**Cambridge Assessment International Education**
Cambridge International General Certificate of Secondary Education

**BUSINESS STUDIES** **0450/23**

Paper 2 Case Study **October/November 2018**

MARK SCHEME

Maximum Mark: 80

**Published**

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.

Cambridge International will not enter into discussions about these mark schemes.

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## Generic Marking Principles

These general marking principles must be applied by all examiners when marking candidate answers. They should be applied alongside the specific content of the mark scheme or generic level descriptors for a question. Each question paper and mark scheme will also comply with these marking principles.

GENERIC MARKING PRINCIPLE 1:

Marks must be awarded in line with:

- the specific content of the mark scheme or the generic level descriptors for the question
- the specific skills defined in the mark scheme or in the generic level descriptors for the question
- the standard of response required by a candidate as exemplified by the standardisation scripts.

GENERIC MARKING PRINCIPLE 2:

Marks awarded are always **whole marks** (not half marks, or other fractions).

GENERIC MARKING PRINCIPLE 3:

Marks must be awarded **positively**:

- marks are awarded for correct/valid answers, as defined in the mark scheme. However, credit is given for valid answers which go beyond the scope of the syllabus and mark scheme, referring to your Team Leader as appropriate
- marks are awarded when candidates clearly demonstrate what they know and can do
- marks are not deducted for errors
- marks are not deducted for omissions
- answers should only be judged on the quality of spelling, punctuation and grammar when these features are specifically assessed by the question as indicated by the mark scheme. The meaning, however, should be unambiguous.

GENERIC MARKING PRINCIPLE 4:

Rules must be applied consistently e.g. in situations where candidates have not followed instructions or in the application of generic level descriptors.

GENERIC MARKING PRINCIPLE 5:

Marks should be awarded using the full range of marks defined in the mark scheme for the question (however; the use of the full mark range may be limited according to the quality of the candidate responses seen).

GENERIC MARKING PRINCIPLE 6:

Marks awarded are based solely on the requirements as defined in the mark scheme. Marks should not be awarded with grade thresholds or grade descriptors in mind.

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| Question | Answer | Marks |
|---|---|---|
| 1(a) | **Identify and explain <u>two</u> ways HH could create a brand image.**<br><br>Knowledge [2 × 1] award one mark per way<br>Analysis [2 × 1] award one mark for each way explained<br>Application [2 × 2] award two application marks for each way.<br><br>Points might include:<br>• Creating a unique brand name for the business<br>• Advertising to reinforce the brand image<br>• Use of social media<br>• Creating an easily recognised logo<br>• Using easily recognisable colour scheme<br>• Advertising using a jingle that makes it easily recognisable<br>• Slogan that is easily remembered<br>• Public Relations (PR) to create a positive brand image<br>• Sponsorship to increase recognition of the brand<br>• Establish an image of good quality.<br><br>Award a maximum of three additional marks for explanation of each way – **two of which must be applied to this context**.<br>Creating a unique logo (k) such as a logo on the side of the helicopter. (ap) This will make the helicopter easily recognisable from the ground so potential customers will see it and recognise the company. (ap) This means that when someone wants to book a helicopter ride they will straight away think of HH and increase its sales. (an)<br><br>**Possible application marks:** private limited company set up 10 years ago, helicopter, flights, target niche tourist market, high prices charged as few competitors, pilot, reference to Appendix 1. There may be other examples in context that have not been included here. | **8** |

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1(b)</td><td>
Consider the advantages and disadvantages of the following two niche markets Harry could target to increase HH’s revenue. Recommend which niche market Harry should target. Justify your answer.<br><br>
Relevant points might include:<br><br>
<table>
<tr><td></td><td>Advantages</td><td>Disadvantages</td></tr>
<tr><td>Additional business customers</td><td>• Existing customers<br>• Know the needs of this target market<br>• High price of $1000 charged as elasticity is inelastic</td><td>• Limited market size<br>• Limit to expansion<br>• Substitute to face-to-face meetings using video conferencing possibly lowers demand</td></tr>
<tr><td>Tourists who want to view areas of natural beauty</td><td>• New market with competitors<br>• High potential to increase demand thus increasing revenue</td><td>• Lower price as elasticity is elastic<br>• Demand is seasonal may harm cash flow<br>• Individual tourists likely to use the service only once</td></tr>
</table>
Level 1 (1–3 marks)<br><br>
One mark for each outline of an advantage and/or a disadvantage of each niche market. (max of three marks)<br><br>
E.g. Already sell to this market so understand these customer needs.<br><br>
Level 2 (4–6 marks)<br><br>
Detailed discussion of advantage(s) or disadvantage(s) of each niche market OR balanced argument with advantage(s) and disadvantage(s) explained. 1 × L2 explanation can gain four marks and a further mark can be awarded for each additional L2 explanation. (max six marks)<br><br>
E.g. Already sell to this market so understand these customer needs. Therefore the marketing mix is already effective for this niche market so it should be relatively easy to increase sales. However, business people are increasingly using the internet to have video conferencing instead of face-to-face meetings to reduce costs. (Four marks for L2 plus one application mark for referring to business people using video conferencing for meetings)
</td><td>12</td></tr>
</table>

