UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Ordinary Level

MARK SCHEME for the May/June 2011 question paper

for the guidance of teachers

7115 BUSINESS STUDIES

7115/22 Paper 2 (Case Study), 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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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.

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.

Application marks are not awarded for the name of the business or person from the case material. Application is by answering in the context of the case or by using the information in the case to help answer the question.

1 (a) The Directors of TT Foods are thinking of introducing machinery into the production and packing process. Identify and explain <u>two</u> reasons why the workers might be <u>happy</u> with this decision. [8]

Content:
Makes their job easier; increases their productivity; may lead to increased wages; may be promoted; training (if justified in explanation).
Answers must **relate to workers and not the company** and must refer to **being happy** rather than unhappy.

The marks available for this question are as follows: 2 marks for knowledge; 2 marks for application; 4 marks for explanation/analysis.

1 mark for each reason identified (2 marks max). Up to 2 further marks are available for explaining why workers might be happy with this decision.
2 application marks are also available.

Below is an example to illustrate the difference between a simple explanation worth 1 additional mark and a developed explanation worth 2 additional marks. An example is also provided of where the application mark might be awarded.

1 knowledge mark + up to 2 explanation marks + 1 application mark for each reason (4 marks x 2 reasons).

Possible application marks: ready-made meals; expansion; airlines or international flights; airline industry; high labour turnover; manual work; paid hourly; no fringe benefits; demotivated workers; sales staff; reference to figures in Option 1 or 2. There may be other examples in context which have not been included here.

Simple explanation: It makes their job easier. (1 knowledge mark)

Developed explanation: It makes their job easier (1) and so the workers will make less effort and will be less tired after making all the ready meals which will make them happier (1). This might lead to fewer workers leaving each year and so the workers will feel more motivated as they will be working with the same people all the time and they will get to know them well (1).

Application: The application mark could be achieved as the answer makes reference to ready meals and the high number of workers leaving each year. (1 application mark)

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(b) For the new machinery TT Foods will need to raise finance. The Directors are considering either taking out a bank loan, leasing the machinery or selling additional shares to family and friends. Consider these three possibilities for raising finance and recommend which one they should choose. Justify your choice. [12]

Content:

Advantages of a bank loan – paid back in fixed instalments; fixed rate of interest so can budget for it.
Disadvantages of a bank loan – high rate of interest paid.
Advantages of leasing – don't have to find all the money straight away; monthly payments; repairs made for them.
Disadvantages of leasing – never own the machinery; more expensive than buying outright.
Advantages of selling shares – raise additional capital; additional expertise in business.
Disadvantages of selling shares – pay out dividends; loss of some control.

Level 1 E.g. With leasing they don't have to find all the money straight away. 1 mark for each statement.

Level 2 E.g. With leasing they don't have to find all the money straight away to buy the machinery but they can pay for it in monthly instalments. This is much better for the company as they want to expand and to produce more ready meals, which will mean that they have to spend more money on raw materials to make the additional output and this requires more working capital. To find a large sum of money for equipment at this time will be difficult.
6 marks for a good level 2 answer plus 1 application mark for mentioning raw materials for ready meals.
5 marks for the first level 2 answer, plus 1–2 marks for each additional level 2 answer, i.e. two level 2 answers = 6 marks; three level 2 answers = 7 marks; four level 2 answers = 8 marks.
However, if the level 2 answer is very well explained then 6 marks can be awarded for the first level 2 answer. If the second level 2 answer is also very well explained then 8 marks in total can be awarded.

Level 3 Detailed discussion of three level 2 answers and then a conclusion at the end which justifies which is the best way to finance the purchase of the new machinery and why the other ways are less suitable.

Possible application marks: private limited company; ready-made meals; expansion; airlines or international flights; airline industry; rising incomes; increasing economic growth; reference to figures in Option 1 or 2. Production and packaging machinery.
There may be other examples in context which have not been included here.

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	Application	Knowledge/Analysis/ Evaluation
Level 3		9–10 marks Three x level 2 plus well-justified recommendation as to the best way to finance the purchase of the new machinery compared with the alternative ways.
Level 2	2 marks Well applied to the case. At least two examples of reference to, or use of, the case.	5–8 marks Good discussion of advantages/disadvantages of each of the methods of finance OR balanced argument (even if listed). Some limited judgement shown about which method to choose.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, the case.	1–4 marks Advantages/disadvantages of each of the methods of finance listed.

