CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Ordinary Level

MARK SCHEME for the May/June 2013 series

7100 COMMERCE

7100/23 Paper 2 (Written), maximum raw mark 80

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

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1 (a) Any four points × 1 mark each (including at least 1 mark for an example) –

creation of utility
making something that was not there before
can involve manufacturing goods
or providing services
to satisfy human needs and wants

examples – primary, secondary, tertiary (any one)

any other relevant point [4]

(b) Any two points for each –

(i) carry goods
that may satisfy people's needs
involved in distribution
assist trade to function

any other relevant point [2]

(ii) provide entertainment
produce music
provide a direct service
satisfy people's wants

any other relevant point [2]

(c) Any six points × 1 mark each or three developed points × 2 marks –

some countries have less natural resources than others + example
some countries lack the climate to produce all their food + example
some countries lack the skilled labour able to produce manufactured goods
some countries are more technologically advanced than others
some countries' labour force is more expensive than others so more manufacturing takes place where there is plenty of cheap labour
some countries are better at marketing what they manufacture than others
some countries are able to develop their manufacturing based on the resources they have in the country
some countries have developed their service industries so that they can afford to import natural resources and/or manufactured goods
some countries have specialised to achieve comparative/competitive advantage
workers in some countries can earn more by working in tertiary industries rather than in primary or secondary industries.

any other relevant point [6]

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(d) Level 2 (4–6 marks)

Has discussed whether or not the Internet is essential for businesses who want to be productive and has given a reasoned opinion.
(Accept a well argued one-sided argument for full marks.)

The Internet is used worldwide and allows businesses to communicate both with other businesses and with consumers. Businesses can find sources of raw materials, machinery, equipment and power using the Internet. The Internet enables businesses to show what they have for sale and to give detailed information including prices so that potential customers can view the products and purchase online. It has enabled the development of e-commerce and e-tailing. The Internet is interactive so that people can ask questions about goods and services and receive replies. The Internet is becoming a very important way of marketing goods and services and being competitive in the global market.

On the other hand the Internet does not enable businesses to extract raw materials from the ground, grow food or manufacture goods and so produce finished goods for consumers to buy. Computers may assist in some of these tasks but businesses still need land, labour, capital and enterprise in order to carry out production.

Level 1 (1–3 marks)

Has stated some points regarding businesses and their use of the Internet.

The Internet is used by many people. People surf the net to see what is available. Businesses advertise on the Internet. Many people shop online to buy products. Businesses may buy some of the equipment they need using the Internet. [6]

2 (a) (i) 60% [1]

(ii) $\frac{20}{100} \times 50\text{m}$ (1) = \$10m (1) OFR applies [2]
If the candidate gives the correct answer without working, award full marks.

(b) Any four ways × 1 mark each –

many branches
self service
centralised functions (allow 2 marks max for examples such as purchasing, advertising, control, accounting)
each branch has a manager
organised as limited companies
supplied from central warehouse
may buy direct from producers/manufacturer
each branch looks very similar to other branches
may have own brand products
accept credit card payment

any other relevant similarity [4]

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(c) Any three points × 1 mark and up to 2 marks for a well developed point –

have large markets for branded biscuits from many different outlets
people often regard own label products as slightly inferior and so may not purchase as many
supermarkets buy in large quantities so are important customers
supermarkets have the largest sales in the biscuit market (i.e. 60%)
biscuit manufacturers can promote their own brands which may be used for a variety of different kinds of biscuits
consumers identify with the brand name of well known biscuit manufacturers
economies of scale – can produce a large batch of one kind of biscuit in one production run and so save costs

any other relevant point [3]

(d) Level 2 (4–6 marks)

Has discussed whether or not packaging has helped the sale of biscuits and given a reasoned opinion.
(If a candidate gives a one-sided argument, award 4 marks max.)

Packaging of biscuits is very important. The packaging protects the biscuits from being broken when being transported or handled by customers. It protects them against deterioration. It also helps to group biscuits together – a box of mixed biscuits. Packaging is also very important for providing consumers with information about the biscuits. The brand name is displayed on the packaging in order to attract the attention of consumers. The packaging may give details about the biscuits such as ingredients, a promotional deal for selling them and also the sell-by date. The packaging may be a colourful box or plastic wrapper which is designed to advertise the biscuits and so sell them. Without packaging, the biscuits might be damaged but also they may appear rather dull and uninteresting.

On the other hand there are many people who object to the increased use of packaging, particularly of food products. Sometimes biscuits are wrapped in plastic and then boxed to aid display. Many people think that this excessive packaging is wasteful and adds to the cost of the biscuits. They may then actively avoid buying biscuits where they see too much packaging being used. There are also some people who prefer to buy loose biscuits when they can – often much cheaper.

