CAMBRIDGE INTERNATIONAL EXAMINATIONS

International General Certificate of Secondary Education

MARK SCHEME for the October/November 2013 series

0450 BUSINESS STUDIES

0450/13 Paper 1 (Short Answer/Structured Response), 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.

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Cambridge is publishing the mark schemes for the October/November 2013 series for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level components and some Ordinary Level components.

1 (a) Identify <u>two</u> possible reasons why the directors want Homeright to grow. [2]

Knowledge [2 × 1]: award one mark per reason

Reasons include:
- Economies of scale
- Opportunity to increase profits
- Objective of a business
- Ensures survival/protection from risk of takeover
- Measure of success
- Increase market share

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

Knowledge [2 × 1] one mark per way

Points include:
- Increase in market share
- Sales value or volume
- High ROCE OR profit margin
- Market leader
- Meet objectives of owners
- Good reputation
- Growth
- High share price
- Survival

Note: Measures of size such as output, number of employees or capital should not be credited as this is not the question.

(c) Identify and explain <u>two</u> possible problems for Homeright of selling its products in foreign markets for the first time. [4]

Knowledge [2 × 1] – award 1 mark per problem

Application [2 × 1] – award 1 mark for each relevant explanation i.e. show how these factors actually create problems for a business like Homeright

- Lack of knowledge of customer needs/tastes [k] so produce wrong style of chairs [app]
- Problems of established competitors [k] customers might be brand loyal to other manufacturers [app]
- Lack of distribution channels [k] so not able to supply customers on time [an]
- If Homerights currency appreciates [K] it will make their products more expensive [app]
- Language problems [k] so might be mistakes over orders [app]
- Legal restrictions e.g. bans, complex paperwork [k] so not able to sell certain products in some countries [app]
- Problems of entry e.g. quotas [k] will restrict the numbers of products that Homeright can sell [app]

  Do not accept taxes on own as implies internal to country

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(d) Identify and explain <u>two</u> problems to Homeright's management that rapid growth could cause. [6]

Knowledge [2 × 1] – award 1 mark for each problem identified [max 2]

Application/analysis [2 × 2] – award up to 2 marks for each relevant explanation i.e. show how the points identified actually create a problem for the management of Homeright

Points might include:

- Organisational issues e.g. lack of managerial experience [k] especially as they have already found it difficult to manage the speed of growth [app] so could lead to poor decisions taken [an]
- Communication problems [k] as likely to have more employees to instruct [an] so existing methods of communication might not be effective [an]
- Labour issues e.g. able to hire enough skilled workers [k] as more growth is planned [app] they will need to produce even more chairs [an]
- Supply change problems – can suppliers keep up with orders [k] as product range doubled [app] they will lots of extra materials [an]
- Logistical issues – distribution problems [k] as enter overseas markets [app] they may be unable to get ensure products get to customers on time [an]
- Financial – working capital/overtrading [k]
- Quality may suffer in rush to meet demand [k] which could damage reputation [an] leading to fewer sales [an]
- Operational issues e.g. capacity to meet demand [k] as factory might be too small to hold all materials/finished stock [an]

(e) Do you think that the profits of Homeright will continue to increase if the company grows in the future? Justify your answer. [6]

Knowledge/application [2 × 1] identification of <u>relevant</u> issues

Analysis [2] – explain how or why issue needs to be considered by Homeright

Evaluation [2] – reasoned judgment made as to whether profits will continue to increase if the company grows

Points might include:

- Increased sales [k] which if costs remain the same should lead to higher profits [an]
- Will customers like the new product range [k] if not sales will not rise [an]
- Greater costs/diseconomies of scale [k] as grown rapidly [app] they might not be able to control them [an]
- Growth might bring increased economies of scale [k] leading to lower average costs [an]
- Is their scope for further growth in the market [k] as new competitors might enter [an] so Homeright's sales might not continue to increase [an]

Developed answer:
Growth of a business will result in increased sales revenue [k]. Assuming margins are constant this must result in higher profits [an]. However rapid growth in terms of new products might mean new sales are not easily generated [k] and costs increase proportionally faster [an]. So profits might not rise [eval] and certainly profitability might not increase [eval].

