Cambridge International Examinations
Cambridge International General Certificate of Secondary Education

BUSINESS STUDIES **0450/23**
Paper 2 **October/November 2018**
INSERT **1 hour 30 minutes**

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READ THESE INSTRUCTIONS FIRST

This Insert contains the case study material.
Anything the candidate writes on this Insert will not be marked.

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This document consists of **4** printed pages.

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Harry's Helicopters (HH)

HH is a private limited company owned and managed by Harry and his brother Fred. It was started by the brothers 10 years ago in country Y. Fred manages the administration of the business while Harry focuses on employees and marketing.

HH provides helicopter flights for business people who need to travel to meetings quickly. The price charged to these customers is high and demand is price inelastic as there are few competitors in this niche market. However, there is a growing trend for business people to use video conferencing instead of meeting face to face.

The brothers plan to expand HH and they could do this either by attracting additional business customers or by targeting the tourist market. Country Y has many tourists who visit the areas of natural beauty around Country Y. The demand for helicopter flights from tourists to these areas is price elastic because there are competitors in this niche market. Harry and Fred realise that working capital will become more important as the business expands to help avoid cash flow problems.

In order to expand, HH will need another helicopter and another pilot. The total cost to train a pilot at college is $20 000. If Harry employs a ready trained pilot the annual salary will be $50 000. Harry is qualified to train pilots himself.

Harry and Fred are considering the following two options for HH's additional helicopter:

Option A:

Purchase a small helicopter at a price of $2.4m. The helicopter will carry up to 5 passengers and costs $2 per km in fuel. A loan is available to purchase this helicopter, which can be repaid over 10 years with a low rate of interest.

Option B:

Lease a medium sized helicopter. Lease arrangements are available over a period of 5 years at a total cost of $5.5m. The helicopter will carry up to 9 passengers and costs $3 per km in fuel.

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Appendix 1

Traveller Website Advisor comments for VeryGoodFlights, (VGF) a competitor to HH



We had a fantastic trip!! VGF made sure we had the best experience possible. The price was only $150 per passenger for the flight which lasted 30 minutes. We would recommend taking a helicopter flight as part of your holiday – you will find it a fantastic experience. You can recognise VGF's helicopters by the distinctive red colour and logo on the side.

A happy tourist.

Appendix 2

Forecast price and cost information for expanding HH

Price – one hour business flight (per passenger)	$1000
Price – one hour tourist flight (per passenger)	$200
Average number of business flights per month	120
Average number of tourist flights per month	160
Average fuel costs per one hour flight at $2 per km	$200
Other costs per one hour flight (includes costs such as pilot, maintenance, loan repayment or lease payment and airfield fees)	$700

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Appendix 3

Main News **5 September 2018**

Increasing concerns about the environmental impact of helicopter flights

Recent government reports show that helicopter flights are causing increasing damage to the environment. The government wants to reduce the number of flights taken by tourists and is introducing a new tax on all flights of $1 per km per tourist. This is forecast to increase the price of the average tourist flight by 5%.

Business passengers will not be charged this tax because the government wants to make sure business costs do not increase. It does not want to damage the competitiveness of businesses in country Y.

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