Level 1 (1–3 marks)

Has stated some functions of packaging with/without context.

Packaging is used to protect goods. It shows the brand name. It may be in colour. There are many kinds of packaging available. Packaging helps to sell biscuits. [6]

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(e) Any four actions × 1 mark each –

look at the sell-by/use-by date
take the biscuits back to the supermarket
with the receipt
ask for a refund
ask for a replacement
ask for other biscuits of the same brand to be checked
do nothing/eat the biscuits/throw them away

NB 0 marks for sue the supermarket, contact consumer organisation, contact police

any other relevant point

[4]

3 (a) (i) Any two points × 1 mark each –

an organisation owned by the state/taxpayer
in the public sector
set up to provide a service
this service may be essential to most people e.g. broadcasting

any other relevant point [2]

(ii) Any one advantage explained –

finance is provided by the state so will not go bankrupt
may provide a free service to consumers e.g. health service
run in the public interest so may not be concentrating on profit
may put the consumer first rather than shareholder interest

any other relevant advantage [2]

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(b) Level 2 (4–6 marks)

Has discussed the three options and has made a reasoned recommendation.
(If a candidate has made a reasoned recommendation only, award 4 marks max.)

Adam may reduce the price of tickets but he will be losing a substantial amount of sales revenue if he does this. On the other hand he could attract many more people because the seats are cheaper and so more people could afford them.

He may consider changing the kinds of plays offered. If he does this he will have to find those plays that appeal to more people. By offering different plays, he should appeal to a larger number of people.

Adam should certainly advertise the theatre. He will have to review his advertising. He may already be advertising and if he is not using posters and local radio, these two media could be useful. He should, however, be considering other media to cover a wider area such as the Internet, a leaflet drop and newspaper advertising.

He may decide to adopt all three options and also to look at other options such as introducing other forms of entertainment such as concerts and movies. I would recommend that he advertises more widely, looks at the plays offered but does not reduce the ticket price by as much as 25%. He might consider promotional pricing e.g. 2 seats for the price of 1 for some performances.

Level 1 (1–3 marks)

Has commented on one or more option with/without a recommendation.

Adam needs to advertise the theatre. He should not reduce the ticket prices. He will not make any money. He should introduce other forms of entertainment. He should advertise using leaflets and posters. [6]

(c) (i) Any two points × 1 mark each –

a business that is owned by private individuals
either singly (sole trader) or in groups (shareholders/limited companies)
in the private sector

any other relevant point [2]

(ii) Any one advantage explained × 2 marks –

can organise the business as the owners wish and make decisions to suit the business
profits go to the owners – to the sole trader or to the shareholders in a limited company
may be able to raise capital from a variety of sources e.g. banks, shareholders, savings

any other relevant point [2]

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(d) (i) Any two points explained × 2 marks or four points × 1 mark each –
(Candidates should have commented on both kinds of insurance for full marks)

Kamal Cinemas should have public liability insurance to protect the business from claims made by customers of the cinemas because of the company's negligence
Kamal Cinemas should have employer's liability because it is required by law if workers are employed in the business
it provides cover against claims made by employees because of company negligence

any other relevant point [4]

(ii) Any two factors × 1 mark each –

degree of risk involved
the size/complexity of the business
past record of claims
amount of cover required
information given on the proposal forms
amount of excess Kamal Cinemas is willing to accept
the rates offered by different insurance companies

any other relevant point [2]

4 (a) (i) Wing Fashions [1]

(ii) Any two points × 1 mark or one point well explained × 2 marks –

definition – Errors and Omissions Excepted = 1 mark
enables the sender of the credit note to correct any mistake that may have been made when preparing the credit note

any other relevant point [2]

(b) Any four actions × 1 mark each –

check the invoice concerned
find out why the shirts have been returned
check the returned shirts
ask if replacement goods are required
send a credit note to Wing Fashions
enter details of the credit note on Wing Fashions' statement of account
reduce Wing Fashions' balance owed by $600
if the shirts are faulty/damaged, check others in the same batch

any other relevant point [4]

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(c) Any three reasons × 1 mark –

to encourage repeat business
to encourage bulk orders
to enable the other trader to make a profit
to increase trade for the seller

any other relevant point [3]

(d) Any two reasons explained × 2 marks each –

to enquire about goods from several suppliers so that you see which is the best
to request goods and give details of goods ordered
to check goods on arrival against the delivery note
to prove ownership of goods and provide a record of goods purchased
to check a series of transactions and the balance due after a certain period
to prove that payment has been made using the receipt

any other relevant reason explained [4]

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(e) Level 2 (4–6 marks)

Has discussed trade credit and whether or not it is beneficial to both the seller and the buyer and has given a reasoned opinion.

