CAMBRIDGE INTERNATIONAL EXAMINATIONS

International General Certificate of Secondary Education

MARK SCHEME for the October/November 2012 series

0450 BUSINESS STUDIES

0450/22 Paper 2 (Case Study), maximum raw mark 100

This mark scheme is published as an aid to teachers and candidates, to indicate the requirements of the examination. It shows the basis on which Examiners were instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began, which would have considered the acceptability of alternative answers.

Mark schemes should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

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This mark scheme includes a summary of appropriate content for answering each question. It should be emphasised, however, that this material is for illustrative purposes and is not intended to provide a definitive guide to acceptable answers. It is quite possible that among the scripts there will be some candidate answers that are not covered directly by the content of this mark scheme. In such cases, professional judgement should be exercised in assessing the merits of the answer and the senior examiners should be consulted if further guidance is required.

Examples of possible answers are also included in this mark scheme. Again, it should be emphasised that this is for illustrative purposes and the examples chosen represent only some of the many possible responses that would merit reward.

Application marks are not awarded for the name of the business or person from the case material. Application is by answering in the context of the case or by using the information in the case to help answer the question.

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1 (a) Identify and explain <u>four</u> disadvantages for Trunal of setting up as a sole trader rather than working for an employer. [8]

Content:

- lose investment
- lack of demand
- business may go bankrupt
- work long hours
- all responsibility is his
- unlimited liability
- no continuity
- banks less willing to lend/limited access to finance
- no one to help with decisions/ideas
- not a separate legal identity.

The marks available for this question are as follows:

4 marks for knowledge and 4 marks for explanation/analysis.

1 knowledge mark + 1 explanation mark (2 marks × 4 disadvantages)

Disadvantage: May lose all his money invested in the business.
(1 knowledge mark)

Explanation: May lose all his money invested in the business if the business goes bankrupt as he has unlimited liability.
(1 additional mark for explanation)

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(b) Trunal is thinking of targeting just one type of customer. Do you think this is a good idea? Justify your answer using only the information in Appendix 1. [12]

Content:
The revenue from tourists is not constant throughout the year. (L1)
Private customers use taxis at the weekend but businesses use them in the week. (L1)
Tourists pay more than private customers per journey. (L1)
Variable costs were higher for businesses rather than private customers. (L1)
Private customers make the most journeys per day. (L1)

Private customers TR $400 (L1) – TC $220 (L1)
Net profit = $180 (L2) (NPM = 45.45%) (L2)
Break-even = 4 (L2)

Tourists TR $600 (L1) – TC $320 (L1)
Net profit = $280 (L2) (NPM = 46.7%) (L2)
Break-even = 2 (L2)

Businesses TR $450 (L1) – TC $245 (L1)
Net profit = $205 (L2) (NPM = 45.5%) (L2)
Break-even = 1.3 (L2)

Level 1 E.g. Total revenue for tourists is $600. 1 mark for statement related to Appendix 1 or simple calculation.

Level 2 E.g. The revenue from tourists is seasonal and this might cause cash flow problems during times of the year when there are no tourists, as Trunal will still have to pay the fixed cost for the taxis.

5 marks for the first level 2 answer. Plus 1 mark for each additional level 2 answer, i.e. two level two answers = 6 marks, 3 level 2 answers = 7 marks, 4 level 2 answers = 8 marks.

Level 3 At least three level 2 answers and then a conclusion at the end which justifies which type of customer to target and why not the other two types or justification of not targeting a single type of customer.

NB: Answers should only be based on Appendix 1

	Knowledge/Application/Analysis/Evaluation
Level 3	11–12 marks Three × level 2 calculations + good judgement shown as to which type of customer to try to target and why not the other two types (comparison made) or justification of not targeting a single type of customer.
Level 2	5–10 marks Net profit calculated or other relevant calculations. Good discussion of information in Appendix 1 and how demand may affect the profits over the year.
Level 1	1–4 marks Simple calculations made and/or simple statements made e.g. the price to deliver documents is much higher than the price to taxi private customers.

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2 (a) KK Cars is described as a small business. Identify and explain <u>two</u> ways the size of this business can be measured. [8]

Content:
- number of employees
- capital employed
- level of sales turnover
- market share of the business.

