CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Ordinary Level

MARK SCHEME for the May/June 2013 series

7115 BUSINESS STUDIES

7115/12 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 a 'recession'? [2]

Good knowledge [2] – Period in the economic/trade cycle when GDP falls [2] OR a general slowdown in economic activity [2]
Some knowledge [1] – e.g. fall in output [1] or identifies one or more characteristics such as rising unemployment

(b) Calculate the selling price of a boat. [2]

Application [2] – e.g. Correct answer [2] = $5.2m or $5 200 000
Method [1] – e.g. Price = Total cost + % profit [1] OR **$4m + ($4m × 30%)** [1]

Note: $ sign not required but answer must be in millions or correct number of 000s
Do not credit $1.2m which is a calculation of mark up and does not answer the question set

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

Knowledge [2 × 1] – award 1 mark for each advantage identified

Analysis [2 × 1] – award 1 mark for each relevant explanation (i.e. show how it is an advantage to a business)

Points might include:

- **able to sell shares on stock market [k]** so no limit to potential number of investors [an]
- **access to more sources of finance [k]** – so easier to raise funds to expand [an]
- **limited liability [k]** so investor only liable for amount invested [an]/could be more likely to invest in company as risk limited [an]
- **separate legal identity [k]** accounts separate to owners, so if one dies, business can continue [an]
- **high status [k]** so easier to attract suppliers who will sell to them on credit OR **banks more likely to lend to them [k]** as seen as lower risk [an]

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(d) Identify and explain <u>three</u> benefits to Brakker's workers of being members of a trade union. [6]

Knowledge [3 × 1] – award 1 mark for each benefit identified

Application/analysis [3 × 1] – award 1 mark for each relevant explanation (i.e. show how it is a benefit to Brakker's <u>employees</u>

Points might include:
- **strength in numbers [k]** / **will negotiate on their behalf** [k] so business more likely to listen to a large group of workers rather than individuals [an] / so if workers are made redundant they get the best deal possible [app]
- **improved working conditions** [k] as union will negotiate on their behalf to ensure that the boat factory is a safe place to work [app]
- **improved holidays OR pay OR pension rights** [k] as union will negotiate on their behalf to get wages which reflect their ability as skilled workers [app]
- **union will provide benefits** e.g. discounts, sports facilities [k]
- **legal advice and support [k]** OR **protection against unfair dismissal [k]** OR union will help represent workers in a dispute [k]

(e) Do you think it is a good idea for Brakker to make some of its skilled workers redundant during a recession? Justify your answer. [6]

Knowledge [2] – identification of issues

Application/analysis [2] – award up to 2 marks for each relevant explanation/development of point in context

Evaluation [2] – decision made as to whether good idea for Brakker to make some of its skilled workers redundant in a recession.

Points might include:
- loss of expertise [k]
- cost of redundancy [k] which will increase costs in the short term [an]
- cost of retraining/hiring new staff when recession over [k]
- might not be able to hire suitable workers after recession [k]
- reducing labour might be only option as have to cut costs [k] as it is in a recession [app] – might have to make difficult decision otherwise whole business might have to close [eval]
- effect on other workers' motivation [k] which might lead to lower productivity [an]
- threat of trade union's action which could harm the business [k]
- better workers might look elsewhere as concerned about job security [k] so Brakker might end up not having enough skilled workers [an]
- could depend whether the problems the business is facing are short term or long term issues [k]

Developed example:
Brakker may need to cut costs [k] in order to survive [an]. Making some workers redundant may make some existing workers feel insecure [k] resulting in a fall in job satisfaction [an]. So the firm's output could fall, and they might not be able to respond to a sudden increase in demand [eval]. However if workers are not made redundant, the firm might face serious cash flow problems [k] and its future may be at risk. Overall they should make workers redundant in order to better survive the recession. [eval]

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

Good knowledge [2] – Steps taken to make sure that a company's products or services meet the required standards OR process of checking / reviewing [1] the accuracy of work bought in or completed [+1]
Some knowledge [1] – e.g. someone checking the work

(b) Identify <u>two</u> stages of the product life cycle. [2]

Knowledge [2] – 1 mark per stage:
Stages: development, introduction or launch, growth, maturity, saturation, decline

(c) Identify and explain <u>two</u> ways in which consumer protection laws could benefit B&G's customers. [4]

