CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Ordinary Level

MARK SCHEME for the May/June 2013 series

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.

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

Good knowledge [2] e.g. Payment to shareholders [1] from profits of a company [+1] Return to shareholders for investing in the company [2]

Some knowledge [1] e.g. Payment to shareholders

(b) Calculate the selling price of <u>one</u> house. [2]

Correct answer [2] Method [1]

Price = cost + mark up [1] ($30 000 × 40%) + 30 000 [1] = $42 000 [2]

Note: $ not required

Do not credit $12 000 (the calculation of mark up) as it does not answer the question set

(c) Identify and explain <u>two</u> disadvantages to a business of being a public limited company. [4]

Knowledge [2 × 1] – identification of disadvantage [1 mark per disadvantage]

Analysis [2 × 1] – explain how it is a disadvantage to a business

Disadvantages could include:

- **have to disclose accounts [k]** so less able to keep financial details secret from rivals [an]
- **many legal requirements/regulations [k]** which is expensive and time consuming [an]
- **selling shares expensive [k]** because shares need to be listed on the stock market
- **shares are freely traded [k]** so there is a greater risk of takeover/danger that original owners might lose control [an]

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(d) Identify and explain <u>three</u> methods that Kew Construction could use to improve its level of sales. [6]

Knowledge/ application [3 × 1] – identification of relevant method

Analysis [3 × 1] – explain how method might work to improve sales

Methods could include:
- **lower price [k]** so more people can afford to buy [an]
- **enter new markets [k]** to attract new customers [an]
- **improve quality of product, e.g. train workers [k]** to encourage interest [an]
- **widen range of sizes [k]** offer smaller structures to attract different customers [an]
- **promotions, e.g. free carpets/curtains [k]** therefore more people would be willing to buy
- **advertise [k]** to raise awareness [an]
- **demonstrations at trade fairs [k]** so potential customers can see the products and able to ask questions [an]
- **choose locations where demand is high [k]**

Note: Do not accept any answer that could not be related to construction, e.g. packaging

(e) What do you think are the most important factors for the Human Resources Director to consider when selecting which workers to make redundant? Justify your answer. [6]

Knowledge [2 × 1] – identification of factor(s)

Analysis/application [2] – explain why the factor should be considered

Evaluation [2] – justified decision made as to which are the most important factors

Factors could include:
- what is the job
- level of experience
- workers' capabilities and skills
- disciplinary record
- length of service
- cost/salary
- amount of redundancy payments required
- productivity of workers

Look at what jobs are not needed anymore [k] and could be replaced by more efficient machinery [an]. They need to see which workers are most productive [k] so that jobs can be reduced without lowering productivity [an]. The main thing therefore has to be the overall cost [ev] as they do not want to lose the most profitable workers [ev].

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

Clear understanding [2] Percentage of the total market sales [1] held by one brand or business [+1]

Some understanding [1] e.g. share of all sales made

(b) Identify <u>two</u> ways (other than gender) that Gayle's Soaps could segment its market. [2]

Application [2 x 1]*:* 1 mark per way

Answers might include: age, lifestyle, geographical, income/social class, use – health <u>or</u> beauty

(c) Identify and explain <u>two</u> advantages of market segmentation for Gayle's Soaps. [4]

Knowledge/application [2 × 1] – identification of relevant advantage

Analysis [2 × 1] – award one mark for each relevant explanation (i.e. showing how or why it might be an advantage for GS)

Points might include:
- able to tailor any of the 4 Ps to specific needs of customer group [k] which should help sales [an]
- identify gaps in the market [k]– so able to meet needs of new potential customers [an]
- use segmentation to sell more products [k] by targeting different brands to different segments [an]
- research is made simpler [k] because you know who you need to ask [an]

(d) Identify and explain <u>three</u> problems that a business might have when trying to enter a new market. [6]

Knowledge [3 × 1] – identification of problem

Analysis [3 × 1] – explain how or why it might cause problems for the business

Points might include:
- lack of knowledge of the market [k] so produce a product that is not wanted [an]
- issues of entering a foreign market e.g. language barriers/exchange rates [k]
- competitors' reaction [k] could lead to price war [an]
- government laws [k] might restrict what they can sell [an]
- customer loyalty [k] might not switch to a new company's products [an]
- cost of developing new products [k] leading to high price needing to be charged [an]/ cash flow issues [an]
- lack of suppliers [k] so unable to find enough materials [an]
- identification of suitable places to sell from [k] different products might sold in different places [an]