Trade credit is given by a seller to a buyer when the buyer trades regularly with the seller. A credit account is opened and payment is settled after an agreed period of time. The amount of time allowed may depend on the creditworthiness of the buyer. For some buyers the trade credit period may be as much as three months.

Trade credit may be beneficial to the seller as the seller is likely to sell more goods if he is offering a longer credit period than his competitors. If, however, the buyer does not pay within the time period, the seller may be faced with bad debts. If he allows too many buyers too much credit, he may experience cash flow problems with not enough cash to purchase more stocks ready for sale. In order to encourage repayment within the credit period, the seller may offer the buyer cash discount for prompt payment.

Trade credit is useful to the buyer, especially a new business setting up. This buyer may not have enough cash to pay for goods upfront and have to rely on selling the goods in order to pay the seller using the income from the sale of the goods. Trade credit represents an interest-free loan to the buyer. If the buyer pays regularly on time, the credit period allowed may be extended. If, on the other hand, the buyer fails to pay, credit may be refused, goods may not be supplied or payment may be demanded in advance.

On balance it is beneficial to both seller and to buyer as long as the period of credit for individual buyers is carefully organised and as long as the buyer pays on time.

Level 1 (1–3 marks)

Has commented on the use of trade credit in business transactions.

Trade credit is given by the seller to the buyer. It enables the buyer to buy from the seller and pay before the goods are sold. Trade credit may result in bad debts for the seller. Trade credit enables the buyer who has very little cash to have goods to sell. [6]

5 (a) (i) Any two differences × 2 marks each –

debit card provides immediate payment, credit card postpones payment
debit card – no bad debts, credit card – payment guaranteed by credit card company
debit card aids cash flow as immediate payment, credit card payments to the bank account are paid by the credit card company periodically
debit card – customers must have funds in bank, credit card enables customer to buy now and pay later
debit card – no interest paid by customers, credit card – interest paid if customer does not pay off debt within a certain time period

any other relevant point [4]

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(ii) Any four points × 1 mark each or two points explained × 2 marks –

many customers now prefer to use debit or credit cards rather than use cheques
the retailer has less charges when handling debit and credit cards than when clearing cheques
cheques may no longer be guaranteed for up to a certain amount and so they are more susceptible to fraud/dishonoured
there are greater delays in clearing cheques than in handling debit cards
the retailer has to complete documentation and to visit the bank in order to pay in cheques
transactions made with debit and credit cards can be computerised so saving time
charges are made for the use of cheques in some countries

any other relevant reason explained [4]

(b) $30 × 24 repayments (1) = $720 (1) OFR applies
If the candidate gives the correct answer without working, award full marks. [2]

(c) Level 2 (4–6 marks)

Has discussed whether or not the retailer is sensible to offer all these options for making payment and has given a reasoned opinion.

The retailer offers several options for payment. This is probably a good idea because not all customers have ready cash, not all customers have debit cards and not all customers can buy now and pay now. Although the retailer offers discount for payments in cash, she will attract customers who want to save money but pay immediately. This will enable her to purchase more computers with the payments made.

The retailer offers two ways of postponing payment. If the customer uses extended credit, the customer will pay an additional $120 over a period of two years. This will provide the retailer with additional income. There is, however, always the risk of bad debts if the customer does not keep up the payments. The retailer would then have the task of recovering the debt and may have to go to court to do this. The computer would still be the property of the buyer. Offering acceptance of credit cards gives the retailer a competitive edge over rivals but will also mean delayed payments less commission from the credit card company.

On balance it is a good idea to offer several payment options because it will help to attract customers and may mean customers prefer to buy from this retailer rather than from one who does not offer such attractive methods of payment.

Level 1 (1–3 marks)

Has commented on some of the methods of payment offered with/without an opinion.

