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

7115/12 Paper 12 (Short Answer/Structured Response), maximum raw mark 100

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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 2000 units per week. [2]

If output is 2000 units per week then total costs are $12000000. Thus unit cost is $6000. ($ not needed) [2], If method alone shown (Total Cost divided by output) [1] or arithmetic error [1]. Typical error is to produce an answer of $6 [1].

(b) Identify two variable costs that the business might incur. [2]
[1] mark per point

Content – possible variable costs to include:
- direct labour/wages (not salaries)
- direct materials
- component parts
- stock costs.

Do not credit answers that include costs normally regarded as indirect such as electricity costs, water supply, advertising costs, transport.

(c) Identify and explain two features of batch production. [4]
Knowledge of features [2]
Explanation of features showing understanding [2]
Examples:
- Production is done in discrete groups [1] because usually batches are in response to market demand. [+1 for development].
- Each product is made in a set [1]. Once the whole set has been completed the next one (or modified version) can be started. [+1 for development]
- Change-over time needed [1] as modified batches are produced. [+1 for development]

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(d) Identify and explain three disadvantages to Gabby's company of subcontracting the manufacture of its products. [6]

Identification of valid points [3]
Explanation of points [3]

Content:
- might result in loss of control of quality
- might produce late delivery due to lack of reliability
- higher costs to manufacturer due to profit margin of other firm
- extra transport costs
- other firm could go out of business.

Explanation shows why this creates a potential disadvantage. For example: late delivery of products [1] might result in a loss of orders for Gabby's business. [+1 for development]

(e) Do you think that competition always benefits consumers? Justify your answer. [6]

Identification of points [2]
Analysis of points [2]
Evaluative judgement [2]

Content – competition should result in:
- lower prices
- more consumer choice
- more promotional offers and deals
- better customer service
- product innovation
- increased business efficiency leading to lower costs.

However, competition can also lead to:
- hidden costs such as reduced quality [to cut costs]
- hard sell by putting pressure on customers to buy
- too much choice can be confusing to customer
- product differentiation making comparisons difficult.

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2 (a) What is meant by the 'net profit margin'? [2]

Net profit margin is a measure of the profitability of sales. It calculates the proportion of sales value that is represented by profit. [2]
Net Profit/Sales × 100 [2]
An answer like amount of net profit made [1] **or** definition of net profit [1].

NB: General reference to profit not rewardable.

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

Exports represent 37.5% (or 3/8ths) of total sales. Total sales are $750m. Therefore exports are valued at $281.25m [2]
Accept $281m–$282m [2]
Method alone or arithmetic error. [1]
NB: Millions needed. $ not needed.

(c) Identify and explain two advantages to company WLP of raising extra capital from its shareholders instead of increasing its borrowing. [4]

Knowledge of advantages [2]
Explanation of points [2]

Advantages of equity capital might be –

- does not have to be repaid
- does not carry any interest charges/cheaper
- does not require assets to be offered as security
- less financially risky.

NB: Do **not** accept: retained profit or easier to obtain finance.

Explanation shows why it represents an advantage. For example, raising money this way is cheaper [1] because there are no interest payments to be made as is the case with debt capital. [+1 for development]

(d) Identify and explain three ways in which high inflation might affect WLP. [6]

Identification of impact [3]
Explanation of points [3]

Inflation means that price levels in the country are rising and thus the cost of resource inputs into the business rise. The consequences of this are:

- pressure on profit margins
- can lead to higher prices for company's goods
- loss of competitiveness internationally
- loss of sales
- higher costs.

Explanation as to how this impact occurs. This entails showing how inflation impacts on the business e.g. inflation will push up the costs of production for WLP [1]. This means it will have to raise its prices in order to maintain profit margins [+1 development] **or** development might be: increased prices usually result in lower sales [+1].

NB: In order to gain any credit points must focus on the effect on WLP. Points about the general impact on the economy such as exchange rates and consumer income are **not** rewardable alone.

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(e) Should the Government in country Z provide financial support in these circumstances? Justify your answer. [6]

Identification of issues [2]
Analysis of issues [2]
Evaluation of issues [2]

If WLP collapses then most stakeholders lose out. If WLP is supported then there is an opportunity cost of the use of taxpayers' funds. Stakeholder groups benefit but tax payer loses. Can this be justified? Much depends upon the importance of WLP as a business. How many jobs will be lost? What impact would it have on the local community?

NB: Answers could be approached via consideration of impact upon individual stakeholders.

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3 (a) What is meant by a business that is 'product orientated'? [2]

Two marks can be gained either by identifying two points or by developing one point appropriately.

A product orientated company is one that focuses on making a product and then tries to find a market afterwards. [2]
The thought process is 'product first, customer second'. [2]
Simple idea like a business that aims to produce good products. [1]
A business that does no market research. [1]

(b) What is meant by a 'market leader'? [2]

Two marks can be gained either by identifying two points or by developing one point appropriately.

Market leader is a business that is the dominant business in the market. [2]
Market leader has the greatest market share/sales volume. [2]
Basic idea such as biggest firm. [1]
Business that others follow. [1]

(c) Identify and explain two advantages to Halitec of using flow production. [4]

Identification of advantages [2]
Explanation of advantages showing how the advantages come about. [2]

Advantages of flow production are usually:

- economies of scale
- large volumes and hence increased output
- reduced unit costs
- division of labour/specialisation
- continuous output
- capital intensive methods can be used.

Explanation might be as follows: Division of labour allows unskilled workers to be employed and hence wage costs are lower.

