Cambridge Assessment International Education

Cambridge O Level

BUSINESS STUDIES **7115/22**

Paper 2 Case Study **May/June 2020**

MARK SCHEME

Maximum Mark: 80

Published

Students did not sit exam papers in the June 2020 series due to the Covid-19 global pandemic.

This mark scheme is published to support teachers and students and should be read together with the question paper. It shows the requirements of the exam. The answer column of the mark scheme shows the proposed basis on which Examiners would award marks for this exam. Where appropriate, this column also provides the most likely acceptable alternative responses expected from students. Examiners usually review the mark scheme after they have seen student responses and update the mark scheme if appropriate. In the June series, Examiners were unable to consider the acceptability of alternative responses, as there were no student responses to consider.

Mark schemes should usually be read together with the Principal Examiner Report for Teachers. However, because students did not sit exam papers, there is no Principal Examiner Report for Teachers for the June 2020 series.

Cambridge International will not enter into discussions about these mark schemes.

Cambridge International is publishing the mark schemes for the June 2020 series for most Cambridge IGCSE™ and Cambridge International A & AS Level components, and some Cambridge O Level components.

© UCLES 2020

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.

© UCLES 2020

Question	Answer	Marks
1(a)	**Explain <u>one</u> benefit and <u>one</u> problem for ES of taking over other businesses.** Award 1 mark for each relevant benefit/problem (maximum of two): Relevant benefits might include: • Assets already set up for use – can use existing scooter factories and skilled employees • Makes it quicker to grow – as the existing production facilities can be used to increase the output of scooters – faster than setting up own factories • Have access to ready trained/skilled staff Relevant problems might include: • High cost of buying other business – may need to sell additional shares on the stock exchange • May be difficult integrating the two companies – as the way of working may be very different in the smaller scooter businesses – and employees may not like the changes – leading to less efficiency • More difficult to control larger business – many more skilled employees in the business – possible diseconomies of scale Award a maximum of 3 additional marks for each explanation of the benefits and problems of growing by taking over other businesses – **one of which must be applied to this context**. For example: The cost of buying other companies is high (1) and ES will have to raise large amounts of funds to allow them to do this (1). As a public limited company (app), it could sell additional shares to raise the finance, but this may lead to the existing shareholders losing some control over the business (1).	**8**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1(b)</td><td>Consider the financial information in Appendix 1. Which company should ES take over? Justify your answer using appropriate ratios.
<table>
<tr><th>Level</th><th>Description</th><th>Marks</th></tr>
<tr><td>3</td><td>Sound application of knowledge and understanding of relevant business concepts using appropriate terminology.

Detailed discussion of both companies.

Well-justified recommendation.

Candidates discussing both companies in detail, in context and with well-justified recommendation including why the alternative company was rejected should be rewarded with the top marks in the band.</td><td>9–12</td></tr>
<tr><td>2</td><td>Sound application of knowledge and understanding of relevant business concepts using appropriate terminology.

Detailed discussion of at least one company.

Judgement with some justification/some evaluation of choice made.

Candidates discussing both companies in detail and applying it to the case should be rewarded with the top marks in the band.</td><td>5–8</td></tr>
<tr><td>1</td><td>Limited application of knowledge and understanding of relevant business concepts.

Limited ability to discuss each company with little/no explanation.

Simple judgement with limited justification/limited evaluation of choice made.

Candidates outlining both companies in context should be rewarded with the top marks in the band.</td><td>1–4</td></tr>
<tr><td>0</td><td>No creditable response.</td><td>0</td></tr>
</table></td><td>12</td></tr>
</table>

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1(b)</td><td>Relevant reasons might include:
<table>
<tr><td>ABC company</td><td>• Revenue $300m lower than FGH ($400m for FGH company - $100m for ABC company)
• Gross profit = $50m
• GPM = 50%
• Profit = $10m
• Profit Margin = 10%
• ROCE is 5% lower than FGH but still good return on investment (25% for FGH – 20% for ABC)
• Liquidity is good and shows that ABC can easily pay any short-term liabilities</td></tr>
<tr><td>FGH company</td><td>• Gross profit = $240m (Revenue $400m – Cost of sales $160m)
• GPM = 60%
• Profit = $30m
• PM = 7.5%
• Profit $20m higher than ABC
• Current ratio is higher than ABC (ABC current ratio of 2 while FGH current ratio is 3)
• Liquidity is too high and is not making good use of its current assets. There may be too much cash being held in the business.</td></tr>
<tr><td>Recommendation</td><td>Justification might include:
• ABC as profitability higher than FGH even though GPM is lower overall profitability is higher. Liquidity is also better for ABC as FGH has too high an amount of current assets to current liabilities with a current ratio of 3.
• FGH as the actual profit is higher than for ABC and GPM higher showing if improve control of expenses then profitability will be higher as well. ROCE is 25%, higher than ABC by 5%.</td></tr>
</table></td><td></td></tr>
</table>

Question	Answer	Marks
2(a)	**Explain <u>four</u> ways a business plan can be useful.** Award 1 mark for each relevant way (maximum of four ways): Relevant ways might include: • Helps gain a bank loan – shows the business is likely to be profitable and repay the loan • Organises thoughts about resources needed – identify types of workers need to recruit • Can plan and budget for resources needed- e.g. to budget for new production machinery • Financial documents will help to show expected returns – to see if it will bring the return expected by shareholders Award a maximum of 1 additional mark for each explanation of the way a business plan can be used. For example: Forecast financial documents will show potential profit to be made (1) can see if it will give a satisfactory return on the investment. (1)	**8**

© UCLES 2020

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>2(b)</td><td>
ES has been considering the following <u>three</u> methods of promotion for its products in export markets. Which method should ES choose? Justify your answer.

