UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Ordinary Level

MARK SCHEME for the May/June 2012 question paper

for the guidance of teachers

7115 BUSINESS STUDIES

7115/11 Paper 1 (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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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.

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1 (a) What is meant by 'productivity'? [2]

Clear understanding [2] e.g. a measure of the output of a business in relation to its inputs [2] or effective utilisation of resources/in a time period.
Some understanding [1] e.g. output per worker/measure of efficiency/rate at which they produce goods.

(b) What is meant by 'on-the-job training'? [2]

Clear understanding [2] e.g. Training which involves watching a more experienced worker doing the job in the work place.
Some understanding [1] e.g. get training whilst still working/at the work place/learning from another worker.

(c) Identify and explain <u>one</u> advantage and <u>one</u> disadvantage of off-the-job training for IRKAM. [4]

Knowledge [2 × 1]: award 1 mark for the advantage and 1 mark for the disadvantage.

Application/analysis [2 × 1]: award 1 mark for each development of a relevant point.

Advantages include:
- experienced worker's production is not affected as training happens away from work place
- learner has access to trainers who are skilled in the task
- workers will not learn bad habits of on-the-job trainer
- quality of product maintained as all work completed by experienced workers
- less impact on output as current workers do not have to spend time training new people.

Disadvantages include:
- more expensive than on the job which increases costs for the business. For example transport costs/paid trainer
- loss of first hand experience/not necessarily tailored to individual company
- no output produced by learner whilst training taking place.

Do not accept points that apply to both methods of training.

(d) Identify and explain <u>two</u> reasons why quality control might be important to IRKAM. [6]

Knowledge [2 × 1]: award 1 mark per relevant reason.

Analysis [2 × 1]: award 1 mark for each relevant explanation.

Application [2 × 1]: award 1 mark for explaining why it is important to IRKAM.

Reasons might include:
- reduce errors (k) so saves time and money (an)
- protect reputation (k) as makes high quality doors (ap)
- save money (k) on cost of remaking items (an)/reduce wastage (an)
- saves time (k) so could help increase production (an) therefore increasing productivity (ap).

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(e) Over the past three years, there has been a large increase in demand for IRKAM's doors. Do you think job production is still the best method of production for IRKAM? Justify your answer. [6]

Knowledge [2]: outlines methods of production/identification of issues concerning job production.

Analysis [2]: develop or explain point to show why it is an issue.

Evaluation [2]: reasoned judgement made as to whether 'job' is still best method for IRKAM to use.
For two evaluation marks, the answer must be clearly in the context of this business.

Either viewpoint is possible depending on points discussed.

Points might include:
- nature of product – are doors standard or one off orders
- can he meet demand if continue to use job production?
- costs of changing process
- training required for workers
- possible financial costs of purchasing new equipment
- frequency of orders
- number of doors made

Context could include: high quality; quality control is important; looking for ways to increase productivity.

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

Clear understanding [2] e.g. profit is the amount of money that a business makes once costs have been subtracted from the revenue [2]. Or total revenue minus total costs [2]. Formula is acceptable for two marks.
Some understanding [1] e.g. money left after costs paid.
Answers such as money made by a business [0].
For both marks must have idea that there is both sales and cost element to profit.

(b) Identify <u>two</u> factors which could affect demand for Sunil's products. [2]

Knowledge [2 × 1]: one mark per factor.
Factors include:
- seasonal – coats not worn in summer, or increase in demand if wet weather
- fashion
- availability or price of substitutes
- price of complementary goods
- increase in income
- price of coat
- competition
- increase in population
- advertising.

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(c) Identify and explain <u>two</u> reasons why profit is important to small businesses like Sunil's. [4]

Knowledge [2 × 1]: award 1 mark per relevant reason.
Analysis/application [2 × 1]: award 1 mark for each relevant explanation (i.e. show why important to small business).

Reasons include:
- reward for risk taking
- source of funds for expansion
- source of funds for emergency
- main reason for the existence of many small businesses/motivation
- necessary for survival
- difficult to obtain other sources of finance as Sunil is a sole trader.

Do not accept repayment of any costs/loan of a business.

(d) Identify and explain <u>one</u> way in which consumer protection laws might affect Sunil's business and <u>one</u> way consumer protection laws might affect his customers. [6]

Knowledge [2 × 1]: award 1 mark per relevant way.

Analysis [2 × 1]: award 1 mark for each relevant explanation.

Application [2 × 1]: award 1 mark for explaining why it is important to Sunil's business/customers.

Ways Laws affect Sunil:
- suppliers will have to spend more to meet new laws so likely to increase Sunil's costs
- prices might rise to meet additional costs of compliance leading to lower demand for Sunil's coats
- stricter laws might force closure of supplier which could lead to Sunil unable to meet orders
- could force Sunil to look for cheaper suppliers overseas.

