Cambridge Assessment International Education
Cambridge Ordinary Level

COMMERCE **7100/22**

Paper 2 Written **May/June 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.

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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	Guidance
1(a)(i)	**Which method of transport would a business use to move each of the following?** Flowers to a customer in the same town: **van**	**1**	
1(a)(ii)	**Which method of transport would a business use to move each of the following?** Offshore oil to the mainland: **pipeline**	**1**	
1(b)(i)	**Calculate the total value of freight carried by trucks and vans. Show your working.** $100bn (2) Method 60bn + 40bn (1)	**2**	
1(b)(ii)	**Explain <u>one</u> environmental effect of the increased use of road transport for deliveries of goods ordered online.** Air pollution/pollution (1) with burning of fossil fuels (1) releases carbon emissions/greenhouse gases into the air (1) contributing to global warming/negative externality (1) affecting the ozone layer (1) destroying the clean air (1) making breathing difficult/health problems (1) Noise pollution/pollution (1) can impact on animals/humans (1) disrupting their communication/warning signals (1) Traffic congestion (1) polluting the atmosphere (1) by using more petrol fumes/ smoke (1)	**3**	Any 1 effect explained × 3 marks (1 mark for the effect plus 2 marks for explanation)
1(c)(i)	**Suggest <u>one</u> method of transport used to carry freight that is not named in Fig. 1.** Air Sea Canal Bicycle	**1**	Note: Allow examples of methods such as cargo plane, oil tanker
1(c)(ii)	Transport is a **commercial service** A commercial document used in the home trade is a **consignment note**	**2**	1 mark for each correct answer

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Question	Answer	Marks	Guidance
1(d)	**Evaluate whether or not a business should have its own fleet of vans to make deliveries**. *Arguments for:* • Provides direct contact with customers – leading to increased customer satisfaction • Goods are better supervised – so less theft • Delivery times can be flexible – so no need to wait for someone else's vehicle • Advertising can be done on side of van – so can promote business • More economic if regular loads – so saves money • Less documentation/paperwork needed – so cutting down on administration • Vans can be hired out – enabling income to be earned • Specialised vans e.g. refrigerated vans can be bought – to meet business needs better • No rent paid to a third party – so the business will save money *Arguments against:* • High capital cost – with possible interest being paid to the bank for a loan • High running costs – such as fuel/drivers wages/decreasing profit • Need to employ someone to manage the fleet – adding to costs • May be difficult to obtain return loads – so the vans are underused • May be involved in accidents – so unable to be used • Money spent on own transport could be spent better – such as on a new website *Evaluation:* A business will have to decide whether the benefits outweigh the disadvantages. A small business would find it often better to use other companies' transport or when its own transport fleet cannot cope with the workload. A large business would have the capital resources to purchase its own fleet of delivery vans.	**6**	Up to 2 marks for **describing** reasons for having its own fleet of vans to make deliveries Up to 2 marks for **analysing** whether (or not) a business should have its own fleet of vans to make deliveries Up to 2 marks for **evaluating** whether (or not) a business should have its own fleet of vans to make deliveries <u>*Example of evaluation*</u>*:* *Overall, if business has the necessary finance available, it should purchase its own fleet of vans so to facilitate deliveries at any time and decrease the costs of leasing.*

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Question	Answer	Marks	Guidance
2(a)	**State <u>two</u> features of a shopping centre.** Range of shops/one-stop shopping Range of goods/brands Large building/area Several floors Lifts/escalators Information desks/customer service Food courts/restaurants Restrooms Play areas/entertainment Cinema/bowling alley Car parking Security guards Cash dispensers Petrol station ATMs/phone booths Air conditioning Long opening hours Can be located in town/out-of-town centres	**2**	1 mark for each feature up to a maximum of 2 marks
2(b)	**Should the owner of ABC shopping centre have advertised its opening in a local newspaper?** Yes – as it is a cheap form of advertising (1) compared to national advertising or e.g. (1) which can provide information (1) such as the Grand Opening 9.00 start (1) linked to local/target audience (1) if it was a free paper then all houses in the local area will receive it (1) They are published on a regular basis (1) and advertisements can be kept for reference (1) and as the main objective was to attract local people, it is the most suitable choice (1) No – as a local newspaper would have a limited audience (1) as less people are reading newspapers (1) and only suitable for literate people (1) whereas it would be much better other media (1) such as social media/radio/TV/billboards/internet (1) where colour/jingles can be used (1) and bigger audiences (1) which is more attractive than newspapers (1) to promote the shopping centre to a wider/different audience (1).	**4**	Up to 4 marks for justified reasoning (reasoning can be two-sided)

