Cambridge
O Level

Cambridge International Examinations
Cambridge Ordinary Level

CANDIDATE NAME									
CENTRE NUMBER						CANDIDATE NUMBER			

4413667827

BUSINESS STUDIES **7115/12**

Paper 1 **May/June 2017**

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 Cheung owns a small retail shop in the city centre selling fashion clothing for children. As it is a competitive market, Cheung knows market research is important. Cheung is worried about the effect of an increase in shop rent on his costs. Cheung said: 'I will have to pay this higher rent as it is a good location. I need to increase revenue or reduce other costs.' Cheung buys all his supplies from a wholesaler located in a nearby town. He is thinking of buying directly from a clothing manufacturer in another country.

(a) What is meant by 'market research'?

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..... [2]

(b) Identify what will happen to each of the following when Cheung's shop rent increases.

Variable cost: .....

.....

Fixed cost: .....

..... [2]

(c) Identify and explain **two** possible reasons why Cheung thinks the shop is in a good location.

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** ways that Cheung could use to increase revenue.

Way 1: .....

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Explanation: .....

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Way 2: .....

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Explanation: .....

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..... [6]

(e) Do you think Cheung should change his supplier? Justify your answer.

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2 LWM makes car tyres in 15 different sizes using batch production. Last year LWM sold 60 million tyres including 40 million tyres of its best-selling size. The Finance Director has been looking at some financial data as shown in Table 1. She said: 'Liquidity is important. I need to do some ratio analysis to measure business performance. In the previous year our Return on Capital Employed was 33%.' The directors are worried about increased competition but they cannot decide on the best way for LWM to respond.

Table 1: Extract of financial data for 2016 ($m)

Revenue	3000
Profit	1000
Non-current liabilities	2000
Capital employed	4000

(a) What is meant by 'liquidity'?

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..... [2]

(b) Identify **two** reasons why a director might want to measure business performance.

Reason 1: .....

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Reason 2: .....

..... [2]

(c)

(i) Calculate the Return on Capital Employed (ROCE) for 2016.

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..... [2]

(ii) Explain what this result shows about LWM's performance.

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..... [2]

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(d) Identify and explain **one** advantage and **one** disadvantage to LWM of using batch production.

Advantage: .....

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Explanation: .....

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Disadvantage: .....

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Explanation: .....

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..... [6]

(e) Explain **two** ways in which LWM might respond to increased competition. Recommend which way LWM should choose. Justify your answer.

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3 Five years ago Manisha started making cakes for celebrations, such as weddings and birthdays, from her home. Now she has a small shop and 3 employees. Product quality is important to her business. Manisha said: 'I have benefited from the economic boom but I did not expect demand to increase by 500% each year. Somehow I have managed to cope with higher interest rates and all the challenges of being a sole trader. The business is profitable at last but I have to work every day.' A friend has offered to become Manisha's business partner.

(a) What is meant by an 'economic boom'?

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..... [2]

(b) Identify **two** factors which might affect demand for Manisha's products.

Factor 1: .....

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Factor 2: .....

..... [2]

(c) Identify and explain **two** ways in which higher interest rates might affect Manisha's business.

Way 1: .....

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Explanation: .....

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Way 2: .....

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Explanation: .....

..... [4]

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(d) Identify and explain **two** reasons why product quality might be important to Manisha's business.

Reason 1: .....

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Explanation: .....

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Reason 2: .....

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Explanation: .....

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..... [6]

(e) Do you think Manisha should have a business partner? Justify your answer.

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4 Steppa is a shoe manufacturer in the private sector. Steppa has 200 employees who all receive a high hourly wage rate. The Human Resources Director said: 'We use a democratic leadership style. Employees are an important stakeholder group. Happy workers are good for business. Revenue increased by 10% last year.' The director cannot understand why a high number of workers leave the business each year. She is looking at other non-financial methods to motivate employees.

(a) What is meant by a 'stakeholder group'?

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..... [2]

(b) What is meant by 'private sector'?

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..... [2]

(c) Identify and explain **two** effects on Steppa of a high number of workers leaving the business each year.

Effect 1: .....

.....

Explanation: .....

.....

Effect 2: .....

.....

Explanation: .....

..... [4]

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(d) Identify and explain **two** possible advantages for Steppa of using a democratic leadership style.

Advantage 1: .....

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Explanation: .....

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Advantage 2: .....

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Explanation: .....

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..... [6]

(e) Explain **two** methods of non-financial reward that Steppa might use to increase employee motivation. Recommend which method Steppa should use. Justify your answer.

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