Ways Laws affect Consumers:
- protect consumers against faulty goods
- ensure quality products e.g. coat is waterproof
- forced to pay higher prices as businesses have to spend more to meet new laws.

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(e) Do you think the advantages of owning a small business are greater than the disadvantages for Sunil? Justify your answer. [6]

Knowledge [2 × 1]: award 1 mark for identification of relevant advantages or disadvantages.

Analysis [2]: explain how or why it might be an issue.

Evaluation [2]: reasoned judgement made as to whether advantages are greater than disadvantages for Sunil.
For two evaluation marks, the answer must be clearly in the context of this business.

Points include:
- able to offer personal service
- own boss
- size of market
- need to be creative
- lack of finance
- threat of competition
- lack of skills if only Sunil
- lack of economies of scale
- unlimited liability.

Either viewpoint is possible depending on points discussed.

Context could include: sole trader; likes owning business; very competitive market; new laws; makes a profit; low price raincoats.

3 (a) What is meant by 'tertiary sector'? [2]

Clear understanding [2] e.g. industry which provides/sells services [1] to consumers and/or other sectors of the economy.
Some understanding [1] e.g. provide services plus an example [+1].
Do not accept examples on their own e.g. delivery company, accountant, shop.

(b) What is meant by 'sustainable development'? [2]

Clear understanding [2] e.g. being able to maintain levels of production for a good or service over a long period of time OR ability to meet needs of present population without compromising ability of future generations to meet their own needs.
Some understanding [1] e.g. able to maintain output for ages/no impact on surroundings/ production which does not damage (or pollute) the environment.

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(c) Identify and explain <u>two</u> changes between 2000 and 2011 that are shown in Table 1. [4]

Knowledge [2 × 1]: award 1 mark for each change identified.

Analysis [2 × 1]: award 1 mark for each relevant explanation (i.e. why change occurred).

Changes shown:
- Fall in primary sector [1] – because of number of poor harvests/reduction in land available for farming/people move to other sectors in search of higher wages/ environmental protection laws/more recycling leads to less demand for the primary sector
- Fall in secondary sector [1] – due to cheaper costs of manufacturing overseas/changes in demand so less products sold by country H/environmental protection laws
- Rise in tertiary sector [1] – increased incomes so people are able to spend more on services and leisure activities/skills base changed so more suited to service provision/ more developed country.

(d) Identify and explain <u>three</u> ways a Government could encourage more businesses to set up in its country. [6]

Knowledge [3 × 1]: award 1 mark per way.

Analysis [3 × 1]: award 1 mark for each relevant explanation (i.e. explain how help encourage businesses to set up).

Ways include:
- grants or subsidies
- low rent
- lower interest rates
- laws
- provision of training
- tax allowances
- advisory services
- development areas
- tariffs and quotas.

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(e) Do you think that all businesses will be affected by the introduction of the new laws to encourage environmentally-friendly production methods? Justify your answer. [6]

Knowledge [2 × 1]: identification of relevant issues.

Analysis [2]: explain how or why issue is important or not.

Evaluation [2]: reasoned judgement made as to effect of new environmental laws on ALL businesses.

To gain 6 marks, reference must be made to **all** businesses

Disadvantages include:
- techniques/products might be banned so unable to make or sell products
- changes might lead to increased costs for business e.g. new machinery leads to increased costs
- could place business at competitive disadvantage if laws do not apply to competitors from other countries.

Advantages include:
- could improve image of business if seen as environmentally friendly leading to increased reputation and sales
- new business opportunities as customers want 'green' products
- new techniques could help reduce waste or increase efficiency so lower costs in long run
- might already adopt environmentally friendly practices so no impact
- laws might help ensure that resources are better used so could continue to operate for longer time.

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

Clear understanding [2] e.g. a company whose shares cannot be sold to the general public.
Some understanding [1] e.g. outlines general features of limited companies e.g. have limited liability/separate legal identity from owners/can sell shares.

Do not accept in private sector – generic statement which also applies to unlimited businesses.

(b) Calculate the gross profit margin for the year ending 30 April 2012. [2]

***Correct answer* [2]**: 150/450 = 33.3% or 33%.
***Method* [1]** e.g. uses right formula i.e. gross profit/sales * 100 [1], 33 [1].

N.B. answer must include % sign to be awarded 2 marks.

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(c) Identify and explain <u>two</u> ways in which Rapid Call's Finance Director could use the information in Table 2. [4]

Knowledge [2 × 1]: award 1 mark per relevant way.

Analysis/application [2]: award 1 mark for each relevant explanation (i.e. to explain how or why help).