2 (a) Identify and explain <u>two</u> factors that will affect the pricing decisions of TT Foods when deciding what price to charge large stores for their ready-made meals. [8]

Content:
Price of competitors' products; cost of food ingredients; possible promotion; new market; product life cycle; increasing incomes; quality; increasing market share; level of demand.

The marks available for this question are as follows: 2 marks for knowledge; 2 marks for application; 4 marks for explanation/analysis.
1 mark for each factor identified (2 marks max). Up to 2 further marks are available for explaining how the pricing decision will be affected.
2 application marks are also available.

Below is an example to illustrate the difference between a simple explanation worth one additional mark and a developed explanation worth 2 additional marks. An example is also provided of where the application mark might be awarded.

1 knowledge mark + up to 2 explanation marks + 1 application mark for each factor (4 marks x 2 factors).

Possible application marks: expansion; rising incomes; increasing economic growth; food ingredients; farms; wholesaler; perishable ingredients; raw materials; reference to figures in Option 1 or 2. There may be other examples in context which have not been included here.

Simple explanation: Cost of food ingredients. (1 mark for knowledge)

Developed explanation: Cost of food ingredients (1) because the business will need to make sure they cover all their costs and they do not make a loss (1). If they can keep their costs down then the prices will also be kept down and TT Foods will be more competitive and should therefore increase sales (1).

Application: The application mark could be achieved as the answer makes reference to food ingredients. (1 application mark)

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(b) TT Foods want to reduce the costs of the food ingredients they buy. They are considering three possibilities:

(i) Keep buying their food from a wholesaler but purchase the food less often in much larger quantities or

(ii) Buy the food directly from farms or

(iii) Buy their own farms and grow the food themselves

Consider the advantages and disadvantages of these <u>three</u> possibilities and recommend which one the Directors should choose. Justify your choice. [12]

Content:

(i) Advantages – the price will be lower as buying in bulk; less administration as orders sent less frequently.
Disadvantages – need to store food; may go off if kept too long; increased storage costs if need to refrigerate food.

(ii) Advantages – support local economy; may be cheaper; quality may be higher (if justified).
Disadvantages – higher transport costs; quality may be lower (if justified); may not have full range of food products.

(iii) Advantages – can decide what to produce; absorb profit from farms; control over quality.
Disadvantages – large capital outlay to buy the farm; may not have expertise to run the farm; need to employ additional staff with different skills.

Level 1 There will be a large capital outlay to buy the farm in the first place.
1 mark for each statement.

Level 2 E.g. There will be a large capital outlay to buy the farm. This may mean that the company will have to borrow large sums of money and interest payments may be high. They may not have the expertise to run the farm and it may not be as efficient. Therefore there will be higher costs, which may mean that the food products are more expensive than buying from more efficient producers and the price of ready meals may have to increase.

6 marks for good level 2 answer plus 1 application mark for mentioning food products and ready meals.

5 marks for the first level 2 answer, plus 1–2 marks for each additional level 2 answer, i.e. two level 2 answers = 6 marks; three level 2 answers = 7 marks; four level 2 answers = 8 marks.
However, if the level 2 answer is very well explained then 6 marks can be awarded for the first level 2 answer. If the second level 2 answer is also very well explained also then 8 marks in total can be awarded.

Level 3 Detailed discussion of three level 2 answers and then a conclusion at the end which justifies which is the best way.

Possible application marks: private limited company; ready-made meals; expansion; airlines or international flights; airline industry; increasing economic growth; perishable foods; raw materials; crops; food stores; reference to figures in Option 1 or 2; harvest.
There may be other examples in context which have not been included here.

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	Application	Knowledge/Analysis/ Evaluation
Level 3		9–10 marks Three x level 2 plus well-justified recommendation as to the best way to purchase its food rather than the alternative ways.
Level 2	2 marks Well applied to the case. At least two examples of reference to, or use of, the case.	5–8 marks Good discussion of advantages/disadvantages of each of the methods of purchasing food OR balanced argument (even if listed). Some limited judgement shown about which method to choose.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, the case.	1–4 marks Advantages/disadvantages of each of the methods of purchasing food listed.

3 (a) Appendix 3 suggests that there is increasing demand for airline flights. Identify and explain <u>two</u> effects on TT Foods of this increase in the number of passengers. [8]

Content:
Effects – increased sales; raised prices; expansion; increased profit; increased competition; difficult to meet additional orders; increased employment.

