CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Ordinary Level

MARK SCHEME for the October/November 2012 series

7100 COMMERCE

7100/21 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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1 (a) (i) Secondary/construction/manufacturing [1]

(ii) Any two ways relating to Fig. 1 x 1 mark each -

cutting the timber
joining the timber together
painting
glazing
adding catches/locks [2]

(b) Any two advantages x 1 mark –

greater output
savings on labour
more use of machines/technology
workers become skilled at a small part of the process
may be able to employ less skilled workers – less pay

any other relevant advantage [2]

(c) Any six points x 1 mark each or three well explained points x 2 marks –

enables Windworth Ltd to raise finance by loans/overdrafts
bank accounts – current, deposit/savings
payment of bills – by cheque, credit transfer, direct debit, standing order
transfer of funds
internet banking/telephone banking
advice and guidance on its business
regular bank statements
withdrawal of funds e.g. in cash

any other relevant point [6]

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(d) Level 2 (4–6 marks)

Has discussed some selling techniques and has given a reasoned recommendation on ones that might be used.
(Consideration of advertising only = L2 4 marks maximum)

Windworth Ltd would not use many of the selling techniques used by retail shops such as self service. In order to sell its windows it will have to use selling techniques that appeal to consumers who will be spending large sums of money. It may set up a display area where consumers can view what is on offer and see the windows set up in buildings. It may prepare detailed and coloured leaflets and pamphlets so that consumers can compare what is on offer. Windworth Ltd may brand its windows with its name to make them recognisable but branding the windows may not be particularly important. Windworth Ltd will need to offer credit terms to encourage consumers to buy from them. If consumers can spread their payments they may be more likely to place orders. Windworth Ltd will offer after sales service. The firm will need to fit the windows and deal with any problems that may arise after selling. Windworth will need to compete with many other window companies and so it will probably advertise on the Internet so that a wide range of customers can be attracted. It may also offer promotions from time to time e.g. discounted lines.

I would recommend that Windworth offers good credit terms so that consumers can place orders and spread the payments. It should offer after sales service so that it builds up a reputation for reliability and customer care. It should also give as much information as possible to potential customers.

Level 1 (1–3 marks)

Has commented on some selling techniques with/without a recommendation.

Windworth Ltd will need to use selling techniques if it is to sell the windows it makes. It could advertise in magazines. It should set up a website. It should try to make its windows as good as possible. It will then sell lots of windows. [6]

(e) Any three points x 1 mark each and up to 2 marks for any well explained point –

Windworth Ltd will use road transport to distribute its windows to local customers
it is likely to have its own fleet of vehicles such as specially equipped vans
it will have to make many short journeys as its customers are likely to be spread over the local area
if it owns its own vehicles, it can be flexible in where it goes, when and can give the windows more careful handling
before distributing the windows, it will need to store them as several windows may be needed for one job

any other relevant point [3]

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2 (a) (i) Any four points x 1 mark each –

a group of shops with at least 10 branches
offering the same kind of goods
managed from a head office
central purchasing
each branch looks the same/similar shop front/layout
each branch has a manager
stock can be moved from branch to branch
spreads risk as losses made in one branch can be covered by the profits of others

any other relevant point [4]

(ii) Any four points x 1 mark each –

one individual shop
found everywhere
may be run by a family
may operate as a sole trader
who may employ staff
many sell one kind of product
or a variety of products
may be located in neighbourhoods

any other relevant point [4]

(b) Any two reasons x 1 mark each –

easy to set up
may not cost too much to set up
may be located close to home
needed in many places in the world especially where large-scale retailing does not exist
liked by many consumers
can be flexible in opening hours
offer a personal service

any other relevant reason [2]

(c) Level 2 (4–6 marks)

Has discussed both multiple chain stores and unit retailers and has given a reasoned opinion.
(If a candidate has discussed only multiple chain stores or unit retailers award 4 marks max.)

Multiple chain stores consist of many branches so risk can be spread among the branches. Goods can be moved between branches if they do not sell. If one branch makes a loss, this loss may be covered by the profits made in other branches. The organisation of a multiple is centralised so economies of scale such as bulk buying can be achieved.