Ways include:
- gross profit margin can be calculated [k] which can be compared to previous years to see if the GP has risen or fallen [an]/which can be compared to other companies [an]
- costs of goods sold might have risen [k] and so could try to find cheaper suppliers [an]
- might use the information to adjust marketing strategy [k]
- show value added [k].

For an answer that accurately calculates the Gross profit margin [33%] or the Net profit margin [12.22%] award 2 marks [an].

(d) The Marketing Director is thinking about changing the channel of distribution. Identify and explain <u>three</u> factors that Rapid Call should consider when choosing a suitable channel of distribution. [6]

Knowledge [3 × 1]: award 1 mark per relevant factor.

Analysis/application [3 × 1]: award 1 mark for each relevant explanation (i.e. explain how or why it is an issue for Rapid Call).

Factors include:
- where it is to be sold
- cost of transport
- type of product
- level of demand
- amount of control required by company
- size of company
- costs of storage [storage alone 0]
- speed
- location/profile of customers.

Do not award analysis/application marks for points which clearly cannot be applied to a mobile phone manufacturer e.g. perishable.

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(e) How important is increased competition in influencing the marketing strategy of Rapid Call? Justify your answer. [6]

Knowledge [2]: Identification of relevant issues or factors influencing the marketing strategy.

Analysis [2]: explain how or why issue/factors need to be considered.

Evaluation [2]: reasoned judgement made as to HOW important competition is in influencing marketing strategy of Rapid call.
For two evaluation marks, the answer must be clearly in the context of this business.

Issues include:
- competitive pricing – prices are in line with those of competitors to maintain level of sales. Too high or too low could affect level of demand or sales revenue.
- special features could suggest that competition is forcing RC to change what they sell in order to compete
- product – special features could mean that competition is not important as rivals do not have features
- promotions will need to attract as well as inform potential customers in order to ensure sales
- if business does not respond to competition they could lose sales/market share
- need to ensure that products are available at right time otherwise could lose sales to rivals.

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

Clear understanding [2] e.g. identifying and anticipating customer wants and then providing it.
Some understanding [1] e.g. selling the product or 1 core element of marketing identified, such as promotion or pricing or market research.

(b) Identify <u>two</u> possible cash outflows for Favell's business. [2]

Knowledge [2 × 1]: award 1 mark per cash out flow.
Cash outflows include: rent, materials such as wood, nails; advertising costs, machines or equipment, transport costs, insurance, and wages.
Accept any reasonable example.

(c) Identify and explain <u>two</u> benefits for any business of preparing a cash flow forecast. [4]

Benefits:
- able to arrange finance to avoid cash flow problems
- help planning
- see (predict) when money goes in or out of business
- support loan applications
- businesses more likely to have cash flow problems in early years.

Knowledge [2 × 1]: award 1 mark per relevant benefit.

Analysis [2 × 1]: award 1 mark for each relevant explanation (i.e. show how it will help a business).

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(d) Favell is looking at various methods of promotion for his business. Identify and explain <u>three</u> suitable methods of promotion that Favell could use to attract customers. [6]

Knowledge [3 × 1]: award 1 mark per relevant method.

Analysis/application [3 × 1]: award 1 mark for each relevant explanation (i.e. shows how or why it is a suitable method for Favell to use).

Methods include:
- leaflets
- posters
- adverts in the local paper or local radio or internet
- advertising on side of vehicle that he wishes to buy
- discount/promotional pricing
- sponsorship
- warranty or after sale services
- competitions
- demonstrations
- public relations
- BOGOFF
- free sample/gifts.

Do not award analysis/application marks for points which clearly cannot be applied to a woodworking business.

(e) Favell needs $10 000 to buy a motor vehicle so that he can carry all his equipment. He is planning to ask the bank for an overdraft. Do you think this is the most suitable source of finance for him to choose? Justify your answer. [6]

Knowledge [2 × 1]: Identification of points for and against overdrafts or for and against alternative sources of finance.

Analysis [2]: explains how or why issue needs to be considered.

Evaluation [2]: reasoned judgement as to whether a overdraft is the best method to use or not.

For two evaluation marks, the answer must be clearly in the context of this business

Content may include:

Overdraft:
- only interest payable on amount overdrawn
- quick and easy to arrange
- no security but repayable on demand so more appropriate for short term finance such as cash flow problems. So is it suitable for fixed assets such as a vehicle?
- can be expensive as interest rates tend to high.

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Loan:

- have a set period of time to repay
- fixed interest rate
- relatively quick to arrange
- appropriate for a vehicle as it is a long term asset
- but can be expensive as interest payable
- security usually required for loan.

Other methods might include: leasing, hire purchase as it is a vehicle.

Context could include: The business has cash flow issues; Wants to do marketing; $10 000 needed for vehicle; is a small business.

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