Knowledge/application [2 × 1] – identification of way

Analysis [2 × 1] – award 1 mark for each relevant explanation (i.e. show how or why it is a benefit for B&G's customers)

Points might include:
- **legal protection [k]** so can take them to court if cannot resolve issue with business [an]
- **rights to refunds if product is faulty [k]** so they can get their money back if problem [an]
- **no misleading advertising [k]** so customers know the shampoo advertised is the same as what they are buying [an]
- **products are fit for purpose/safe to use [k]** so products will actually clean their hair OR doesn't harm people's hair when used [an]
- **right weight [k]**

Note: do not accept answers that could not be related to this type of business, e.g. price controls

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(d) Identify and explain <u>three</u> possible problems for B&G when developing a new product. [6]

Knowledge [3 × 1] – award 1 mark for identification of problems

Application/analysis/[3 × 1] – award 1 mark for each relevant explanation (i.e. how it might be a problem for B&G*)*

Points might include:
- **no guarantee that customers will like the new product [k]** so it could waste time and resources [an]
- **reaction of competitors e.g. can gain market share whilst develop [k]** OR **might introduce rival products** [k] so additional expense of advertising new product to attract/ interest customers [an]
- **labour issues** e.g. additional training for workers [k]
- **finance issues** e.g. **invest in new machinery** to manufacture products [k] but it might be difficult to arrange additional finance [an]
- **marketing costs** e.g. additional cost of market research [k]/advertising costs [k]
- **production issues** e.g. is there sufficient capacity within factory [k]/technical problems in development/manufacturing could delay launch
- **availability of suitable materials [k]** which they might have to buy overseas which increases transport costs [an]

Note: do not allow 'will increase costs' as development for each problem if not developed further

(e) Explain <u>two</u> possible extension strategies that B&G could use for Slick. Recommend which strategy the company should use. Justify your answer. [6]

Knowledge [2 × 1] – award 1 mark for identification of strategies

Analysis/application [2] – award 1 mark for each relevant explanation (e.g. explain how the method would work

Evaluation [2] – justified decision as to which strategy B&G should use

Note: For 6 marks must explain why chosen method is the better option

Options could include:
Extension strategies fall into four basic types:
- add new features [k] so more attractive to existing/new customers [an]
- create new uses for these products [k]
- sell to new target markets/segments [k] to widen customer base [an]
- rebranding by creating a different image and so appealing to new market segments

Practical answers might include:
- sell through more or different outlets [k] so available to new customers in different parts of country [an] OR export to different countries
- introduce small changes to product design e.g. new formula for the shampoo [app] OR change colour or packaging [k] so seems like a new product/release 'limited edition' [k]

Do not accept general marketing methods such as price cut or increase advertising on its own unless specifically linked to an extension strategy

Do not accept increase quality unless linked to an extension strategy

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Developed example:
Introduce a new version of the product [k]. This should help interest in the product and encourage sales [an]. Sell through additional different retail outlets [k]. For example Slick could be sold at supermarkets. This would make the product more widely available [an].
I would recommend they introduce an improved version as consumers believe it may be better quality [eval] and existing customers may also consider buying it again [eval].

3 (a) What is meant by 'internal communication'? [2]

Good knowledge [2] – messages between people [1] working in the same organisation [1]
Some knowledge [1] – e.g. communication inside a business

(b) Identify <u>two</u> suitable methods of communication Emir could use to tell the overseas suppliers of his decision to stop importing raw materials. [2]

Application [2] – 1 mark per method
Methods include: email/letter/telephone/meeting/video conference
Accept any reasonable answer.

Do not accept 'verbal or written' as these are categories rather than specific methods.

(c) Identify and explain <u>two</u> payment methods for workers that this business could use (other than time rate). [4]

Knowledge/application [2 × 1] – award 1 mark for identification of relevant method

Analysis [2 × 1] – 1 mark for each relevant explanation (i.e. show how the method would work)

Points might include:
- **piece rate [k]** workers paid for the number of items produced [an]
- **performance related pay [k]**
- **bonuses [k]**
- **profit sharing [k]**
- **share ownership [k]**
- **rewards based on demands of job e.g. salary [k]** which is fixed amount regardless of how much they do [an]

Note 1: do **not** accept answers which could not be related to this type of business, e.g. commission/sales based methods
Note 2: do not accept wages as they are an example of time rate

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(d) Identify and explain <u>two</u> possible problems of importing raw materials for this food production business. [6]