On the other hand unit retailers will have low overheads. They can be located anywhere whereas multiple chain stores are more likely to be sited where there are considerable numbers of consumers. Unit retailers can serve local areas and are convenient for everyday shopping and save consumers having to travel.

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Both kinds of shops are successful. Multiple chain stores are more likely to be successful in developed town and city centres where consumers like to shop at stores with well known brands. Unit retailers cater for all kinds of consumers. They may not make huge profits but they fulfil consumer needs in many parts of the world.

Level 1 (1–3 marks)

Has commented on multiple chain stores and/or unit retailers with/without an opinion.

Unit retailers are found in all countries of the world. They are often successful. Multiple chain stores have many branches. They are often well known and very successful. They sometimes put the unit retailer out of business. [6]

(d) Any four points x 1 mark each or two well explained points x 2 marks -

lower their prices so that they are lower than Superfashion's prices
hold promotions to sell slow moving lines
stage special events e.g. fashion shows
review their costs
close any loss making branches
advertise more to attract more customers
review what they are selling and look for more attractive lines
increase/develop their online selling
open shops where there is no branch of Superfashion
improve their service
introduce loyalty scheme
improve window displays to catch people's attention
provide pleasant shopping atmosphere
do nothing

any other relevant point [4]

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

a large company with its head office in one country
and factories/outlets/offices in many other countries

any other relevant fact [2]

(ii) Any example x 1 mark – Ford, Honda, Toyota, Fiat, BMW, Mercedes, Nissan, General Motors, Saab, Peugeot, Hyundai, Volvo [1]

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(b) Any four points x 1 mark each or two well explained points x 2 marks –

need much investment in plant and machinery and only a very large company could raise the finance needed
cars are needed all over the world and these companies fulfil that need they make parts of the cars in many different countries and are able to assemble them in other countries
governments wish to have multinational car companies operating in their country for the benefit of the country's economy
they provide employment for many people with engineering skills
developed as global businesses because everyone wants cars

any other relevant point [4]

(c) Level 2 (4–6 marks)

Has discussed how commerce links the car industry to the consumer (with consideration of some of the six commercial services) and has given a reasoned opinion.

Cars are manufactured in order to be sold to consumers. If there were no commercial services, cars would not reach the consumer at the right time and at the right place. After cars have been manufactured they may need to be stored until they are sold. This may be in an open field or at a garage's showroom on display. Cars need to be exported to many countries and special ro-ro ships may be used for this purpose. They will also be transported from the docks or factories to the garages and car transporters are often used for this. Car manufacturers will need finance and banking in order to carry on their businesses. They will need loans to buy machinery and banking services to pay their creditors. Both the car manufacturer and the garages will need insurance in case risks such as fire or theft occurs. Advertising and promotion will be needed. Otherwise the consumer will not know the range of cars on offer and will not have any information about them. Communication is also important so that the manufacturer can keep in touch with importers and with customers such as the garages. It may use email, telephone or letter and will post large amounts of information on the Internet.

Without commerce, the car manufacturer would soon be unable to make cars. Commerce helps production to be ahead of demand and is very important to multinationals involved in car manufacture.

Level 1 (1–3 marks)

Has commented on commerce in relation to the car industry with/without an opinion.

Car manufacturers need commerce. They need banks and finance. They need advertising to inform and persuade consumers. They need to communicate with garages. Therefore they need commerce. [6]

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(d) (i) Any three points x 1 mark each –

television is a mass media /need to appeal to a mass audience
need to show films of the car in action
need to use colour and action
need to repeat the advertisement many times
company can afford the high costs of television advertising
need to use devices and television is suitable for this

any other relevant point [3]

(ii) Any two devices described x 2 mark each –

colour – to show the car in use and to attract attention
sexy/glamorous people – looking fashionable and enjoying the high life
suspense – cars falling off roofs, travelling at high speeds on narrow roads
romance – showing success with the opposite sex linked to using the car
luxury – with rich fittings or in rich locations
affluence – using exotic locations to advertise certain models of car

any other worthwhile device described in relation to advertising a car [4]

4 (a) (i) Any two points x 1 mark each –

shopping by post
using catalogues (allow online catalogues)
and delivery to the home

any other relevant point [2]

