Cambridge Assessment International Education

Cambridge O Level

BUSINESS STUDIES **7115/14**

Paper 1 Short Answer/Data Response **May/June 2021**

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.

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

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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.

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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.

Social Science-Specific Marking Principles (for point-based marking)

1 Components using point-based marking:

- Point marking is often used to reward knowledge, understanding and application of skills. We give credit where the candidate's answer shows relevant knowledge, understanding and application of skills in answering the question. We do not give credit where the answer shows confusion.

From this it follows that we:

a DO credit answers which are worded differently from the mark scheme if they clearly convey the same meaning (unless the mark scheme requires a specific term)
b DO credit alternative answers/examples which are not written in the mark scheme if they are correct
c DO credit answers where candidates give more than one correct answer in one prompt/numbered/scaffolded space where extended writing is required rather than list-type answers. For example, questions that require *n* reasons (e.g. State two reasons …).
d DO NOT credit answers simply for using a 'key term' unless that is all that is required. (Check for evidence it is understood and not used wrongly.)
e DO NOT credit answers which are obviously self-contradicting or trying to cover all possibilities
f DO NOT give further credit for what is effectively repetition of a correct point already credited unless the language itself is being tested. This applies equally to 'mirror statements' (i.e. polluted/not polluted).
g DO NOT require spellings to be correct, unless this is part of the test. However spellings of syllabus terms must allow for clear and unambiguous separation from other syllabus terms with which they may be confused (e.g. Corrasion/Corrosion)

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2 Presentation of mark scheme:

- Slashes (/) or the word 'or' separate alternative ways of making the same point.
- Semi colons (;) bullet points (•) or figures in brackets (1) separate different points.
- Content in the answer column in brackets is for examiner information/context to clarify the marking but is not required to earn the mark (except Accounting syllabuses where they indicate negative numbers).

3 Calculation questions:

- The mark scheme will show the steps in the most likely correct method(s), the mark for each step, the correct answer(s) and the mark for each answer
- If working/explanation is considered essential for full credit, this will be indicated in the question paper and in the mark scheme. In all other instances, the correct answer to a calculation should be given full credit, even if no supporting working is shown.
- Where the candidate uses a valid method which is not covered by the mark scheme, award equivalent marks for reaching equivalent stages.
- Where an answer makes use of a candidate's own incorrect figure from previous working, the 'own figure rule' applies: full marks will be given if a correct and complete method is used. Further guidance will be included in the mark scheme where necessary and any exceptions to this general principle will be noted.

4 Annotation:

- For point marking, ticks can be used to indicate correct answers and crosses can be used to indicate wrong answers. There is no direct relationship between ticks and marks. Ticks have no defined meaning for levels of response marking.
- For levels of response marking, the level awarded should be annotated on the script.
- Other annotations will be used by examiners as agreed during standardisation, and the meaning will be understood by all examiners who marked that paper.

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Question	Answer	Marks	Notes
1(a)	**Define 'cost of sales'.** Award 2 marks for a full definition. Award 1 mark for a partial definition. Money spent on producing / buying in **materials** used to make the final product **sold** [2] OR Costs of purchasing the **goods used to make** the products **sold** [2] OR Variable / direct cost of making the goods **sold** [2] OR Correct formula e.g. Opening inventory + purchases – closing inventory [2] Partial definition e.g. Money spent on (purchasing) materials [1] OR Direct cost of producing goods [1]	**2**	For both marks must have the idea of money spent on making products and that it relates to the goods being **sold**. Do not award examples. Do not award answers which incorrectly include references to expenses.
1(b)	**Calculate X and Y.** Award 1 mark per correct calculation. • X = $20 000 • Y = $15 000	**2**	$ sign not required.

Question	Answer	Marks	Notes
1(c)	**Outline <u>two</u> possible problems the decrease in revenue might cause Marty's business.** Award 1 mark for each relevant problem. Award 1 mark for each relevant reference to this business. Points might include: • Not able to pay (day-to-day) costs / expenses / suppliers / less able to buy stock [k] such as buying in books [app] • Cash flow / liquidity / working capital problems [k] as revenue decreased 50% [app] • Not able to break-even / low margin of safety [k] especially as last year only made profit of $15000 [app] • Could be difficult to obtain finance [k] to help change his method of promotion [app] • Less drawings for Marty / not able to **pay himself** as much money [k] Other appropriate responses should also be credited.	**4**	Note: To use words from the stem as application, the reference must be appropriate (i.e. make sense) in relation to the point being made. The following words may be appropriate for this question: • Books / shop • $15000 profit • Method of promotion • (Change) pricing strategy/method • 50% or $80000 or $160000 (revenue) or revenue fallen for last two years • $60000 (gross profit) • $45000 (expenses) • Increased competition Other appropriate examples in context can still be credited.

