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O Level

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BUSINESS STUDIES **7115/12**

Paper 1 Short Answer/Structured Response **May/June 2016**

MARK SCHEME

Maximum Mark: 80

Published

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Question	Answer	Marks	Guidance
1(a)	**What is meant by a 'trade union'?** Good knowledge [2] – e.g. Group of workers who join together to ensure their interests are protected [2], OR organisation represents the workers and fight for improvements to pay and conditions [2]. Some knowledge [1] – e.g. Group of workers who join together OR fight for workers' rights.	**2**	Do not accept 'it is a pressure group' on its own as this does not explain the term.
1(b)	**Identify two situations (other than increasing competition) when a business might have to reduce the size its workforce.** Knowledge [2 × 1] – award 1 mark per situation. Points might include: • Introduction of automation/new technology • Redesign work space/layout • Demand factors e.g. Fall in demand/fall in sales/change in tastes, at end of product life cycle, recession/economic slump • Financial problems e.g. Lack of income, increase in costs, cash flow issues • Factory/shop closure • Relocation overseas • Business taken over • Change in law e.g. Increase in minimum wage • Over-manning/unnecessary workers.	**2**	Accept any reasonable suggestions.

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Question	Answer	Marks	Guidance
1(c)	**Identify and explain <u>two</u> possible problems to Saltan of having a high level of inventory.** Knowledge [2 × 1] – award 1 mark for each relevant problem [max 2]. Application [2 × 1] – award 1 mark for each explanation in context. Relevant points might include: • Cash flow/liquidity problems/tie up working capital [k] • Additional storage costs [k] as need more factory space for storing vehicles [app] • Additional security costs/risk of theft [k] to protect valuable engine/car parts [app] • Risk of wastage/damage [k] as might want to bring out a new model [app] • Opportunity cost [k] resources could be used elsewhere to become more efficient [app] • Lack of space for production [k] • Insurance costs [k].	4	Application marks may be awarded for appropriate use of the following: cars or related words such as models, need to downsize, efficiency, increasing competition, factory.
1(d)	**Identify and explain <u>two</u> ways Saltan could improve efficiency.** Knowledge [2 × 1] – identification of relevant way [max 2]. Application [2 × 1] – award 1 mark for relevant reference to this business. Analysis [2 × 1] – award 1 mark for each relevant explanation. Relevant points might include: • Increase in capital intensity OR automation OR introduce new technology [k] so can benefit from economies of scale [an] when making cars [app] • Introduce just-in-time [k] helps reduce inventory [app] lowering cost [an] • Kaizen [k] • Improve layout of machines [k] • Improve quality control/assurance [k] to reduce level of waste [an] • Training [k] so remaining 840 workers [app] can work faster [an] • Specialisation [k] as have skilled workers [app] prevents the need for rework [an] • Improve communication [k] • Better management [k] • Improve motivation (or identifies possible ways to do this such as performance related pay) accept only once.	6	Application marks may be awarded for appropriate use of the following: cars or related words, need to downsize, use of numbers, skilled workers, full-time, increasing competition, high level of inventory, factory. Note: can accept lean production if no other examples (such as JIT or Kaizen) have already been identified. Do not accept answers such as 'sack workers' unless clear link made to automation/replace with machinery.

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Question	Answer	Marks	Guidance
1(e)	**Do you think Saltan should reduce the number of working hours for every employee rather than reduce the number of jobs? Justify your answer.** Knowledge [1] – award 1 mark for identification of relevant issue(s). Application [1] – award 1 mark if relevant reference made to this business. Analysis [2] – award up to 2 marks for relevant development of point(s). Evaluation [2] – justified decision made as to whether Saltan should reduce the number of working hours rather than reduce the number of jobs. Relevant points might include: Reduce jobs: • May be difficult to recruit new workers in future [k] if not easy to find skilled employees [app] reducing Saltan's competitiveness [an] • Redundancy [k] leading to increased costs [an] so less funds to develop new models [app] • Loss of skills [k] • Less supervision needed/fewer workers to manage [k] Reduce hours: • Less hours would impact more employees [k] as more than 360 employees will have to work part-time [app] reducing loyalty [an] • Could be easier to change [k] especially if there is a reduction in competition [app] • Part-time employees can be more productive [k] than full-time employees [app] so output is maintained [an].	6	Knowledge marks can be either positive or negative issues. Application marks may be awarded for appropriate use of the following: cars, downsize, plans decrease production, use of numbers, skilled workers, full-time, trade union, efficiency, increasing competition, factory. For evaluation, either viewpoint is acceptable for decision. Do not accept points such as 'lower cost, pay less wages, or lower output' on own unless explained as could apply to both options. Note: points must relate to Saltan not generic issues such as raise unemployment.

