**UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS**

**GCE Ordinary Level**

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

# 7100 COMMERCE

**7100/22** Paper 2 (Written), maximum raw mark 80

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**1 (a)** One mark for each correct answer:

**(i)** iron ore mines [1]

**(ii)** steel works/car factory/car/steel. [1]

**(b)** Any four points × 1 mark each or two explained points × 2 marks:

- can use the iron ore and other minerals in industries within the country
- can dispose of surpluses abroad and so earn foreign currency to buy what it lacks
- can develop particular expertise in production methods/use of technology/division of labour
- can provide employment leading to better standard of living
- can achieve comparative advantage – concentrating on what the country does best
- may give the country importance politically as a producer of minerals that other countries lack
- can achieve competitive advantage leading to greater revenue
- enhance trade relationships with other countries.

Any other relevant point. [4]

**(c)** Any four points × 1 mark each or 2 × 2 marks. Points should be taken from Fig. 1:

- iron ore is transported to the port
- iron ore is exported by ship
- employees travel to and from the cities
- iron ore is taken to steel works
- steel is transported by road to car plant
- imported machinery transported to iron ore mine.

Comment on importance of transport to industry = 2 max. [4]

**(d)** Any two services described × 2 marks:

- clear waterways and channels so that ships can move freely
- tugs and pilots to move ships
- dock labour to load bulk carriers
- wharves with loading gear to load ships
- repair facilities such as dry docks for ships
- railway junction in the docks so that iron ore can be unloaded easily/transport facilities
- fuel for ships
- security services to safeguard the ships, cargoes and staff
- customs facilities where customs officials can operate/oversee loading of ships
- freeport.

Any other relevant service relating to bulk cargo. [4]

Warehousing/containers = 0 marks.

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**(e) Level 2 (4–6 marks)**

Candidate has discussed the importance of international trade in relation to this country and has given a reasoned answer showing whether or not international trade is important to this country.

This country specialises in the production of iron ore and other minerals, so it is likely that it has good reserves of these commodities. Some of the iron ore is used within the country but much of it goes for export. The country imports food and manufactured goods from other countries. The diagram does not indicate that it produces food itself. The country is, therefore, **very** concerned with international trade as it is disposing of surpluses of minerals in order to pay for goods that it does not produce itself. It is possible that it can produce the minerals cheaply and that it has the manpower and machinery to do so. International trade is, therefore, very important to this country. (Weak context = 5 marks max.)

**Level 1 (1–3 marks)**

Candidate has made some statements about the importance of international trade with/without context.

International trade is important to most countries. Countries export goods and import other goods that they do not have. Some countries have surplus goods. Some countries have poor climates or they lack oil or raw materials. [6]

**2 (a)** Any three points × 1 mark each:

- example such as car manufacturer, furniture maker, clothing manufacturer (1)
- a manufacturer is someone who makes goods
- from raw materials
- usually in a factory
- in secondary production.

Any other relevant point. [3]

**(b)** Any two ways described × 2 marks each:

- wholesalers deal in bulk, retailers deal in small quantities
- wholesalers sell to retailers, retailers sell to consumers
- wholesalers buy from manufacturers, retailers may buy from wholesalers
- wholesalers have shed-like storage premises where rents are cheap
- retailers have well-appointed premises in areas where consumers will visit
- wholesalers clear production lines, retailers purchase a variety of goods
- wholesalers may deal with several manufacturers, retailers may deal with only one or two wholesalers
- wholesalers have large-scale storage, retailers may have only small storerooms
- wholesalers deliver goods, many retailers do not
- wholesalers do not display goods, retailers emphasise display.

Any other relevant way. [4]

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**(c)** Any two ways × 2 marks each:

- the number of wholesalers has declined in some countries because large-scale retailers buy direct
- large-scale retailers perform wholesale functions themselves and buy direct from manufacturers
- some wholesalers have established themselves as cash and carry warehouses used by small-scale retailers and other small businesses
- some wholesalers have set up voluntary chains with themselves as the buying agent and small-scale retailers buying advantageously from them
- some wholesalers have become specialist wholesalers, e.g. electrical wholesaler offering a wide range of one particular kind of merchandise
- wholesalers have looked for ways to cut costs, e.g. computerisation of warehouses
- wholesalers have less business because small-scale retailers have gone out of business.