Question	Answer	Marks	Notes
1(d)	**Explain <u>two</u> pricing methods Marty could use.** Award 1 mark for identification of each relevant pricing method (max 2). Award 1 mark for each relevant reference made to this business (max 2). Award 1 mark for each relevant explanation (max 2). Points could include: • Competitive pricing [k] so price would not discourage customers from buying the product / so its prices are **similar / in line** with the price set by other businesses [an] as there is increased competition [app] • Cost plus pricing [k] so make a profit **on each** book sold [app] + [an] • Promotional pricing [k] which involves setting a lower price for a **short period of time** / so the product **is more affordable** [an] which might help offset the 50% decrease in revenue [app] • Psychological pricing [k] as this might make the customer think the product is cheaper than it really is [an] Other appropriate responses should also be credited.	**6**	Note: To use words from the stem as application, the reference must be appropriate (i.e. make sense) in relation to the point being made. The following words may be appropriate for this question: • Books / shop • $15 000 profit • Method of promotion • 50% or $80 000 or $160 000 (revenue) • $60 000 (gross profit) • $45 000 (expenses) • Increased competition • City centre Other appropriate examples in context can still be credited. Do not award following methods as they are not appropriate based on scenario: • Price skimming • Penetration pricing

Question	Answer	Marks	Notes
1(e)	**Explain <u>two</u> methods of promotion a small retail business could use to increase sales. Justify which is the best method to use.** Award up to 2 marks for identification of relevant methods. Award up to 2 marks for relevant development of points. Award 2 marks for a justified decision as to which is the most appropriate method. Points might include: • Advertising or one method of advertising e.g. website / television / leaflets / radio / social media [k] help raise awareness / attract customers [an] but would increase **fixed** costs [an] • **Short term** price discounts / Buy One Get One Free / special offers / promotional pricing (allow only once) [k] which means the product is more **affordable** [an] • Sponsorship [k] can help increase brand image [an] but if the sponsored person/event does something wrong, this can damage the image of the business as well [an] reducing rather than increasing sales [an] • Loyalty schemes [k] so customers want to use its services more often [an] leading to repeat business [an] • Free samples [k] so customers are able to see / **try** the product and if **liked**, **they are more willing to buy** [an] • Demonstrations/displays [k] • (Free) gifts [k] will tend to buy more products in order to gain more gifts [an] • Competitions [k] people will buy more for a chance to win a prize [an] • Personal selling [k] so able to communicate with customers better to build customer relations [an] Other appropriate responses should also be credited.	**6**	This is a general question so there are no marks for application. Where candidates select **two** methods of advertising/pricing, award only one, or the one which gains the most marks. For analysis to be awarded must explain how the method would help increase sales. Increase sales / customers is [rep] as stated in question. To access evaluation marks, candidates should discuss **two** different methods of promotion. A decision alone is not evaluation. Must give a supported reason for choice. For second evaluation mark, must clearly explain why chosen method is a better option for a small retail business to use to increase sales**.**

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Question	Answer	Marks	Notes
1(e)	Justification might include: Sponsorship [k] can help increase brand image [an] but if the sponsored person or event does something wrong, this can damage the image of the business as well [an], therefore reducing rather than increasing sales. So, it would be better to use advertising [k] because even though it can increase fixed costs in the short term you can have more influence over how the business is perceived. [eval] [eval]		

Question	Answer	Marks	Notes
2(a)	**Define 'delegation'.** Award 2 marks for a full definition. Award 1 mark for a partial definition. Give a subordinate **authority** to perform (particular) tasks [2] OR When a manager gives **authority** to another employee to complete a task, (although the manager retains the ultimate responsibility for the completion of the task) [2] Partial definition e.g. Let / allow workers make decisions [1] OR Give **authority** for a task to someone [1]	**2**	
2(b)	**State <u>two</u> levels in Maslow's Hierarchy of Needs.** Award 1 mark per level. Two from: • Physiological / physical • Safety / security • Social / (love and) Belonging • Esteem • Self actualisation	**2**	Only award the first two responses given. Do not accept examples e.g. job security.