Knowledge [2 × 1] – award 1 mark for each problem identified

Application [2 × 1] – award 1 mark if relevant reference made to food manufacturer

Analysis [2 × 1] – award 1 mark for each relevant explanation (e.g. show how or why it could be a problem

Points might include:

- **depreciation in exchange rates of country where Emir's business is based [k]** so the cost rises which if passed onto customers could mean higher food prices [app] so demand drops [an]
- **delays in delivery might delay production [k]** so other ingredients might have to be wasted [app]
- **cost of returning any faulty products [k]**
- **higher cost of transport [k]** as travelling long distance likely to mean greater cost [an]/ as perishable goods might need specialist storage containers [app]
- **quality issues/speed of delivery is important [k]** as food likely to be perishable/easily damaged/not as fresh [app]
- **tariffs [k]** which increases the cost of importing ingredients [app] so lowering the profit margin [an]
- **quotas [k]** might only be able to import an certain amount of materials so cannot produce a full range/enough finished products [app] to meet demand [an]
- **language barriers [k]**
- **different quality standards between countries [k]**

(e) Explain <u>two</u> ways in which the Production manager could reduce average cost. Recommend which one should be used. Justify your answer. [6]

Knowledge [2 × 1] – award 1 mark for identification of way

Application/analysis [2 × 1] – award 1 mark for each relevant explanation (i.e. show how the way would help reduce costs)

Evaluation [2] – justified decision as to which method the Production manager should use

Note: For 6 marks must explain why chosen way is the better option

Ways might include:

- **improve stock control/JIT [k]** so only order materials needed to reduce wastage [an]
- **increase efficiency and/or productivity [k]** by changing way the work is organised, e.g. introducing lean production/kaizen
- **find cheaper raw materials [k]** so reduce variable costs [an]
- **reduce number of workers or cut wages paid [k]** to reduce total variable costs [an]
- **renegotiate rent [k]** so reduce amount of fixed costs [an]
- **buy in bulk**/purchasing economies of scale [k] this will lower their cost per unit [an]
- **better machinery [k]** which could improve productivity [an]/OR **replace workers with machinery [k]** which would lower labour costs [an]

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Developed example:
Obtain cheaper raw materials [k]. He could negotiate discounts or find cheaper suppliers to reduce his variable costs so reducing average costs [an]. Introduce schemes like job rotation [k] which can lead to higher job satisfaction resulting in higher productivity. Overheads will be spread over a larger output, so reducing average costs [an]. He should choose job rotation to increase productivity [eval]. If he obtained cheaper materials the fall in average costs may be offset with a fall in revenue as product quality may suffer [eval].

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

Good knowledge [2] –
- Profit is the total amount of money that business makes once all/total costs have been subtracted from (sales) revenue OR Total revenue – total cost [2]
- amount left after expenses subtracted from gross profit/gross profit minus overheads or other indirect costs [2]

Some knowledge [1] – e.g. money left after costs OR amount of money made by the business

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

Application – Correct answer = 1.2:1 or 1.2 [2]
Method [1] – e.g. Current assets / current liabilities [1] or 60/50 [1]

(c) Identify and explain <u>two</u> ways in which Belshire Books could improve profitability. [4]

Knowledge/application [2 × 1] – award 1 mark for each relevant way identified

Analysis [2 × 1] – award 1 mark for each relevant explanation (i.e. show how it could help improve profitability)

Points might include:
- **lower fixed/variable costs [k]** could lead to ability to increase profit margin [an]
- **close the least profitable shop [k]** which will reduce rent and other fixed costs associated with that shop [app]
- **buy in bulk to benefit from economies of scale [k]**
- **sell books online [k]** so lower fixed costs
- **higher price [k]**

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(d) Identify and explain <u>two</u> problems that competition from online (Internet) booksellers could cause for Belshire Books. [6]

Knowledge [2 × 1] – award 1 mark for identification of problem

Application [2 × 1] – award 1 mark for each relevant reference to BB

Analysis [2 × 1] – award 1 mark for each relevant explanation (i.e. show how or why it could cause a problem)

Points might include:
- **online provider could have lower costs** (e.g. rent, staff) [k] as don't have to pay for shops so able to charge cheaper prices [k]
- **online could offer a better range** [k] of books in their warehouse [app] so better able to meet customer needs [an]
- **online booksellers able to offer 24 hour shopping** [k] so customer has more flexibility as to when to buy [an] so don't have to wait until the shop is open [app]
- **online rivals able to attract customers from around the world [k]** so have larger customer base [an]/due to cheaper advertising online
- **increased competition [k]** as not just competing against local booksellers but international ones so sales fall [app]