The marks available for this question are as follows: 2 marks for knowledge; 2 marks for application; 4 marks for explanation/analysis.

1 mark for each effect identified (2 marks max). Up to 2 further marks are available for explaining the effect. 2 application marks are also available.

Below is an example to illustrate the difference between a simple explanation worth 1 additional mark and a developed explanation worth 2 additional marks. An example is also provided of where the application mark might be awarded.

Possible application marks: ready-made meals; food; machinery; expansion; airline industry; holidays; rising incomes; increasing economic growth; food ingredients; farms; wholesaler; perishable ingredients; raw materials; reference to figures in Option 1 or 2. There may be other examples in context which have not been included here.

Simple explanation: Increase in the number of sales. (1 mark for knowledge)

Developed explanation: Increase in the number of sales (1). This should lead to increased profit as TT Foods may be able to raise the price of the ready meals (1). The amount of increased sales will depend on how competitive TT Foods is and whether the flights are long haul flights which serve meals rather than short haul flights which often do not serve meals (1).
Application: Reference to ready meals. (1 application mark)

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(b) Consider the <u>two</u> options outlined in the case for expanding the business of TT Foods. Recommend which of the options the Directors should choose. Justify your choice using appropriate calculations. [12]

Content:

Option 1 – TR = $7500
TC = $7000
Profit = $500 (1 x L2 or 2 x L2 if TR and TC not shown)
GPM = 20% (1500/7500 x 100) = 1 additional L2
NPM = 6.7% (500/7500 x 100) = 1 additional L2

Option 2 – TR = $8000
TC = $5000
Profit = $3000 (1 x L2 or 2 x L2 if TR and TC not shown)
Break-even = 500 (2 x L2)
GPM = 50% (4000/8000 x 100) = 1 additional L2
NPM = 37.5% (3000/8000 x 100) = 1 additional L2
(If profit is not calculated, 1 x L2 awarded for TR or TC in each option)

Level 1 E.g. The variable cost of option 1 is twice as high as the variable cost of option 2. 1 mark for each statement.

Level 2 E.g. The net profit for option 1 is $500. 6 marks for correct L2 calculation of profit as workings have not been shown.

Level 3 Calculations included at three x level 2 and then a conclusion at the end which justifies which is the best option to choose.

	Knowledge/Application/Analysis/Evaluation
Level 3	9–12 marks Three x level 2 calculations. Well-justified recommendation as to which option to choose.
Level 2	5–8 marks Calculated net profit for option 1 and 2. Calculated break-even for option 2 or other appropriate calculations.
Level 1	1–4 marks Statements about each of the two options. Statements about the figures given in the case.

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4 (a) Below is an outline for a job (person) specification for a Production Manager. Refer to Appendix 2. Explain why each requirement shown below should be included in the job specification. [8]

Job title: Production Manager

Requirements	Example of requirement	Why each requirement should be included
Qualifications	University degree in Management	Well-qualified person should mean they are capable of doing the job well (1). No need for extra training/will ensure that the job is carried out effectively (1).
Skills	Able to lead a team of workers	So that the manager can motivate people by communicating with them effectively (1) and make them feel valued as employees so that the business is more efficient (1).
Experience	At least 5 years experience in food processing	So that they know how to deal with problems and how to do the job (1) without needing further training which is expensive (1).
Personal characteristics	Well organised	The manager will be responsible for many jobs that need to be completed (1). He/she will need to be able to prioritise jobs to ensure that all the important tasks get completed on time for an efficiently-run business (1).

2 marks for each suitable explanation x 4.

(b) When recruiting a new Production Manager the Directors of TT Foods could recruit internally or externally. Consider the advantages and disadvantages of these two different methods of recruiting the Production Manager and recommend which method the Directors should choose. Justify your answer. [12]

Content:
Advantages of internal recruitment – saves time and money; person already known to business; person knows the way the organisation works; motivating.

Disadvantages of internal recruitment – no new ideas or experience; jealousy amongst the workers.

Advantages of external recruitment – new ideas leads to improvements in the business; wider experience of how other businesses/competitors operate; can lead to improvements in the way the business is run.

Disadvantages of external recruitment – person not known to the business; may not fit in with other employees; CV may have been misleading about ability; may bring bad habits with them from previous business.

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Level 1 E.g. The company recruits someone already known to the company if it recruits internally. 1 mark for each statement.