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Question	Answer	Marks	Guidance
2(c)	**Describe, using an example, <u>one</u> type of sales promotion that would be suitable to use at the grand opening.** Competition/draw (1) win a car/could be linked to buying a product before entering (1) Free gift /gift card (1) a cheaper product given along with buying a more expensive item/could be linked to buying a goods over a certain amount/e.g. spend $100 and you will receive a free toaster(1) Coupons (1) given when after a sale is made/save 20% off first order (1) Special offers/discounts (1) such as buy-one-get-one-free/25% off/vouchers (1) Loss leader (1) goods sold at below cost price (1) Loyalty cards (1) customers can exchange points for goods/money Point of sale (1) goods displayed at checkouts (1)	**2**	1 mark for example and 1 mark for description

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Question	Answer	Marks	Guidance
2(d)	**Many of the shopping centre's customers use both debit and credit cards to pay for goods and services. Evaluate which method of payment would be better to purchase a fridge freezer.** *Debit cards:* • Allows instant payment – so no need to save up/spread repayments • Money automatically deducted from bank current account – will reduce cash flow • Can obtain cash-back when shopping – which is useful if shopping without cash • Helps to control spending – so customers can budget for what they can afford/ cannot overspend more than they have in their current account • No credit is offered – so no interest is paid • Need to have sufficient money in bank current account – or cannot purchase fridge freezer *Credit cards:* • Provide instant credit – as fridge freezers can be expensive/can now afford to buy • Free credit allowed up to a month – so can use fridge freezer without paying immediately • Can be used in a wide range of outlets/countries – not just in one or two stores • Cardholders have a credit limit – which helps with cash flow • Receive monthly statements – to see what is owed • Interest is charged if amount owed on statement is not paid off – makes it expensive • Risk of becoming a bad debtor – going to court if credit card bill not paid off *Evaluation:* Much depends on whether the customer has enough money in their current account to pay for the goods immediately by debit card. If not, they would find the credit card simple and quick to use although if the amount owed is not paid back the rate of interest can be high, causing them to fall further into debt.	**6**	Up to 2 marks for **describing** debit and/or credit cards in purchasing a fridge freezer Up to 2 marks for **analysing** reasons for the use of debit and/or credit cards in purchasing a fridge freezer Up to 2 marks for **evaluating** whether a debit card or a credit card should be used to purchase a fridge freezer *Example of evaluation:* *Credit card should be used to purchase a fridge freezer as they are expensive items and you may not have enough money on your debit card in your bank to pay immediately for it.*

Question	Answer	Marks	Guidance
3(a)(i)	**Define *liabilities*.** What a business owes/have to pay back/debts owed	**1**	
3(a)(ii)	**Calculate working capital** = 60 000 (2) Method 150 – 90 (1) **Calculate share capital** = 290 000 (2) Method 410 – 120 (1)	**4**	OFR applies
3(b)	**Do you think current assets are more important than fixed (non-current) assets to a business? Justify your answer**. Yes – current assets are more important because they can be changed quickly into cash (1) especially cash in hand/cash in bank (1) then stock (1) being liquid assets (1) used for day-to-day running of the business (1) in order to make buy materials/pay wages/bills (1) whereas fixed assets takes a long time to sell these items (1) especially machinery (1) where demand may be limited (1) No – fixed assets are more important as they are usually larger/long-term/last more than one year assets (1) such as land or machinery (1) that the business needs to continue its operations or production (1) as well as being for the expansion of the business (1) where banks are more willing to lend to a business with fixed assets (1) that could be used as collateral security (1)	**4**	Up to 4 marks for justified reasoning (reasoning can be two-sided)
3(c)	**AAA Ltd wants to promote one of its toys using competitive advertising. Explain why competitive advertising might be used.** When AAA Ltd is competing against another toy dealer (1) by making their toys appear better/different than that of their rivals (1) e.g. by saying that their toys are more durable (1) so that they can attract attention to them/increase sales of their own toys/choose them instead of other toy manufacturers (1) gaining a competitive advantage/edge (1) leading to brand loyalty and increasing market share (1) and eliminating the competition (1)	**3**	Up to 3 marks for justified reasoning

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th><th>Guidance</th></tr>
<tr><td>3(d)</td><td>Some of the directors of AAA Ltd want to convert to a public limited company. Discuss whether or not AAA Ltd should remain as a private limited company or convert to a public limited company. What course of action would you recommend? Give reasons for your answer.