(ii) Any three points x 1 mark each and up to 2 marks for any well developed point –

its customers do not visit the premises
its customers may be all over the country/all over the world
they do not need to display their goods to customers
they need large storage areas and it does not matter where this storage is located

any other relevant point including comment on the location of shops [3]

(iii) Any three reasons x 1 mark each –

need to store the goods shown in the catalogue
need to hold a large stock
need to have space to fulfil orders/pack the goods
need to have space to deal with returns
need to safeguard their goods/protect from damage/theft (1 mark max)

any other relevant point [3]

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(b) Level 2 (4–6 marks)

Has discussed the statement and has given a reasoned opinion.

Good communication is very important in business. It is very important when trying to sell as most markets are very competitive. In order to sell computer software, the company will need to communicate with prospective customers. It may do this by sending a printed catalogue or by using an Internet website where customers can view the products available and buy online. The catalogue and website must be up to date and attractive and also easy to use, otherwise customers will go elsewhere.

When a customer places an order, it is important to keep the customer informed of the progress of the order. This can be done by email. If there are problems the customer needs to know. Again this could be done by email or by telephone.

Although good communication is important for sales to increase, it is not the only factor. The product needs to be of high quality and at a reasonable price. Delivery needs to be prompt and there needs to be good customer service.

I agree that customer service is important but the company and the people it employs like Aziz, need to offer good service overall for sales to increase.

Level 1 (1–3 marks)

Has commented on the relationship between communication and sales with/without an opinion.

Communication is important when selling. People need to understand you. They may telephone you or email you. You need to know the products you are selling. The price needs to be reasonable. Then sales will increase. [6]

(c) For each section award 1 mark for each correct method of credit and 1 mark for the reason

(i) credit card – can postpone payment/pay at the end of the month to avoid interest
extended credit – may be offered by the department store/if pays at the end of the month will avoid interest/owner as soon as the purchase is made

(ii) informal credit – likely to be known to the shopkeeper/small amount of money involved/can pay when receives salary

(iii) hire purchase – can pay in instalments over a period of time/formal agreement made/can return it if the car proves to be faulty
allow credit card

NB if the choice is wrong award no marks for the section [6]

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5 (a) (i) 2007 or 2010 [1]

(ii) visible exports $7m – visible imports $3m (1 mark) = $4m (1 mark)

OFR applies. If the correct answer is given without working, award full marks. [2]

(b) Any one point x 1 mark and 1 mark for example –

goods/products/items that can be seen
and are sent out of the country
such as cars/clothing/oil/coal/toys (1 example maximum)

any other relevant point [2]

(c) Level 2 (4–6 marks)

Has commented on the **changes** in the Balance of Trade figures and has given a reasoned answer as to whether or not the government should be concerned about the figures.

In the six years shown on the graph, the visible imports have declined by 50% between 2006 and 2009 and then have risen back sharply to their 2006 figure i.e. $6m in 2011. At the same time visible exports which were low in 2006, reached their highest point in 2009, $7m, but have declined in value in the last two years to $4m. Consequently the balance of trade, the difference between visible imports and exports has changed considerably in these six years.

In 2006 imports exceeded exports, in 2007 there was equilibrium but in 2009 there was a substantial surplus of $4m. Unfortunately this was not sustained and the Balance of Trade in 2011 showed a deficit of $2m.

The government may well be concerned about these figures especially the most recent deficit.

However, the figures do seem to fluctuate from year to year and it is possible that exports may be increasing in 2012 – we do not know. If the Balance of Trade continues to get worse, then the government must be concerned and will need to take action.

Level 1 (1–3 marks)

Has made some comment on the figures in Fig. 2 with/without any comment on the government and the figures.

The figures show many changes. The country imported goods to the value of $3m in 2009 exported $7m worth of goods. This was good. In 2011 exports have gone down and imports have increased. The government should be concerned. [6]

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(d) Any two ways explained x 2 marks -

government gives encouragement to companies to export more – export subsidies
government encourages a stable economy so that importers feel that it is less risky to import from a particular country
country joins a trading bloc – making it easier to trade within a group of countries
encouragement of companies that develop new products that have worldwide appeal
government encouragement of companies that expand to explore new markets – multinationals
governments offering inward investment to companies locating in the country and producing for export
new sources of raw materials are found that are in demand from other countries e.g. oil

any other relevant way [4]
NB Beware of comment on companies increasing their exports.