Any other relevant point. [4]

**(d)** 1 mark for the method of safeguarding the consumer and 2 marks for description:

(NB answers will differ from country to country. Accept any plausible answer.)

- consumer council/association/agency
- laws such as sale of goods acts – goods should be fit for sale – trade descriptions acts relating to how goods and services are described
- publications such as Which? magazine – give advice on which products and services provide value for money
- standards organisations – test products and label them
- government – may be a consumer department – to promote consumer protection and offer advice on pricing, safety, labelling
- television and radio programmes – offering information to consumers and showing examples of bad practice and what happened
- guarantees/warranties
- non-government organisations.

Any other relevant method. [3]

Consumer protection/insurance/refunds = 0 marks.

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**(e) Level 2 (4–6 marks)**

Candidate has presented a reasoned argument either agreeing with the statement or disagreeing with it or offering a balanced view.

Consumer spending has increased as many consumers have more disposable income. More goods and services have become available, people's expectations have become greater and the global economy has become increasingly important. As people buy more, the chances of them buying unsatisfactory goods and services increases. Consumers, therefore, need protection. As individual consumers they have a poor bargaining position against unscrupulous traders. They need the backing of laws, consumer organisations and the government. On the other hand, they also need consumer protection to help them overcome mistakes they have made. They may lack knowledge of what they are buying. They may buy goods dangerous to their health. They may buy faulty goods. Consumer protection is now more important because people spend more but it is also necessary to protect consumers against themselves. Consumers have rights and consumers are also gullible.

**Level 1 (1–3 marks)**

Candidate has made some statements either about consumer spending or about why consumers need protection but with little or no reasoning.

Consumers are spending more. Consumers often buy goods that are broken or faulty. They need protection so that they do not lose money. They need protection against false advertising. [6]

**3 (a) (i)** Any two points × 1 mark:

- a clearly defined geographical area inside a country, e.g. at a port or example
- where no customs duty is charged on goods entering or leaving the freeport
- entrepot trade.

Any other relevant point. [2]

**(ii)** Any two advantages × 1 mark or one well-explained advantage × 2 marks:

- he need not pay import duty on the goods he imports so reducing costs/increasing profit
- he can prepare the goods for sale within the freeport (or example e.g. bottling)
- he can look for buyers while the goods are in the freeport.

Any other relevant point. [2]

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**(b) (i)** Any two advantages × 1 mark each:

- he receives immediate payment (increased sales = 0)
- there are no bad debts as payment is refused if no funds available
- payment is made directly into his bank account
- does not have to give credit to customers
- aids cash flow
- saves time paying in bank
- less cash on premises.

Any other relevant point. [2]

**(ii)** Any two advantages × 1 mark each:

- increased sales/competitive edge
- from people to whom he offers the facility of buy now, pay later
- guaranteed payment by the credit card company
- may attract a wider range of customers
- encourages impulse-buying
- can clear stocks more quickly
- less cash on premises.

Any other relevant point. [2]

**(c) Level 2 (4–6 marks)**

Candidate has considered the arguments for and/or against giving cash discount and has made a reasoned judgement either for or against giving cash discount.
(One-sided argument, award 4 marks max.)

Mr Tan may decide to give cash discount so that he is paid promptly and can then use the payments to fund more purchases. By offering cash discount, he may retain customers who regularly buy from him and these customers may recommend him to others. He may also have a competitive edge over competitors who do not offer cash discount. On the other hand, for each transaction he loses some money. He has to weigh up whether or not it is better to have money early and less of it so that his cash flow is maintained or whether it is better to have full payment but risk bad debts. On balance, it is probably better to offer cash discount to selected customers. (He should, however, offer trade discount to these customers as they are regular customers.)