Question	Answer	Marks	Notes
2(c)	**Identify <u>four</u> methods of internal communication a business can use.** Award 1 mark per method. Four from: • Meetings / team briefings • (Video) conferencing / Zoom / Teams / FaceTime / Google Meet • Email / intranet • Telephone / mobile / cell phone • Text / SMS / WhatsApp / social media • Letters • Noticeboards / poster • Newsletter / company magazines • Report • Memorandum / memo Other appropriate responses should also be credited.	**4**	Only award the first four responses given. Do not award answers such as written, visual, electronic, oral as these are types and not methods of communication.

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Question	Answer	Marks	Notes
2(d)	**Explain <u>one</u> advantage and <u>one</u> disadvantage to STH of being ethical.** Award 1 mark for identification of each relevant advantage/disadvantage (max 2). Award 1 mark for each relevant reference made to this business (max 2). Award 1 mark for each relevant explanation (max 2). Points might include: Advantages: • Good image / good reputation [k] so can charge high(er) prices / higher sales / develop customer loyalty [an] for its beds [app] • Higher demand / increase sales / enter new market / more customers [k] which could increase revenue [an] when selling in other countries [app] • Help recruit / loyalty of / motivate workers [k] as ethical can help achieve higher levels of Maslow's Hierarchy [app] leading to lower absenteeism / increased productivity [an] • Investors more likely to invest [k] making it easier to obtain finance for the new machinery [an] • Can help create better supplier relations (by paying fair price) [k] • Less opposition from pressure groups [k] Disadvantages: • Limited / fewer sources of materials [k] leading to less output [an] especially as the level of wasted materials has increased over the past 3 months [app] • May have to **pay more** to suppliers / higher cost of materials [k] leading to higher variable costs / cost of goods sold [an] • Workers may have to be paid more [k] increasing labour costs [an] • High costs [k] could lead to higher prices [an] • May take time to source ethical supplies [k] which could delay production [an] Other appropriate responses should also be credited.	**6**	Note: To use words from the stem as application, the reference must be appropriate (i.e. make sense) in relation to the point being made. The following words may be appropriate for this question: • Beds or related words such as wood • (Increased level of) wasted materials • Maslow's Hierarchy • Employees work in teams • Batches of 10 Other appropriate examples in context can still be credited. Do not award 'better quality', 'legal requirement / fines' or 'rights' as these are different concepts.

Question	Answer	Marks	Notes
2(e)	**Do you think increasing training is a better way for a manufacturing business to improve efficiency than introducing automation? Justify your answer.** Award up to 2 marks for identification of relevant issues. Award up to 2 marks for relevant development of points. Award up to 2 marks for justified decision as to whether increasing the amount of training is the best way for a manufacturing business to improve efficiency than introducing automation. Points might include: Training: • Increase employee skills / more specialist [k] so fewer mistakes are made / better quality products / less wastage [an] • High cost of training [k] increases fixed costs [an] • Can help motivate employees [k] leading to fewer workers leaving [an] • Takes time to train [k] during which time limited / no output is produced [an] Automation: • Fewer employees [k] reducing cost of labour [an] but may have to pay redundancy [an] • Higher output produced (in same amount of time) / can work 24/7 [k] lowering average / unit cost [an] • High (initial) cost of automation [k] which the business might not be able to afford [an] • (High) Cost of maintenance / repair / risk of breakdown [k] could increase expenses / reduce profit margin [an] • Machinery can become outdated (quickly) [k] and updating it can increase costs [an] Other appropriate responses should also be credited.	**6**	This is a general question so there are no marks for application. Do not award statements such as ‘this will increase efficiency/productivity’ as analysis as this is repetition.

Question	Answer	Marks	Notes
2(e)	Justification might include: Training would increase employee skills [k] so fewer mistakes are made [an]. Whereas automation could result in a higher output [k]. However, machinery might be expensive which the business might not be able to afford [an]. Overall, I think it would depend on whether the level of demand is sufficient to justify the high cost of automation [eval] as otherwise it could lead to financial problems because loans would have to be repaid whether the business could sell the products or not. [eval].		

Question	Answer	Marks	Notes
3(a)	**Identify <u>two</u> ways to measure the size of a business.** Award 1 mark per way. Points might include: • (Value of) capital employed / value of balance sheet • Market share • Value of output / value of sales / revenue • (Number of) employees • Number of customers / volume of output / number of sales • Number of outlets Other appropriate responses should also be credited.	**2**	Only award first two answers given. Do not award profit as this is not a measure of size.

Question	Answer	Marks	Notes
3(b)	**Identify <u>two</u> costs for a business of developing new products.** Award 1 mark per point. Points might include: • (Cost of) market research • (Cost of) producing / testing **trial products** / cost of wasted materials when developing • Often requires large capital expenditure / cost of **new** machinery • May need to recruit **additional** employees / offer additional training • Cost of **launching** / promoting / advertising **new** product in market • Loss of company image (if the new product fails to meet customer needs) Other appropriate responses should also be credited.	**2**	Only award the first two answers given. Do not award a general list of costs such as advertising, raw materials. To award costs, should be clearly identified as additional/extra associated with developing new products.