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(e) Do you think that if Gayle's Soaps decides to increase prices then this will lead to higher profits? Justify your answer. [6]

Knowledge [2] – knowledge of price/identification of issues

Application/analysis [2] – for development of points to explain how or why the profits are affected

Evaluation [2] – justified decision made as to whether increased prices will lead to higher profits

Points might include:

- demand might fall [k] because of price elasticity [an]
- brand loyalty [k] may mean people willing to pay [an] customers seem relatively loyal as market share constant [ap]
- depends on the amount of price rise [k]
- level of competition [k] higher prices could see customers switch to lower priced rivals [an]
- impact depends upon their monopoly power/market share

If the soap was of high quality [k] and the target customers were high income women [k] then increasing the price would attract them [an] and make them think the soap is of high quality [an]. So in this case increasing the price will increase the profits [ev] because the higher price will match the image [ev]

Do not credit answers which discuss factors affecting profits in general with no link to prices

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

Clear understanding [2] Business that focuses on making the product right [1] and then tries to find customers to buy it [+1]

Some understanding [1] e.g. no market research done [1]

Firm concentrates upon quality or design of the product [1]

(b) Identify <u>two</u> possible economies of scale the business might benefit from if it expands. [2]

1 mark per economy

Examples include: purchasing, financial, technical, risk bearing, marketing, managerial

Note: accept practical examples such as buying in bulk.

(c) Identify and explain <u>two</u> possible problems for Sharma Machine of holding a lot of stock. [4]

Knowledge [2 × 1] – identification of problem [1 mark per problem]

Application/analysis [2 × 1] – explain how or why it might be a problem for SM

Points might include:
- cash flow/liquidity problems [k] as money held as stock [an]
- additional storage costs [k] as need more space [an]
- additional security costs [k] as valuable parts [ap]
- risk of obsolescence/wastage [k] because of new versions [an]
- risk of damage [k] as need to be stored which could increase costs [an]

Note: Do not accept any answer that could not be related to this type of business, e.g. sell by dates

(d) Identify and explain <u>three</u> methods that Ishant could use to increase productivity. [6]

Knowledge [3 × 1]: identification of method [1 mark per method]

Application/analysis [3 × 1]: explanation of how method could help improve productivity

Points could include:
- **replace workers with machines [k]** – no need to rest/no drop in quality due to tiredness [an]
- **introduce more up to date technology [k]** as less likely to break down [an]
- **improve stock control/JIT [k]** order only materials required so less time wasted [an]
- **improve quality control [k]** so less rework required/workers take more care [an]
- **improve employee motivation** (accept a practical example such as increased pay) [k] so workers work faster to increase number produced [an]
- **train staff [k]** to be more efficient – so less mistakes/wasted resources [an]
- **use TQM [k]** so workers are more responsible for work [an]
- **changing the way work is organised e.g. Kaizen, lean production, cell production**

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(e) How important is the right location for the new factory in helping Sharma Machine to remain competitive? Justify your answer. [6]

Knowledge [2] – identification of points

Analysis/application [2] – explain how it would help Sharma be competitive

Evaluation [2] – justified decision as to how important the right location is help SM remain competitive

Points could include:

- close to suppliers [k] – so less costs of transport [an]
- close to market [k] – so able to deliver goods more quickly [an]
- access to suitably qualified workers [k] – to ensure have best possible workers [an]
- where are rival companies [k] – external economies [an]
- laws [k]– can they set up [an]
- cost of site/access to utilities [k] – rent is fixed cost/need to install power etc. will add to costs – all could lead to lower margin or need to set higher price [an]

Candidates may discuss a range of factors affecting competitiveness. This is creditable only if linked to why location is not important.

They should locate in a place which has low rent [k] and easy access to transport links [k]. This will keep costs of production low [an] therefore SM will be able to keep its prices low [an] and attract more sales. However, location by itself does not mean the business will always be competitive [ev]. Buying from cheap suppliers may be a better way of keeping costs low [ev].