**Level 1 (1–3 marks)**

Candidate has made some statements about cash discount and may/may not have given an opinion about offering cash discount to regular customers.

Cash discount is money off for prompt payment. Customers pay less. Mr Tan would have money to buy more goods. [6]

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**(d) (i)** $12 000 × 0.2 (1 mark) = $2400 (1 mark).

Own Figure Rule (OFR) applies. If a candidate gives the correct answer without working, award full marks. [2]

**(ii)** Any two reasons × 2 marks each:

- she may take too long to sell them, so has to reduce the price of some to sell all of them
- some of the goods may be faulty and so she reduces the price
- she may be selling a large quantity to one customer who wants discount for quantity
- some of the goods become too dated/obsolete and so she cannot sell them
- she may offer reduced prices to some favoured customers
- she may have mistakenly charged the wrong price/priced some of the goods incorrectly and cannot correct the error
- a recession may force price reductions as people cannot afford goods
- lower prices and sales promotions may be offered by competitors so customers go elsewhere
- may be offering sales promotions plus example
- some of the goods may have been bought cheaply so difficult to achieve high mark-up
- makes goods too high a price so people do not buy them
- tastes/fashions may change plus example.

Any other relevant reason explained. [4]

**4 (a)** Any two purposes × 2 marks each:

- to launch a new product – to give details, price, where to buy
- to persuade people to buy – by using methods of appeal and various media
- to give information – ingredients, price, location, sizes
- to increase sales – so increasing profits
- to give public information – health warnings, changes to benefits
- to gain attention – so that people will buy
- to remind customers – of existing products
- to enhance image to develop brand loyalty.

Any other relevant purpose. [4]

**(b) (i)** B [1]

**(ii)** C [1]

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**(c)** Any two points × 1 mark each:

- electronic billboards
- mechanical display boards
- advertisements that could combine sound and vision/moving digital images (2 marks)
- and are constantly changing (scrolling)
- use light-emitting diodes (LED) or similar techniques
- example of location (1).

Any other relevant point. [2]

NB do not confuse with answers that describe posters/billboards.

**(d) Level 2 (4–6 marks)**

Candidate has discussed the statement and shown with reasons whether or not advertising adds to the costs of production. (One-sided argument, award 4 marks max.)

Advertising is necessary to make people aware of products or services. The amount of advertising used will depend on the budget of the producer, the type of product, as well as the size of the market. Many kinds of advertising media are very expensive. Television advertising is very costly but targets a mass audience. Newspaper and magazine advertising are also expensive but longer-lasting and can give more information. Whatever advertising is used, it must be allowed for in the costs of production and so adds to these costs, especially if the advertising is unsuccessful.

On the other hand, the successful advertising of many products can lead to lower prices for these products. Advertising should create market demand. This means that larger quantities of a product need to be made. Mass production methods can be introduced and economies of scale, such as greater use of machinery and purchasing economies, can be introduced so that the unit costs are reduced. These lower costs of production can then be passed on to the consumer as lower prices.

It all depends on the type of product being advertised. For some products advertising will add to their costs, for some products it will mean lower prices.

**Level 1 (1–3 marks)**

Candidate has made some statements about the use of advertising to sell products.

Advertising is used to sell products. Advertising is expensive, especially television and newspaper advertising. Advertising has to be paid for. It is added to the cost of the product. [6]

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**(e)** Any six points × 1 mark each or three well-explained points × 2 marks each:
(To achieve maximum marks there must be comment on the Internet both as a method of advertising and as a method of communication. 4 marks max if only one considered.)

- many people in many countries now have access to the Internet and so are able to communicate with one another/to see what is available for purchase
- Internet enables communication to be achieved worldwide, so enabling people to communicate across time zones and countries
- it enables the use of email, a rapid, written form of communication
- it enables producers to show what they have for sale and to give details including prices
- it enables e-commerce to take place and provides facilities for purchasing online
- it enables people to post blogs for others to read
- it is interactive, enabling people to ask questions and to receive replies
- it enables the use of social networks
- it saves time/cost by using tele/video-conferencing
- it enables the use of webcams/Skype to communicate with people abroad.

