UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Ordinary Level

MARK SCHEME for the May/June 2010 question paper

for the guidance of teachers

7115 BUSINESS STUDIES

7115/11 Paper 11 (Short Answer/Structured Response), maximum raw mark 100

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.

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UNIVERSITY of CAMBRIDGE
International Examinations

General Marking Guidance

This mark scheme includes a summary of appropriate content for answering each question. It should be emphasised, however, that this material is for illustrative purposes and is not intended to provide a definitive guide to acceptable answers. It is quite possible that among the scripts there will be some candidate answers that are not covered directly by the content of this mark scheme. In such cases, professional judgement should be exercised in assessing the merits of the answer and the senior examiners should be consulted if further guidance is required.

Examples of possible answers are also included in this mark scheme. Again, it should be emphasised that this is for illustrative purposes and the examples chosen represent only some of the many possible responses that would merit reward.

1 (a) Calculate the cost per unit if the output of the factory is 3000 units per week [2]

At 3000 units T.C is $15000000. Thus unit cost is $5000 [2]. If TC/O given but no figures then [1] or arithmetic error but correct method [1] $ not needed.
Typical errors = $5 or $500 = [1] shows understanding of method (even without workings).

(b) Identify two economies of scale that the factory might gain by increasing its weekly output. [2]

Content – production [e.g. division of labour or use of new technology] and marketing [bulk purchase of components] one mark per point identified. Other economies of scale can also be awarded marks.
Accept practical examples as an alternative.

(c) The factory uses flow production methods. Identify and explain two features of flow production. [4]

Content – flow implies a continuous movement of products along a line. It is usually associated with high volumes, standardised products, capital intensive methods, inflexible process, work is repetitive etc. 2 marks to be awarded for identification of a characteristic. Further 2 marks for development of features showing understanding. e.g. continuous flow means that products move from one operation to another without interruption.
Do not accept low motivation, unskilled employees.
Do not accept quicker or cheaper unless explained.

(d) Rather than making components Gabby's company is going to buy them from another manufacturer. Identify and explain three advantages to Gabby's company of doing this. [6]

Content – advantages might include the following:

- means of increasing output without increasing capacity
- increases flexibility and ability to respond to changes in market demand
- removes need to employ as many people
- use a specialist with better quality products
- saves time
- lower unit costs
- do not have to hold as much stock.

In each case explanation shows how an advantage would be achieved. e.g. not having to add to capacity would mean no need for capital outlay. Holding less stock would be cheaper because of reduced storage requirements.
If the answer given says it would be 'cheaper', this is insufficient unless there is explanation to show why this is the case.

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(e) Recently Gabby's company has become much larger. Do you think that becoming larger is an advantage for a business? Justify your answer. [6]

Question requires an evaluative outcome in the answer.
Identification of relevant points 2–1
Explanation/analysis of points 2–1
Judgement/evaluation 2–1
Content – If companies grow they gain economies of scale

- should result in lower unit costs
- better able to compete in world markets
- improved reputation
- increased diversification
- spread risk
- dominate the market

However as a business becomes larger diseconomies of scale might occur:

- capital needs increase
- organisational and management problems develop.

Ideas need to be weighed up for an effective evaluative judgement. The explanation marks are awarded for showing why the point identified occurs. The evaluation marks are given for drawing a conclusion from the analysis NOT just for saying yes or no.
A well-developed one-sided argument can gain 2 evaluation marks.

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2 (a) What is meant by a return on capital employed? [2]

ROCE means the profit of the business expressed as % of capital invested in the business or correct formula [2] Answers like profit made by the business or money made on investment [1]

(b) Calculate the value of domestic sales in 2009. [2]

Domestic sales represent 62.5% of total sales. Total sales = $750m. Therefore domestic sales = $468.75m [2] Method marks e.g. 62.5 %, 5/8 or arithmetic error [1]
$ not needed, m is needed for 2 marks.
Accept $469m – $468m for 2 marks.

(c) AB borrowed a lot of money from banks in order to expand. Identify and explain two disadvantages to a company of owing a lot of money to banks. [4]

Content –

- high gearing implies high financial risk
- relatively high interest payments
- problems if interest rates rise
- difficulty in repayment
- cash flow implications
- increased costs.

