UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Ordinary Level

MARK SCHEME for the October/November 2011 question paper for the guidance of teachers

7100 COMMERCE

7100/21 Paper 2 (Written), maximum raw mark 80

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1 (a) (i) $\frac{60}{150} \times 100$ (1) = 40% (1)

Own Figure Rule (OFR) applies. Award full marks for the correct answer without working. [2]

(ii) Any two points × 1 mark each:

- first stage of a production process
- concerned with obtaining natural resources/raw materials
- concerned with extraction
- may be exhaustive or non-exhaustive
- example such as farming, mining (not obtaining LNG).

Any other relevant point. [2]

(iii) Any two points × 1 mark each or one well-explained point × 2 marks:

- dependent/relying upon one another
- for raw materials/power/finished goods (any one example, including LNG project)
- as tend to specialise in one product.

Any other relevant point. [2]

(b) Any six points × 1 mark each and up to 3 marks for explained reasons:

- some countries have more resources of raw materials than others + example
- some countries have the climate for particular kinds of farming + example
- some countries border the sea so are able to develop their fishing industry
- some countries have cheap sources of labour needed for manufacturing
- some countries have certain skills required for particular kinds of manufacturing
- some countries are able to develop their manufacturing industries using raw materials and/or power either within the country or in neighbouring countries
- some countries can offer cheap manufactured goods to other countries because of lower costs
- some countries lack skills/knowledge/technology/machinery
- some countries are developing so have little manufacturing.

Any other relevant point. [6]

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

- a company that has its head office in one country and
- outlets, factories, offices in many other countries
- example.

Any other relevant point. [2]

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(ii) Level 2 (4–6 marks)

Candidate has discussed how the involvement of multinational companies will be both a benefit and a threat to a country's economy and given a reasoned opinion. (A one-sided reasoned argument 4 marks max.)

Multinational companies will bring expertise in the development of industries. They have the financial resources to develop very expensive projects. They are likely to bring in employees from other countries who will spend in the country's economy. They will employ large numbers of the country's workers and so will reduce unemployment. They are likely to offer them training and make them more skilled and employable. They will use the country's transport system and also buy in supplies from many businesses based in the country.

On the other hand, multinational industries are likely to be very profitable. They will be taxed in the country, thus benefiting the economy, but much of the profit will be moved overseas for the benefit of the multinational. If a multinational business becomes unprofitable or demand falls, multinationals are likely to leave the country and this will mean a considerable loss of jobs.

On balance, it is likely that the involvement of multinationals will benefit a country's economy. They will be selling their products or services to other countries and so benefit the country's balance of trade/payments.

Level 1 (1–3 marks)

Candidate has mentioned some advantages/disadvantages of multinationals and their involvement in a country and may/may not have given an opinion about whether they benefit or are a threat to the country's economy.

Multinationals provide employment. They earn profits for the country and pay taxes. They may take some of the profits out of the country. Generally they benefit the country in which they are located. [6]

2 (a) (i) Any two points × 1 mark each or one well-explained point × 2 marks:

- an area within a large town/outside a large town
- where there is a range of shops offering a variety of goods
- such as unit retailers/department stores (must give a range of shops for this mark)
- may be on several floors
- may have a large car park
- large building.

Any other relevant point. [2]

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(ii) Any two reasons × 1 mark:

- they want a variety of goods
- they want to visit a wide range of shops
- they want one-stop shopping
- they want to benefit from the other services/facilities in the shopping centre
- they are able to park easily
- the shops are open for long hours/weekend shopping
- they can do food shopping there as well as other shopping
- shopping centres are a reasonably secure environment in which to shop
- shopping centres are pleasant places to visit.

Any other relevant point. [2]

(iii) Any two explained reasons × 2 marks each:

- they attract large numbers of shoppers who want to visit a range of shops
- the small-scale retailers hope that the attraction of large-scale retailers for shoppers will increase their trade
- all kinds of shops can benefit from the advertising of the shopping centre as a whole and so save costs
- they are provided with good facilities in which to operate and so can attract staff to work there
- shopping centres often have good security arrangements and so all kinds of retailers feel that their businesses are safe there
- shopping centres provide both small and large units to attract different kinds of shops
- small-scale retailers tend to run speciality shops.

Any other relevant point. [4]

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(b) Level 2 (4–6 marks)

Candidate has discussed the statement and has shown, with reasons, why small-scale retailers still survive in many countries.

Shopping centres and large-scale retailers have reduced the trade of small-scale retailers in many parts of the world. Small shops have shut in town centres where there are large-scale retailers on the outskirts. Many small shops selling food and household goods have stopped trading because of competition from supermarkets and hypermarkets, which have the capital to buy in bulk and, because of economies of scale, are able to offer cheap prices.

