CAMBRIDGE INTERNATIONAL EXAMINATIONS

Cambridge Ordinary Level

MARK SCHEME for the May/June 2015 series

7115 BUSINESS STUDIES

7115/11 Paper 1 (Short Answer/Structured Response), maximum raw mark 80

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

Clear understanding [2] Income/money made by the business [1] from the sale of goods or services [1] OR Quantity sold × price per unit [2]

Some understanding [1] e.g. Income/money made by the business [1]

(b) What is meant by a 'variable cost'? [2]

Clear understanding [2] costs that change [1] with the level of output produced/sales made [1]

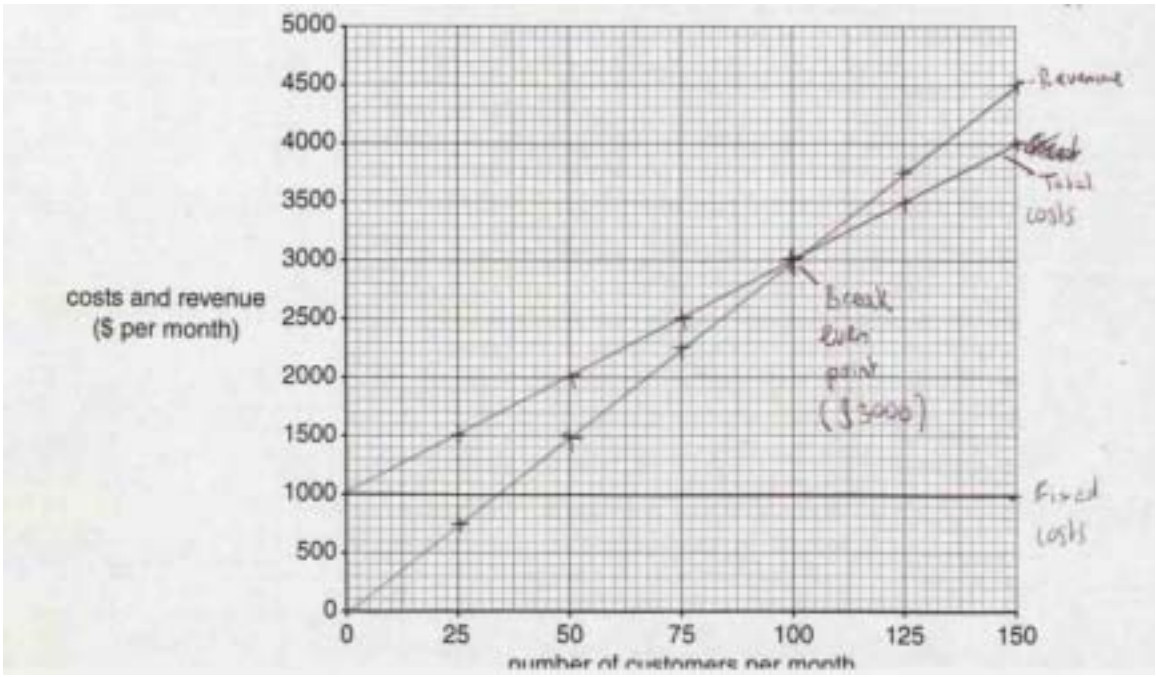
Some understanding [1] e.g. costs that change [1] or <u>costs that vary with sales/output</u> [1]

Do not accept examples of variable costs

Do not accept the phrase 'costs that vary' as this is re-wording the question

(c) Using the information in Table 1, draw a break even chart for Gomez's business. [4]

- Accurately plotted TR line [1]: start at 0, at 100 units is $3000
- Accurately plotted TC line [2] in total: start at $1000 [1] $3000 at 100 units [1]
- Labelling: TR and TC [1] only if layout is correct. TR must start at zero and lines must cross
- Notes:
- Accurately drawn **unlabelled** break-even chart [3].
- For 4 marks TR [revenue] and TC must be clearly labelled.
- Max 1 mark for inaccurately plotted break-even chart with TR and TC correctly labelled.



