Cambridge Assessment International Education

Cambridge IGCSE™

BUSINES STUDIES **0450/23**

Paper 2 Case Study **October/November 2020**

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.

Cambridge International is publishing the mark schemes for the October/November 2020 series for most Cambridge IGCSE™, Cambridge International A and AS Level and Cambridge Pre-U components, and some Cambridge O Level components.

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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)	**Explain <u>two</u> benefits and <u>two</u> limitations to a business of becoming a public limited company.** Award 1 mark for each relevant benefit (maximum of two): Relevant benefits might include: • Able to sell shares to the public • Limited liability would encourage more people to invest in the plc • Rapid expansion possible by raising large sums of capital • Specialist managers may be appointed • Continuity Award 1 mark for each relevant limitation (maximum of two): Relevant limitations might include: • Legal formalities/more paperwork • Expensive to 'go public' • Accounts available to the public • Divorce between ownership and control • Risk of being taken over/original owners may lose control Award a maximum of 1 additional mark for **each** explanation of the benefits/limitations. For example: Able to sell shares to the public (1) so additional capital can be raised. (1)	**8**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1(b)</td><td>
Explain the objectives of the following <u>three</u> AD stakeholder groups. Which of these objectives are most likely to be in conflict with each other? Justify your answer.

• Shareholders
• Employees
• Customers

<table>
<tr><th>Level</th><th>Description</th><th>Marks</th></tr>
<tr><td>3</td><td>Sound application of knowledge and understanding of relevant business concepts using appropriate terminology.

Detailed discussion of the two or more stakeholder groups objectives.

Well-justified conclusion.

Candidates discussing three stakeholder groups objectives in detail, in context and with well-justified conclusion, including which objectives are likely to conflict and why the alternative objectives might not conflict, should be rewarded with the top marks in the band.</td><td>9–12</td></tr>
<tr><td>2</td><td>Sound application of knowledge and understanding of relevant business concepts using appropriate terminology.

Detailed discussion of at least one stakeholder groups objectives.

Judgement with some justification/some evaluation of choice made about the conflicts.

Candidates discussing two or more stakeholder groups objectives in detail and applying them to the case should be rewarded with the top marks in the band.</td><td>5–8</td></tr>
<tr><td>1</td><td>Limited application of knowledge and understanding of relevant business concepts.

Limited ability to discuss the stakeholder groups objectives with little/no explanation.

Simple judgement with limited justification/limited evaluation of choice made.

Candidates outlining all three stakeholder groups objectives in context should be rewarded with the top marks in the band.</td><td>1–4</td></tr>
<tr><td>0</td><td>No creditable response.</td><td>0</td></tr>
</table>
</td><td>12</td></tr>
</table>

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1(b)</td><td>Relevant points might include:

<table>
<tr><td>Shareholders</td><td>• Invested their own money into the business and want a return on their investment – higher profit – higher dividends paid – capital could have earned a return elsewhere if not paid a return by this company – the increase in output of 30% may lead to higher profits</td></tr>
<tr><td>Employees</td><td>• Work for the business and want higher wages – already receive high pay – gives a higher standard of living for the worker and their family
• Job security from the business doing well – they are all skilled workers in the factory – reduces the need to find a new job and feel secure about their future income</td></tr>
<tr><td>Customers</td><td>• Want value for money from product – lower prices – being able to go back to the business if there is a problem with the product – buy from again in the future so want the business to be successful – AD has an excellent reputation for producing reliable, high quality equipment – reduces the need to replace the equipment in the near future – helps the farmers to be efficient</td></tr>
<tr><td>Conclusion</td><td>Justification may include:
• Possible conflict between shareholders wanting higher prices to increase profit and farmers wanting lower prices for tractors.
• Possible conflict between shareholders who want higher profit so costs may need to be lower and employees who want to retain higher pay as they work hard and have high productivity.
• Employees want to retain high pay which may lead to higher prices and farmers want to buy farming equipment at the lowest prices.</td></tr>
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Question	Answer	Marks
2(a)	**Explain <u>four</u> responsibilities of AD's Operations Director.** Award 1 mark for each relevant responsibility (maximum of four responsibilities): Relevant responsibilities might include: • Responsible for the work of everyone in their department/delegation of tasks – as factory workers have high productivity • Liaise with other directors – such as the Human Resources Director when more production workers are required due to expansion • Maintaining quality products – as AD's tractors have a reputation for being high quality • Overseeing production methods used – for the production of diggers and ploughs • Planning production to meet deadlines and satisfy consumer demand – as AD is planning to expand output and start selling in other countries • Communication/passing on information – for example, Managing Director to 100 production workers Award a maximum of 1 additional mark for **each** explanation of a responsibility, **which must be applied to this context.** For example: The director is responsible for the production methods used (1) so that AD can meet demand for agricultural equipment. (app) Application could include: agricultural equipment; tractors; ploughs; sold through specialist agricultural shops; farmers; want to expand output by 30%; maintain a good reputation for diggers; 100 production workers; AD is planning to expand output; start selling in other countries.	**8**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>2(b)</td><td>Using Appendix 3, consider how the changes in profitability and liquidity might affect AD. Which change is likely to have the most effect on AD's objective of expansion? Justify your answer.
<table>
<tr><th>Level</th><th>Description</th><th>Marks</th></tr>
<tr><td>3</td><td>Sound application of knowledge and understanding of relevant business concepts using appropriate terminology.