On the other hand, in many parts of the world where populations are scattered and where communities are small, small-scale retailers are still flourishing. It would not be worthwhile for large-scale retailers to locate in these places. Small-scale retailers are still popular because they offer good service to customers who live close to them. They may offer informal credit, delivery, personal service and goods in small quantities. Other small-scale retailers offer a speciality service or product for a small and select market and so are able to flourish in places such as Singapore.

There is no doubt that the trade of small-scale retailers has been reduced by the growing importance of shopping centres and large-scale retailers in many towns and cities but they are still important where local people, with poor transport, are dependent upon them.

Level 1 (1–3 marks)

Candidate has commented on the growth of large-scale retailers/shopping centres and has given some statements as to why small-scale retailers still survive.

Large-scale retail chains continue to grow in importance. In many places small shops cannot compete and so close down. In other places small shops survive. They do so because they may offer personal service. They may also offer credit. [6]

(c) 1 mark for choice and 1 mark for a valid reason for each section:

(i) • along busy streets in the Central Business District (CBD)/in the centres of towns and cities
• plenty of passing trade/tourist trade/large centres of population. [2]

(ii) • in the middle of residential areas/small villages/busy streets in CBD/in centres of towns and cities
• near to customers/customers may want to shop daily/can open to suit customers. [2]

(iii) • along busy streets in CBD/in centres of towns and cities
• need to be close to other shops/areas where shoppers visit/can afford the high rents. [2]

Any other relevant reason.

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3 (a) Any two difficulties explained × 2 marks:

- may not be an EU member – so face trade barriers
- finding a suitable market – may not know European countries very well
- deciding whether or not to export directly or to use intermediaries
- language – may not speak the language of the European country
- distance – may mean transport and communication are more difficult
- regulations/laws/customs – may be different and so goods acceptable to particular countries have to be produced, adding to costs
- rates of exchange between currencies – constantly changing so may affect revenue
- import regulations in particular countries – may be quotas or high import duty
- currency exchange rates competition – from businesses within the EU.

Any other relevant point. [4]

(b) Level 2 (4–6 marks)

Candidate has shown how important a warehouse is to Betty and Bobby's business making kitchenware and has given a reasoned opinion.

A warehouse would be **very** important for Betty and Bobby's business. They will need to store the kitchenware when it has been made so that they can continue with production and so that it can be displayed for potential buyers. They may need to label and pack the kitchenware before it is dispatched. They may need to pack containers ready for export. The kitchenware will need to be protected from theft and damage. A warehouse will enable them to have an adequate supply to meet orders, otherwise buyers may go to other suppliers. For all these reasons, a warehouse would be very important to them.

Level 1 (1–3 marks)

Candidate has given some comments on the functions of a warehouse with little or no context.

A warehouse provides storage for goods. It protects goods from damage because of weather and from theft. It enables production to continue. It helps Betty and Bobby to sell their goods. [6]

(c) 1 mark for each method of payment and 1 mark for each reason:
NB candidates should not have used the same method of payment more than once.

(i) electronic transfer:

- designed for payments between countries, speedy transaction involving different currencies, quick computerised method of payment, use of Internet, safety. [2]

(ii) credit transfer/cheque:

- credit transfer – can be done automatically through the bank/one large payment + list of payees given to the bank/secure/paid direct into bank accounts
- cheque – made out for any amount/given to employees/crossing makes it more secure. [2]

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(iii) direct debit/cheque/credit transfer:
- direct debit – used for variable amount/paid at irregular intervals/computerised transaction/paid when creditor requests it/secure method of payment
- credit transfer – can be done automatically through the bank/secure
- cheque – may be a one-off payment/made out for any amount/crossing makes it more secure. [2]

Any other relevant point.

(d) Any four points × 1 mark each or 2 points explained × 2 marks:

- check against delivery note/invoice
- contact the supplier
- give details of the faulty components
- and the invoice details
- supplier should issue a credit note
- credit note transaction would be shown on statement of account
- balance owed would be reduced by the amount of the credit note
- supplier might replace the faulty components
- description of the credit note = 1 mark max
- ask supplier to check other goods
- return the goods.

Any other relevant point. [4]

4 (a) (i) Any four points that should show the differences × 1 mark each:

- public sector consists of organisations that are state-owned
- example such as public corporations
- funded by the government
- provide a service
- aim to break even
- private sector consists of organisations that are privately-owned either collectively or singly
- example such as public limited companies, sole traders
- funded by owners or shareholders
- aim to make profits.