Advertise on national television
Advertise on ES website
Display its products in shopping malls

<table>
<tr><th>Level</th><th>Description</th><th>Marks</th></tr>
<tr><td>3</td><td>Sound application of knowledge and understanding of relevant business concepts using appropriate terminology.

Detailed discussion of two or more methods to promote ES' products.

Well-justified recommendation.

Candidates discussing the three methods in detail, in context and with well-justified recommendation including why the alternative methods were rejected should be rewarded with the top marks in the band.</td><td>9–12</td></tr>
<tr><td>2</td><td>Sound application of knowledge and understanding of relevant business concepts using appropriate terminology.

Detailed discussion of at least one method.

Judgement with some justification/some evaluation of choice made.

Candidates discussing two or more methods in detail and applying it to the case should be rewarded with the top marks in the band.</td><td>5–8</td></tr>
<tr><td>1</td><td>Limited application of knowledge and understanding of relevant business concepts.

Limited ability to discuss the methods to promote the products with little/no explanation.

Simple judgement with limited justification/limited evaluation of choice made.

Candidates outlining the three methods to promote the products in context should be rewarded with the top marks in the band.</td><td>1–4</td></tr>
<tr><td>0</td><td>No creditable response.</td><td>0</td></tr>
</table>
</td><td>12</td></tr>
</table>

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>2(b)</td><td>Relevant points might include:
<table>
<tr><td>Advertise on national television</td><td>• Advert for scooters will go out to millions of people
• Scooters can be shown in very favourable way
• Can reach a target audience for scooters if shown during programmes likely to be watched by these target customers e.g. sports programmes
• Very expensive form of advertising
• Younger consumers may not watch as much TV as older people so may not reach these consumers</td></tr>
<tr><td>Advertise on ES website</td><td>• Large amount of information can be posted
• Cheap way to advertise
• Can include videos of the scooters
• Internet searches may not highlight the website at the start of the search list and therefore it is missed
• Internet access may be limited in some countries where scooters are being exported</td></tr>
<tr><td>Display its products in shopping malls</td><td>• Provides a lot of information
• Can also be persuasive with scooter to look at and sit on
• Restricted to a relatively small number of consumers in the mall</td></tr>
<tr><td>Recommendation</td><td>Justification might include:
• National TV as the scooters will be seen by the mass market and will not be seen by many people in shopping mall displays.
• Website useful for advertising when other forms of advertising have raised awareness of the scooters such as after the scooter has been seen in a mall display.
• Displays in shopping malls will be most useful as potential customers can sit on the scooters and see how comfortable they are. This may make people who have not even thought about buying a scooter consider them whereas advertisements in television and on websites may be ignored.</td></tr>
</table></td><td></td></tr>
</table>

© UCLES 2020

Question	Answer	Marks
3(a)	**Explain <u>two</u> benefits to ES of higher productivity.** Award 1 mark for each relevant benefit (maximum 2). Relevant benefits might include: • Lower unit costs – increasing gross profit margin - higher profit • Lower prices – as each scooter costs less to produce – prices are more competitive with other manufacturers - increased sales • Increased output – more scooters available to export – increased revenue • Output per worker higher – able to increase wages/offer financial rewards – which could increase motivation – lower labour turnover Award a maximum of 3 additional marks for each explanation of the benefits of higher productivity – **one of which must be applied to this context**. For example: Output per worker is higher (1) so ES may be able to offer financial rewards than just time wage rate payments (app) which can result in more highly motivated production workers (1) making them less likely to leave and consequently ES will have lower recruitment costs. (1)	**8**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>3(b)</td><td>

Consider <u>three</u> methods of motivation ES could use for its production workers. Which is the best method for ES to choose? Justify your answer.

<table>
<tr><th>Level</th><th>Description</th><th>Marks</th></tr>
<tr><td>3</td><td>Sound application of knowledge and understanding of relevant business concepts using appropriate terminology.

Detailed discussion of two or more methods.

Well-justified conclusion.

Candidates discussing three methods in detail, in context and with well-justified conclusion including why the alternative methods were rejected should be rewarded with the top marks in the band.</td><td>9–12</td></tr>
<tr><td>2</td><td>Sound application of knowledge and understanding of relevant business concepts using appropriate terminology.

Detailed discussion of at least one method.

Judgement with some justification/some evaluation of choice made.

Candidates discussing two or more methods in detail and applying it to the case should be rewarded with the top marks in the band.</td><td>5–8</td></tr>
<tr><td>1</td><td>Limited application of knowledge and understanding of relevant business concepts.