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Question	Answer	Marks	Guidance
	General points: • Reaction of trade union/bad image/reputation/not seen as caring employer [k] may reduce demand [an] for cars [app] • Impact on other employees (positive or negative points) e.g. If they fear job losses [k] efficiency may fall [app] as workers demotivated [an] leading to higher average costs [an].		Knowledge marks can be either positive or negative issues. Application marks may be awarded for appropriate use of the following: cars, downsize, plans decrease production, use of numbers, skilled workers, full-time, trade union, efficiency, increasing competition, factory. For evaluation, either viewpoint is acceptable for decision. Do not accept points such as 'lower cost, pay less wages, or lower output' on own unless explained as could apply to both options. Note: points must relate to Saltan not generic issues such as raise unemployment.
		[Total: 20]	

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Question	Answer	Marks	Guidance
2(a)	**What is meant by 'marketing budget'?** Clear understanding [2] – e.g. An estimated projection of costs needed to promote a business' products or services [2], *OR* amount of money set aside by a business to promote its products and services (for a given period of time) [2], OR a financial plan for the marketing of a product or product range (for a specified period of time) [2]. Some understanding [1] – e.g. Money for promoting goods or financial plan for marketing.	**2**	Do not credit the word marketing on its own as given in question.
2(b)	**Calculate the value of F&G's revenue in 2016.** Good application [2] correct answer $84m or 84m or 84 000 000. Some application [1] e.g. • 700 × 0.12 • OR 700/100 × 12 • OR 700 × 12% • OR 84	**2**	$ not required but must have correct number of zeros OR millions next to the 84 for both marks.

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Question	Answer	Marks	Guidance
2(c)	**Identify and explain <u>two</u> benefits of market segmentation to F&G.** Knowledge [2] – award 1 mark for each relevant benefit [max 2]. Application [2] – award 1 mark for each explanation in context. Relevant points might include: • Able to tailor goods to specific needs of segment/know what to produce [k] which may help increase its market share [app] • Identify gaps in the market [k] so can spot new age range to sell to [app] • To help decide best place to sell [k] such as e-commerce [app] • Research is simpler/help identify customer needs [k] as know which gender/ men to ask [app] • Help focus spending/make best use of resources [k] so don't waste fabrics [app] • Help target promotion/advertising [k] so make better use of (marketing) budget [app] • Help set prices [k] • Help increase sales/revenue [k].	**4**	Application marks may be awarded for appropriate use of the following: leading, fashion, clothing or related words, use of data such as 3% fall in market share, men, cost effective, shops, e-commerce, marketing budget.

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Question	Answer	Marks	Guidance
2(d)	**Identify and explain <u>two</u> possible reasons why the amount F&G spends on marketing might not be cost effective.** Knowledge [2 × 1] – identification of relevant reason. Application [2 × 1] – award 1 mark for relevant reference made to this business. Analysis [2 × 1] – award 1 mark for each relevant explanation. Relevant points might include: • Target wrong people/advertise in wrong place/wrong medium/poor message [k] so men [app] aren't aware of its products [an] • People don't want product/not meeting customer demands [k] clothing might be out of fashion [app] so doesn't lead to additional revenue [an] • Already well known [k] so customers are not influenced to buy its clothing [app] • Brand loyalty to other companies [k] as only have 12% market share [app] so not as competitive [an] • Increased competition [k], more substitute products/choice [an] • Inaccurate market research [k] (only once) as only asked people from shops not e-commerce [app] • Wrong prices set/prices are too high [k] • Sell in the wrong locations [k].	6	Application marks may be awarded for appropriate use of the following: leading, fashion, clothing or related words, men, shops, use of data such as 60% increase in budget, OR only 12 % increase in revenue.

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Question	Answer	Marks	Guidance
2(e)	**Do you think F&G should close down all its shops and just use e-commerce? Justify your answer.** Knowledge [1] – award 1 mark for identification of relevant issue(s) [max 1]. Application [1] – award 1 mark if relevant reference made to this business. Analysis [2] – award up to 2 marks for relevant development of point(s). Evaluation [2] – justified decision made as to whether F&G should close all its shops and just use e-commerce. Relevant points might include: • Able to target customers [k] as can advertise directly to men [app] • Less rent/fewer employees needed [k] which can help reduce costs [an] so able to spend more on other areas of marketing e.g. Lower prices [an] • Widen market [k] can help attract new/more customers [an] • Easy to update [k] which is important as fashion always changes [app] so keep customers informed [an] • Increased threat of new competition [k] as customers find alternative clothing [app] on line leading to lower sales [an] • Not everyone has access to internet [k] • No passing trade [k] so fewer sales [an] • Increased costs of postage/distribution [k] as need to arrange for delivery/vans [an] • Cost of setting up website for e-commerce [k] • Lose (existing) customers [k] as people want to try before they buy [an].	**6**	Knowledge marks can be either positive or negative issues. Application marks may be awarded for appropriate use of the following: leading, fashion, clothing, use of data, men, cost effective, marketing budget. Do not accept 'shops' or 'e-commerce' as application as these are stated in the question. Reference to internet or website is not classed as application. For evaluation, either viewpoint is acceptable.
		[Total: 20]	

