evaluation [2] reasoned judgement made as to whether this is a good idea for KT.
Note: A one sided answer can gain 6 marks but must address niche market aspect.

Points could include:
- new market could increase possible customers/sales [k]
- no expertise [k] as used to operating in a niche market [app]
- additional costs of advertising/location/staffing requirements might mean it is too expensive/not cost effective [an]
- could boost/damage image depending on whether successful [k]
- reaction/level of competition [k] in new market in which KT have no experience [app] so might not gain many additional sales [an].

Example: KT currently operates in a niche market where its customers are high income groups [k]. Cheap holidays would not appeal to this segment [an]. Such a move might tarnish the name and reputation of the business with its existing customer base [k]. However the move could tap a new type of customer [k]. Sales could rise and more profits could be earned as they are able to target more customers [an]. However, this is likely to be a competitive market, so there is no guarantee they will gain these new customers [an] and they will have to pay extra costs which they might not recover in additional sales [eval]. So they could lose out as they lose existing customers and can't gain enough new ones [eval].

4 (a) What is meant by 'flow production methods'? [2]

Clear understanding [2] e.g. Where large quantities of a product [1] are produced in a continuous process [1] OR identifies TWO distinctive features of flow.
Some understanding [1] e.g. 'makes lots of the same thing' OR identifies one distinctive feature e.g. large scale production.

(b) Identify two ways of measuring the size of a business. [2]

Knowledge [2] 1 mark per way.
Ways include:
- sales value OR value of output OR revenue
- capital employed
- number of employees
- value of balance sheet
- market share.

Do NOT allow profit/outlets/number of assets or machines or capital/amount of output.

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(c) Identify and explain <u>two</u> reasons why measuring 'output per employee' is important to the management of a business. [4]

Knowledge [2x1] – award 1 mark for each reason identified [max 2].
Analysis [2x1] – explanation to show why the concept is important to a business.
Reasons could include:

- impacts on unit cost [k]
- measures the employment level in the business in relation to the output [k]
- measures the effective use of employees/labour productivity [k]
- measures effectiveness of training/can identify training needs [k]
- indicate motivation/morale problems [k] which manager will need to address to ensure labour turnover doesn't become a problem [an]
- help calculate wages [k].

(d) Identify and explain <u>two</u> reasons why a high labour turnover might occur in a business such as J and K. [6]

Knowledge [2x1] – award 1 mark for each reason identified [max 2].
Application [2x1] – award 1 mark if relevant reference made to manufacturer like J&K.
Analysis [2x1] – award 1 mark for each relevant explanation (i.e. show why the factor identified might contribute towards people leaving).
Reasons could include:

- wage levels too low [k] so employees seek better wages elsewhere [an]
- no promotion prospects [k] as machines do most of work [app] so workers have to leave to get better paid/responsible job [an]
- nature of work unattractive [k] as flow production used [app] so little variety in work [an]
- working environment unsatisfactory [k] as machines might be dangerous [app] so people don't want to get hurt [an]
- management style not liked [k] so people don't want to work for them [an].

For each reason maximum 3 marks [1k + 1ap + 1an].

(e) The management of J and K thinks that unit costs will continue to fall if the business gets larger. Do you think they are right? Justify your answer. [6]

Knowledge [2] Identification of issues or knowledge of unit costs.
Application /analysis [2] – develops the point to explain how or why issue needs to be considered.
Evaluation [2] reasoned judgement made as to whether unit costs <u>will</u> continue to fall as J&K gets larger.
Note: A one sided answer can gain 6 marks.
Points that could be considered include:

- might continue to benefit from future economies of scale [k]
- economies of scale may stop at a certain level
- diseconomies can set in [k] e.g. larger businesses are harder to manage
- labour issues (high turnover) [k] could affect ability to maintain efficiency [an].

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5 (a) What is meant by 'entrepreneur'? [2]

Clear understanding [2] e.g. An entrepreneur is a risk taker who injects money into a business in anticipation of profit OR 2 features of an entrepreneur.
Some understanding [1] e.g. risk taker or innovator.
Do not accept names of entrepreneurs.

(b) Identify <u>two</u> examples of discrimination at work. [2]

Knowledge [2x1] 1 mark per example.
Examples include: One group of workers paid more than another even though work is identical/less qualified person appointed over more qualified/racial, age and gender discrimination.

(c) An employment contract includes the personal details of the employee. Identify and explain <u>two other</u> features of an employment contract. [4]

Knowledge [2x1] – award 1 mark per feature.
Analysis [2x1] – award 1 mark for each relevant explanation (show what the point identified means).
Features might include:

- duration of contract [k]
- level or frequency of pay [k]
- nature of tasks to be carried out [k].

(d) Identify and explain <u>three</u> ways in which laws can protect workers. [6]

Knowledge [3x1] – award 1 mark per way.
Analysis [3x1] – award 1 mark for each relevant explanation (i.e. must show how the employee is protected by the point raised).
Points might include:

- employee might be protected against an unhealthy or dangerous working environment [k] so less risk of being injured [an]
- avoid unreasonable hours [k]
- excessively low pay [k] so able to have basic standard of living [an]
- cannot expect to respond to unreasonable demands outside the terms of the contract [k].

Note: no marks for simply identifying laws.

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(e) Do you think that company profits can be damaged by employment laws and health and safety laws? Justify your answer. [6]

Knowledge [2] Identification of issues.
Analysis [2] – explain how or why issue needs to be considered by the business.
Evaluation [2] reasoned judgement made as to whether profits can be damaged by laws.
Note: A one sided answer can gain 6 marks.

Points could include: If legislation is excessive it can damage business because

- labour costs too high [k]
- overmanning occurs [k] because removal of people difficult [an]
- legislation can be costly to implement [k]
- may result in legal action and all associated costs if laws broken [k] which could damage reputation of business [an]
- increases reluctance to take extra employees on [k]
- can help business be seen as good employer so able to attract better quality workers [k].

Example: If costs rise and a company's ability to make appropriate decisions is constrained [k] then profits may well be damaged as they cannot respond to demand [an]. However laws may give employees greater security [k] and this might improve their job performance [an]. Motivation might also increase and this could have a greater positive impact on profits [eval]. So situation not entirely clear cut [eval].

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