Any other relevant point. [4]

(ii) An industry that provides a service (rather than makes goods) to others (1):
- such as transport, banking, insurance (accept a company offering a service) (1)
- such as direct service, e.g. teaching (1).

Any other relevant point. [2]

(b) (i) 20% + 15% (1) = 35% (1)
OFR applies. Award full marks if correct answer is shown without working. [2]

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(ii) $\frac{15}{100} \times \$5\text{m}$ (1) = \$750 000 (1)

OFR applies. Award full marks if correct answer is shown without working. [2]

(c) Any three ways × 2 marks each:

- lower her prices in the hope that reduced prices will attract buyers (discounts)
- look for new markets such as private buyers, other countries
- introduce new products such as new office furniture
- change her advertising – different media, different methods of appeal, to attract buyers
- increase prices – doubtful strategy if there is much competition – may attract buyers if the product is scarce
- contact existing customers and customers who have bought before in the hope of making new sales
- offer special promotions – free office chair with every desk
- offer new ways of purchasing her products – better website and online purchasing
- offer better credit terms to regular customers – longer repayment periods
- improve quality – give value for money, improve reputation
- introduce warranties – as part of after-sales service.

Any other relevant method. [6]

(d) Level 2 (3–4 marks)

Candidate has given a reasoned opinion showing how net profit may be affected or not affected by increased sales.

Net profit may increase if sales increase but it may not be in the same proportion. Net profit may be reduced by increased expenses. If Jacqueline Chang uses more advertising and a promotion, her marketing expenses will increase and so her total expenses will increase. Her gross profit may be reduced because the cost of the goods she has sold may have increased. Again, this would affect her net profit.

Level 1 (1–2 marks)

Candidate has made some comment on sales and net profit, possibly with some doubtful assumptions made.

If Jacqueline Chang increases her sales, her net profit should increase. If sales increase, hopefully gross profit will increase. Then her expenses are deducted to calculate net profit. [4]

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5 (a) Any two reasons × 2 marks:

- containers can be packed at the clothing manufacturer's premises and not unpacked until they reach their final destination
- containers can be sent by air or sea transport
- containers provide protection against weather/theft/deterioration
- containers can be used as storage instead of a warehouse while awaiting shipment
- containers can be cleared for customs at the manufacturer's premises so reducing delays
- containers can be transhipped between trucks and ships/aircraft so saving time
- containers can be easily handled at the docks/airport by special machines.

Any other relevant point. [4]

(b) Air waybill/waybill/manifest. [1]

(c) (i) Bill of lading (accept others if relevant). [1]

(ii) Any two purposes × 1 mark each:

- document of title
- receipt for goods received
- time of arrival/shipment
- gives details of goods carried
- terms of the contract of carriage
- indication of condition of goods.

Any other relevant purpose relating to the document given in **(c) (i)**. [2]

(d) Any three factors × 2 marks each:

- cost of transport – air may be more expensive than sea
- availability of transport – may not be a ship ready to sail
- value of the goods – security may be needed so air would be more suitable
- urgency needed – air is faster and the clothing may go out of fashion quickly
- location of the buyer – may be near an airport or in a country that has a coastline
- quantity and weight of each consignment – air is recommended for lightweight goods and sea for bulk and heavy goods
- timing of the delivery – if speed is needed, air would be more suitable
- whether or not repeat consignments will be sent – could make air more cost-effective
- protection required – if goods are packed in containers this may not be so crucial.

Any other relevant point. [6]

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(e) Level 2 (4–6 marks)

Candidate has given a reasoned opinion looking at both methods of finding buyers and has mentioned any additional information required. (If no additional information is mentioned, award 5 marks max. If a candidate has considered only one method of finding buyers, award 4 marks max.)

Finding overseas buyers himself may have always worked but it is time-consuming and his business may be expanding. By using intermediaries he is able to concentrate on other aspects of the business that may have been neglected. By using an export merchant he is passing on to someone else the whole export task, as the export merchant will buy the clothing from the manufacturer and assume ownership of it in order to sell it overseas. Other intermediaries, who should be experts at this work, will introduce the manufacturer to potential buyers.

Using intermediaries may have drawbacks, however. They will not be as interested in the success of his business as the manufacturer himself. They will charge commission or pay less for the clothing than if the manufacturer was selling the goods himself. They will need to be supervised.

On balance it may be better to use intermediaries who know the market but also to sell directly to the overseas buyers he already has. To make a more informed recommendation, you would need to know what volume of clothing is involved and what the likely charges would be.