Changing to a public limited company enables the company to raise capital from many potential investors through the stock exchange and also may make it easier to raise money from its bankers.

Shareholders will continue to have the benefits of limited liability. Although ownership of the shares may change, the company is assured of continuity of existence.

With opportunities to acquire large amounts of capital, the company can benefit from economies of scale such as bulk buying and the latest technology for the manufacture of carpets. It will be able to take advantage of specialist management and directors from a wide range of expertise.

There are, however, some disadvantages to being a public limited company rather than a private limited company. The company may be subject to take-over bids from other companies. Ownership of shares is restricted in a private limited company and ownership of shares cannot be transferred without the consent of the other shareholders.

There is also the problem of separation of ownership from management – shareholders interested in short-term profits and not in long-term policies. The company may be so large that there is a loss of personal contact between management and workers and between customers and the company.

Overall, I recommend that AAA Ltd converts to a public limited company. A toy manufacturer cannot remain as a small business because it needs capital investment in the latest technology in order to remain competitive. It wishes to expand and so will need to raise significant amounts of capital that only a public limited company can do.</td><td>8</td><td>
<table>
<tr><th>Level</th><th>Mark</th><th>Description</th></tr>
<tr><td>3</td><td>7–8</td><td>Candidate makes a recommendation with a thorough evaluation of whether (or not) to convert from an Ltd to a plc.</td></tr>
<tr><td>2</td><td>5–6</td><td>Candidate offers a satisfactory analysis of the advantages and/or disadvantages of conversion from an Ltd to a plc.</td></tr>
<tr><td>1</td><td>1–4</td><td>Candidate applies relevant knowledge and understanding to a private limited company and/or a public limited company.</td></tr>
<tr><td>0</td><td>0</td><td>No creditable response.</td></tr>
</table>

<u>Example of evaluation</u>:
I recommend that AAA should stay as a private limited company as it may be a family business that wishes to maintain family control and keep decision making confined to a smaller group of shareholders/directors.</td></tr>
</table>

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th><th>Guidance</th></tr>
<tr><td>4(a)</td><td>There are many types of warehouses used in home and international trade.
Which of these statements about warehouses are TRUE and which are FALSE?

<table>
<tr><th></th><th>TRUE</th><th>FALSE</th></tr>
<tr><td>A cash and carry warehouses offer self-service wholesaling.</td><td>✓</td><td></td></tr>
<tr><td>A manufacturers' warehouse would be used to store raw materials and finished goods awaiting sale.</td><td>✓</td><td></td></tr>
<tr><td>Regional distribution centres are located at seaports for efficient distribution of goods.</td><td></td><td>✓</td></tr>
</table></td><td>3</td><td>1 mark for each correct answer</td></tr>
<tr><td>4(b)(i)</td><td>Explain how warehousing is used for seasonal production

Stores goods for seasonal production/when goods are not in season (1) goods that can be produced at only certain times of year/at that season (1) e.g. winter coats (1) can be released throughout the year (1) enabling everyone to have these goods throughout the year/demand met throughout the year/sold in off-season (1) so there are no shortages (1)</td><td>2</td><td>Any 2 × 1 marks</td></tr>
<tr><td>4(b)(ii)</td><td>Explain how warehousing is used for price stability

By buying e.g. wheat at harvest time (1) could place wheat into cold storage warehouse/goods into warehouse (1) and releasing it gradually over the year (1) to avoid shortages (1) meeting demand (1) storing goods when there is low demand/when prices are low (1) releasing goods when there is high demand/when prices are high (1) so the wholesaler can reduce the wider price fluctuations/maintain prices/preventing prices from going up (1)</td><td>2</td><td>Any 2 × 1 marks</td></tr>
</table>