Detailed discussion of profitability and liquidity. Well-justified conclusion.

Candidates discussing profitability and liquidity in detail, in context and with well-justified conclusion, including why the alternative is less important, should be rewarded with the top marks in the band.</td><td>9–12</td></tr>
<tr><td>2</td><td>Sound application of knowledge and understanding of relevant business concepts using appropriate terminology.

Detailed discussion of at least profitability or liquidity.

Judgement with some justification/some evaluation of choice made.

Candidates discussing at least profitability or liquidity in detail and applying it to the case should be rewarded with the top marks in the band.</td><td>5–8</td></tr>
<tr><td>1</td><td>Limited application of knowledge and understanding of relevant business concepts.

Limited ability to discuss profitability or liquidity with little/no explanation.

Simple judgement with limited justification/limited evaluation of choice made.

Candidates outlining profitability and liquidity in context should be rewarded with the top marks in the band.</td><td>1–4</td></tr>
<tr><td>0</td><td>No creditable response.</td><td>0</td></tr>
</table></td><td>12</td></tr>
</table>

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>2(b)</td><td>Relevant points might include:
<table>
<tr><td>Profitability</td><td>• Comparative statement about the figures in Appendix 3 (L1)
• Profit increasing by $1m each year from $6m in 2017 to $8m in 2019
• Gross profit higher then stable/increases by $5m between 2017 and 2019 (L1)
• Gross profit margin falling each year from 25% in 2017 and 2018 (L2) to 20% in 2019 (L2)
• Profit margin falling from 10% in 2017 (L2) to 8.75% in 2018 (L2) to 8% in 2019 (L2)</td></tr>
<tr><td>Liquidity</td><td>• Liquidity decreasing each year for current ratio (L1) and acid test ratio (L1)
• There are 3 times the value of current assets to current liabilities in 2017 (L1)
• Shows lower levels of inventory being held or better credit control of trade receivables due to the current ratio being 3 in 2017 and then falling to 1.5 by 2019 (L2)
• Liquidity could be said to be too high in 2017 – not good use of current assets but then improves and 1.5 current assets to 1 current liability – so can repay short term debts (L2)</td></tr>
<tr><td>Conclusion</td><td>Justification may include:
• Gross profit and profit are increasing between 2017 and 2019 which means there is more profit available to be retained and used to finance the $20m expansion. However, the profit margins are falling over the three years and so this is not good when applying for bank loans as it shows rising cost of sales and expenses. However, because profits are increasing each year profitability is likely to have the most effect on expansion and even help AD to gain a bank loan.
• Liquidity is too high in 2017 with a current ratio of 3 and whilst AD can pay all debts and is not at risk of insolvency it is not a good use of current assets. Liquidity is not currently a problem for expansion but if the trend continues expansion may be difficult to fund using bank loans as the bank manager may be concerned about the worsening liquidity ratios over the three years and be less willing to grant a bank loan, therefore liquidity would have the most effect on expansion.</td></tr>
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Question	Answer	Marks
3(a)	**Explain <u>one</u> economy of scale and <u>one</u> diseconomy of scale for AD as it grows.** Award 1 mark for each relevant economy of scale (maximum of one): Relevant economies of scale might include: • Purchasing • Marketing • Financial • Managerial • Technical Award 1 mark for each relevant diseconomy of scale (maximum of one): Relevant diseconomies of scale might include: • Poor communication • Lack of commitment from employees • Weak coordination Award a maximum of 3 additional marks for **each** explanation **one of which must be applied to this context.** For example: Purchasing economies of scale (1) means AD can bulk buy components and gain a discount (1) to manufacture the agricultural equipment (app) which reduces the average cost (1). Application could include: agricultural equipment; tractors; diggers; ploughs; sold through specialist agricultural shops; farmers; output to increase by 30%; expand into other countries; capital investment of $20m.	**8**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>3(b)</td><td>
Consider the following <u>three</u> problems for AD when entering new markets in other countries. Which problem will be the easiest to overcome? Justify your answer.

