Cambridge
O Level

Cambridge International Examinations
Cambridge Ordinary Level

CANDIDATE NAME									
CENTRE NUMBER						CANDIDATE NUMBER				

8522484085

BUSINESS STUDIES **7115/12**

Paper 1 **May/June 2016**

1 hour 30 minutes

Candidates answer on the Question Paper.

No Additional Materials are required.

READ THESE INSTRUCTIONS FIRST

Write your Centre number, candidate number and name in the spaces at the top of this page.
Write in dark blue or black pen.
You may use an HB pencil for any diagrams, graphs or rough working.
Do not use staples, paper clips, glue or correction fluid.
DO **NOT** WRITE IN ANY BARCODES.

Answer **all** questions.
The businesses described in this question paper are entirely fictitious.

At the end of the examination, fasten all your work securely together.
The number of marks is given in brackets [ ] at the end of each question or part question.
The total number of marks for this paper is 80.

This document consists of **9** printed pages and **3** blank pages.

CAMBRIDGE
International Examinations

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[Turn over

1 Saltan makes a range of cars. The level of inventory is too high so it plans to decrease production at its factory. Employees were told the business needs to reduce the size of its workforce as competition is increasing. The trade union is not happy that 360 of the 1200 skilled full time employees at Saltan will be made redundant. A trade union spokeswoman said: 'Saltan should reduce the number of hours of every employee rather than reduce the number of jobs.' Saltan's Operations Director is considering ways to increase efficiency in the factory.

(a) What is meant by a 'trade union'?

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(b) Identify **two** situations (other than increasing competition) when a business might have to reduce the size of its workforce.

Situation 1: .....

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Situation 2: .....

..... [2]

(c) Identify and explain **two** possible problems for Saltan of having a high level of inventory.

Problem 1: .....

Explanation: .....

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Problem 2: .....

Explanation: .....

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..... [4]

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(d) Identify and explain **two** ways Saltan could improve efficiency.

Way 1: .....

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Explanation: .....

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Way 2: .....

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Explanation: .....

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(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.

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2 F&G is a leading fashion retailer. It has 20 shops in country C. The business uses market segmentation. Its target market is men aged between 25 and 40 years old. The Marketing Director has been looking at the marketing data shown in Table 1. She is worried that the amount the business spends on marketing is not cost effective. She would like to close down all F&G shops and just use e-commerce.

Table 1

Year	Total value of the men's clothing market	F&G's market share	F&G's marketing budget
2015	$500m	15%	$25m
2016	$700m	12%	$40m

(a) What is meant by 'marketing budget'?

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..... [2]

(b) Calculate the value of F&G's revenue in 2016.

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(c) Identify and explain **two** benefits of market segmentation to F&G.

Benefit 1: .....

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Explanation: .....

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Benefit 2: .....

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Explanation: .....

..... [4]

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(d) Identify and explain **two** possible reasons why the amount F&G spends on marketing might not be cost effective.

Reason 1: .....

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Explanation: .....

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Reason 2: .....

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Explanation: .....

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(e) Do you think F&G should close down all its shops and just use e-commerce? Justify your answer.

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3 Alex and Raul are business partners. They started a bicycle repair business with their own savings as the bank would not give them a loan. Raul does most of the repair work, while Alex manages the accounts. Alex is surprised that the business has made a small profit in the first year. 'We can use this profit to expand. I don't know why people think we would benefit from having a business plan. Much of the demand for our repair business comes from our friends who own bicycles.'

Table 2: Extract from balance sheet as at 31 March 2016 ($)

Non-current assets	3000
Current assets	2500
Current liabilities	2000
Non-current liabilities	1500

(a) What is meant by 'non-current liabilities'?

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(b) Calculate the working capital.

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(c) Identify and explain **two** possible reasons why working capital is important to Alex and Raul's business.

Reason 1: .....

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Explanation: .....

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Reason 2: .....

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Explanation: .....

..... [4]

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(d) Identify and explain **two** benefits to Alex of having a business partner.

Benefit 1: .....

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Explanation: .....

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Benefit 2: .....

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Explanation: .....

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(e) Do you think Alex and Raul need a business plan for the business to be successful in the future? Justify your answer.

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4 KLG is based in country X. It specialises in making electrical parts which it sells to washing machine manufacturers in country X. The Managing Director is planning to relocate to country Y, which is a low-cost country. She said: 'This will allow us to pay employees low wages for working long hours as there are few legal controls on employment and health and safety. KLG cannot be both ethical and profitable. Changes in exchange rates and import tariffs might cause us problems when we start exporting.'

(a) What is meant by 'import tariff'?

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(b) Identify **two** benefits to KLG of specialisation.

Benefit 1: .....

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Benefit 2: .....

..... [2]

(c) Explain how a change in exchange rates might affect KLG when exporting.

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(d) Identify and explain **two** factors (other than exchange rates and import tariffs) that KLG should consider when deciding where to relocate.

Factor 1: .....

Explanation: .....

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Factor 2: .....

Explanation: .....

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(e) The Managing Director believes that 'KLG cannot be both ethical and profitable.' Do you agree? Justify your answer.

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