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(d) Identify and explain three methods that Halitec could use to improve efficiency in its factory. [6]

Identification of methods [3]
Explanation of methods [3]

Efficiency in a factory can be improved in various ways. These include:

- introducing new technology
- better production methods
- training of employees
- introducing lean methods
- higher employee motivation
- payment by performance.

The methods identified must be distinct from each other to be credited separately, for example: training of employees, payment by results, motivational methods – these all affect employees and are clearly distinct methods. However, paying people by piece rates, bonuses and perks should **not** be seen as three separate methods and therefore should be credited only once.
Explanation marks [3] are for showing **how** each method improves efficiency.
E.g. new machinery/technology may result in quicker production of products resulting in an increase in the output per employee.

(e) Do you think that Halitec would benefit from spending money on market research? Justify your answer. [6]

Identification of points [2]
Analysis of points [2]
Evaluation [2]

There are many issues to consider here. Market research would make the business more aware of the needs and requirements of its customers. It would be better informed in making future decisions. It might also be more aware of competitor's products. It might also help them to identify new market opportunities. However it would change the basis on which the company is run. It sells on the basis of technical innovation. It might also divert capital away from other areas of the business. Is a change necessary if the business is already successful?

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4 (a) What is meant by an 'autocratic leader'? [2]

Two marks can be gained either by identifying two points or by developing one point appropriately.

Autocratic leader is one who dominates their organisation. They manage by telling and directing not by discussion and persuasion. [2]
Some simple idea such as leader in charge. [1]

(b) What is meant by 'highly motivated'? [2]

Highly motivated implies workers have a positive work attitude. [2]
Alternatively, for two marks, a candidate might answer that motivation is reflected by job satisfaction, enjoyment and enthusiasm [2]
Simple idea such as people who try hard or want to do well. [1]

(c) Identify and explain one advantage and one disadvantage to the teachers of them all being paid the same salary. [4]

Advantage identified [1] development [+1]
Disadvantage identified [1] development [+1]

NB: Answer must focus on the teachers and not on the employer/school.

Advantage might be that it produces a collective 'team spirit' which is good for morale. It also means no feeling of resentment about someone earning more than another.
Disadvantage is that the salary does not reflect individual work effort and hence some people might feel exploited.

(d) Identify and explain three factors that Michelle should consider when recruiting new teachers to her school. [6]

Identification [3]
Explanation [3] is for showing why the factor is important to consider

Factors might include:

- qualifications
- experience
- training
- person qualities such as personality
- good communicator
- attitude
- factors like age and gender might also be appropriate
- integrity
- references
- salary required.

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(e) Do you think that the motivation of teachers would increase if Michelle used a democratic style of leadership? Justify your answer. [6]

Identification of issues by for example showing knowledge of what democratic style of leadership means [2]
Analysis of issues [2]
Evaluation [2]

Style of leadership has an impact on motivation. This is because autocratic leader does not encourage discussion and consultation and tends to deal with people in an impersonal manner. Given that responsibility and involvement are thought to be strong motivators this would imply that the approach is a de-motivating one. However, the staff may already be well motivated perhaps because of their innate qualities. Nevertheless, consulting people and involving them in decision making generally increases motivation. The evaluative comment will focus on the degree of impact that can be expected.

For example, an answer might say: 'A change of leadership style will have some positive impact on motivation. However, in this case I think that this will be quite small. This is because the teachers may already be highly motivated hence they are influenced in their thinking by the nature of the job rather than the style used by the head teacher.'

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5 (a) What is meant by a 'private limited company'? [2]

Two marks can be gained either by identifying two points or by developing one point appropriately.

A private limited company is a business which:
- has limited liability
- has been incorporated
- has restrictions on sale of shares
- is a company in the private sector of the economy.

(b) Identify two advantages to AVC of exporting its clothing. [2]

One mark per valid point identified.

Advantages might include:
- increase potential sales
- spreading of risk
- less dependent on domestic sales
- greater recognition of the business
- export incentives.

NB: Do not accept wild assumptions such as: increase profits; become a market leader.

(c) Identify and explain two methods that the trade union could use to encourage the management of AVC to increase the wages of its workers. [4]

Identification of methods [2]
Explanation of methods [2]

Methods might include:
- threat of strike action and hence disruption of output
- acting in an uncooperative fashion and hence causing inconvenience to employer
- refusal to work overtime
- refusal to do anything in excess of terms of contract
- consultation and negotiation with employers e.g. a productivity agreement.

NB: Do not accept workers being more efficient or similar ideas that are not Trade Union methods.

(d) Identify and explain three problems that AVC might face if it exported its clothing to other countries. [6]

Identification of problems [3]
Explanation showing how they represent problems [3]

Problems might include
- tariff barriers
- other import restrictions
- practical problems such as extra transport costs and language difficulties
- lack of knowledge of local market needs
- currency issues
- problems of breaking into established markets/no local contacts/products might not be fashionable due to local tastes etc
- extra costs incurred.

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(e) Do you think that the stakeholders in AVC would benefit if the takeover went ahead? Justify your answer. [6]

Identification of issues for stakeholders [2]
Analysis of likely impact of the takeover [2]
Evaluative comment [2]

Stakeholders affected in different ways:

- employees will be concerned about job security in short run, although the merger might create firmer job prospects for others
- management might find extra complexity in work and be concerned about their position and status in new organisation
- owners would probably gain if the terms of the takeover were attractive
- country [Government] might gain through increased tax receipts from a larger business
- consumers might be affected by changes in prices or a different range or choice of products.

Clearly the impact really depends on the strategies and decisions of the rival business. Will they down size operations/will they transfer production elsewhere/will they invest in the factories? All these things will impact on stakeholders.

NB: Answers clearly limited to one stakeholder gain maximum of 3 marks.

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