• Language differences
• Lack of knowledge of the market
• Changes in exchange rates

<table>
<tr><th>Level</th><th>Description</th><th>Marks</th></tr>
<tr><td>3</td><td>Sound application of knowledge and understanding of relevant business concepts using appropriate terminology.

Detailed discussion of two or more problems. Well-justified conclusion.

Candidates discussing the three problems in detail, in context and with well-justified conclusion, including why the alternative problems were rejected, should be rewarded with the top marks in the band.</td><td>9–12</td></tr>
<tr><td>2</td><td>Sound application of knowledge and understanding of relevant business concepts using appropriate terminology.

Detailed discussion of at least one problem.

Judgement with some justification/some evaluation of choice made.

Candidates discussing two or more problems in detail and applying it to the case should be rewarded with the top marks in the band.</td><td>5–8</td></tr>
<tr><td>1</td><td>Limited application of knowledge and understanding of relevant business concepts.

Limited ability to discuss the problems with little/no explanation.

Simple judgement with limited justification/limited evaluation of choice made.

Candidates outlining three problems in context should be rewarded with the top marks in the band.</td><td>1–4</td></tr>
<tr><td>0</td><td>No creditable response.</td><td>0</td></tr>
</table>
</td><td>12</td></tr>
</table>

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>3(b)</td><td>Relevant points might include:

<table>
<tr><td>Language differences</td><td>• Promotional material may need to be translated into other languages – increasing costs
• Instructions for using farming equipment may not be understood leading to potential health and safety problems</td></tr>
<tr><td>Lack of knowledge of the market</td><td>• Do not know the needs of farmers in other countries
• Equipment may not be suitable for soils in other countries
• Marketing requirements might be very different and therefore do not reach the potential market – low sales</td></tr>
<tr><td>Changes in exchange rate</td><td>• If the exchange rate appreciates for country Z might mean AD exports of tractors are sold for a higher price in other countries – making AD less competitive – fewer sales – more difficult to enter the new market</td></tr>
<tr><td>Conclusion</td><td>Justification may include:
• Language differences are easily overcome by employing a business to translate all the promotional leaflets etc. This would not be expensive and only need to be done once when first entering the new market for agricultural equipment. A lack of knowledge of the new market may be expensive to research and AD may have to employ a specialist agency to help them or form a joint venture with a business in the other country if marketing is difficult. A change in the exchange rate may remove any price advantage AD may have and these changes in exchange rates are unpredictable and cannot be overcome by AD.
• Depends on the nature of farming in other countries. If AD equipment is suitable or can be easily adapted for use in other countries, then this problem of not knowing the market can easily be overcome, and sales should increase.
• Exchange rate changes may be difficult to overcome as an appreciation in the exchange rate will make their exported farming equipment more expensive in other countries if the price remains the same in the currency in country Z. However, AD could reduce their profit margin, and this would counter the appreciation and keep prices at the same level.</td></tr>
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</td><td></td></tr>
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Question	Answer	Marks
4(a)	**Explain <u>one</u> advantage and <u>one</u> disadvantage to AD of selling to a niche market.** Award 1 mark for each relevant advantage/disadvantage (maximum of two): Relevant advantages might include: • Meets the specific needs of customers – more satisfied customers – increases demand • Higher customer loyalty and good customer relations • Easier for relatively small business to remain competitive in the overall global market • Able to charge a higher price Relevant disadvantages might include: • Overall size of the market is relatively small – limit to growth • Specialise in a narrow range of products – more vulnerable to the effects of changes in demand/technological change – losing sales and market – higher risk of failure as a result of changes in the market Award a maximum of 3 additional marks for **each** explanation – **one of which must be applied to this context.** For example: A disadvantage might be that it specialises in a narrow range of products only selling its products in country Z (1). If farmers change the type of crops grown in country Z (app) then AD could find it has a large fall in demand for its equipment (1) and it might be at risk of failure if it cannot sell to other export markets. (1) Application could include: agricultural equipment; tractors; diggers; ploughs; sold through specialist agricultural shops; farmers; want to expand output by 30%; good quality products.	**8**

