Cambridge Assessment International Education
Cambridge Ordinary Level

BUSINESS STUDIES **7115/22**

Paper 2 Case Study **May/June 2018**

MARK SCHEME

Maximum Mark: 80

Published

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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Generic Marking Principles

These general marking principles must be applied by all examiners when marking candidate answers. They should be applied alongside the specific content of the mark scheme or generic level descriptors for a question. Each question paper and mark scheme will also comply with these marking principles.

GENERIC MARKING PRINCIPLE 1:

Marks must be awarded in line with:

- the specific content of the mark scheme or the generic level descriptors for the question
- the specific skills defined in the mark scheme or in the generic level descriptors for the question
- the standard of response required by a candidate as exemplified by the standardisation scripts.

GENERIC MARKING PRINCIPLE 2:

Marks awarded are always **whole marks** (not half marks, or other fractions).

GENERIC MARKING PRINCIPLE 3:

Marks must be awarded **positively**:

- marks are awarded for correct/valid answers, as defined in the mark scheme. However, credit is given for valid answers which go beyond the scope of the syllabus and mark scheme, referring to your Team Leader as appropriate
- marks are awarded when candidates clearly demonstrate what they know and can do
- marks are not deducted for errors
- marks are not deducted for omissions
- answers should only be judged on the quality of spelling, punctuation and grammar when these features are specifically assessed by the question as indicated by the mark scheme. The meaning, however, should be unambiguous.

GENERIC MARKING PRINCIPLE 4:

Rules must be applied consistently e.g. in situations where candidates have not followed instructions or in the application of generic level descriptors.

GENERIC MARKING PRINCIPLE 5:

Marks should be awarded using the full range of marks defined in the mark scheme for the question (however; the use of the full mark range may be limited according to the quality of the candidate responses seen).

GENERIC MARKING PRINCIPLE 6:

Marks awarded are based solely on the requirements as defined in the mark scheme. Marks should not be awarded with grade thresholds or grade descriptors in mind.

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Question	Answer	Marks
1(a)	Refer to Appendix 1. Identify and explain Hilda's span of control and DH's chain of command. Award up to 2 marks for an explanation of span of control Award up to 2 marks for explaining span of control using examples from Appendix 1 Span of control explanation might include: • Span of control is the number of subordinates working directly under a manager • This span of control is narrow • It is only 3 people • Makes it easier to delegate For example: Span of control is the number of subordinates working directly under a manager (1). This makes it easier to delegate. (1) E.g. The span of control for Hilda is 3 (ap) these are the Administration manager, Hotel manager and Restaurant manager (ap). Award up to 2 marks for an explanation of chain of command Award up to 2 marks for explaining chain of command using examples from Appendix 1 Chain of command explanation might include: • Chain of command is the structure in an organisation, which allows instructions to be passed down from senior management to lower levels of management • This chain of command is short • It has only 4 levels • Hilda, the general manager, is at the top of the hierarchy and any instructions will pass through a further three levels down to the lowest level, such as receptionists or waiters • Makes communication quicker • Communication is less likely to be distorted • Hilda is less remote from the lower level employees in the hierarchy For example: Chain of command is the structure in an organisation, which allows instructions to be passed down from senior management to lower levels of management (1). This makes communication quicker. (1) E.g. DH has a short chain of command (ap) as any instructions need to pass from Hilda at the top to the employees at the bottom such as the waiters (ap).	**8**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1(b)</td><td>Consider three methods Hilda could use to communicate with her employees. Recommend which method she should choose if she needs an employee to work late tonight. Justify your answer.
Relevant points might include:

<table>
<tr><th></th><th>Advantages</th><th>Disadvantages</th></tr>
<tr><td>Telephone/ mobile</td><td>• One-to-one communication
• Ensures the message is received and understood
• Message can be passed on quickly</td><td>• It can be expensive
• Mobile may not be switched on
• May take time to reach employees – may need to keep trying to contact them</td></tr>
<tr><td>Letter</td><td>• Written record</td><td>• Too slow to be received</td></tr>
<tr><td>Notices/ Noticeboard</td><td>• Seen by many staff
• Cheap method</td><td>• Don’t know if read
• Would not let employees know in time</td></tr>
<tr><td>Email</td><td>• Cheap to send
• Fast way to send message
• Can be sent to many employees at the same time</td><td>• Don’t know if read unless ask for a reply
• There may not be an internet connection / message failed to send</td></tr>
<tr><td>Text (SMS) message</td><td>• Fast to send
• Quick reply often gained</td><td>• Message failed to send if no network coverage
• Employee may not have a mobile phone</td></tr>
<tr><td>Face-to-face meeting</td><td>• Instant feedback
• Fairly quick to ask employees if they are already at work that day
• Easier to persuade the employee to work later</td><td>• Takes time to find the person if not at work that day</td></tr>
<tr><td>Social media, e.g. Facebook group, WhatsApp group</td><td>• Cheap to send
• Fast to send
• Sent to many in the group at the same time</td><td>• Don’t know if the message has been read
• Message might fail to send</td></tr>
</table>
</td><td>12</td></tr>
</table>