Level 2 E.g. Internal recruitment means that the person recruited is already known to the business. They already know about making ready meals and what different jobs are involved in the production process. They will already know the existing employees and therefore know which ones need encouraging and which ones need to be watched because they are lazy and therefore they will make a more effective manager quickly.
6 marks for a good level 2 answer plus 1 application mark for mentioning production process for ready meals.

5 marks for the first level 2 answer, plus 1–2 marks for each additional level 2 answer, i.e. two level 2 answers = 6 marks; three level 2 answers = 7 marks; four level 2 answers = 8 marks.
However, if the level 2 answer is very well explained then 6 marks can be awarded for the first level 2 answer. If the second level 2 answer is also very well explained then 8 marks in total can be awarded.

Level 3 Detailed discussion of at least three level 2 answers. There will be a conclusion at the end which justifies which recruitment method would be the most effective.

Possible application marks: private limited company; expansion; airline industry; high labour turnover; paid hourly; no fringe benefits; existing workers are demotivated; increasing economic growth; reference to figures in Option 1 or 2.
There may be other examples in context which have not been included here.

	Application	Knowledge/Analysis/Evaluation
Level 3		9–10 marks Three x level 2 plus good judgement shown as to the best method of recruitment to choose rather than the alternative method – this may be either method of recruitment.
Level 2	2 marks Well applied to the case. At least two examples of reference to, or use of, the case.	5–8 marks Good discussion of the advantages and/or disadvantages of internal and external recruitment OR balanced argument (if only listed 1 x L2). Some limited judgement shown about which method should be used.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, the case.	1–4 marks Advantages or disadvantages listed. Internal and external recruitment defined.

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5 (a) TT Foods have to follow many consumer protection laws. Identify and explain <u>four</u> benefits to consumers of such laws. [8]

Content:
Protects against false claims; protects against inferior quality; protects against indecent advertising; protects against misleading prices; price controls; protects against the sale of harmful goods.

The marks available for this question are as follows: 4 marks for knowledge and 4 marks for explanation/analysis.

1 mark for each benefit identified (4 marks max). Up to 1 further mark is available for explaining the benefits of the consumer protection laws.
1 knowledge mark + 1 explanation mark (2 marks x 4 benefits).

E.g. Laws to protect consumers are necessary so that consumers are not misled (1). Otherwise the company could make claims about having certain items in their ready meals when they do not have any extras or particular contents (1).

(b) The case mentions that there are a high number of workers leaving the company each year because of poor motivation. Consider <u>three</u> different methods that TT Foods could use to increase motivation of the production workers and recommend which method you think will be the most effective. Justify your answer. [12]

Content:
Increase wages; change to piece rate; give fringe benefits; job rotation; job enlargement; job enrichment; (motivation theories can be rewarded if used to explain how the method motivates workers but theories are not essential).

Level 1 E.g. Employees would be happy if they had free membership of a gym.
1 mark for each statement.

Level 2 E.g. Employees would be happy if they had free membership of a gym. This will allow them to use the facilities and it saves them having to pay a membership fee. Going to the gym would get them fitter and then they will be more efficient when working in the factory and producing more ready meals.
5 marks for level 2 answer plus 1 application mark for mentioning the production of ready meals.
5 marks for the first level 2 answer, plus 1–2 marks for each additional level 2 answer, i.e. two level 2 answers = 6 marks; three level 2 answers = 7 marks; four level 2 answers = 8 marks. However, if the level 2 answer is very well explained then 6 marks can be awarded for the first level 2 answer. If the second level 2 answer is also very well explained then 8 marks in total can be awarded.

Level 3 Detailed discussion of three x level 2 answers. There will be a conclusion at the end which justifies which method of motivation would be the most effective and why it is more effective than the other methods.

Possible application marks: private limited company; ready-made meals; left-over food; airline flights; high labour turnover; production line; paid hourly; no fringe benefits; existing workers are demotivated; reference to figures in Option 1 or 2. There may be other examples in context which have not been included here.

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	Application	Knowledge/Analysis/Evaluation
Level 3		9–10 marks Three x level 2 plus good judgement shown as to the best method of motivation to choose and why not the other methods.
Level 2	2 marks Well applied to the case. At least two examples of reference to, or use of, the case.	5–8 marks Good discussion of **how** different methods would be effective in motivation. Some limited judgement shown about the best method to choose.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, the case.	1–4 marks Methods of motivation stated.

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