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(d) Identify and explain <u>two</u> methods that Gomez could use to maintain customer loyalty. [6]

Knowledge [2 × 1] – award one mark for each method identified [max 2]
Application [2 × 1] – award 1 mark if relevant reference made to Gomez's business
Analysis [2 × 1] – award 1 mark for each relevant explanation

Relevant points might include:

- Communicate with customers e.g. newsletters, social media [k] so that they remember your business [an] when they next need computer repaired [app]
- Offer good quality service [k] so that customers want to return [an] rather than go to one of its many rivals [app]
- Extra services [k] e.g. delivery/credit facilities/after sales/training
- Offer rewards [discounts] **to existing customers**/loyalty card [k] such as free software [app] so consumers have an incentive to return [an]
- Train staff [k] so they are able to offer a good quality service [an]
- Ask for feedback e.g. surveys [k] to provide the repairs/service [app] that customers require [an]
- Resolve complaints quickly [k] so that customers don't go to rivals [an] to repair their computer [app]
- Application marks may be awarded for appropriate use of the following: competitive market/many rivals, computer repairs, software, small business.

Each application to be awarded only once.

(e) Gomez thinks the best way to lower the break-even point is to raise prices. Do you agree? Justify your answer. [6]

Knowledge [1] – award 1 mark for identification of relevant issue(s) [max 1]
Application [1] – award 1 mark if relevant reference made to Gomez's business
Analysis [2] – award up to 2 marks for relevant development of point(s)
Evaluation [2] – justified decision made as to whether raising prices is the best way lowering the break-even point. Candidate's final decision can be either for or against the statement.

Relevant points might include:

- raise in price will increase revenue [k] so need to do less repairs [app]
- effect of elasticity [k] if demand price elastic, increasing prices will see a greater fall in demand [an]
- depends on actions of competitors [k] as it is a competitive market [app]
- is the business able to lower costs [k]
- lower costs [k] might mean quality of work is reduced [an] so lose customer loyalty [app]

Application marks may be awarded for appropriate use of the following: use of break-even information, competitive market, small computer shop, customer loyalty.

2 (a) Identify <u>two</u> stages of the recruitment process. [2]

Knowledge [2 × 1] award one mark per stage identified
Points might include: Job analysis, job description, person specification, advertising, shortlisting, interview, selection.
Note: Answer must be from the business viewpoint not the applicant.

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(b) What is meant by an 'economic boom'? [2]

Clear Understanding [2] – **strong** rise in level of **economic** activity **OR** Period of time when GDP rising **rapidly**

Some Understanding [1] – e.g. **economy** doing well [high GDP] or rise in level of **economic activity** or GDP rising

Do not credit characteristics of economic boom as these are stated in the stem

(c) Explain how falling unemployment might affect All Active. [4]

Knowledge [2] award up to 2 marks for identification of points/knowledge of unemployment
Application [2] award up to 2 marks for relevant explanation in context of All Active

Relevant points might include:

- customers have more income [k] so can spend money on luxuries such as leisure activities [app]
- problem recruiting workers [k] as need more for each club [app]
- higher wages may be needed [k] for the new staff [app]
- more people in work [k] less time to spend at sports club [app]

Application could include: Leisure/sports clubs, new workers/expansion/more clubs, gym membership, fitness is an elastic product

(d) Identify and explain <u>two</u> factors that All Active should consider when deciding on the location of the new clubs. [6]

Knowledge [2 × 1] – identification of relevant sources [max 2]
Application [2 × 1] – award 1 mark for each way if relevant reference made to their business
Analysis [2 × 1] – award 1 mark for each relevant explanation

Relevant points might include:

- customers/level of demand[k] need to be in places where people are interested in fitness [app] as they will get more customers [an];
- availability of suitable land [k] as likely to need a large space [an] to build a **sports** club [app];
- government regulations [k] which could stop them from building in some locations [an];
- competitors [k] customers might be loyal to a rival gym [app] so difficult to gain customers [an]
- suppliers [k] training equipment is heavy [app] so costs of transport will be high [an]
- Infrastructure/transport links/utilities [k]
- access to employees [k] as they will need trainers [app] to help/advise customers [an]
- cost of land/rent [k]