1 mark per point made [max. 2] plus 2 development marks.
Explanation marks for showing how the above actually create a problem or a disadvantage to the business.
Do not accept less profit unless linked to higher costs due to interest rates.

(d) Country Z is in recession. Identify and explain three ways in which a recession might affect AB. [6]

Content – Recession likely to affect the business in the following ways:

- fall in domestic sales [important as bulk of sales is domestic]
- fall in profits as revenue falls disproportionally to costs
- lack of confidence in economy means investment difficult
- perhaps taxes will rise to finance government spending
- less disposable income for customers
- need to cut costs such as reducing work force.

Other valid points might be made. Development marks awarded for showing how the above impact on the business. So an answer might say a recession will mean that AB will see a fall in its sales revenue [1] This is because most of its sales are domestic and consumers in country Z will have less money to spend [1 mark for development]
3 marks for knowledge
3 marks for explanation/understanding.

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(e) The Government of country Z is to take control of AB. Do you think that this will be in the best interests of the stakeholders of AB? Justify your answer. [6]

This would mean that the company is taken into public ownership. This means that its objectives would change with more emphasis on providing a service and less on making a profit. The change would impact on all stakeholders.

- shareholders might get financial compensation [adequate?]; probably lose
- employees may gain [jobs more secure]
- customers may gain [lower prices?] but perhaps needs not well met

Knowledge of relevant points, what is affected by the change [2]
Analysis of points, how is it affected [2]
Evaluative judgement, outcome of change [2]
Need to consider at least 2 stakeholders and if only 1, maximum of 3 marks.
0 for a list of stakeholders or for definition of nationalisation.

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3 (a) What is meant by a 'market orientated' company? [2]

Content – market orientated business is one that produces products in response to the requirements of the customers. Focus is on the market rather than on the product.[2] Answer like finds out what the market wants [1], carries out market research [1]

(b) Identify two possible disadvantages to Deco of having a wide range of products. [2]

Content –

- lack of specialism
- not known by the customers for being a leader in a market
- resources and investment spread over many product lines
- diluted expertise
- unable to keep pace with competitors in fast changing market in all product areas
- added costs of storage
- higher production costs.

[1] mark per valid point identified.

(c) Deco is about to carry out some market research. It intends to use sampling to research the market. Identify and explain two methods of sampling that Deco could use. [4]

Content – methods of sampling might be/random/quota/stratified/systematic/impulse/ observation/consumer panels/interviews/focus groups.

[1] mark for identification plus [1] mark for showing how the method chosen operates.

(d) Deco also uses secondary market research. Identify and explain three reasons why the results of secondary market research might not always be useful to a business. [6]

Content – the results might not be useful because:

- information gathered may not be appropriate
- might be out of date
- may not be reliable/accurate
- may not be representative of views generally
- might already be known.

One mark per reason identified and further mark for showing why this would lead to it being of little value.

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(e) Deco wants to spend more on research and development of new products. In order to do this it will have to spend less on market research. Do you think that Deco should do this? Justify your answer. [6]

The arguments that candidates might consider would include reference to some of the following points – the business operates in a fast changing and competitive market and therefore there is a need to stay ahead of competitors in terms of product innovation, quality, sophistication, product features. New products need to come on stream in terms of design and features and these require capital investment. A lack of spending on product development would be a disaster for this type of business at the cutting edge of technology. However spending less on market research might also be 'bad' because the company might be less aware of customers needs.

Knowledge of relevant points [2]

Analysis/application [2]

Evaluative judgement [2]

To gain the 2 evaluation marks some balancing of the pros and cons of research and development and market research is required.

If answer is solely on market research then max marks = 4, as it is a narrow interpretation of the question, relevant points will have been ignored and evaluative judgement is inevitably narrowly based.

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4 (a) What is meant by a financial bonus? [2]

Extra money for performance that reaches (or is in excess of) target/over and above basic pay. [2]

Money for good performance/extra money for hard work – this type of answer gains [1]

Just 'extra money' [0]

(b) Identify two reasons why customer service is important. [2]

Customer service is a way of adding value and making the product/service stand out from competitors.