The retailer offers several methods of payment. By offering cash discount the retailer will lose money. The buyer may not keep up payments if extended credit is used. The retailer will get immediate payment if payment is made with a debit card but will have to wait for payment from credit cards. All these methods will attract customers. [6]

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(d) Any four points × 1 mark or two reasons explained × 2 marks each –

the retailer may require specialised information and assistance from the manufacturer, the wholesaler cannot provide this as the wholesaler deals in many goods
computers are fragile and so it is better to transport them directly from the manufacturer rather than use a middleman
the retailer may get a better price or better credit terms from the manufacturer than from the wholesaler
the retailer may want to purchase accessories and/or software only supplied by the manufacturer
although the manufacturer usually deals in bulk orders, the retailer may be able to purchase in relatively small quantities from a manufacturer of computers
the retailer may want to purchase a range of different computers that the wholesaler does not supply
the retailer may have the financial resources to purchase directly from the manufacturer
any other relevant point [4]

6 (a) (i) 2011 [1]

(ii) 2012 [1]

(b) (i) $\frac{10}{30} \times 100$ (1) = 33.3% (1) OFR applies
If the candidate gives the correct answer without working, award full marks. [2]

(ii) $\frac{10}{35} \times 100$ (1) = 28.6% approx (accept 29%) OFR applies
If the candidate gives the correct answer without working, award full marks. [2]

(iii) Any two reasons explained × 2 marks –

the company is offering holidays that do not have as much appeal as in 2011 + e.g.
the company's prices are too high so customers are going elsewhere
less people are going on holiday because they have less income to spend on luxuries
competitors may be offering cheaper holidays/better promotions so customers are using them
competitors are offering better facilities/attractions within the holidays offered
Holidays for You Ltd may have had some bad publicity in 2011 and this has resulted in fall in demand for their holidays

any other relevant reason [4]

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(c) Any four points × 1 mark each or two points explained × 2 marks –

the company may have high expenses because it is providing a service
the company should try to reduce its wage bill
it might close some of its outlets and rely instead on increased Internet advertising to attract bookings
it might relocate outlets where rents are cheaper
it might reduce its printing costs of booklets and brochures
it might reduce the level of service it offers but this might affect its sales revenue and so be self-defeating
it might try to reduce transport/heating and lighting costs
but net profit will also improve if the company can improve its gross profit
this may mean improving sales revenue, paying less for hotels and attractions it uses and offering better holidays in less places
if it reduces overall expenditure and maintains sales revenue at a reasonable level, net profit may improve

any other relevant point [4]

(d) Level 2 (4–6 marks)

Has discussed some/all of the options to improve sales revenue and has made a reasoned recommendation which may include using more than one option.

The company should consider all the options listed to improve its sales revenue but some may be more effective than others.

It should offer special promotions such as lowering prices or offering extra days for the same price to give it competitive advantage. It may be doing this already but there is no suggestion that it is doing this.

It should review its website so that online booking of holidays is easy to do. This would give the company the advantage of greater access to a large number of potential customers. If it sells only online, this would mean the closure of its travel shops with the loss of many jobs. This would give Holidays for You Ltd large savings in rents on the high street and other costs associated with retail shops. It would mean expanding its central headquarters so that customers can contact the company easily and have their queries answered quickly.

The company probably should not consider moving into other areas of business because it may not have the financial resources nor the expertise to do this. It might consider looking at different types of holidays e.g. short breaks, special interest holidays but it may be in this market already.

Level 1 (1–3 marks)

Has commented on some/all of the options and has/has not made a recommendation.

I would recommend special promotions. Lowering prices may work. People like going on holiday. You will get less sales revenue. You may make a loss if you change businesses.

[6]

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7 (a) Any two benefits × 2 marks each –

can obtain raw materials/goods that it cannot produce itself + example
can dispose of surpluses and so earn foreign currency
enables a country to concentrate on its best talents – comparative advantage
provides choice of goods for the population and so improves standard of living
helps to establish friendly relations with other countries – may help to create trading blocs
may encourage mobility of labour e.g. within a trading bloc

any other relevant point [4]

(b) Level 2 (4–6 marks)

Has discussed whether or not intermediaries assist those involved in international trade and has given a reasoned opinion.
(If a candidate has given only a one sided argument, award 4 marks max.)

Intermediaries may assist those involved in international trade because they bring buyers and sellers together. Export merchants may purchase goods for sale. Agents may represent foreign buyers. Forwarding agents may arrange transport of goods, storage, documentation and customs clearance. Shipping brokers will arrange shipping space and the charter of ships. Some intermediaries sell in their own name and some do not possess the goods. They may speak the local language and be expert in trade in particular countries. All these people may assist businesses that have little or no experience of foreign trade or who are involved only in a small way.

On the other hand it would probably not be worthwhile to use intermediaries extensively if a large part of a company's business was either importing or exporting goods. Intermediaries often work on a commission basis which adds to costs. They may be representing several companies and so will not necessarily be working to the best advantage of an individual company. Many companies will use forwarding agents to arrange the transport of their goods and that is as far as they will go in the use of intermediaries in foreign trade. The use of intermediaries will depend on the size of the business, how much a company wants to be directly involved in foreign trade and what they are trying to sell.