Question	Answer	Marks	Notes
3(c)	**Outline <u>one</u> objective each of the following stakeholder groups of JCP might have.** Award 1 mark for each relevant objective. Award 1 mark for each relevant reference to this business. Points might include: Employees: • Improved/safe working conditions [k] for the 50 employees [app] • Job security / contract of employment [k] as work for a business that has been operating for 170 years [app] • Increased / regular payments of wages / salary [k] • Jobs that provide satisfaction / motivation [k] • Opportunities for promotion [k] Suppliers: • Increased / regular orders / revenue [k] especially as the business is always developing new products [app] • Payments being made on time / quickly [k] for material used to make paper [app] • To have a positive relationship with its customers / customer loyalty / meet exact customer requirements [k] • Being paid a fair / reasonable price for its products [k] Other appropriate responses should also be credited.	**4**	Note: To use words from the stem as application, the reference must be appropriate (i.e. make sense) in relation to the point being made. The following words may be appropriate for this question: • 50 employees • Operating for 170 years • New products / airline industry • Material/making paper • (Export to) 60 countries • Small / private limited company Other appropriate examples in context can still be credited.

Question	Answer	Marks	Notes
3(d)	**Explain <u>two</u> factors JCP should consider when exporting its products.** Award 1 mark for each relevant problem (max 2). Award 1 mark for each relevant reference made to this business (max 2). Award 1 mark for each relevant explanation (max 2). Points might include: • Culture / **different** tastes / social **differences** [k] as export to 60 countries [app] leading to fewer sales [an] • (Differences in) language / may need to relabel products [k] which can be time consuming / add to (production) costs [an] • (Different) standards / legislation / increased paperwork [k] so may not be able to use certain materials in its paper [app] stopping possible sales [an] • Lack knowledge of market / (level of local) competition [k] so customers may be brand loyal to other businesses [an] • Effect of exchange rates [k] as an appreciation in own currency would mean its products are more expensive [an] • Quotas [k] will restrict numbers of products that can be sold [an] • Tariffs [k] which could increase the price of these goods [an] • (Increased) costs of transport / increased risk of delay [k] • **Increased** risk of non-payment [k] • Economic differences / level of economic activity in other country [k] • Language barriers [k] Other appropriate responses should also be credited.	**6**	Note: To use words from the stem as application, the reference must be appropriate (i.e. make sense) in relation to the point being made. The following words may be appropriate for this question: • Paper • (Export to) 60 countries • New products / airline industry • 50 employees • Operating for 170 years Other appropriate examples in context can still be credited. Can award trade barriers [k] if no specific examples given e.g. quotas. Do not award vague statements about level of demand / whether products will sell as this could apply whether exporting or not.

Question	Answer	Marks	Notes
3(e)	**Do you think limited liability is the most important factor for business owners to consider when deciding on an appropriate form of business organisation? Justify your answer.** Award up to 2 marks for identification of relevant points. Award up to 2 marks for relevant development of points. Award up to 2 marks for justified decision as to whether limited liability is the most important factor for business owners to consider when deciding on an appropriate form of business organisation. Points might include: Limited liability: • Owner is only financially responsible for amount invested [k] which means investors / owners' personal assets are protected in the event of the **business** going bankrupt / fails [an] • Can encourage people to invest [k] providing more finance to fund expansion [an] • Added bureaucracy / paperwork / legal requirements associated with limited liability [k] • Only available to companies [k] Other factors could include: • Level of control [k] as sole trader businesses have complete control [an] so able to make own decisions [an] • Can depend on personal objectives [k] • Access to capital / sources of finance [k] • Separate legal identity [k] so the owner cannot be sued [an] • Continuity [k] • Does the owner have the necessary experience/skills to make all the decisions [k] • Size of business [k] Other appropriate responses should also be credited.	**6**	This is a general question so there are no marks for application. For evaluation to be awarded justification will usually follow on from relevant analysis of points.

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Question	Answer	Marks	Notes
3(e)	Justification might include: Owner is only financially responsible for the amount invested [k] which means owners' personal assets are protected in the event of the business going bankrupt [an]. Another factor is the level of control [k] as sole traders are able to make all their own decisions [an]. Overall, while limited liability does provide financial protection to owners, they must give up some control to get this [eval] so it depends on which factor is more important to each individual owner as it is not possible to have both. [eval].		