It is important because – customer feels valued/good public relations/creates higher level of customer satisfaction/leads to repeat business/leads to recommendations. [1] mark per valid point identified.

(c) Identify and explain one advantage and one disadvantage of paying staff by time rate. [4]

Allow from either perspective.

Content – advantages might be:

- labour costs easy to calculate and control
- staff do not feel pressurised to rush so better quality products
- guaranteed rates per hour worked

Disadvantages:

- may require close supervision of staff to ensure time is not wasted
- no reward for individual effort

Explanation marks for developing point to show why it creates an advantage or disadvantage.

Knowledge 2–1

Understanding 2–1

(d) The hotel has a high staff turnover with a large number of employees leaving their job each year. Identify and explain three consequences of a high staff turnover to a business. [6]

Content –

- loss of expertise
- impact on morale
- need to recruit frequently [costs and time]
- training costs not recouped
- staff inexperienced
- impact on customer satisfaction and service.

Explanation marks for developing points to show what impact might be.

Knowledge 3–1

Understanding 3–1

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(e) Do you think that financial incentives are likely to be effective in motivating staff? Justify your answer. [6]

Content –

- basic needs can be satisfied by money therefore, money can be a strong motivator
- social and higher order needs are not directly influenced by money. However, they too impact on motivation.
- therefore, money motivates to a great extent but alone is unlikely to be entirely effective

Identification of valid points/knowledge of motivation [2]

Analysis of points would involve showing why basic needs are satisfied by money. Higher order needs are more complex and varied and therefore money has little impact on these. [2]

Evaluative judgement based on analysis [2]

To gain the evaluation marks some appreciation of the limitations of financial incentives need to be shown in arriving at a judgement. A one-sided answer = max 5.

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5 (a) What is meant by a 'global business'? [2]

A global business is one that operates world wide in terms of markets, employment, contacts, stakeholders and distribution [2]

Accept an answer such as 'a business that operates in many countries around the world in addition to its home country'. [2]

Simple definition + example [2]

Type of answer that says 'big business that deals in more than one country' [1]

Or 'a business which functions all over the world' [1]

Or 'a multinational business' [1].

A 'big business' [0]

(b) The management of General Auto are looking for a country where they might open a factory. Identify two factors that might influence General Auto's choice of country in which to locate the factory. [2]

Content –

- markets
- labour costs
- financial incentives
- company legislation
- infrastructure
- site costs

[1] mark per valid point identified.

(c) Multinational companies are not always welcome in a country because they might misuse their power. Explain how pressure groups might try and influence the behaviour of such companies. [4]

A pressure group is an organisation which tries to influence the behaviour/actions of another group, usually a company or Government. They try and achieve their goals by – generating bad publicity/organising boycotts of products/visible protesting/lobbying the government for changes. Do not accept trade unions as a pressure group.

2 marks for identification of methods to be used plus further 2 marks for explaining how such methods operate.

For example, organising a boycott of products would reduce the sales of the company and therefore put financial pressure on them to change their behaviour.

Definition [0]

(d) Movements in exchange rates can cause problems for any business that trades globally. General Auto's home country is the United States. Identify and explain three consequences for the business of a rise in the exchange rate of the United States dollar. [6]

Content

A rise in the dollar rate of exchange would affect the business in a number of different ways –

- exports from America would be more expensive and hence less competitive
- imports into America would be cheaper – if they compete in America against other businesses situated elsewhere then bad news
- if they source their components from other countries then good news as cheaper
- profits earned from overseas activities would be worth less when repatriated
- may have some impact on future decisions regarding where to locate, sell and operate.

Identification of a valid point [1]. Explanation as to how it would affect the business [1]. Three points in total need to be identified.

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(e) By examining the advantages and disadvantages that multinational companies create, do you think that a Government should seek to attract these companies to their country? Justify your recommendation. [6]

Content – multinationals help create jobs, develop local expertise, produce inward capital investment; help develop local infrastructure. However, they can also exploit local labour force, deplete natural resources, impact on domestic competitors, take profits and money out of the country.

Identification of points [2] analysis/application [2] evaluative judgement [2].

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