Application marks may be awarded for appropriate use of the following: equipment, sport/fitness, gym, trainers

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(e) Consider the advantages and disadvantages for All Active of being converted to a public limited company? Do you think All Active should become a public limited company? Justify your answer. [6]

Knowledge [1] – award 1 mark for identification of relevant issue(s). Positive or negative points allowed [max 1]
Application [1] – award 1 mark if relevant reference made to All Active's business
Analysis [2] – award up to 2 marks for relevant development of point(s)
Evaluation [2] – justified decision made as to whether All Active should become a public limited company. Candidate's final decision can be either for or against the statement.

Relevant points might include:
Advantages:
- Access to greater sources of finance [k] so help fund expansion [an] of 5 more clubs [app]
- Greater prestige/status [k] so might be able to attract better managers/employees [an]

Disadvantages:
- More legal requirements to meet [k]
- Already have limited liability [k] as private limited company [app] so is there much benefit [eval]
- business is already successful [k] as profits have increased [app] so might have funds for expansion already [an]
- Greater Risk of takeover [k]

Application marks may be awarded for appropriate use of the following: 5 more clubs, private limited company, fitness, 20 clubs, increasing profits

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

Clear understanding [2] – 2 [or more] people who agree to **own** and run a business together [2]
Some understanding [1] – e.g. 2 or more people run a business
Do not accept features

(b) Identify <u>two</u> methods of primary market research that Si and Ramon might have used. [2]

Application [2 × 1] – award 1 mark for each relevant method
Points could include: questionnaire/survey, interview, consumer panel, observation, focus group
Note: **Do not** accept field research/internet – too vague

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(c) Identify and explain <u>two</u> possible sources of finance that they could use to obtain the equipment. [4]

Knowledge [2 × 1] – identification of relevant sources [max 2]
Application [2 × 1] – award 1 mark for each relevant explanation

Relevant points might include:

- Bank loan [k] so can spread cost of cameras over a period of time [app]
- Savings [k] so no need to pay interest on the $4000 [app]
- Borrow from family and friends [k]
- Leasing [k] as there may not be enough demand [app]
- Hire purchase [k] so their new business does not have to pay a large one off cost [app]
- Government grant [k]
- Additional partner [k]

Do not accept retained profits or overdraft as this is a new business

Application marks may be awarded for appropriate use of the following: new business, $4000, partnership, cameras or examples of relevant equipment [not equipment on its own], business plan

(d) Identify and explain <u>two</u> advantages to Si and Ramon of having a business plan. [6]

Knowledge [2 × 1] – award 1 mark for each relevant advantage [max 2]
Application [2 × 1] – award 1 mark if relevant reference to Si and Ramon's business
Analysis [2 × 1] – award 1 mark for each relevant explanation

Relevant points might include:

- Support loan applications [k] as bank/lenders will want to know that the $12 500 [app] can be repaid [an]
- Clear aims/guidance for business [k] so they know what they have to do to get there [an]
- help decision making [k] as Si believe there is customer demand for service before start [app] so will not waste time and money targeting the wrong people [an]
- helps understand the possible risks [k] as they might not have run a business before [app]
- provides an estimate of costs [k] for the photography business [app] so they will know how much they need [an]
- provides a checklist [k] as they set up [app] so that they don't forget any important task [an]

Application marks may be awarded for appropriate use of the following:
$12 500/$8000/$4000, $500 photography business, new business, set up

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(e) Consider <u>two</u> methods of promotion that would be suitable for Si and Ramon to use. Which of these two methods would be most appropriate? Justify your answer. [6]

Knowledge [1] – award 1 mark for identification of relevant method(s) [max 1]
Application [1] – award 1 mark if relevant reference made to Si and Ramon's business
Analysis [2] – award up to 2 marks for relevant development of point(s)
Evaluation [2] – justified decision as to which method of promotion is best option to use
NOTE: For 6 marks must explain why chosen method is better than the other option
Relevant methods might include: advertising [can include leaflets, posters, radio, television, newspapers, direct mail, social media, websites], sponsorship, promotional pricing (short-term discounts), special offers, branding, competitions, PR.
Note: **do not** accept internet – too vague
Application marks may be awarded for appropriate use of the following: – photography, pictures, new business, $500, partnership, weddings, birthdays, special events

4 (a) What is meant by 'batch production'? [2]

Clear understanding [2]: e.g. products are made in groups/blocks [1] followed by another block/group [1]
Some understanding [1]: identifies one distinct feature of batch e.g. made in (small) groups or sets
Do not accept 'batch' as part of answer as stated in question.