(e) Do you think that the Finance manager is right to be worried about the financial position of the business? Justify your answer. [6]

Knowledge [2] – award 1 mark for identification of points

Application/analysis [2] – award 1 mark for each relevant explanation (e.g. development of point/explanation of what the data shows or relevant calculation)

Evaluation [2 × 1] – justified decision as to whether the Finance manager should be worried about the financial position

Points might include:
- **net profit fallen [k]**
- **current assets increased [k]**
- **current ratio has improved [k]** as it has increased by 0.2 [an] (possibly due to increased stock levels)
- **ROCE has decreased [k]** by 4% [an] which is bad news as business is not being run as efficiently as last year [an]
- **declining market [k]** due to increased competition from online book sellers [app]

Note: ROCE calculations: 2011 = 50/500 = 10%; 2012 = 30/500 = 6%

Developed example:
Net profit has fallen by 40% [k] and return on capital has fallen [k] from 10% to 6% in 2012 [an]. This means the business is less efficient at making profits from the capital invested [eval]. However, the current ratio has improved [k] from 1 to 1.2 in 2012 [an]. This means the liquidity position has improved so they can repay debts more easily [an]. Overall, liquidity has improved and profitability has fallen. Therefore he should be concerned more with improving the profitability of the firm [eval].

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

Good knowledge [2] – group formed by people with a common interest [1] who will take action to achieve the changes they are seeking [1]
Some knowledge [1] – e.g. group formed by people with a common interest [1]

(b) Identify <u>two</u> measures a Government could use to control business activity. [2]

Knowledge [2 × 1] – 1 mark per measure

Options include: laws, e.g. ban production of certain products or processes/fines/taxes/ permits or licences/controls on location or planning permission/interest rates changes/ minimum wage rates/subsidies and grants/quotas OR tariffs

(c) Identify and explain <u>two</u> reasons why objectives are important to businesses such as ANZ. [4]

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

Analysis [2 × 1] – 1 mark for each relevant explanation (i.e. how or why it might be important or helpful to a business)

Points might include:
- **give a business an aim or target [k]** so employees/managers will know what they must do to be seen as successful [an]
- **provide a sense of direction [k]** so able to take decisions/allocate resources effectively [an]
- **measure of success against which performance can be judged [k]**
- **they facilitate budgeting OR planning OR decision making [k]** as able to effectively identify milestones which would help them achieve goals [an]
- **motivate [k]**

(d) Identify and explain <u>three</u> advantages for country P of ANZ's decision to open a new factory. [6]

Knowledge/application [3 × 1] – award 1 mark for identification of each advantage

Analysis [3 × 1] – award 1 mark for each relevant explanation (i.e. show it creates a benefit <u>for the country</u>)

Points might include:
- **job creation [k]** so increases standard of living for people [an]
- raise profile of country [k] which could encourage other businesses to invest in their country [an]
- **encourage other suppliers to set up in country [k]** which will produce more jobs
- **local businesses might gain additional sales as suppliers/or custom from workers** [k]
- **increase in country's GDP [k]**
- **increased tax revenue [k]** so government can increase expenditure on public services such as education [an]
- **provision of training [k]** so better educated population which could lead to opportunity for higher paid jobs [an]
- **improvements in infrastructure [k]**

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(e) Do you think that all business activity is bad for the environment? Justify your answer. [6]

Knowledge [2 × 1] – award 1 mark for identification of issues

Analysis [2] – 1 mark for each relevant explanation (i.e. show why it is an issue)

Evaluation [2] – justified decision as to whether all business activity is bad for the environment

Points might include:
- use up scarce resources [k]
- social costs such as pollution [k] or destruction of natural environment [k]
- need some activity to produce goods to meet customer wants [k]
- some businesses do try to be environmentally friendly/ethical decisions [k] so might treat their waste before releasing it into the environment [an]

Developed example:
Business activity can create air pollution [k] and produce dangerous industrial waste [k]. However some businesses may take ethical decisions to reduce pollution [k] and protect the environment even though this may increase its costs [an]. Therefore, although all business activity affects the environment, it does not all damage it to the same extent [eval]. Even those that are bad are being turned clean by Governments implementing environmentally friendly policies to limit the harmful effects [eval].

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