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| Question | Answer | Marks |
|---|---|---|
| 1(b) | **Level 3 (7–10 marks)**<br><br>For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation of which niche market to choose to increase revenue.<br><br>7–8 marks for limited recommendation of which niche market to choose and/or why not the other niche market.<br>9–10 marks for well justified recommendation of which niche market to choose and why not the alternative market.<br><br>**Award up to two additional marks for relevant application.**<br><br>Possible application marks: private limited company set up 10 years ago, helicopter, flights, high prices charged as few competitors, fuel, pilots, cost of small helicopter $2.4m, larger helicopter $5.5m, tourist – price elastic, business – price inelastic, tax on tourist flights, few competitors, more competitors, use figures in Appendix 2. There may be other examples in context that have not been included here. | |

| Question | Answer | Marks |
|---|---|---|
| 2(a) | **Identify and explain <u>two</u> reasons why working capital is important to HH.**<br><br>Knowledge [2 × 1] award one mark per reason<br>Analysis [2 × 1] award one mark for each reason explained<br>Application [2 ×2] award two application marks for each reason.<br><br>Award one mark for each reason (maximum of two), such as:<br>• To pay for day-to-day expenses<br>• To ensure the business has a good credit reputation<br>• Ensures the business can take advantage of favourable situations such as a special order or offer of discount on bulk purchases<br>• Be able to offer customers credit terms to encourage sales<br>• Seasonal demand for tourist flights<br>• Cash flow cycle<br>• To pay for unexpected expenses.<br><br>Award a maximum of three additional marks for explanation of each reason – **two of which must be applied to this context**.<br>Indicative response: So Harry can pay day-to-day expenses (k) such as pay for the fuel for flights. (ap) This will ensure regular supplies of the inputs required for a successful business. (an) Without sufficient working capital there could be a liquidity problem and the helicopter business could be forced to stop trading. (ap)<br>**Possible application marks:** private limited company set up 10 years ago, helicopter, flights, target niche tourist market, high prices charged as few competitors, pilots, fuel for flights. There may be other examples in context that have not been included here. | **8** |

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>2(b)</td><td>

**Consider the two options for HH's additional helicopter. Recommend which option Harry and Fred should choose. Justify your answer.**

**Relevant points might include:**

<table>
<tr><td></td><td>Advantage</td><td>Disadvantage</td></tr>
<tr><td>Option A</td><td>• Lower purchase price<br>• Lower variable cost<br>• Loan available for purchase with long repayment period<br>• Will own the asset after repayment made</td><td>• Fewer passengers than the alternative option<br>• Fewer paying passengers giving lower revenue</td></tr>
<tr><td>Option B</td><td>• Can carry more passengers so higher revenue<br>• Lease possible so spread costs of obtaining the helicopter<br>• Maintenance covered by leasing company</td><td>• Much higher cost<br>• Higher variable costs<br>• Need to charge higher price for higher costs<br>• Never own the helicopter</td></tr>
</table>

**Level 1 (1–3 marks)**

One mark for each outline of advantage and/or disadvantage of each option. (max of three marks)

E.g. Option A has a lower purchase price

**Level 2 (4–6 marks)**

Detailed discussion of advantage(s) or disadvantage(s) of each option **OR** balanced argument with advantage(s) and disadvantage(s) explained. 1 × L2 explanation can gain four marks and a further mark can be awarded for each additional L2 explanation (max six marks)

E.g. Option A has a lower purchase price as it will only cost $2.4m instead of $5.5m. It also costs less to run however it would carry fewer passengers so revenue per flight might be lower.(Four marks for L2 plus one application mark for referring to purchase price of $2.4m and revenue per flight)

**Level 3 (7–10 marks)**

For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation of which option to choose.