The marks available for this question are as follows:

2 marks for knowledge, 2 marks for application and 4 marks for explanation/analysis.

1 knowledge mark + up to 2 explanation marks + 1 application mark for each way (4 marks × 2 ways)

Possible application marks:

sole trader; taxi business; cars; drivers; journeys; mileage; passengers; data from Appendix 1 or 3.

There may be other examples in context which have not been included here.

Below is an example to illustrate the difference between a simple explanation worth one additional mark and a developed explanation worth 2 additional marks. An example is also provided of where the application mark might be awarded.

Way: Size can be measured by the number of employees. (1 knowledge mark)

Simple explanation: Size can be measured by the number of employees. KK Cars only employs one other driver and is a small business. (1 additional mark for simple explanation)

Developed explanation: Size can be measured by the number of employees (1). KK Cars only employs one other driver and is a small business (1). Large businesses often employ a large number of workers although this is not always the case when capital-intensive methods of production are used. (1 further explanation mark for a developed explanation)

Application: The application mark could be achieved as the answer refers to driver. (1 application mark)

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(b) Trunal wants to expand his business. Refer to the <u>two</u> options suggested in Appendix 3. Consider the advantages and disadvantages of each of these options. Recommend which option Trunal should choose. Justify your answer. [12]

Content:

Option 1 can hold up to 14 people, taxi fares increased; diversified service; costs higher; lease payment; greater advertising required; seasonal demand; margin of safety is 1 per day.
$200 lease/($80–$40) $40 = 5 journeys per day to break-even (L2)
(TR = 480)–(TC = 440) = $40 Net profit (L2)

Option 2 Cost of buying the taxis; payments for 5 years; constant demand; 50% above break-even point; margin of safety is 5 journeys per day.

Level 1 E.g. A much higher price can be charged for the luxury car hire.
1 mark for each statement.

Level 2 E.g. A much higher price of $80 can be charged for the luxury car hire which means the business can make high sales revenue. However, the variable costs are also high and there is also the additional leasing cost which may mean the profits are not high. 5 marks for level 2 answer plus 1 application mark for mentioning luxury car hire at a price of $80.

5 marks for the first level 2 answer. Plus 1 mark for each additional level 2 answer, i.e. two level two answers = 6 marks, 3 level 2 answers = 7 marks, 4 level 2 answers = 8 marks.

Level 3 Detailed discussion of at least two level 2 answers and then a recommendation at the end which justifies which option to choose rather than the other option.

Possible application marks:

small business; sole trader; taxi business; private customers; tourists; low profits to start with; competitive market; need to advertise; luxury car; birthday parties, weddings; passengers; airport taxi service; airport; data from Appendix 3.

There may be other examples in context which have not been included here.

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	Application	Knowledge/Analysis/Evaluation
Level 3		9–10 marks Two × level 2 + good judgement shown as to the best option to choose and why not the other option (comparison made).
Level 2	2 marks Well applied to case. At least two examples of, references to, or uses of, the case.	5–8 marks Good discussion of the advantages and disadvantages of the two options OR balanced argument.
Level 1	1 mark Limited application to the case. At least one example of, reference to, or use of, the case.	1–4 marks Factors listed or statements made about the options.

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3 (a) Refer to Appendix 2. Trunal needs more information to be able to calculate what price to charge the customer. Identify <u>four</u> pieces of information missing from this email and explain why each would be needed. [8]

Content:

- no contact address/no address for delivery/distance of the journey
- no time for delivery given
- no size or weight of the document to be delivered
- contents of parcel
- time of day to be delivered.

NB: answer should be related to what price to charge the customer not just the missing information

The marks available for this question are as follows:

4 marks for application and 4 marks for explanation/analysis.

1 application mark for each example + 1 explanation mark + (2 marks × 4 examples)

1 example plus 1 explanation mark: With no delivery address given (1 knowledge mark) in the email how can Trunal work out the price to charge the customer as he doesn't know how far the journey is (1 additional explanation mark).

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(b) If Trunal decides to expand his taxi service as explained in Option 2 then he will need to promote this service. Consider <u>three</u> methods of promotion he could use. Which method of promotion would be most effective? Justify your answer. [12]

Content:

- advertising in travel magazines
- advertising in local newspapers
- radio
- fliers
- BOGOF
- price discount
- Internet
- promote on the side of the taxis
- posters at the airport
- advertising on the airport booking centre booth.

