CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Ordinary Level

MARK SCHEME for the May/June 2013 series

7115 BUSINESS STUDIES

7115/21 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.

Mark schemes should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

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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 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.

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.

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1 (a) Country A is a market economy where there is little Government regulation. Identify and explain <u>one</u> advantage and <u>one</u> disadvantage to TT of trading in this type of economy. [8]

Content:

Advantage to TT
freedom to set prices; few laws to restrict business activity; few restrictions,

Disadvantage to TT
highly competitive market; no control over anti-competitive prices; no control over monopolies; no government grants.

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

1 mark for each advantage/disadvantage identified (2 marks max). Up to two further marks are available for explaining the advantage/disadvantage. 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 mark for advantage/disadvantage
(4 marks × 1 advantage and 4 marks × 1 disadvantage).

Possible application marks: tools; equipment; retail establishment; partnership; small/large shops; shop assistants; 10 shops; reinvested profits; build or repair own houses; construction companies; bad weather; damage to buildings; recession. There may be other examples in context which have not been included here.

Simple explanation:	There is no government control over the activities of large dominant competitors. (1 mark for knowledge)
Developed explanation:	There is no government control over the activities of large dominant competitors (1). These companies might undercut TT prices to drive them out of business (1). TT will not be able to compete with the large shops and this will decrease both sales and profit (1).
Application:	The application mark could be achieved as the answer makes reference to large shops. (1 application mark)

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(b) TT has 10 small shops. Consider the advantages and disadvantages of operating several small shops rather than 1 large shop. Do you think Ted was right to open 10 small shops rather than 1 large shop? Justify your answer. [12]

Content:

10 small shops advantage
can meet local needs; convenient for local customers; covers a wider area; better customer satisfaction than large shops;

Disadvantage
higher fixed costs; higher distribution costs; increased number of employees;

Large store advantage
economies of scale; staff savings; lower transport costs;

Disadvantage
further for customers to travel; greater loss if shop has to close;

Level 1 – 1 mark for each statement
E.g. The manager of a small shop can respond to the needs of local people. (1 mark)

Level 2 – 5 marks for the first level 2 answer and then one extra mark for each additional level 2 answer up to a maximum of 8 marks.
E.g. The manager of a small shop can respond to the needs of local people by buying tools and equipment which are required by these customers. These customers can expect to always find what they want at the shop and therefore become loyal customers and so sales revenue will increase. 5 marks for level 2 answer plus 1 application mark for mentioning tools and equipment.

Level 3 – Detailed discussion of two × level 2 answers and then a recommendation at the end which justifies which is the best option and why the other way is less suitable.

Possible application marks: tools; equipment; retail establishment; partnership; reinvested profits; build or repair own houses; construction companies; bad weather; damage to buildings; recession; reference to staff numbers; located in capital/main city.

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 Two × Level 2 + Well justified recommendation as to the best option compared to the other option.
Level 2	2 marks Well applied to 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 options OR balanced argument (even if listed). Limited judgement in the recommendation as to the best option.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, case.	1–4 marks Advantage/disadvantage of each option stated.

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2 (a) TT buys stock from manufacturers in other countries. Identify and explain <u>two</u> possible advantages to TT of importing its stock. [8]

Content:

- lower prices
- higher quality
- wider range
- branded products
- favourable exchange rate
- ethical considerations

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

1 mark for each advantage identified (2 marks max). Up to two further marks are available for explaining the advantage. 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 advantage.
(4 marks × 2 advantages)

Possible application marks: tools; equipment; retail establishment; small/large shops; reinvested profits; build or repair own houses; construction companies; Country A. There may be other examples in context which have not been included here.

Simple explanation:	The price of imported stock is cheaper. (1 mark for knowledge)
Developed explanation:	The price of imported stock is cheaper (1) and this means TT can sell their tools and equipment at a cheaper price (1). TT will be more competitive than other shops and this will increase both sales and profit (1).
Application:	The application mark could be achieved as the answer makes reference to tools and equipment. (1 application mark)

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(b) Ted and Mustafa want to increase the sales revenue from TT shops. There are <u>three</u> options listed below. Consider the advantages and disadvantages of each of these options and recommend which option you think Ted and Mustafa should choose. Justify your answer. [12]

Content:

Rent tools to customers instead of selling the tools
Adv – cheaper for customer; leads to increased sales; increased revenue from stock.
Disadv – high set up costs; repair damaged tools; non-return of tools; may lead to lower sales of tools.

Sell high quality tools to construction businesses
Adv – attract a different market; increased sales.
Disadv – very competitive market; less expertise; higher cost to purchase of tools.