7–8 marks for limited recommendation of which option to choose and/or why not the other option.
9–10 marks for well justified recommendation of which option to choose and why not the alternative option.

</td><td>**12**</td></tr>
</table>

| Question | Answer | Marks |
|---|---|---|
| 2(b) | **Award up to two additional marks for relevant application.**<br><br>Possible application marks: private limited company set up 10 years ago, helicopter, flights, pilot, target niche tourist market, cost of small helicopter $2.4m, larger helicopter $5.5m, information from Appendix 1, information from Appendix 2, loan repaid with low interest, carry up to five passengers, carry up to nine passengers, $2 per km, $3 per km in fuel. There may be other examples in context that have not been included here. | |

| Question | Answer | Marks |
|---|---|---|
| 3(a) | **Identify and explain <u>two</u> ways Harry and Fred could use the Internet to help them manage HH.**<br><br>Knowledge [2 × 1] award one mark per way<br>Analysis [2 × 1] award one mark for each way explained<br>Application [2 × 2] award two application marks for each way<br>Award one mark for each way (maximum of two), such as:<br>• To research supplier costs such as fuel costs<br>• To recruit a new employee such as a new pilot<br>• To carry out secondary market research when analysing niche market size<br>• To analyse competitors when deciding pricing strategy for flights<br>• To research flight paths when offering new services to passengers such as over areas of natural beauty<br>• To provide internal and external communication<br>• To advertise the business<br>• To track flights<br>• To book flights<br>• To use online banking<br>• To use online accounting<br><br>Award a maximum of three additional marks for **each** explanation of the way – **two of which must be applied to this context**.<br><br>Indicative response: Harry can research supplier costs (k), such as the costs of aviation fuel. (ap) He can try to find a cheaper supplier so that costs can be reduced and profit increased. (an) This makes HH more profitable for the brothers so they can use retained profit to help pay for the expansion. (ap)<br><br>**Possible application marks:** private limited company set up 10 years ago, helicopter, flights, pilot, brothers, target niche tourist market, high prices charged as few competitors, many tourists visit areas of natural beauty, business customers, fuel. There may be other examples in context that have not been included here. | **8** |

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>3(b)</td><td>

**Consider the advantages and disadvantages of the following three options for employing a new pilot for HH. Recommend the best option to choose. Justify your answer.**

**Relevant points might include:**

<table>
<tr><th></th><th>Advantages</th><th>Disadvantages</th></tr>
<tr><td>Harry trains a new employee himself</td><td>• Lower costs as carrying out the training himself<br>• Trained in the ways Harry wants<br>• Loyal to HH as they have been trained by them and so feel valued</td><td>• Limited training so may not be as thorough<br>• Harry may not have the skills to effectively train the new pilot<br>• May still need external qualifications that Harry cannot credit</td></tr>
<tr><td>Harry sends a new employee to college for training</td><td>• Higher quality training<br>• Training might be quicker so new pilot may start work more quickly<br>• Higher skills and more versatile</td><td>• Higher cost<br>• Lose time when could be working for Harry<br>• May pay for training and then the pilot goes to work for another business</td></tr>
<tr><td>Harry employs a ready trained pilot</td><td>• Ready to start flying straight away<br>• No pilot training costs to pay</td><td>• Higher wages as already trained<br>• May be trained in bad habits</td></tr>
</table>

**Level 1 (1–3 marks)**

One mark for each outline of the advantages and/or disadvantage of each option (max of three marks)

E.g. Lower costs as carrying out the training himself.