Question	Answer	Marks
1(b)	Level 1 **[1–3 marks]** 1 mark for a suitable method of communication from employer to employee and / or 1 mark for an outline of an advantage and / or disadvantage of each suitable method. (max of 3 marks) E.g. Telephone the employee Level 2 **[4–6 marks]** Detailed discussion of the advantages and/or disadvantages of each method. 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) E.g. Telephone the employee as Hilda will know straight away if the message has been received and understood. However, the employee may not have their mobile phone with them or even have switched it on when they are serving guests in the hotel and so the message may not be received. (Level 2 plus one application mark for answering in the context of serving guests in the hotel) Level 3 **[7–10 marks]** For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation of the most suitable method. 7–8 marks for limited recommendation of the most suitable method for an urgent message that requires quick feedback OR why the alternatives were rejected. 9–10 marks for well justified recommendation of the most suitable method for an urgent message that requires quick feedback AND why the alternative methods were not chosen. **Award up to 2 additional marks for relevant application.** Possible application marks: Small hotel; 39 employees; demand for hotel accommodation is increasing; most guests are local tourists on coach tours; information from the organisational chart in Appendix 1. There may be other examples in context that have not been included here.	

Question	Answer	Marks
2(a)	Explain the externalities of each of the following: ***The external cost of large amounts of rubbish left on the beach*** Award 1 mark for an understanding of an external cost plus 1 mark for each example of an impact on a third party where the third party is identified A maximum of 2 marks can be awarded if only **examples of external costs** are in the answer **The answer could be one external cost developed or several costs developed with the impacts on third parties identified for a maximum of 4 marks** Possible answers might include: • Costs paid for by the rest of society as a result of the business activity • The externality in this case is local people visiting the beach and leaving rubbish which then affects hotel guests and the hotel itself • Eye-sore spoils the view - puts off tourists so DH may lose trade • Increased cost of cleaning beach – to hotel or government • Harm to wildlife and environment – especially marine animals getting injured **Indicative response:** The rubbish makes it unpleasant for tourists and local people visiting the beach (1) and therefore may reduce demand for hotel rooms at DH. (1) Jobs at the hotel may be reduced (1) and so there may be more unemployment (1). **Maximum 4 marks** ***The external benefit of a new motorway from Main City to Downtown*** Award 1 mark for an understanding of an external benefit plus 1 mark for each example of an impact on a third party where the third party is identified A maximum of 2 marks can be awarded if only **examples of external benefits** are in the answer **The answer could be one external benefit developed or several costs developed with the impacts on third parties identified for a maximum of 4 marks** Possible answers might include: • Benefits gained by the rest of society as a result of the business activity • The business activity in this case is the building of a new motorway which will help hotels / local residents / other businesses – wanting to reach Downtown quickly and easily • Easier journey time – so guests can get to the hotel quicker • Encourage more tourists from other countries – increases hotel revenue • Less accidents for local people on side roads – as more cars and lorries travel on the motorway **Maximum 4 marks**	**8**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>2(b)</td><td>Consider each of the following business objectives for DH. Which one do you think should be the most important objective for DH in the long run? Justify your answer.

Relevant points might include:

<table>
<tr><td>Higher market share</td><td>• Increased growth in the market but could grow without taking a larger market share as market itself is growing.
• May have to accept lower profit in a competitive market to increase market share
• Improved brand image / good reputation from having a higher market share encourages sales
• Increased influence over suppliers
• May have to reduce prices or increase marketing costs to attract more customers
• Possibly have more control over prices if more dominant in the market</td></tr>
<tr><td>Profit</td><td>• Dividends should be paid to shareholders to reward the investment or shareholders may want to sell their shares. However, it is a private limited company and shareholders can only sell shares to family and friends so there will be fewer opportunities to sell shares than if it is a public limited company.
• Will need to make a profit in the long term or will not attract more investors in the future.
• Profit should be made so that it may be retained for future investment without the need to borrow capital</td></tr>
<tr><td>Survival</td><td>• Need to make a profit in order to be worth staying in business but survival is usually an objective when the business is first starting out or if times are difficult such as in a recession, when expanding the business or facing increasing competition.
• In the long term this may not be an objective – other objectives become more important.</td></tr>
</table>
</td><td>12</td></tr>
</table>