Start to also sell paint and decorating equipment in the shops
Adv – sell more products to new customers; encourage increasing sales of existing stock.
Disadv – limited expertise; possibly lower profit margin.

Level 1 – 1 mark for each statement
E.g. Renting drills is cheaper for the customers which means sales could increase. (1 mark)

Level 2 – 5 marks for the first level 2 answer and then one extra mark for each additional level 2 answer up to a maximum of 8 marks.
E.g. Renting drills is cheaper for the customers which means rentals could increase. Because there are more rentals it will lead to higher revenue from each drill and so sales revenue will increase leading to higher profits. 5 marks for level 2 answer plus 1 application mark for mentioning drills.

Level 3 – Detailed discussion of two × level 2 answers and then a recommendation at the end which justifies which is the best option and why the other way is less suitable.

Possible application marks: retail establishment; partnership; small/large shops; reinvested profits; build or repair own houses; building firms; bad weather; damage to buildings; recession.

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 Two × Level 2 + Well justified recommendation as to the best way to increase sales revenue compared to the alternative ways.
Level 2	2 marks Well applied to case. At least two examples of reference to, or use of, the case.	5–8 marks Good discussion of advantages/disadvantages of each way to increase sales revenue OR balanced argument (even if listed). Limited judgement in the recommendation as to the best way to increase sales revenue.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, case.	1–4 marks Advantage/disadvantage of each way to increase sales revenue stated.

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3 (a) Ted and Mustafa want to open another shop. Identify and explain <u>four</u> factors they should consider when choosing a location for the new shop. [8]

Content:
competition; rent; size; complementary business; labour/workers; power supply; security; customer parking; customer access; delivery access; government/planning restrictions; tax incentive/subsidy; environmental/external costs

The marks available for this question are as follows: 4 marks for knowledge and 4 marks for explanation/analysis. 1 mark for each factor identified (4 marks max). Up to one further mark is available for explaining how the factor affects the location decision.
1 knowledge mark + 1 explanation mark (2 marks × 4 factors)

E.g. The rent for the property available (1) as a high rent might mean costs might be too high as these would have to be passed on in the form of higher prices. (1)

(b) Refer to the cash flow forecast in Appendix 2.

(i) Calculate the values for w, x, y and z and write your answers below. [4]

Content:
w = $1 100 000 – 1 mark
x = $–(100 000) – 1 mark
y = $1 050 000 – 1 mark
z = $750 000 – 1 mark deduct 1 mark max if 000s are omitted.

E.g. if two right answers with 000s missing then 1 mark max.

(ii) Comment on <u>two</u> ways the cash flow position could be improved. Recommend the best way for Ted and Mustafa to improve the cash flow over the next six months. Justify your answer. [8]

Content:
Increase the cash inflows (1) – e.g. increase cash sales (1)
Reduce the cash outflows (1) – e.g. reduce overheads; obtain trade credit (1)

The answer should not refer to profit or loss – the focus is purely cash flow.
Solutions should be realistic for a sixth month period i.e. not long term solutions.

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Level 1 – 1 mark for each statement
E.g. Increase cash sales (1 mark)

Level 2 – 5 marks for the first level 2 answer and then one extra mark for each additional level 2 answer up to a maximum of 8 marks.
E.g. The amount of cash flow at the end of each month is decreasing as the outflows are greater than the inflows in September through to December and so the business needs to find ways to increase the cash sales in these months to increase the inflows (L2). However, if it increases advertising to try to encourage more sales then it may increase the outflows from advertising expenditure as well as stock purchases and so inflows will need to be greater than outflows for the cash flow to improve (L2).
6 marks for good level 2 answer.

	Knowledge/Analysis/Evaluation
Level 2	5–8 marks Discussion of how the cash flow forecast position can be improved. Judgement about the best way to improve the cash flow position. Max 7 marks if no justified recommendation.
Level 1	1–4 marks 1 mark for each statement.

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4 (a) Governments can pass laws to protect employees. Identify and explain <u>two</u> ways employment laws might benefit employees in TT's shops. [8]

Content:
minimum wage; health & safety; unfair dismissal; discrimination; working conditions; hours/breaks; holidays;

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

1 mark for each way identified (2 marks max). Up to two further marks are available for explaining each way. 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 way.
(4 marks × 2 ways)

Possible application marks: tools; equipment; retail establishment; 10 hours and 6 days' work; tool hire; 10 shops; Country A. There may be other examples in context which have not been included here.