Level 1 E.g. Give out fliers at the airport. 1 mark for each statement

Level 2 E.g. Give out fliers at the airport to advertise the taxi service this is where they can reach the customers directly. It is a cheap form of advertising but effective if the tourist keeps the flier as a reminder of the taxi service then they know how to contact the taxi firm. 5 marks for each level 2 answer. Application marks can be awarded as the answer talks about tourists and taxis.

5 marks for the first level 2 answer. Plus 1 mark for each additional level 2 answer, i.e. two level two answers = 6 marks, 3 level 2 answers = 7 marks, 4 level 2 answers = 8 marks.

Level 3 Detailed discussion of at least two level 2 answers and then a recommendation at the end which justifies which method of promotion to use rather than the other methods.

Possible application marks:

small business; sole trader; private customers; taxi; drivers; cars; hotels; tourists; competitive market; airport taxi service; airport; data from Appendix 3.

There may be other examples in context which have not been included here.

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	Application	Analysis/ Evaluation
Level 3		9–10 marks Two × level 2 + well justified recommendation as to which method of promotion to use and why the other methods are less suitable (comparison made).
Level 2	2 marks Well applied to case. At least two examples of, references to, or uses of, the case.	5–8 marks Promotion methods advantages and disadvantages explained OR balanced argument.
Level 1	1 mark Limited application to the case. At least one example of, reference to, or use of the case.	1–4 marks Promotion methods outlined.

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4 (a) If Trunal decides to lease a large luxury car he will need to employ skilled drivers. Explain how a job specification and interviewing applicants will help him to recruit the best drivers. [8]

Content:

Job specification: contains qualifications and experience required from the applicant, ensures applicant suitable for the job, without it unsuitable people could apply. 1 mark maximum for implicit contents of a job specification.

Interviews: gives chance to assess applicant, face to face assessment, check the applicant's CV is correct, tasks given to see if applicant can do them.

The marks available for this question are as follows:

2 marks for knowledge, 2 marks for application and 4 marks for explanation/analysis.

1 knowledge mark + up to 2 explanation marks + 1 application mark (4 marks for job specification + 4 marks for interview)

Possible application marks:

expansion; small business; sole trader; taxi business; passengers; drivers; driving licence; cars; routes; private customers; number of customers increasing; birthday parties, weddings; data from Appendix 3.

There may be other examples in context which have not been included here.

Below is an example to illustrate the difference between a simple explanation worth one additional mark and a developed explanation worth 2 additional marks. An example is also provided of where the application mark might be awarded.

Definition: A job specification lists the personal qualifications, experience and skills required for the job. (1 knowledge mark)

Simple explanation: A job specification lists the personal qualifications, experience and skills required for the job. This means Trunal can list all the personal qualities he thinks are important for his drivers to have, such as good communication skills to talk to passengers.
(1 additional mark for simple explanation)

Developed explanation: A job specification lists the personal qualifications, experience and skills required for the job (1). This means Trunal can list all the personal qualities he thinks are important for his drivers to have, such as good communication skills to talk to passengers (1). If applicants have these skills and qualifications then Trunal can match these drivers to the job description and recruit the best person for the job. (1 further explanation mark for a developed explanation)

Application: The application mark could be achieved as the answer refers to communication skills to talk to passengers. (1 application mark)

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(b) Consider <u>three</u> methods Trunal could use to motivate these drivers. Which do you think will be the most effective method for Trunal's business? Justify your answer. [12]

Content:
- pay rise
- fringe benefits
- training
- job enlargement
- bonus.

Level 1 E.g. The drivers can be given more tasks to do during the day. 1 mark for each statement.

Level 2 E.g. The drivers can be given more tasks to do during the day. They can be responsible for their own luxury car and therefore gain a sense of achievement if their car is kept clean and tidy. They will gain a feeling of being trusted and feel more valued by Trunal and this will motivate them to work harder for the business. 5 marks for level 2 answer plus 1 application mark for mentioning being responsible for their own luxury car.