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2 (a) What is meant by 'fixed costs'? [2]

Clear understanding [2] e.g. costs that do not change [1] as the level of activity changes [+1].
Some understanding [1] e.g. costs that stay the same
Note: Must link answer to level of activity/output to gain full marks.

(b) What is meant by 'working capital'? [2]

Clear understanding [2] e.g. how much liquid assets a business has to finance its everyday costs [2] OR formula e.g. current assets minus current liabilities [2]
Some understanding [1] e.g. money for everyday expenses OR funds used to buy stock.

(c) Identify and explain two problems for Fabian's business of holding a lot of stock. [4]

Knowledge [2 × 1] – award 1 mark per problem

Application [2 × 1] – award 1 mark for each relevant explanation i.e. how or why such points represent a problem for the business.

Points might include:
- Increased insurance costs [k] as more items need to be protected [app]
- Increased storage and handling costs [k] increases business expenses [app]
- Cash flow/liquidity problems [k] as money held as stock [app]
- Additional storage/handling costs [k] as need more space [app]
- Additional security costs [k] as valuable parts need to be kept safe [app]
- Risk of obsolescence/wastage [k] because of new fashion/taste in design [app]
- Risk of damage [k] as need to be stored which could increase costs [app]
  Do not accept any answer that could not be related to this type of business, e.g. sell by dates.

(d) Identify and explain three methods of promotion that Fabian could use to increase sales. [6]

Knowledge/application [3 × 1] – award 1 mark per appropriate method

Analysis [3 × 1] – award 1 mark for each relevant explanation i.e. show how the methods work to help promote the business to increase sales

Points include:
- leaflets/posters/billboards [k] to raise awareness of the business [an]
- advertisements in newspapers OR television (only accept once) to increase customer awareness [an]
- BOGOF/special offers [k] e.g. buy football boots get 1 ball free attract customers to buy as get more when buy certain product [an]
- Promotional pricing (must indicate short term price cuts) [k] to encourage customers to try their products [an]
- Sponsorship/public relations [k] improves the image of the business [an]
- Point of sales displays [k] as attracts attention of customers [an]
- Gifts [k] increases the attractiveness of the product [an]
- Trade shows/events [k] reaching a wider target market [an]
- Competitions [k] people will buy the sports equipment from Fabian to have a chance of winning the prizes [an]
- Internet/social media [k] as it can be targeted at certain customer groups [an]

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(e) Do you think that reducing the product range will benefit Fabian's business? Justify your answer. [6]

Knowledge/application [2 × 1] – award 1 mark for each relevant issue identified

Analysis [2] – award up to 2 marks for relevant development

Evaluation [2] – reasoned judgement made as to whether reducing the product range will benefit the business

Points for narrower range include:
- Increase stock turnover [k] reduces chance of products going out of fashion/season [an]
- Attract more customers looking for specialist products [k] as products tailored to specific requirements [an]
- Lower stock holding costs e.g. rent costs decreased [k] as less space needed to store products [an]

However the change might:
- Lose customers [k] as don't have the products they need [an]
- Lack of demand for areas of specialisation [k] if one sport becomes unpopular left with unsellable goods [an]

Developed answer:
Fabian will have a smaller target market [k] which could mean fewer sales [an] as he doesn't stock the products that customers want [an]. However he can now specialise [k] so he can offer a better service to his chosen customers [an]. I think this is too big a big risk [eval] as the customers he is focusing on might not spend enough to make up for all the potential customers he has now lost [eval].

3 (a) What is meant by 'economic boom'? [2]

Clear understanding [2] e.g. high level of economic activity associated with a rise in GDP
Some understanding [1] e.g. identifies one or more feature of economic boom
Features might include low unemployment, rising inflation, resource shortages, high levels of disposable income and high levels of consumer and business confidence.