Any other relevant point. [6]

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**5 (a)** Any four points × 1 mark each and up to 2 marks for a well-explained point:

**Definition of trade as buying and selling for profit – award 2 marks.**

- Kadir is involved in trade because he sells to retailers
- and he buys from producers
- he offers a variety of goods for sale
- purchased from many producers
- he maintains a supply of goods.

Any other relevant point. [4]

**(b) (i)** Any two features of a cash and carry warehouse × 1 mark each:

- variety of goods
- goods are displayed for sale
- customers come to buy and pay immediately for goods
- using cash/debit cards
- there is no credit given
- customers take away the goods themselves/provide own transport
- there is no delivery service
- self-service.

Any other relevant point. [2]

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

- provides self-service for retail customers
- who are provided with large trolleys
- and can examine the goods for sale
- may give special offers/promotions
- enables retailers to buy in very small quantities
- provides parking for vehicles
- usually easily accessible to the retailers
- few services available so competitive prices offered
- sell a wide variety of goods
- usually stock goods that sell quickly
- display goods for sale
- long opening hours
- provides continuous supply
- provides storage for retailers who cannot afford own warehouse.

Any other relevant point. [4]

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**(c)** Any two advantages explained **in the context** of the small-scale retailer × 2 marks:

- enables the retailer to undertake deliveries to customers when it is convenient
- enables the retailer to be flexible and not to rely on other forms of transport
- can collect goods from cash and carry warehouses without hiring other transport
- can shop around for the best prices for his shop and visit several warehouses
- can use the vehicle to perform other tasks – taking home staff, disposing of stock or equipment no longer needed
- can advertise the business on the side of the vehicle, giving details of where it is.

Any other relevant advantage in context. [4]

(Allow advantage of road transport/owning own transport.)

**(d) Level 2 (4–6 marks)**

Candidate has considered both options and has given a reasoned opinion.
(If a candidate has considered only one of the two options, award 4 marks max.)

Ownership of a small-scale retailing business is hard work. It may be easy to set up but it requires long hours of work, a location convenient to customers and extra services to be successful. It may be combined with a post office. It may employ family members and all the profit made may be taken by the owner.

A market trader in a retail market may operate every day or may go to several different markets during the course of a week. The retail market may be covered or be in a central open area in a town. The market trader will have lower overheads than the small-scale retailer. The market trader will have to pay rent for the stall and have to supply the stock. The market trader can be flexible about whether or not the stall opens and may be selling cheap goods.

Compared with market traders, shops could offer a wider range of goods. More capital may be required for a shop – premises.

On balance, it is probably better to be a small-scale retailer in a small centre of population rather than a market trader in a market where success is dependent on who comes to the market and the weather.

**Level 1 (1–3 marks)**

Candidate has offered some superficial information on one or both of the forms of retailing, with or without an opinion.

A small-scale retailer is found in towns, villages and in housing areas. It may sell a small range of goods. It may sell a variety of goods in small units.

A market trader in a retail market will have a table. She will sell cheap goods. She will be affected by the weather. She may not make much profit. [6]

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**6 (a) (i)** Any two points × 1 mark each:

- operates in more than one country
- may have head office in country where it originated
- may have factories in several countries, sales offices in other countries
- may sell worldwide
- may have a very well-known brand
- employs large numbers of people worldwide
- moves goods/capital/profits/labour between countries.

Any other relevant point. [2]

Example = 0.

**(ii)** Any six points × 1 mark each and up to 2 marks for any well-explained point:

- they can take advantage of improvements in communication and transport to expand
- they are able to expand by reinvesting retained profits or by buying or taking over smaller businesses
- they have the capital reserves to invest in research, technology and new projects
- they are identified by consumers in many different countries and consequently these consumers use their services
- they are in businesses that require large amounts of investment and they can supply this, e.g. oil and medicines
- they provide large-scale employment in many countries and so are welcomed by the governments of these countries
- they generate vast amounts of revenue, some of which may be used to pay taxes, improve the infrastructure of a country or affect the balance of payments of countries in which they are located
- they provide a broad range of goods/services that are demanded in many countries plus example
- they are in industries that have a global demand.