Level 1 (1–3 marks)

Candidate has made some comment on either finding overseas buyers himself and/or using intermediaries with/without an opinion and with/without additional information.

It may be a good thing to sell directly to overseas buyers. He will know them personally. Intermediaries may cheat him. They may charge too much commission. His profits may suffer. We do not know enough details of what is to be sold. [6]

6 (a) (i) Any one commercial document × 1 mark and one reason for using it × 1 mark:

- enquiry – when she wants to purchase stock from a new supplier
- order form – gives details of what she wants to order.

Any other relevant document completed by Mrs Sabah (e.g. goods received note). [2]

(ii) Any two reasons × 1 mark each or one well-explained reason × 2 marks:

- to encourage repeat business
- to enable her to make a profit
- to encourage her to buy in large quantities
- because she is a retailer who is buying from suppliers
- so that the supplier can increase sales.

Any other relevant point. [2]

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(iii) Any four points × 1 mark each or two well-explained reasons × 2 marks:

- she is likely to be buying regularly and would want to pay at regular intervals
- she wants the opportunity to sell the goods she buys before having to pay for them so that she can use some of the money from the sale to pay the bill
- it provides interest-free credit for a period of time for Mrs Sabah
- and may help with her cash flow
- she may have insufficient money to be able to pay upfront
- supplier offers credit.

Any other relevant point. [4]

(b) Level 2 (4–6 marks)

Candidate has discussed purchasing both from wholesalers and from manufacturers and has given a reasoned opinion as to where she should purchase. (If only one kind of supplier is considered, award 4 marks max.)

Mrs Sabah should purchase from wholesalers because she has a small business and may wish to buy only in small quantities. She will receive various services from wholesalers, such as advice, delivery of goods and trade discount. She will be able to buy a variety of glassware and china without visiting a large number of manufacturers.

However, Mrs Sabah may find it advantageous to deal directly with some manufacturers. She may want particular items and it is possible that glassware manufacturers may deal in relatively small quantities and individual pieces for individual retailers. By buying directly, Mrs Sabah reduces the risk of damage to the glassware and china and she is able to build up a good relationship with the supplier.

She should continue to purchase from both as she will obtain a variety of products and may obtain good terms from both.

Level 1 (1–3 marks)

Candidate has commented on buying from wholesalers and/or manufacturers with/without giving an opinion.

Mrs Sabah should buy from wholesalers. They break bulk and supply a variety of goods. They may give information on new goods. Buying directly from manufacturers may not be so good. Mrs Sabah may have to buy large quantities. She may not be able to sell them. I think Mrs Sabah should buy from wholesalers. [6]

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(c) Any two very well-explained reasons × 3 marks each or any three reasons explained × 2 marks each:

- A sole trader has unlimited liability and so is responsible for all the debts of the business. Personal assets are at risk. Shareholders in a private limited company have limited liability and so are liable for losses only up to the value of their investment.
- A sole trader business is easy to set up with no documentation and so it can be ended very easily. A private limited company is registered and so is a more permanent form of business organisation.
- A private limited company is a legal entity. The business can be sued or sue in its own name. A sole trader could be sued e.g. for negligence and so the sole trader runs the risk of paying out large sums in compensation.
- The sole trader may find it more difficult to raise capital than a private limited company where finance may come from the shareholders.
- A sole-trading business has a lack of continuity but a private limited company continues even if a shareholder dies.

Any other relevant point. [6]

7 **(a)** Any three reasons × 1 mark each:

- to sell its services
- to inform people
- to persuade people to buy
- to increase its sales
- to give details of its services
- to stay in business.

Any other relevant reason. [3]

(b) **(i)** Cellphone number, email address, website address, digital television installations, maintenance and repair contracts offered, name of company, credit available, quotations and advice. [1]

(ii) Free aerial or satellite dish with every new installation. [1]

(c) Any two points × 1 mark:

- reply to a potential buyer/to an enquiry
- giving details of the services offered
- and the cost of the service
- sent by supplier to the buyer.

Any other relevant point. [2]

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(d) Any one named method of credit × 1 mark and any points of explanation × 1 mark each:

- monthly credit – payment to be made after a month, no interest charged until then
- credit card – cost charged to customer's credit card, debt may be paid off or paid in instalments
- extended credit/deferred payments – ownership immediately, payment may be made in instalments
- hire purchase – instalments, ownership at end of payments, contract with finance company.

Any other relevant example of credit. [3]

(e) Level 2 (4–6 marks)

Candidate has given a reasoned opinion about the most effective method of communication and has shown why the other two methods would not be so effective. (If a candidate has discussed only one of the methods of communication, award 4 marks max.)