**Level 2 (4–6 marks)**

Detailed discussion of the advantage(s) or disadvantage(s) of each option **OR** balanced argument with advantage(s) and disadvantage(s) explained. 1 × L2 explanation can gain four marks and a further mark can be awarded for each additional L2 explanation (max six marks)

E.g. Lower costs as carrying out the training himself. This will allow Harry to train the pilot in the ways he wants. However, it will take a long time before the pilot is fully trained and can go out on his own with passengers. (Four marks for L2)

</td><td>**12**</td></tr>
</table>

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| Question | Answer | Marks |
|---|---|---|
| 3(b) | **Level 3 (7–10 marks)**<br><br>For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation of which option to choose.<br><br>7–8 marks for some limited judgement shown in recommendation as to the best way to employ a new pilot and/or why not the alternative options.<br>9–10 marks for well justified recommendation as to the best way to employ a new pilot and why not the other ways.<br><br>**Award up to two additional marks for relevant application.**<br><br>Possible application marks: private limited company set up 10 years ago, helicopter, flights, fuel, target niche tourist market, $20 000 to train pilot, flying helicopter, Harry is already qualified to train pilots. There may be other examples in context that have not been included here. | |

| Question | Answer | Marks |
|---|---|---|
| 4(a) | **Harry and Fred have produced a business plan for the expansion of HH. Identify and explain <u>two</u> contents of a business plan that Harry and Fred could find useful as HH expands.**<br><br>Knowledge [2 × 1] award one mark per content<br>Analysis [2 × 1] award one mark for each content explained<br>Application [2 × 2] award two application marks for each content<br>Award one mark for each content (maximum of two), such as:<br>• Description of the business<br>• Aims and objectives<br>• Products and services<br>• The market<br>• Location and methods of distribution<br>• Organisational structure and management<br>• Financial information<br>• Business strategy or summary.<br><br>Award a maximum of three additional marks for **each** explanation of the content – **two of which must be applied to this context**.<br><br>Indicative response: The market is outlined (k) that the business is targeting which is a niche tourist market (ap). By identifying the target market the marketing mix is more likely to be effective (an) this will mean Harry will advertise in places that tourists are likely to see the adverts such as tourist hotels where potential customers could pick up leaflets about the helicopter flights (ap).<br><br>**Possible application marks:** private limited company set up 10 years ago, helicopter, flights, target niche tourist market, high prices charged as few competitors, cost of small helicopter $2.4m, larger helicopter $5.5m, brothers, need a bank loan. There may be other examples in context that have not been included here. | **8** |

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>4(b)</td><td>
Consider how the following three legal controls might affect HH. Which legal control is likely to have the biggest effect on HH's profit? Justify your answer.<br><br>
Relevant points might include:<br><br>
<table>
<tr><td>The risks of flying must be displayed on all advertisements</td><td>• May put off nervous passengers<br>• May be able to emphasise the safety record of the business – better than other helicopter businesses<br>• Cost of changing advertisements</td></tr>
<tr><td>The minimum wage is increased by 10%</td><td>• Increased costs from higher wages<br>• May have little influence as pilots are already paid high wages</td></tr>
<tr><td>A new environmental tax is introduced of $1 per km per tourist</td><td>• Increased prices might reduce demand for HH<br>• Longer journeys will have prices increased more than short flights<br>• May distort the market as passengers choose alternatives<br>• If all aircraft subject to the same tax then may not make much difference to demand</td></tr>
</table>
Level 1 (1–3 marks)<br>
One mark for each outline of the effects of the legal controls on HH. (max of three marks)<br><br>
E.g. New tax may lead to increased prices for flights.<br><br>
Level 2 (4–6 marks)<br><br>
Discussion of the effects of the legal controls on HH. 1 × L2 explanation can gain four marks and a further mark can be awarded for each additional L2 explanation (max six marks)<br><br>
E.g. New tax may lead to increased prices for flights leading to lower demand and lower revenue. However, if demand is price inelastic for business passengers then revenue will increase and there will be little effect for the business. (Four marks for L2 plus one application mark for referring to demand from business passengers for flights)
</td><td>12</td></tr>
</table>

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| Question | Answer | Marks |
|---|---|---|
| 4(b) | **Level 3 (7–10 marks)**<br><br>For L3 to be awarded there needs to be at least two L2 marks awarded and then a conclusion as to which legal control will have the biggest effect on HH's profit.<br><br>7–8 marks for some limited conclusion as to which legal control will have the biggest effect on profit and/or why the others will have less effect.<br>9–10 marks for well justified conclusion as to which legal control will have the biggest effect on profit and why the others have less effect.<br><br>**Award up to two additional marks for relevant application.**<br><br>Possible application marks: private limited company set up 10 years ago, helicopter, flights, target niche tourist market, high prices charged as few competitors, concerns about environmental impact of helicopters, business passengers, tourist passengers, flights. There may be other examples in context that have not been included here. | |

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