Question	Answer	Marks
2(b)	Level 1 **[1–3 marks]** 1 mark for outline of each objective (max of 3 marks) E.g. Need to cover all costs to survive in order to be worth staying in business. Level 2 **[4–6 marks]** Detailed discussion of each objective. 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) E.g. Need to cover all costs to survive in order to be worth staying in business but survival is usually an objective when the business is first starting out or if times are difficult such as a recession. The hotel has been successful for the last 9 years and in the long term survival is not an objective as other objectives are likely to be. (Level 2 plus one application successful for the last 9 years and in the long term survival is not an objective as other objectives are likely to be. (Level 2 plus one application mark for answering in the context of the hotel being established 9 years ago) Level 3 **[7–10 marks]** For L3 to be awarded there needs to be at least two L2 marks awarded and then a conclusion as to which objective is most important to DH. 7–8 marks for some limited judgement shown in the conclusion as to which objective is most important to DH OR why the other objectives are less important. 9–10 marks for well justified conclusion as to which objective is most important to DH AND why the other objectives are less important. **Award up to 2 additional marks for relevant application.** Possible application marks: Small hotel; 39 employees; private limited company set up 9 years ago; capital employed is $100 000; demand for hotel accommodation is increasing; hotel is located next to a beach; half full 6 months; full 4 months; empty 2 months; most guests are local tourists on coach tours; wants to expand by taking over a hotel; details of ABC / XYZ hotels; financial information from Appendix 2; information in Appendix 3 about ways to attract more customers. There may be other examples in context that have not been included here.	

Question	Answer	Marks
3(a)	Identify and explain **four** economies of scale DH could benefit from when it takes over a competitor. Award one mark for each economy of scale. (maximum of four) Examples include: • Purchasing economies • Marketing economies • Financial economies • Managerial economies • Technical economies Award a maximum of one additional mark for each explanation suitable for this context. (maximum of four) Indicative response: Purchasing economy (1) as Hilda can now buy towels in bulk and receive discount for the higher quantity purchased. (1)	**8**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>3(b)</td><td>Consider the advantages and disadvantages of the two businesses Hilda could take over. Recommend which business Hilda should take over. Justify your answer.

Relevant points might include:

<table>
<tr><th></th><th>Advantages</th><th>Disadvantages</th></tr>
<tr><td>ABC hotel</td><td>• Well established hotel as has been run by the same family for 30 years – well known by regular customers and suppliers – possibly less advertising required
• Good beach location – attractive to visitors from other countries
• Cheaper to buy at half the price of alternative hotel</td><td>• Needs redecoration / modernising – increased cost of $50,000
• May have poor reputation for not being modern and well decorated
• Could get poor ratings on hotel comparison websites
• Too much money tied up in inventory</td></tr>
<tr><td>XYZ hotel</td><td>• Already modern – so no costs to redecorate/modernise
• Location is good for tourists coming into country X as it is near the airport
• Technology used in hotel – reduces wage costs as more efficient with quicker computer based booking system
• Better security as key cards restrict access to hotel rooms only to hotel guests – improved reputation</td><td>• High price to buy at $100 000 more
• Not near beach so will not attract tourists wanting beach holidays
• Lower current ratio at 1
• Lower acid test ratio at 0.5
• Poor liquidity</td></tr>
</table>
</td><td>12</td></tr>
</table>

Question	Answer	Marks
3(b)	Level 1 **[1–3 marks]** 1 mark for outline of advantages and/or disadvantages of each hotel (max of 3 marks) E.g. The cost of buying ABC hotel is a lot cheaper than XYZ hotel by $100 000. Level 2 **[4–6 marks]** Detailed discussion of advantages and/or disadvantages of each hotel. 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) E.g. The cost of buying ABC hotel is a lot cheaper than XYZ hotel by $100 000 so this will make it easier for Hilda to raise the necessary capital. However, she will still need to raise the same amount of capital as is already invested in her existing hotel so it might be difficult to find a suitable source of finance. (Level 2 plus one application mark for answering in the context of the cost of buying the hotels) Level 3 **[7–10 marks]** For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation which justifies which hotel to choose. 7–8 marks for some limited judgement shown in the recommendation as to which hotel to choose OR why not the alternative hotel. 9–10 marks for well justified recommendation as to which hotel to choose AND why not the other hotel. **Award up to 2 additional marks for relevant application.** Possible application marks: DH is located next to a beach ABC Hotel – owned by local family for more than 30 years – not recently redecorated – needs updating to attract foreign tourists - costs $50 000 to update – costs $100 000 to buy – beach location – current ratio = 3 acid test ratio = 2 – non-current assets = $80 000 XYZ Hotel – modern hotel – city centre – located 50 km from Downtown – recently redecorated – near restaurants, train station and airport – uses new technology – computer-based booking system and electronic key cards - current ratio = 1 – acid test ratio = 0.5 – non-current assets = $150 000 There may be other examples in context that have not been included here.	