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4 (a) What is meant by 'appreciation of our country's currency'? [2]

Good knowledge/understanding [2]: Rise of exchange rate [2] or the value of the currency rises/ [1] so it buys more of another currency than before [1]

Some understanding [1] e.g. currency buys more imports

Do not accept a definition of exchange rate as this is not answering the question

(b) Calculate the current ratio in 2012. [2]

Application [2] e.g. correct answer – 0.666 [2] Also accept 0.66, 0.67, 2:3 or 1:1.5 [2]

Correct method – Current assets / current liabilities or 50/75 [1]

(c) Identify and explain <u>two</u> problems that an increase in taxes could cause for Luxury Destinations. [4]

Knowledge [2 × 1] – identification of problem [1 mark per problem]

Application/analysis [2 × 1] – explanation to show how problem might affect LD

Points might include:
- **demand/sales may fall [k]**
- **suppliers may increase their prices [k]** and therefore costs for the company could rise [an]
- **company may have to pay more tax [k]** and therefore may decide to put their prices up [an]
- **consumers have less money to spend [k]** therefore demand for holidays fall [an]
- **lower profits [k]** meaning lower returns for owners/less money to invest [an]

(d) Identify and explain <u>three</u> benefits for Luxury Destinations of training its employees. [6]

Knowledge [3 × 1] – identification of benefit [1 mark per benefit]

Application/analysis [3 × 1] – explanation to show how it might help LD

Points might include:
- better skills [k] – so more efficient workers
- workers know what they are doing [k] so likely to make fewer mistakes [an]
- more flexible [k] so business able to cover absence of other workers [an]
- able to offer better customer service [k] – so attract more customers [an]
- workers feel more valued [k] so improve the customer service offered [an]
- improved public image of the company [k] so likely to attract more workers/customers [an]

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(e) Do you think the Finance Director is right to be pleased with the financial position of the business? Justify your answer. [6]

Knowledge [2] – identification of performance/issues [2 max]

Application/Analysis [2] – explanation to show how or why this is an issue for LD. Interpretation of relevant ratio or manipulation of figures/data to explain what it shows

Evaluation [2] – justified decision made as whether LD should be pleased about the financial position

Points might include:

- expenses have decreased [k] by $5000 [an]
- working capital has decreased [k] by $25 000 [an]
- net profit increased [k] therefore expenses must have fallen [an]
- gross profit increased [k]
- liquidity has fallen [k] by 0.33% [an]
- increase in fixed assets [k] which might increase output [an]
- current ratio for 2011: 60/60, for 2012: 50/75 [k] therefore they may struggle to pay their short term debts [an]

The current ratio has decreased [k]. This means they are more at risk of bankruptcy [an]. However, their net profit has doubled [k] which means the company has improved by cutting their overheads [an]. Although the current ratio is bad they have plenty of fixed assets to cover their debts [ev] and efficiency has increased therefore the finance director should be pleased [ev].

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5 (a) What is meant by the 'private sector'? [2]

Good knowledge [2]: When business activities are **owned** by individuals [2]

Some knowledge [1] e.g. run by individuals OR not controlled directly by government OR aim to make a profit OR controlled by person/group of people

(b) Identify <u>two</u> ways that a business could increase added value. [2]

Knowledge [2 x 1] 1 mark per way

Ways could include: turning raw materials into finished goods/branding/packaging/adding extra features to products/USP/improved design

(c) Identify and explain <u>two</u> advantages of a short chain of command for Amira. [4]

Knowledge [2 × 1] – identification of advantage [1 mark per advantage]

Application [2 × 1] – explanation to show why it might be an advantage for Amira

Advantages might include:
- communication is quicker [k] – so less chance of messages being distorted or lost as messages have fewer levels to pass through [an]
- decision making is quicker [k] therefore efficiency is improved
- wider span of control [k] – so more choice of who to delegate to [an]
- worker's motivation could increase [k] so productivity/commitment rises [an]

(d) Identify and explain <u>three</u> qualities that Amira might look for in a manager. [6]

Knowledge [3 × 1] – identification of quality [1 mark per quality]

Application/analysis [3 × 1] – explain why it is a necessary quality for someone in Amira's business

Qualities might include:
- effective communication skills [k] – they will have to manage 12 people [app]
- approachable [k] – as need to deal with a small team of workers [app]
- experienced [k] – so will need to respond to workers' specific questions [app]
- knowledgeable/patience [k]
- well organised [k]

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(e) Do you think that the management style of the new manager might cause problems? Justify your answer. [6]

Knowledge [2] – identification of points

Application/analysis [2] – explanation to show how or why this is an issue

Evaluation [2] – justified decision made as whether management style used might cause problems

Points might include:

- autocratic [k] by being controlling the manager might demotivate staff [an]
- laissez-faire [k] workers might not have the guidance they need [an]
- workers might dislike the management style [k] therefore could leave the company [an]
- manager may have a different style to Amira's [k] which could create conflict within the business [an]

An autocratic leadership style [k] would definitely not suit them [ev] as employees may feel demotivated [an]. However as employees are highly motivated [k] they could adapt to any leadership style [an] and therefore the management style is not important [ev].

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