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Question	Answer	Marks	Guidance
3(a)	**What is meant by 'non-current liabilities'?** Good knowledge [2] – e.g. Debts/loan repayable in more than one year's time. Some knowledge [1] – e.g. Long-term debts or money owed.	**2**	Do not accept 'long-term liabilities' as this is the alternative name for the term. Do not credit 'liability' as stated in question. Do not accept 'long-term'. Some understanding plus a relevant example can gain 2 marks. For example, money owed e.g. Bank loan.
3(b)	**Calculate the working capital.** Good Application [2]: 500. Some application [1] e.g. Current assets – current liabilities OR 2500–2000.	**2**	$ sign not needed.

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Question	Answer	Marks	Guidance
3(c)	**Identify and explain <u>two</u> possible reasons why working capital is important to Alex and Raul's business.** Knowledge [2] – award 1 mark for each relevant reason [max 2]. Application [2 × 1] – award 1 mark for each explanation in context. Points might include: • Necessary to finance the day to day activities (only once) e.g. Pay suppliers [k] for bike parts [app] • Know they are solvent/can meet short-term debts/avoid cash flow problems [k] • Too much working capital could mean not making best use of resources [k] which could negatively impact on expansion plans [app] • Can take advantage of special offers from suppliers [k] • Can help attract potential investors/support loan applications [k] to help expand the business [app] • Cover unexpected costs [k].	4	Application marks may be awarded for appropriate use of the following: unlimited liability (as key feature of partnership), use of data in table 2, bicycles (or relevant examples such as bike parts, tyres, saddles, gears, tools), not given bank loan, repairs, **small** profit.
3(d)	**Identify and explain <u>two</u> benefits to Alex of having a business partner.** Knowledge [2 × 1] – identification of relevant benefit [max 2]. Application [2 × 1] – award 1 mark if relevant reference made to this business. Analysis [2 × 1] – award 1 mark for each relevant explanation. Relevant points might include: • Injection of more capital [k] to fund expansion [app] so don't have to borrow as much/reduce the cost of interest [an] • Share work load/decision making [k] so Raul does the repairs [app] so Alex is able to focus on his job [an] • New/more ideas [k] so can help business increase sales [an] • Greater range of expertise/skills/specialisation [k] so can offer a better service [an] • Share risk/losses [k] as have unlimited liability [app] would have someone to share financial burden [an].	6	Application marks may be awarded for appropriate use of the following: unlimited liability (as key feature of partnership), use of data in table 2, bicycles (or relevant examples such as bike parts, tyres, saddles, gears, tools), Raul does repairs, Alex does accounts, not given bank loan, own savings, want to expand, friends, **small** profit. Accept benefits to Alex or partnership.

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Question	Answer	Marks	Guidance
3(e)	**Do you think Alex and Raul need a business plan for the business to be successful in the future? Justify your answer.** Knowledge [1] – award 1 mark for identification of relevant issue(s) [max 1]. Application [1] – award 1 mark if relevant reference made to this business. Analysis [2] – award up to 2 marks for relevant development of point(s). Evaluation [2] – justified decision made as to whether Alex and Raul's business needs a business plan to be successful in the future. Either viewpoint is acceptable. Relevant points might include: • Have some knowledge already [k] as have friends with bikes [app] • Business already successful [k] as made small profit in first year [app] • Gets out of date quickly [k] so time spent preparing it is wasted [an] • Support loan applications/attract investors [k] so don't have to use own savings [app] show they are able to repay [an] • Guide business/help set objectives/checklist/monitoring [k] to help decision making/see what action they need to take [an] in order to expand [app] • Provide an estimate of costs/what type of finance they need [k] so better able to raise necessary funds [an] • Motivate [k].	**6**	Knowledge marks can be either positive or negative issues. Application marks may be awarded for appropriate use of the following: bicycles (or relevant examples such as bike parts, tyres, saddles, gears, tools), small profit in first year, not given bank loan, partners/ unlimited liability, own savings, want to expand, friends, reference to information in Table 2.
		[Total: 20]	