Limited ability to discuss the methods with little/no explanation.

Simple judgement with limited justification/limited evaluation of choice made.

Candidates outlining three methods in context should be rewarded with the top marks in the band.</td><td>1–4</td></tr>
<tr><td>0</td><td>No creditable response.</td><td>0</td></tr>
</table>

</td><td>12</td></tr>
</table>

Question	Answer	Marks
3(b)	Relevant points might include: • Job rotation – moves workers around the production line to carry out different tasks so **makes the job less boring** – but the actual tasks may still be monotonous. • Job enlargement – adds tasks to the job and therefore the job becomes more interesting – worker may feel more important as trained to carry out additional tasks – but worker may not feel able to carry out the additional task – may not want extra responsibility. • Increased wage rates – **even higher than the legal minimum wage than they are at present** - Taylor states that increased wages will increase motivation as 'money is the main motivator' – however, Herzberg would argue it is only a temporary motivator and increased motivation will not last. • Introduce piece rate – wages paid will increase the higher the output, so workers will be motivated to increase their output – however, if work is rushed quality might suffer leading to a poor reputation for the company. • Pay a bonus – may be paid individually or as a team – higher pay if the production team increase output – may cause disagreements if only some of the team are working hard – may be seen as unfair. Judgement might include: • Higher pay will only motivate production workers for a short time as the **job is still boring** on the **flow production line**. It might be better to use job enlargement to add tasks to the job the job of **making scooters** to make it more interesting and maintain increased motivation for a longer period of time. It may also cost less as may only need additional training and not higher wages to be paid	

© UCLES 2020

Question	Answer	Marks
4(a)	**Explain how the following <u>four</u> legal controls may affect ES.** • **Control over misleading promotion** • **Control over faulty products** • **Control over location decisions** • **Control over pollution** Award one mark for each effect (maximum of four). Relevant legal controls might include: • Misleading promotion: restrictions on claims in adverts about the speed scooters can go or fuel consumption • Faulty products: consumers have the right to return them to have your money back if the scooter engine has a fault • Location – restrictions on where to expand the scooter factory • Pollution – emissions from scooters may mean production has to change Award a maximum of 1 additional mark for each effect applied to this context. For example: Environmental laws may restrict pollution from exhaust fumes (1) this may mean ES has to change the engines of its scooters which may increase costs (app).	**8**

© UCLES 2020

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>4(b)</td><td>

Consider the effect on ES of the following <u>two</u> economic changes in country Z. Which change is likely to have the biggest effect on ES's profit? Justify your answer.

- **Increasing unemployment**
- **Increasing inflation**

<table>
<tr><th>Level</th><th>Description</th><th>Marks</th></tr>
<tr><td>3</td><td>Sound application of knowledge and understanding of relevant business concepts using appropriate terminology.

Detailed discussion of both economic changes.

Well-justified conclusion.

Candidates discussing both economic changes in detail, in context and with well-justified conclusion including why the alternative change was rejected should be rewarded with the top marks in the band.</td><td>9–12</td></tr>
<tr><td>2</td><td>Sound application of knowledge and understanding of relevant business concepts using appropriate terminology.

Detailed discussion of at least one economic change.

Judgement with some justification/some evaluation of choice made.

Candidates discussing both economic changes in detail and applying it to the case should be rewarded with the top marks in the band.</td><td>5–8</td></tr>
<tr><td>1</td><td>Limited application of knowledge and understanding of relevant business concepts.

Limited ability to discuss the economic changes with little/no explanation.

Simple judgement with limited justification/limited evaluation of choice made.

Candidates outlining both economic changes in context should be rewarded with the top marks in the band.</td><td>1–4</td></tr>
<tr><td>0</td><td>No creditable response.</td><td>0</td></tr>
</table>

</td><td>12</td></tr>
</table>

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>4(b)</td><td>Relevant points might include:
<table>
<tr><td>Increasing unemployment</td><td>• Lower incomes
• Lower sales on expensive items such as scooters
• However, if scooters are bought instead of cars then sales may be higher
• Easier to recruit employees as larger pool of unemployed workers available to select the additional 100 production workers
• Less pressure on wage rate increases to be well above the legal minimum wage rate</td></tr>
<tr><td>Increasing inflation</td><td>• Higher supplier costs of components for scooters
• Price of scooter may have to increase – reducing sales
• Less competitive if imported scooters do not have higher prices
• Pressure for wage to be increased to much higher than the legal minimum wage rate – increasing costs
• But all domestic manufacturers face the same problems to so may not be less competitive</td></tr>
<tr><td>Conclusion</td><td>Justification might include:
• Increasing unemployment may lead to lower wage costs and if revenue from the sale of scooters also rises then profit will increase.
• Increasing inflation may make it easier for ES to increase prices on its scooters as consumers expect prices to rise, so revenue increases. Some of its costs will rise as inflation increases but if ES does not increase wages, as unemployment has now started to increase, then profit may still increase.</td></tr>
</table></td><td></td></tr>
</table>