Question	Answer	Marks	Notes
4(a)	**Define 'external cost'.** Award 2 marks for a full definition. Award 1 mark for a partial definition. Costs paid for by the rest of society, other than the business, as a result of business activity [2] OR Impact / cost paid for by the rest of society as a result of business actions [2] OR Costs or disadvantages that fall on third parties that is one not directly involved in the production process [2] Partial definition e.g. costs that society / third party has to pay [1]	**2**	Do not award examples as this does not define the term.
4(b)	**Calculate Rohit's forecast break-even output. Show your working.** Award 2 marks for correct calculation. Correct answer: 30 (cars) [2] Correct formula and incorrect answer e.g. Fixed costs / selling price per unit – variable cost per unit [1] OR Fixed cost / contribution per unit [1] OR 90 / 3 [1]	**2**	Award only 1 mark if 30 is written as part of the answer but is not given as the final answer. Max 1 for $30.

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Question	Answer	Marks	Notes
4(c)	**State <u>four</u> possible sources of finance a start-up business could use.** Award 1 mark per source. Four from: • Own savings • Bank loan / mortgage • Overdraft • Borrow money from friends and family • (Government) grants / subsidies • Micro-finance • Crowd-funding • Leasing • Hire purchase • Trade credit Other appropriate responses should also be credited.	**4**	Only award the first four responses given. Answers must be appropriate for a start-up business. Therefore do not award answers such as retained profit, debentures, issue shares.

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Question	Answer	Marks	Notes
4(d)	**Explain <u>two</u> ways economic growth might affect Rohit's business.** Award up to 2 marks for identification of relevant issues. Award 1 mark for each relevant reference made to this business (max 2). Award 1 mark for each relevant explanation (max 2). Points might include: • **Increased** demand / sales [k] so people will be able to afford cars [app] increasing potential revenue [an] • **Harder** to find employees (due to lower unemployment) / may have to **pay more** to attract / retain employees [k] increasing the labour cost [an] for his start-up business [app] • **Increased** competition [k] so might not gain 50 customers [app] as he may lose customers to his competitors [an] • **Less** choice of location / **increased** rent [k] which might increase fixed costs [an] higher than $90 [app] • **Higher** costs/expenses [k] leading to higher prices [an] Other appropriate responses should also be credited.	**6**	Note: To use words from the stem as application, the reference must be appropriate (i.e. make sense) in relation to the point being made. The following words may be appropriate for this question: • Car wash or related words such as car • 2% or 5% or 3% (increase) • $4 (average price) • $1 (variable cost) • $90 (fixed costs) • 50 (customers) • External costs • Start-up Other appropriate examples in context can still be credited. Do not award knowledge marks for identifying the change itself e.g. inflation, increase standard of living as the question is looking for the impact of the change on the business e.g. increased demand.

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Question	Answer	Marks	Notes
4(e)	**Do you think the cost of rent is a more important location factor for a start-up business than the level of competition? Justify your answer.** Award up to 2 marks for identification of relevant issues. Award up to 2 marks for relevant development of points. Award up to 2 marks for a justified decision as to whether cost of rent is a more important location factor for a start-up business than the level of competition. Points might include: Cost of rent: • **High** rent will increase (fixed) costs [k] which increases break-even output [an] • Low rent could mean it is a less popular / less busy location [k] which could mean fewer potential customers / sales [an] • Rent has to be paid whether make sales or not [k] • High rent could put a strain on cash flow / rent must be affordable [k] • Online shops / e-commerce businesses may not have to pay rent / can locate in remote location [k] Level of competition: • High level of competition could make it difficult to attract customers [k] which could lower potential revenue [an] • Could influence / change marketing / promotion / price strategy used [k] as not able to charge high price if there are many alternatives [an] • A lot of competition could mean high footfall in that area [k] increasing opportunity to attract passing trade [an] • High level of competition could force business to try to differentiate [k] Other appropriate responses should also be credited.	**6**	This is a general question so there are no marks for application. Candidates can gain up to 2 [k] and 2 [an] for discussion of one factor. However, to access the evaluation marks, both factors must be considered.

Question	Answer	Marks	Notes
4(e)	Justification might include: Competition will influence the number of customers a business can expect [k] but it can also mean more potential sales leading to more revenue [an]. A business has limited influence over the cost of rent whereas it can influence its sales [eval]. However, rent has to be paid whether he has customers or not [k]. High costs could make it difficult to break even and it may have to increase prices [an] which customers might not be willing to pay whether there is competition or not. [eval].		

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