(e) (i) Any two points x 1 mark each –

balance of payments relates to services as well as goods
balance of payments also includes interest/profit/dividends/borrowing
balance of payments consists of a current account and a capital account

any other relevant difference [2]

(ii) Any 3 ways x 1 mark and up to 3 marks for any well explained point -

collect statistics of imports and exports – enabling government to assess trends
assessing and collecting import duties
imposing the measures taken by government to reduce a Balance of Payments deficit e.g. operating quotas, embargoes, licences
supervising the operation of the re-export trade

any other relevant point [3]

6 (a) Any one advantage and any one disadvantage x 2 marks each –

own business so she can make decisions as she wishes
keeps all the profits as she is the sole owner
easy to set up with no legal formalities to complete
family members may be able to help so saving costs
only a small amount of capital needed to set up – may use own savings

unlimited liability so she is liable for any losses and her personal assets are at risk
may have no one to share the work with and so may be overworked
may find it difficult to borrow and so may find it difficult to expand
small turnover and low profit margins may make it difficult to compete against large firms
may be shortage of certain skills – so inefficient management

any other relevant point [4]

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(b) Any two promotional methods x 1 mark each –

special displays/special offers or discounts on certain styles/special credit terms
advertising or advertising media (1 mark max)/good after sales service/demonstrations
free delivery and fitting

any other relevant promotional method [2]

(c) Any two points explained x 2 marks each to show whether or not Susan should sell online -

selling online will widen the possible market for Susan's business giving her more customers
selling online may mean that she does not need a rented shop so can save costs
selling online will mean that she has to set up a website and maintain it
selling online may not be suitable as Susan gives a personal service to her customers and will have to visit their homes
Susan's business is small-scale and by selling online she may be expanding too quickly

any other relevant point [4]

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

NB no marks for general banking services

provide overdraft facility on her current account so that she pays interest on the amount overdrawn
consider a bank loan – a fixed amount for a specific purpose
grant a mortgage if Susan wishes to purchase a property instead of renting

any other relevant point [4]

(ii) Level 2 (4–6 marks)

Has discussed whether or not to convert to a private limited company and has given a reasoned answer.
(If a candidate considers only one side of the argument award 4 marks max).

If Susan were to convert her business to a private limited company she would have the benefit of limited liability and so her personal assets would not be at risk. She would also have access to more capital as family and others could be invited to invest money in her business. Her business would be a legal entity, owned by the shareholders, so she would not be personally responsible for any problems that occurred. It would also have continuity of existence.

On the other hand, some other people would be involved in the business – often shareholders are also directors and so Susan would have less freedom to make her own decisions. Her business has just started and is likely to be very small and she may need the time to prove that it is worthwhile. Setting up a private limited company may be expensive, and, unless she has family members keen to invest for little or no dividends, perhaps this is something that should be considered later on. The shares are not freely transferable and any share transfer would have to be approved by existing shareholders.

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On balance, it is likely that setting up a private limited company would be beneficial to Susan's business when it is a little more established. Susan may find out very quickly that the business is not going to be successful or she may wish to change to something else. I would recommend that she operates as a sole trader for the short term.

Level 1 (1–3 marks)

Has commented on the advantages/disadvantages of forming a private limited company with/without an opinion.

Susan should stay as a sole trader. She is her own boss. If she converts to a private limited company, other people will be involved. They may put in capital. They may want to have a say in how the business is run. She will have to give them dividends. [6]

7 (a) (i) Any two risks x 1 mark each that apply to international traders –

aviation – or losses when carrying goods by air
marine – losses when carrying goods by ship
non-payment for goods or services – export credit insurance
travel
loss or theft of credit cards
fire/theft in warehouse

any other relevant risk relating to international traders [2]

(ii) Level 2 (4–6 marks)

Has shown the extent to which insurance is necessary to businesses with reasoning.
(If a candidate has given a reasoned answer without showing the extent to which insurance is necessary – award 4 marks max.)