(b) Identify two factors that may influence wage rates in a business. [2]

Knowledge [2 × 1] one mark per factor

Factors include:
- Ability to pay
- Competition for labour
- Strength of trade unions
- Government regulations e.g. minimum wage
- Skills/type of work
- Level of unemployment/supply of labour

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(c) Identify and explain <u>two</u> problems to a business caused by high interest rates. [4]

Knowledge [2 × 1] – award 1 mark per problem

Analysis [2 × 1] – award 1 mark for each relevant explanation i.e. how or why it creates a problem for businesses

Points include:
- Increased costs of borrowing [k] e.g. so might have higher expenses/reduced profits or have to delay/stop capital expenditure [an]
- Reduced demand for products [k] e.g. as customers will be unwilling to take out loans to buy high priced products [an]
- Demand for higher wages [k] as workers might face lower disposable incomes [an]

(d) Identify and explain <u>two</u> ways in which decisions in a business might be affected by a rise in taxes. [6]

Knowledge [2 × 1] – award 1 mark for each way identified (how effect business) [max 2]

Analysis [2 × 2] – award 1 mark for the <u>decision</u> [1] and a further mark for showing the impact of that decision on the business [+1]

Points might include:
- Higher taxes will reduce sales [k]. Hence business expansion decisions may be delayed [an] so business becomes less competitive/lose market share [an].
- If higher taxes fall on company profits then businesses will have less retained profit [k]. This means that business will need to find alternative sources of finance [an] which might be more expensive [an]
- Increase in indirect taxes will increase prices [k] so business might chose to absorb some or all of the tax [an] and this will reduce profit margins [an]
- Increase in indirect taxes will increase business costs [k] so have to look for cheaper alternatives [an] which might lower quality of products produced [an]

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(e) Do you think that all businesses will be successful when a country has an economic boom? Justify your answer. [6]

Knowledge [2 × 1] – identification of relevant issues

Analysis [2] – award up to 2 marks for relevant development

Evaluation [2] – reasoned judgement made as to whether ALL businesses will be successful in a boom

Points might include:
- Business sales should rise [k] so profits should increase [an]
- Greater competition as more businesses set up [k] so can be harder to compete [an]
- If sell necessities/basic goods may see very little increase in sales [k] as consumers are already buying the quantity they need [an] and suppliers of basic goods might actually see a fall in sales as consumers switch to better quality substitutes [an]

Developed answer:
An economic boom means that business activity is likely to be high [k]. Generally sales of businesses will be rising and profits will be getting larger [an]. However a business needs to produce the right product to meet customer needs [k]. If a business fails to do this then it will fail [an] even if the economic climate is favourable [eval]. It is more likely that businesses will be successful in a boom but it is not inevitable [eval].

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

Clear understanding [2] e.g. products are made in groups/sets of items of a certain amount
OR identifies two distinctive features of batch production
Some understanding [1] identifies one distinct feature of batch e.g. made in (small) groups.
Do not accept 'batch' as part of answer as stated in question.

(b) Identify two benefits to Defoe of buying raw materials in small quantities. [2]

Application [2 × 1] one mark per benefit

Benefits include:
- Business ties up less cash
- increased flexibility as changes can be made
- lower holding costs in terms of space and insurance
- less risk of damage/obsolete

(c) Identify and explain two appropriate sources of finance that Defoe could use to invest in capital intensive methods of production. [4]

Knowledge [2 × 1] – award 1 mark per source (must be long term)

Application [2 × 1] – award 1 mark for each relevant explanation i.e. show why these sources are appropriate

Points might include:
- Retained profit [k] no need to repay or no interest [app]
- long term loans/debentures [k] can structure payments over long time [app]
- new issued capital [k] which can raise full amount OR no need to repay
- leasing [k] no large initial outlay [an]

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(d) Identify and explain <u>three</u> benefits to Defoe of using capital intensive methods. [6]

Knowledge [3 × 1] – award 1 mark for each benefit identified [max 2]

Application [3 × 1] – award 1 mark for each relevant explanation (i.e. show how or why these points generate benefits for the business)

Points include:
- Higher levels of output [k] so able to meet more orders [an]
- Lower unit production costs [k] as benefit from technical economies of scale [an]
- Better quality [k] so able to charge higher prices for products [an]
- Uniformity of products [k] as less errors are made [an]
- Improves productivity [k] which can help reduce average costs [an]
- Way to reduce labour costs [k] so lower total costs for business [an]
- Faster production [k] as machines can make more in less time [an]
- Machines are able to handle more complex work [k] so able to develop better/more advanced products [an]
  Note: advantages must clearly <u>relate to business</u> not employees

(e) Would the employees of Defoe benefit from the change to capital intensive methods of production? Justify your answer. [6]