Simple explanation:	The government protects employees against unfair dismissal. (1 mark for knowledge)
Developed explanation:	The government protects employees against unfair dismissal (1) so sales staff should not be dismissed without good reason (1) or they can take TT to court to get compensation or reinstatement (1).
Application:	The application mark could be achieved as the answer makes reference to sales staff. (1 application mark)

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(b) The job of shop manager for a new shop will be advertised either in the national newspaper, on posters in TT shops or on TT's website. Consider the advantages and disadvantages of each of these options to advertise the job. Recommend which option you think will be the best. Justify your answer. [12]

Content:

National newspaper – Adv – seen by a large number of people across the country
Disad – expensive

Poster in TT shops – Adv – cheap; colourful; attracts attention
Disad – only seen by local people

Internet – Adv – quickly updated; applications online
Disad – not necessarily seen by suitable people; not everyone can access the internet

Level 1 – 1 mark for each statement
E.g. National newspapers will be seen by many people across the country. (1 mark)

Level 2 – 5 marks for the first level 2 answer and then one extra mark for each additional level 2 answer up to a maximum of 8 marks.
E.g. National newspapers will be seen by many people across the country. Potential applicants will see the advert and so a greater number of suitable people who know how to manage a retail establishment will apply for the job of shop manager and hence they are more likely to recruit a suitable manager.
5 marks for level 2 answer plus 1 application mark for mentioning retail establishment.

Level 3 – Detailed discussion of two × level 2 answers and then a recommendation at the end which justifies which is the best place to advertise and why the other places are less suitable.

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Possible application marks: tools; equipment; retail establishment; small/large shops; construction companies; recession.

There may be other examples in context which have not been included here.

	Application	Knowledge/Analysis/Evaluation
Level 3		9–10 marks Two × Level 2 + Well justified recommendation as to the best place to advertise the job compared to the other alternative ways.
Level 2	2 marks Well applied to case. At least two examples of reference to, or use of, the case.	5–8 marks Good discussion of advantages/disadvantages of each place to advertise the job OR balanced argument (even if listed). Limited judgement in the recommendation as to the best place to advertise the job.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, case.	1–4 marks Advantages/disadvantages of each place to advertise the job stated.

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5 (a) Refer to Appendix 3. Identify and explain <u>two</u> possible effects on TT's business of the recent bad weather. [8]

Content:
increased demand for construction work; more sales; more profits; imports delayed; more businesses set up in competition; damage to TT shops.

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

1 mark for each effect identified (2 marks max). Up to two further marks are available for explaining each effect. 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 effect.
(4 marks × 2 effects)

Possible application marks: new businesses setting up/competition increased; tools; equipment; retail establishment; partnership; small/large shops; reinvested profits; build or repair own houses; construction companies; damage to buildings; recession. There may be other examples in context which have not been included here.

Simple explanation: There is an increased demand for the construction of new houses. (1 mark for knowledge)

Developed explanation: There is an increased demand for the construction of new houses (1) and this will lead to an increased demand for tools and equipment by the construction businesses (1). If TT is competitive then sales revenue should increase and so should their profits (1).

Application: The application mark could be achieved as the answer makes reference to houses, tools and equipment. (1 application mark)

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(b) Mustafa wants to leave the partnership next year. Ted is considering <u>three</u> options listed below. Consider the advantages and disadvantages of each of these options. Recommend which option you think Ted should choose. Justify your answer. [12]

Start a new partnership with another partner
Become a sole trader
Form a private limited company

Content:

Partnership
Adv – additional capital; additional skills; shared workload
Disad – still unlimited liability; liable for partner's actions; no continuity

Sole trader
Adv – own boss; keep all profits
Disad – limited capital; makes all the decisions; may not have all the necessary skills

Limited company
Adv – limited liability; increased capital
Disad – legal requirements; less privacy with accounts; only sell shares to family and friends

Level 1 – 1 mark for each statement
E.g. If Ted stays as a partnership then he will have additional capital from the new partner. (1 mark)

Level 2 – 5 marks for the first level 2 answer and then one extra mark for each additional level 2 answer up to a maximum of 8 marks.
E.g. If Ted stays as a partnership then he will have additional capital from the new partner. The new partner can also help to run the shops and may have previous retail experience. They can therefore help to improve the business and means that Ted isn't on his own. 5 marks for level 2 answer plus 1 application mark for mentioning retail experience.

Level 3 – Detailed discussion of two × level 2 answers and then a recommendation at the end which justifies which is the best option to choose and why the other options are less suitable.

Possible application marks: tools; equipment; retail establishment; small/large shops; reinvested profits; build or repair own houses; construction companies.

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 Two × Level 2 + Well justified recommendation as to the best option to choose compared to the other alternative options.
Level 2	2 marks Well applied to case. At least two examples of reference to, or use of, the case.	5–8 marks Good discussion of advantages/disadvantages of each option OR balanced argument (even if listed). Limited judgement in the recommendation as to the best option 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 option stated.

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