Insurance is **very important** for most businesses. Many businesses want to reduce risk. If a business is not insured and a risk occurs such as a fire, the business will suffer financial losses and may have to close. Having insurance gives the business person the confidence to conduct the business. The insurance company may advise the business on ways to reduce risk e.g. fire precautions such as sprinklers. Cover for some risks is also compulsory by law in some countries e.g. employers' liability for employees and third party motor insurance.

Level 1 (1–3 marks)

Has mentioned some reasons for having insurance cover.

Many businesses have insurance. They want to obtain compensation if a risk occurs. They want cover in case of fire or theft. [6]

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(b) Any three points x 1 mark each for each of the following sections –

(i) the person has overinsured the factory
he would not be indemnified
as he is not able to make a profit from a loss
he would receive only (up to) $1.5m if the factory was totally destroyed by fire [3]

(ii) the person has not given all relevant facts (when completing the proposal form)
and so has not complied with the principle of utmost good faith
if she makes a claim it may be refused
as she has not told the truth
the risk may have been greater because of the extra rooms
and so the premium would have been greater [3]

(iii) this person would not be able to insure against business failure
because it is a non-insurable risk
as there are no past records/statistical records
with which to assess risk
and set a premium
the person may cause the business failure in order to claim compensation [3]

(iv) this person should have cancelled the insurance policy on the business
as he no longer owns the business
and so has no insurable interest in the business
as he will not suffer any financial loss if anything happens to it
the new owner should insure the business [3]

any other relevant point

8 **(a)** Any two services x 1 mark each –

providing goods in the quantities they require
breaking bulk
cash and carry
delivery
storage
display of goods
providing a variety of goods
saving time travelling to different suppliers

any other relevant service [2]

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(b) Any three points x 1 mark each to show the difference
NB must have commented on both trade credit and trade discount

trade credit is credit given to customers by a trader
enabling them to buy now and pay later
and to sell the goods before they have to pay for them
may assist the buyer's cash flow/working capital

trade discount is a reduction given between traders
to encourage bulk buying
and repeat orders
enables the retailers to make a profit
may be variable according to the amount bought/individual trader

any other relevant point [3]

(c) One mark for each of the following –

(i) order form [1]

(ii) credit note [1]

(iii) statement of account [1]

(d) (i) entitled to trade discount of 20% of $4000 = $800
$4000 – $800 = $3200
but not entitled to cash discount of 5% ($160) as she did not pay within the 30 days
as no cash discount is allowed as paid after the 30 days allowed (1 mark)
[3]

(ii) Any three actions x 1 mark each –

contact the wholesaler
showing any documents involved e.g. invoice
ask for a credit note
or replacement biscuits
ask for better quality products in future

any other relevant action [3]
sue/go to police/consumer protection agency = 0 marks

(e) Level 2 (4–6 marks)

Has discussed the issue of selling both to retailers and to consumers and has given a reasoned answer. If a candidate has discussed selling to consumers without mentioning also selling to retailers, award 4 marks max.

Wholesalers are facing competition from large-scale retailers. They have always sold to retailers especially small-scale retailers. In order to widen their customer base they need to sell as widely as possible. One way of doing this is to sell directly to consumers who gain the benefit of bulk buying and lower prices. This may mean more sales and so greater profits for the wholesaler. The wholesaler may be offering cash and carry services and these services would also appeal to consumers.

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However, it is possible that the wholesaler's retail customers may not like card-carrying consumers buying directly and obtaining the same services. They may regard these consumers as their customers and so the wholesaler becomes a threat to their businesses. They may find the wholesaler's warehouse crowded when they visit so it is difficult for them to obtain their goods. They may find the warehouse geared to the needs of consumers e.g. selling in small quantities, rather than to their needs.

By limiting the number of consumers allowed to use the wholesaler's facilities to card holders, the wholesaler is controlling the amount of business done directly with consumes. The bulk of the business is likely to be with retailers and these must be more important customers for the wholesaler than the direct sales to consumers.

Level 1 (1–3 marks)

Has commented on the issue with/without an opinion.

Wholesalers usually sell to retailers. They have a cash and carry warehouse. They could also sell to consumers who like cheap prices. They will earn more profits if they sell to both retailers and to consumers. [6]

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