(b) Identify <u>two</u> advantages (other than cutting costs) to the company of using new technology. [2]

Application [2 × 1] award 1 mark per advantage

Points include:
- less errors/wastage/consistent quality
- less risk of injury
- higher output
- able to make new products
- speed of production/efficiency
- 24/7 operation

Note: **do not** accept less wages or less employees as these are examples of cutting costs

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(c) Identify and explain <u>two</u> reasons why the quality of chocolates might be important to this company. [4]

Knowledge [2 × 1] – identification of relevant reason [max 2]
Application [2 × 1] – award 1 mark for each relevant explanation in context

Points could include:

- helps establishes brand image/loyalty [k] as they make a luxury product [app]
- ensure sales [k] as if they don't taste right, people won't buy [app]
- maintain reputation [k] which is important as it is a competitive market [app]
- maintain standards [k]
- no need to replace faulty products [k] which will help reduce costs [app]
- Charge/maintain high prices [k]
- Add value [k]
- Must meet legal requirements [k] for food products [app]

Application marks may be awarded for appropriate use of the following: competitive market, luxury product, food products, taste.

(d) Identify and explain <u>two</u> problems that a fall in profits might cause for the company. [6]

Knowledge [2 × 1] – identification of relevant problem [max 2]
Application [2 × 1] – award 1 mark for each relevant reference made to the business
Analysis [2 × 1] – award 1 mark for each relevant explanation

Relevant points might include:

- Lack of finance [k] to introduce new technology [app] because of less retained profits [an]
- Lenders/investors unwilling to give money [k] as seen as higher risk [an]
- Workers insecure [k] which results in poor motivation [an] as they fear job losses as the company try to cut costs [app]
- Damaged reputation [k] suppliers/customers might think the business is struggling [an] so look for alternative chocolate makers [app].
- Shareholders may sell shares [k] because the company can't pay dividends [an]

Accept points which refer to either gross profit or profit

Application marks may be awarded for appropriate use of the following: new technology, chocolate, cutting costs, increased competition.
Profit is not used to pay costs therefore **do not** accept answers which suggest they can no longer afford items.
Do not accept solutions e.g. Making workers redundant.

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(e) Do you think that the introduction of new technology would benefit Javid's workers? Justify your answer. [6]

Knowledge [1] – award 1 mark for identification of relevant issue(s). Positive or negative points allowed [max 1]
Application [1] – award 1 mark if relevant reference made to Javid's business
Analysis [2] – award up to 2 marks for relevant development of point(s)
Evaluation [2] – justified decision made as to whether new technology would benefit Javid's workers. Candidate's final decision can be either for or against the statement.

Relevant points might include:

- need for re-training [k] which could create opportunities for promotion [an]
- impact on motivation (either positive or negative) [k]
- fear of change [k] as production process likely to change how they do things [an]
- fear of redundancy/job losses as machines replace jobs [k] could decrease motivation [an]
- less skills needed [k] so could mean lower wages [an] leading to lower living standards [an]
- opportunities to learn new skills [k] because they make new types of chocolate [app]
- chances for promotion [k] as new job roles created [an]
- safer conditions [k] in the manufacturing process [app] so less risk of injury [an]
- company survives [k] because they remain competitive [app] so workers keep their jobs [an]

Note: **Do not** accept points such as 'more efficient' unless clearly link issue to employees.

Application marks may be awarded for appropriate use of the following: chocolates, sales falling, need to cut costs, increased competition
Note: Answer must focus on the benefit or not to the **workers**

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