Level 1 (1–3 marks)

Has commented on the use of intermediaries in international trade.

Intermediaries are useful in foreign trade. They bring buyers and sellers together. They may speak the local language. They may know about local conditions. I recommend that exporters use intermediaries when they want to trade abroad. [6]

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(c) Any four points × 1 mark each or two well explained points × 2 marks each –

to enable the government to identify trends in trade and
to assess the Balance of Trade and the Balance of Payments
so that the government can take corrective action if needed to improve its trading position
customs officers collect figures for imported and exported goods and services
these figures relate to the quantity of goods/the value of the goods/the country of origin (any two)

any other relevant point [4]

(d) (i) Any four points × 1 mark each or two well explained points × 2 marks each –

because they are perishable and need cold storage
because they are valuable and need secure storage
because they are being re-exported, otherwise duty would be payable
because they are liable for excise duty and are kept in a warehouse before being exported
because they have been imported and are liable for duty which must be paid before they are transported within the country

any other relevant point [4]

(ii) Any two points × 1 mark each –

containers act as warehouses
and offer protection
they can be stacked in the open air
so saving space in docks/airports

any other relevant point [2]

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8 (a) (i) Any two advantages explained × 2 marks each –

can carry bulk cargoes such as coal for long distances
relatively cheap for carrying high volume, low value goods
suitable for carrying containers containing mixed cargo
often provide direct access from place of production e.g. mine to port/processing plant
wagons can be specially designed to carry one product e.g. petroleum
provide safe means of transport for dangerous materials e.g. nuclear waste

any other relevant point [4]

(ii) Any four points × 1 mark each or two well explained points × 2 marks each –

lack of investment has meant the infrastructure of the railways is in bad repair
government policies have favoured other forms of transport such as roads
people prefer more flexible transport such as owning your own car so do not use the railways
cost of using the railways has meant that some passengers are using other means
rail transport is not suitable for carrying small quantities of goods for short distances
the decline of basic industries in some countries has meant that the decline in the demand for goods trains

any other relevant point [4]

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(b) (i) Level 2 (4–6 marks)

Has discussed the use of working capital in any business and has shown with reasons whether or not it is essential.

Working capital is current assets less current liabilities. It is used for the day to day running of a business. The current assets of a business consist of cash, stock and debtors. The current liabilities of a business consist usually of creditors and short term liabilities such as an overdraft. Many businesses need the value of current assets to be twice as much as for current liabilities.
They use working capital to pay wages, meet expenses, purchase stock, pay creditors, maintain cash flow, pay rent on buildings, meet the interest on loans and also to allow for emergency payments. Without all this many businesses would not be able to function.

Shortage of working capital could lead to a business not being able to meet interest payments or not being able to purchase stock on the most advantageous terms. A business may not be able to cope with emergencies – the breakdown of a machine fundamental to its work. In some businesses working capital is needed to cover an imbalance in income because of seasonal trade.

Working capital is therefore essential to most businesses and must be managed effectively so that it is sufficient to meet the needs of the business. There are, however, other factors that are also important to a business such as whether or not it is making profits or losses and whether or not it is selling its goods or services.

Level 1 (1–3 marks)

Has commented on the use of working capital in a business.

Working capital is used to pay daily expenses. If a business did not have enough working capital it might not be able to pay its bills. Working capital is used to pay wages. It is used to buy stock.

[6]

(ii) Any one consequence explained × 2 marks –

paying high rates of interest using money that could be used for other purposes
being unable to repay the loans so that the bank takes the collateral security provided
shortage of working capital if the company has too large an overdraft
bank taking a directorship on the Board of Directors and so has influence over what the company does
making a loss because of the interest payments on loans

any other relevant point [2]

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(c) (i) Any two points × 1 mark each or one point well explained × 2 marks –

may be quicker than using congested roads
the railway terminal at the airport may be more accessible to the main airport/check-in facilities than travelling by road and using car parks
railway station in the city may be in the city centre within easy reach of hotels/shopping areas/tourist attractions
airport may be a long distance from the city it serves
airport may be used by many people
may assist containerised goods to be carried between the city and the airport

any other relevant point [2]

(ii) Any two facilities × 1 mark each –

check-in, trolleys, duty free shops, shops, toilets, security, baggage handling, departure lounges, hubs, restaurants, seating, information desks, car hire firms, ticket offices, information boards

any other relevant facility [2]

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