I would recommend that a potential customer should use the website to find out more information. It can be accessed 24/7 and can be studied when there is time to consider the information and also revisited if more information is required. More detailed information may be obtained. It may enable the customer to have greater understanding of what he/she wants and then they can ask more intelligent questions using another method of communication.

I would not use the cellphone because I might not make contact or the person answering might not have time to talk. There might be a bad line so I might mishear and I would have no written record of the discussion. I would not use email because I would have to think of all the information I wanted to ask beforehand. Although quick to use, there is no guarantee that the company would reply.

Level 1 (1–3 marks)

Candidate has commented on one method of communication and may/may not have shown why one/both of the other methods of communication are not suitable.

I would use the cellphone because I could get immediate information. It is fast to use. I can leave messages. I would not use email and the website because I do not like computers. I may not understand the website. I may not get a reply to the email. [6]

(f) (i) Any two reasons × 1 mark each or one well-explained reason × 2 marks:

- TVS is a small company and cannot afford the cost of television advertising
- television is an example of mass media – this company probably operates in a small market, not a mass market
- people cannot afford television (local comment).

Any other relevant point. [2]

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(ii) Any one medium × 1 mark and one reason × 1 mark:

- leaflet – can give detailed information, cheap to produce, can be kept for reference
- radio – may be local radio station, reasonably cheap, may attract attention
- side of work van – can give contact details, show what the business does
- posters – can be placed in shop windows, used on noticeboards
- business cards – can be handed out to potential clients, give contact details
- 'yellow pages'/classified directories – can give detailed information, display ad.
- trade magazines.

Any other relevant medium. [2]

Magazines/billboards/newspapers = 0 marks.

8 (a) (i) Any four points × 1 mark each or two well-explained points × 2 marks:

- it will not have to pay interest on ordinary shares
- ordinary shares will not have to be repaid
- no collateral security will have to be provided
- ordinary shares convey ownership so shareholders may feel more involved in the work of the company
- dividends need not be paid if the company is having difficulties, but interest payments will still have to be met
- may need to raise a larger sum to build the hangar than could be raised by a bank loan.

Any other relevant point. [4]

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

- may have an overdraft facility at the bank
- may be having cash flow problems
- so insufficient funds in its current account
- may need short-term finance
- as it is expecting payments to be credited to its bank account
- interest payments may be low if the overdraft is small or the account is overdrawn only for a short time
- may not have trade credit with the fuel supplier.

Any other relevant point. [4]

(b) (i) Any three points × 1 mark to explain the Balance of Payments:

- the sum of a country's total income and expenditure on foreign trade (2 marks)
- includes movements of goods (visibles)
- and movements of services (invisibles)
- and movements of capital (the capital account)
- (difference between exports and imports = 1 mark).

Any other relevant point. [3]

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(ii) Any three points × 1 mark each and up to 2 marks for a well-developed point:

- Hunter Airservices Ltd provides a service so it is involved in invisible trade
- it earns foreign currency by providing air services to foreign tourists and business people
- this is an export service that Hunter Airservices Ltd is selling
- it therefore contributes invisible exports to the total Balance of Payments.

Any other relevant point. [3]

(c) Level 2 (4–6 marks)

Candidate has shown the extent to which insurance is important to Hunter Airservices Ltd, with reasons, and has mentioned several business risks against which the company should insure.

Insurance would be **very** important to Hunter Airservices Ltd. It flies planes, which are very expensive to buy and to replace, and so would need aviation insurance. If a plane crashed it would need to be indemnified. It probably employs people so it requires employers' liability insurance, which covers the company against a claim made by an employee because of the employer's negligence. It flies passengers so it will need public liability insurance in case of claims made by any of its clients. It is likely to own motor vehicles so will need motor insurance. Some employees may handle money so the company will need a fidelity bond against fraud.

Overall, it will need insurance in order to receive compensation in case it suffers a financial loss. It must have insurable interest in anything it insures. It cannot insure other companies' planes in the hope that they will crash. It needs insurance to give it the confidence to trade as any huge claims will be met by an insurance company rather than Hunter Airservices Ltd itself.

(Although some insurance principles are mentioned in the above answer, it is not necessary to mention insurance principles to gain full marks.)

Level 1 (1–3 marks)

Candidate has shown why Hunter Airservices Ltd should have insurance and has mentioned one or more business risks against which it should insure.

Hunter Airservices Ltd should have insurance such as accident insurance. People may claim against the company. A plane may crash. A passenger may be injured. Hunter Airservices Ltd would have to pay out large sums of money. Insurance companies pay compensation instead. [6]

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