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Question	Answer	Marks	Guidance
4(a)	**What is meant by 'import tariff'?** Good knowledge [2] – tax on goods brought into a country. Some knowledge [1] – e.g. Tax on goods/imports OR increases cost of a product.	**2**	For 2 marks must have idea of what a tariff AND import is. Do not accept import as this is stated in question.
4(b)	**Identify <u>two</u> benefits to KLG of specialisation.** Application [2 × 1] – award 1 mark for each benefit. • Workers are quicker at producing goods/increased productivity or efficiency/ higher output • Lower (unit) cost/benefit from economies of scale • Every worker focuses on what they are good at/become expert • Improved quality or accuracy or less wastage • More competitive.	**2**	Can accept references to benefits of either workers or business being specialised. Do not accept 'save time or save money' on its own.

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Question	Answer	Marks	Guidance
4(c)	**Explain how a change in exchange rates might affect KLG when exporting.** Knowledge [2] – award up to 2 marks for each relevant point/knowledge of exchange rates [max 2]. Application [2] – award up to 2 marks for relevant explanation in context. Points might include: Depreciation: • Good if KLG exports as other countries' currencies are worth more/lower prices [k] could increase factory sales [app] • Could benefit from higher profit margin if choose not to drop the price when currency of home country depreciates [k]. Appreciation: • Exports become more expensive/prices rise [k] so fewer (overseas) washing machine manufacturers place orders [app] • May have to reduce profit margins [k] as prices rise so reducing benefit of paying low wages [app]. General: • Fluctuations make it difficult to plan/budget [k] so difficult to set prices for its electrical parts [app].	**4**	Application might include appropriate use of the following: **parts for** washing machines, washing machine manufacturers, new factory, few legal controls, health and safety, low wages, references to country X **or** Y. Note: references to either positive or negative effects can be accepted (if correctly explained). Candidates can identify and explain two points or offer an extended development of one point.

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Question	Answer	Marks	Guidance
4(d)	**Identify and explain <u>two</u> factors (other than exchange rates and import tariffs) that KLG should consider when deciding where to relocate.** Knowledge [2 × 1] – identification of relevant factor [max 2]. Application [2 × 1] – award 1 mark if relevant reference made to this business. Analysis [2 × 1] – award 1 mark for each relevant explanation. Relevant points might include: • Infrastructure (accept only once) e.g. Utilities, communications [k] • Close to market [k] as need to be near washing machine manufacturers [app] so can keep transport costs low [an] • Land issues e.g. Availability/cost of suitable land [k] for (new) factory [app] • Government e.g. Regulations, taxes, quotas, assistance [k] • Competitors [k] as loyalty to an existing supplier [app] could mean it is difficult to gain customers [an] • Transport links [k] as need to get its products to country X [app] • Labour issues e.g. Cost/access to suitable/skilled /enough employees [k] • Language problems [k] • Lack of local knowledge/cultural issues [k] • Access to raw materials/components [k] as need metal/plastic [app].	6	Application might include appropriate use of the following: electrical parts or parts for washing machines, washing machine manufacturers, new factory, few legal controls, health and safety, low wages, references to country X **or** Y, export, ethical. Note: business sells parts to other businesses so do not accept references to consumers or retailers.

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Question	Answer	Marks	Guidance
4(e)	**The Managing Director believes that 'KLG cannot be both ethical and profitable.' Do you agree? Justify your answer.** Knowledge [1] – award 1 mark for identification of relevant issue(s) [max 1]. Application [1] – award 1 mark if relevant reference made to this business. Analysis [2] – award up to 2 marks for relevant development of point(s). Evaluation [2] – justified decision made as to whether KLG cannot be both ethical and profitable. Relevant points might include: • Additional costs [k] so profit (margin) might fall [an] unless increase prices [an] of electrical parts [app] • Enhance reputation/act as free promotion [k] so could appeal to washing machine manufacturers [app] so may pay more [an] which could more than cover the additional costs [an] • Damage to reputation [k] leading to a customer boycott [an] reducing revenue [an] • Some workers may only want to work for an ethical business [k] so easier to attract/motivate employees [an] in its factory [app] • May not be seen as a caring employer [k] increasing absenteeism/labour turnover [an] • Materials purchased from unethical suppliers may cost less [k].	**6**	Knowledge marks can be either positive or negative issues. Application might include appropriate use of the following: electrical parts or parts for washing machines, washing machine manufacturers, new factory, few legal controls, health and safety issues such as low wages and long hours, references to country X **or** Y, relocation, export. For evaluation either viewpoint is acceptable. Note: 'being ethical' is not to be confused with 'quality' or being 'legal'.
		[Total: 20]	

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