5 marks for the first level 2 answer. Plus 1 mark for each additional level 2 answer, i.e. two level two answers = 6 marks, 3 level 2 answers = 7 marks, 4 level 2 answers = 8 marks.

Level 3 Detailed discussion of at least two level 2 answers and then a recommendation at the end which justifies which motivation method to use rather than the other methods.

Possible application marks:

drivers; journeys; expansion; small business; sole trader; taxi business; tourists; number of customers increasing; luxury car; airport taxi service; data from Appendix 1 or 3.

There may be other examples in context which have not been included here.

	Application	**Knowledge/Analysis/Evaluation**
Level 3		9–10 marks Two × level 2 + good judgement shown as to the best method to choose and why not the other methods (comparison made).
Level 2	2 marks Well applied to case. At least two examples of, references to, or uses of, the case.	5–8 marks Good discussion of how each method of motivation is effective for the worker or for the business. Limited judgement shown about motivation method.
Level 1	1 mark Limited application to the case. At least one example of, reference to, or use of the case.	1–4 marks Motivation methods listed.

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5 (a) The rate of economic growth in country X fell from 4% to 0% in the last year. Identify and explain <u>two</u> effects this might have on KK Cars. [8]

Content:

- fewer journeys
- lay off staff
- inflation falls and so costs fall
- less pressure on wage demands
- lower growth leads government to reduce taxation or increase government spending
- less income
- unemployment rising
- possibly harder to get finance.

The marks available for this question are as follows:

2 marks for knowledge, 2 marks for application and 4 marks for explanation/analysis.

1 mark for each effect identified. Up to two further marks are available for explaining the effect. 1 application mark is also available for each effect.

Possible application marks:

expansion; taxi business; drivers; journeys; private customers; tourists; fares; documents delivered; fully booked; parcel delivered; luxury car; airport taxi service; data from Appendix 1 or 3.

There may be other examples in context which have not been included here.

Below is an example to illustrate the difference between a simple explanation worth one additional mark and a developed explanation worth 2 additional marks. An example is also provided of where the application mark might be awarded.

1 knowledge mark + up to 2 explanation marks + 1 application mark for each effect (4 marks × 2 effects)

Effect:	Inflation is likely to fall. (1 knowledge mark).
Developed explanation:	Inflation is likely to fall (1 knowledge mark). This may reduce cost pressure on Trunal's business (1 explanation mark) who might be able to reduce fares and increase demand for his taxis. (1 further explanation mark for a developed explanation)
Application:	The application mark could be achieved as the answer refers to fares and taxis. (1 application mark).

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(b) Consider the <u>effects</u> on Trunal's business of each of the following legal changes. [12]

Content:
Higher standards of safety for taxis – increased costs – need for safety equipment – decreased profits.

Shorter working hours for taxi drivers – recruit more drivers – or fewer journeys.

Lower speed limits for taxis – each driver has to work fewer hours – journeys take longer – increased taxi fare charged to customers – fewer customers.

Level 1 If the speed limit is reduced then it will take longer to make a taxi journey. 1 mark for each statement.

Level 2 E.g. If the speed limit is reduced then it will take longer to make a taxi journey. Longer journey times will mean that fewer journeys can be made per day and so fares will need to rise (L2). However, this will apply to all taxi businesses so it should not make Trunal less competitive and demand will probably stay the same (L2). 6 marks for two × level 2 answers plus 1 application mark for mentioning all taxi businesses, fares and journey times.

5 marks for the first level 2 answer. Plus 1 mark for each additional level 2 answer, i.e. two level two answers = 6 marks, 3 level 2 answers = 7 marks, 4 level 2 answers = 8 marks.

Possible application marks:

car damage; fares; drivers; accidents; speeding fines; small business; taxi business; tourists; documents delivered; fully booked; parcel delivered; airport taxi service; data from Appendix 1 or 3.

There may be other examples in context which have not been included here.

	Application	**Knowledge/Analysis/Evaluation**
Level 2	2 marks Well applied to case. At least two examples of, references to, or uses of, the case.	5–10 marks Good discussion of the effects on the business of each of these changes. Judgement shown about how much effect the changes may have on the business.
Level 1	1 mark Limited application to the case. At least one example of, reference to, or use of, the case.	1–4 marks Brief outline of the effects of these Government changes on business.

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