Knowledge/application [2 × 1] – award 1 mark for each <u>relevant</u> issue identified

Analysis [2] – award up to 2 marks for relevant development i.e. how or why these points impact on the employees

Evaluation [2] – reasoned judgement made as to whether Defoe's <u>employees</u> will benefit from the change to capital intensive methods

Points might include:
- Greater job security for those with jobs [k] if profit increases as directors hope [an]
- Need for re-training [k] which could create promotion opportunities [an]
- Fear of change/fear of redundancy as machines replace jobs [k] could decrease motivation [an]
- Deskilling [k] so workers become bored due to repetitive nature of job [an]
- Implications for pay e.g. lower wages [k] so lower living standards [an]
- Opportunities to learn new skills [k] which could improve chances for self-improvement or promotion [an]
- Safer conditions as up to date technology [k] so less risk of injury [an]
- Work less tiring [k] as machines do the heavy work [an]
  Do not accept points such as 'more efficient' unless clearly link benefit to employees.

Developed answer:
Some workers might lose their jobs [k] leading to lower living standards [an]. Workers who remain might become demotivated [k] as the work they do becomes more repetitive [an]. But others might benefit as they have the chance to learn new skills [k] or even gain more responsibility [k]. Those who get these opportunities will clearly benefit [eval] but as machines are usually introduced to reduce the labour force, I think more workers are likely to be worse off than gain [eval]

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5 (a) What is meant by 'e-commerce'? [2]

Clear understanding [2] e.g. process of buying and selling [+1] over the Internet [1]
Some understanding [1] e.g. done over internet

(b) What is meant by 'marketing mix'?

Clear understanding [2] e.g. blend of price, promotion, product and place, designed to attract customers.
Some understanding [1] e.g. identifies four elements of the marketing mix

(c) Identify and explain <u>two</u> possible reasons why Barts' sales have fallen in recent years. [4]

Knowledge [2 × 1] – award 1 mark per reason

Application [3 × 1] – award 1 mark for each <u>relevant</u> explanation i.e. develop point in context of Barts

Reasons might include:
- Increased competition from new book sellers [k] so customers choose to buy elsewhere [app]
- Changed buying habits of customers [k] less people visit shops as they buy online [app]
- Fall in the demand for books [k] as people switch to e-readers [an]
- Poor management [k] as Barts' marketing mix might not have adjusted in response to market changes [app]

(d) Identify and explain <u>three</u> pricing methods Barts could use if it sells books through its own website. [6]

Knowledge [3 × 1] – award 1 mark for each method identified [max 3]

Application/analysis [3 × 1] – award 1 mark for each relevant explanation i.e. explaining how each of these methods actually operates.

Methods include:
- Competitive pricing
- Cost based pricing
- Promotional pricing
- Psychological pricing
- Discount pricing
  Do not accept price skimming as not appropriate for this business.

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(e) Do you think that Barts should start using e-commerce to sell books? Justify your answer. [6]

Knowledge/application [2 × 1] – award 1 mark for each relevant issue identified

Analysis [2] – award up to 2 marks for relevant development

Evaluation [2] – reasoned judgment made as to whether Barts should start using e-commerce to sell books

Points could include:

- Widen number of customers [k] as able to sell internationally as well as locally [an]
- Lower fixed costs [k] as no need to pay rent for a shop [an]
- Customers can place orders when they want [k] so able to attract customers who cannot get to the shop [an]
- Need expertise to set up/run online shop [k] which might increase costs [an]
- Increased competition as against other global retailers [k] who might take customers away from Barts [an]
- Trend is online [k] so need to react to remain competitive [an]
- Loss of personal contact with customers [k] so might not know what types of books to stock [an]
- Allow Barts' to compete more effectively against rival companies [k] which might help reverse fall in sales [an]

Developed answer:
A well designed website is a good marketing tool [k] which means that users will want to visit and make repeat visits [an]. Barts' selling costs will also be reduced [k] as they wouldn't need to open more shops and pay rent [an] adding to their competitiveness. As many people use the Internet [k] it is inevitable that Barts should start using e-commerce [eval]. However it will not guarantee success for Barts. They need to ensure that their distribution network is fast and reliable and ensure that all other aspects of their marketing mix are right [eval].

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