Any other relevant point. [6]

**(b)** Any two points × 1 mark each:

- a worldwide market for goods and services
- that operates across many countries.

Any other relevant point. [2]

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**(c)** Any two explained points × 2 marks:

- communication enables buying and selling to take place quickly so that deals are made across countries
- communication enables information about goods and services for sale to be readily available, e.g. on the Internet
- communication enables businesses to be in touch with a wide range of suppliers in many different countries
- communication has speeded up trade and so opened up new markets
- communication has enabled the establishment of international trading organisations such as stock exchanges, commodity markets and insurance companies
- communication enables multinational companies to operate on many different sites in many different countries
- communication enables companies to take advantage of business opportunities – opening factories in countries where labour costs are low
- communication enables people to talk across distances – tele/video-conferences
- decisions can be taken quickly.

Any other relevant point. [4]

**(d) Level 2 (4–6 marks)**

Candidate has discussed some of the elements of commerce (i.e. trade and some of the aids to trade – at least two) and shown whether or not they are **essential to the growth of the global market**.

Commerce is trade and aids to trade, such as transport, warehousing, advertising, banking, communication and insurance. For a global market to exist, it is essential that trade takes place between countries. This means that countries will import and export. In order to trade they will need to make use of transport to move their goods across the world. They may use air or send bulk goods or containers by sea. These goods and the transport will need to be insured against loss so that compensation can be obtained if a problem occurs. Finance may be required and payments must be organised through banks. In order for the goods to be known, advertising must be aimed at potential buyers in many different countries and these buyers must be contacted using rapid communication, such as email and the telephone.

If the global market is to grow for the benefit of all countries, commercial services must be used efficiently to assist buying and selling to take place between as many countries as possible.

**Level 1 (1–3 marks)**

Candidate has linked the global market to commercial services, such as trade and some of the aids to trade.

The global market needs buyers and sellers. People export and import goods. They use advertising to make people aware of what they wish to sell. They use transport to move the goods. They insure these goods and put any money they make into banks. [6]

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**7 (a) (i)** One mark for overdrawn/overdraft. [1]

**(ii)** Any two features × 1 mark each:

- (method of payment) used for regular/irregular payments
- that may vary in amount
- money requested by the creditor/payee
- enables computerisation of the transaction/electronic transactions.

Any other relevant point.

NB do not give credit for fixed amounts. [2]

**(iii)** Nov 18 $360 debit balance $415 CR (1)
$30 credit balance $445 CR (1)
$825 debit balance $380 OD (1)
Nov 19 $380 + $100 = $480 to be withdrawn from deposit account (1)

OR Total debits are $360 + $825 = $1185 (1)
Total credits are $775 + $30 = $805 (1)

$1185 – $805 = $380 OD (1)

Nov 19 $380 OD + $100 = $480 to be withdrawn from deposit account (1).

OFR applies. If the correct answer is given without working, award full marks. [4]

**(b)** Any four points × 1 mark each (with at least one mark scored for each account):

Current account – used for daily transactions, to pay bills, to withdraw money, method of payment (1 mark max), used as access to other services, one example such as overdraft, advice.

Deposit account – savings account, earns interest, used for surplus cash.

Any other relevant point. [4]

**(c)** Any three points × 1 mark each:

| | | |
|---|---|---|
| cash | balance of account | top up mobile |
| statement | transfer of funds between accounts | pay in cash/cheques |
| loan quotation | order bank statement | change PIN number |
| order cheque book | pay bills | |

Any other relevant service. [3]

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**(d) Level 2 (4–6 marks)**

Candidate has presented a reasoned argument about whether or not Sally and William should pay the same premium for house insurance.

It is possible that Sally and William should pay the same premium for insurance because they live in the same area and are neighbours, so presumably they live in the same kind of house and they also insure with the same insurance company.