Question	Answer	Marks
4(a)	Identify and explain **two** reasons why cash flow forecasting is important to Hilda. Award one mark for each relevant reason (maximum of one each), such as: • To know how much cash is flowing into the business and how much cash is flowing out of the business • To ensure the business does not run out of cash • To plan for times when cash might be low or negative • To ensure she can meet day-to-day expenses • To help make decisions for the future to know how much cash is available • To help gain a bank loan by showing the cash flow forecast to the bank manager • To support planning for buying the new hotel • Assessing how well the business is being managed by comparing the cash flow forecast with the actual cash flow • To help identify where costs could be reduced • To assess whether the business is holding too much cash which could be put to better use Award a maximum of three additional marks for the explanation of each reason – **2 of which must be applied to this context**. **Indicative response:** To ensure the business does not run out of cash (1) as the hotel is empty for two months of the year and will have no cash flowing in. (ap) This could cause a cash flow problem if the hotel is still paying out wages for the staff (ap) which could cause Hilda to run out of cash and be unable to trade if she has not planned for this to happen by taking out an overdraft (1). Possible application marks: Small hotel; 39 employees; demand for hotel accommodation is increasing; half full 6 months; full 4 months; empty 2 months; most guests are local tourists on coach tours; wants to expand by taking over a hotel; details of ABC/XYZ hotels. There may be other examples in context that have not been included here.	**8**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>4(b)</td><td>Consider how each of the following changes could affect DH. Which change is likely to have the biggest impact on the profit of DH? Justify your answer.

Relevant points might include:

<table>
<tr><th></th><th>Advantages</th><th>Disadvantages</th></tr>
<tr><td>Increase in the number of tourists from other countries</td><td>• Increased demand from tourists may increase demand for DH rooms
• Increased demand for tourist hotels – good if Hilda buys XYZ hotel.</td><td>• Competitors may attract these guests and may not have much effect on DH.
• Foreign tourists may not want beach holidays.
• None of the employees speak foreign languages</td></tr>
<tr><td>Government of country X reduces income tax</td><td>• Increased disposable income – increased demand for weekend breaks – increased demand for DH</td><td>• Weekend breaks luxury – money may be spent elsewhere
• Higher income may lead to increased demand for alternative holidays – therefore decreased demand for DH.</td></tr>
<tr><td>Fewer people demanding coach holidays</td><td>• If takeover other hotel – increased demand for alternative holidays</td><td>• Most of customers are from coach holidays – lower demand for DH
• May force DH to target a different market leading to increased costs</td></tr>
</table>
</td><td>12</td></tr>
</table>

Question	Answer	Marks
4(b)	Level 1 **[1–3 marks]** 1 mark for outline of the advantages and / or disadvantages of each change (max of 3 marks) E.g. Increased disposable income from lower income tax. Level 2 **[4–6 marks]** Discussion of the advantages and/or disadvantages of each change. 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) E.g. Increased disposable income from lower income tax may lead to increased demand for weekend breaks. This could mean there is increased demand for DH or even increased demand as people choose to go on holiday for longer and stay at DH for more than a weekend. However, as disposable incomes are higher people may want to go on holiday in other countries and so DH might see lower demand. (Level 2 plus one application mark for answering in the context of the hotels) Level 3 **[7–10 marks]** For L3 to be awarded there needs to be at least two L2 marks awarded and then a conclusion as to which change will have the greatest effect on DH's profit. 7–8 marks for some limited judgement shown in the conclusion as to which change will have the greatest effect on DH's profit OR why the alternative changes will have less effect. 9–10 marks for well justified conclusion as to which change will have the greatest effect on DH's profit AND why the alternatives would have less effect. **Award up to 2 additional marks for relevant application.** Possible application marks: Small hotel; 39 employees; demand for hotel accommodation is increasing; hotel is located next to a beach; half full 6 months; full 4 months; empty 2 months; wants to expand by taking over a hotel; details of ABC / XYZ hotels; information in Appendix 3 about ways to attract more customers. There may be other examples in context that have not been included here.	