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Question	Answer	Marks	Guidance
4(c)(i)	**Many businesses use overseas agents to sell goods on their behalf. Discuss whether or not a business should use agents when selling overseas. Give reasons for your answer.** *Reasons for using agents:* • the business is able to concentrate on other aspects of the business – that may otherwise have been neglected • agents should be experts at this work and will introduce the business to potential buyers – leading to increased sales • agents will have the necessary expertise in what they are selling and what the local consumers are likely to demand as they will have a network of contacts – thereby reducing risk of failure • agents assume responsibility for transporting / customs clearance – which saves the business time • it cuts down the need to travel to overseas markets – and the time saved can be used for other purposes • Solves the problem of not being sure whether they will receive payment for goods – from an unknown customer *Reasons against using agents:* • agents may not be as interested in the success of his business – as the owners are • agents will charge commission or pay less for the products – than if the business was selling directly • they may not be exclusive – as they may have more favoured clients that they promote • agents will need to be supervised – as they may carry out unethical practices *Evaluation:* It depends on the financial resources that the business has, as well as the amount they export. If the business is small and do not export many goods, it would not be worthwhile, in terms of time and money, to set up their own export department. They could then simply concentrate on the manufacturing side of their business and not have to worry about exporting procedures and whether the goods have arrived or not.	**6**	Up to 2 marks for **describing** overseas agents Up to 2 marks for **analysing** the reasons whether (or not) to use overseas agents Up to 2 marks for **evaluating** whether or not an agent should be used to sell goods overseas. *Example of evaluation:* *Yes, a business should use agents as there will be no need to recruit and train new employees for this role which would take time and money.*

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Question	Answer	Marks	Guidance
4(c)(ii)	**Describe <u>one</u> trade restriction that might affect the work of an agent in international trade.** Tariff/customs duty (1) tax on imports (1) Embargo (1) ban on goods (1) Quota (1) limit/reduction on amount of goods imported (1) Licence (1) permission for importer/exporter to trade (1) Subsidy (1) form of financial aid/grant (1) Exchange control (1) limiting foreign exchange purchases (1)	**2**	1 mark for correct trade restriction and 1 mark for description

Question	Answer	Marks	Guidance
5(a)	**Describe <u>two</u> suitable methods of communication Mena could use to find out more about insurance.** Oral/verbal (1) two-way communication/face-to-face/directly speaking/telephoning or talking to someone/asking questions (1) Written (1) such as letter/email (1) Telephone/mobile phone/smartphone (1) two-way communication/calling or speaking to someone/verbal/asking questions (1) Electronic/internet/email (1) such as online/website/social media (e.g. Facebook)/written/email attachments (1)	**4**	1 mark for each method and 1 mark for each description × 2
5(b)	**Identify and explain <u>one</u> insurance document needed for motor vehicle insurance.** Proposal form (1) application for insurance (1) shows questions of what is to be insured/e.g. value of car (1) to be completed honestly/in utmost good faith (1) showing all material facts (1) used to calculate premium (1) Cover note (1) provides temporary insurance (1) as soon as first premium is paid (1) Policy (1) evidence/proof of being insured (1) contract of insurance (1) shows details/terms of cover (1)	**3**	1 mark for insurance document and up to 2 marks for explanation

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th><th>Guidance</th></tr>
<tr><td>5(c)</td><td>Discuss whether or not Mena should use an insurance broker or contact an insurance company to obtain motor vehicle insurance. Which one should she use? Give reasons for your answer.

An insurance broker will offer independent advice on which company to use. If the proposer has difficulty in obtaining insurance cover, an insurance broker would be able to recommend an insurance company willing to offer insurance. The insurance broker will organise the proposal form and other documentation and arrange for the premium to be paid. The insurance broker would also assist when making a claim.

Contacting insurance companies direct may take time and effort, however the proposer will be able to compare what the companies have to offer. Insurance companies offer a range of policies so the proposer might have difficulty deciding on which insurance company to use. You might save money as you will not be subject to the broker’s commission and some brokers take commission from some insurance companies, so they will try harder to sell you that policy instead of others. In addition, you may have particular circumstances that the insurance company have the necessary expertise to deal with.

For these reasons I recommend using an insurance broker as I do not want to spend time and money telephoning different insurance companies who might just be interested in promoting their own insurance policies rather than finding me the best one.</td><td>8</td><td>
<table>
<tr><th>Level</th><th>Mark</th><th>Description</th></tr>
<tr><td>3</td><td>7–8</td><td>Candidate makes a full evaluation of whether (or not) to use an insurance broker or insurance company to obtain motor vehicle insurance.</td></tr>
<tr><td>2</td><td>5–6</td><td>Candidate offers a satisfactory analysis of the advantages and/or disadvantages of using an insurance broker and/or insurance company.</td></tr>
<tr><td>1</td><td>1–4</td><td>Candidate applies relevant knowledge and understanding to insurance broker and/or insurance company for obtaining motor vehicle insurance.</td></tr>
<tr><td>0</td><td>0</td><td>No creditable response.</td></tr>
</table>
<u>Example of evaluation</u>:
It would be best to use an insurance company as you can go to their website and find all the information you need about the risks they insure and the premiums changed. This is much quicker and easier than having to wait for an insurance broker to organise insurance for you.
</td></tr>
</table>

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