However, there may be several reasons why William pays more for his house insurance than Sally. He may live in a bigger house with more bedrooms. He may have recently improved the house so that it is worth more and so he wants to insure it for a greater value. He may recently have made a claim and so is thought to be at greater risk of making a claim than Sally. He may have declared (under the principle of utmost good faith) that he keeps dangerous materials in the house and the insurance company thinks that this increases the risk and so the premium is increased. His house may be made of more inflammable materials (e.g. thatch roof) and statistics show that these houses may be more likely to burn, hence the higher premium. It is also possible that there has been an error. Sally may not be paying the right premium or William is paying too much!

**Level 1 (1–3 marks)**

Candidate has suggested one or more reasons for the difference in premiums.

William is more of a risk than Sally. William lives in a larger house. William recently made a claim. William's house is worth more. [6]

**8 (a)** Any two points × 1 mark each:

- value (1) of total sales revenue (1)
- during a trading period/period of time
- net sales (2) sales less returns (2) sales × price (2).

Any other relevant point. [2]

**(b) (i)** Any three ways in context × 1 mark each:

- advertise more
- open more hotels
- offer special promotions/loss leaders
- lower prices to attract more customers
- contact existing customers with offers
- offer different ways of selling hotel rooms, e.g. online booking
- move into other markets, e.g. conferencing
- improve service to customers
- increase prices
- offering credit to customers
- offering more facilities.

Any other relevant way. [3]

NB sell more = 0 marks.

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**(ii)** Any three ways in context × 1 mark each:

- buy supplies from cheaper suppliers
- bulk buy where possible
- install environmentally friendly measures in its hotels, e.g. low energy lights
- reduce its labour force
- reduce wastage, e.g. of food
- introduce more technology, e.g. booking systems
- look for sites with low rents for hotels
- stop hotel staff using hotel services for their own benefit
- use own transport
- work more efficiently
- reduce wages
- control power bills.

Any other relevant way. [3]

**(c) Level 2 (4–6 marks)**

Candidate has considered both options for providing the finance for expansion and has given a reasoned answer favouring either retained profits or external finance.
(If a candidate has only considered one option, award 4 marks max.)

Retained profits are profits held back from previous years for use within the company. Using retained profits means that finance is readily available with no repayments and no interest payments. There are no conditions as to its use. External finance, such as bank loans or a share issue, may mean changes to the company. Interest must be paid on a bank loan which must be repaid within a certain time. Issuing shares may mean a dilution of ownership but the money does not have to be repaid. External finance may take some time to set up and, because of this, the company may miss opportunities for expansion.

On the other hand, retained profits may be insufficient for the company's requirements. They may be needed for other projects or, if used to expand, other projects would have to be postponed. It may be possible to use some retained profits to start the expansion while arranging external finance to provide larger amounts of capital. It may depend on the profitability of the company, the collateral offered and the economic climate at the time of the expansion.

**Level 1 (1–3 marks)**

Candidate has offered statements about retained profits and/or external finance.

Retained profits are profits kept back to use later. If they are used no interest is payable. External finance may be shares, debentures or a bank loan. Loans have to be repaid with interest. Shares are not repaid. [6]

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**(d) (i)** Any two points × 1 mark:

- a legal agreement/licence
- between a franchisor and a franchisee
- sets out the conditions of the franchise
- used as a way of running a business/marketing a business
- based on trade name of famous business/example.

Any other relevant point. [2]

**(ii)** Any two advantages explained × 2 marks:

- enables the business to expand quite quickly because it attracts capital from others rather than raising capital itself
- although it shares the profits with the franchisee, a fairly reliable source of profits is guaranteed
- the franchisees have committed capital and so will be self-motivated to succeed
- the parent company does not run the individual hotels, so management problems, e.g. staffing will be reduced
- the risk of failure is shared with the franchisee so spreading risk
- the company can build on the business by opening more franchises in other areas
- more clients so more profits generated.

Any other relevant advantages. [4]

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