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>4(b)</td><td>
Consider how the following <u>three</u> changes may affect AD. Which change will have the greatest effect on AD's profit? Justify your answer.

• Increase in the rate of inflation
• Increase in government grants to farmers
• Decrease in tariffs on imported food

<table>
<tr><th>Level</th><th>Description</th><th>Marks</th></tr>
<tr><td>3</td><td>Sound application of knowledge and understanding of relevant business concepts using appropriate terminology.

Detailed discussion of two or more changes. Well-justified conclusion.

Candidates discussing the three changes in detail, in context and with well-justified conclusion, including why the alternative changes were rejected, should be rewarded with the top marks in the band.</td><td>9–12</td></tr>
<tr><td>2</td><td>Sound application of knowledge and understanding of relevant business concepts using appropriate terminology.

Detailed discussion of at least one change.

Judgement with some justification/some evaluation of choice made.

Candidates discussing two or more changes in detail and applying them to the case should be rewarded with the top marks in the band.</td><td>5–8</td></tr>
<tr><td>1</td><td>Limited application of knowledge and understanding of relevant business concepts.

Limited ability to discuss changes with little/no explanation.

Simple judgement with limited justification/limited evaluation of choice made.

Candidates outlining the three changes in context should be rewarded with the top marks in the band.</td><td>1–4</td></tr>
<tr><td>0</td><td>No creditable response.</td><td>0</td></tr>
</table>
</td><td>12</td></tr>
</table>

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>4(b)</td><td>Relevant reasons might include:

<table>
<tr><td>Increase in the rate of inflation</td><td>• Increase in AD costs – price of tractors may rise – lower sales – less likely to expand to sell in other countries
• Interest rates increased as a result of the inflation – farmers find it harder to borrow – fewer sales of AD equipment
• AD may have to increase wages to maintain workers standard of living – and already receive high pay – may become less competitive</td></tr>
<tr><td>Increase in government grants to farmers</td><td>• Farmers gain money from government – increase investment in new equipment – increase demand for AD agricultural equipment – increase sales – but farmers may buy other farming equipment – may not have much effect on AD sales</td></tr>
<tr><td>Decrease in tariffs on imported food</td><td>• Lower prices in country Z for imported food so less demand for food produced in country Z - lower demand for AD agricultural equipment by farmers
• Increased demand for AD’s farming products in other countries</td></tr>
<tr><td>Conclusion</td><td>Justification may include:
• Effect on profit depends on whether there are higher increases in inflation in country Z than other countries. May mean AD is less competitive if country Z has higher inflation reducing sales and revenue for AD. Therefore, this may have the greater effect on profit than grants to farmers increasing demand in country Z as farmers may buy from other businesses, or higher imports of food reducing demand for AD as country Z already imports food anyway and the tariff reduction may only be small.
• The effect of government grants will depend on how high the grants are and if farmers use the grants to purchase equipment rather than other investment on their farms. Therefore, this may have the greatest effect on AD’s profit if farmers use the grants to buy new equipment from AD leading to a large increase in sales and revenue.
• Country Z already imports food, but lower tariffs may have a large effect on AD if demand for food produced in country Z changes significantly. This would lead to a large fall in demand for food grown by farmers in country Z and therefore a large fall in demand and sales for AD products, resulting in a large fall in revenue and profit.</td></tr>
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