UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Ordinary Level

MARK SCHEME for the October/November 2011 question paper for the guidance of teachers

7115 BUSINESS STUDIES

7115/22 Paper 2 (Case Study), maximum raw mark 100

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 must be read in conjunction with the question papers and the report on the examination.

- Cambridge will not enter into discussions or correspondence in connection with these mark schemes.

Cambridge is publishing the mark schemes for the October/November 2011 question papers for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level syllabuses and some Ordinary Level syllabuses.

UNIVERSITY of CAMBRIDGE
International Examinations

This mark scheme includes a summary of appropriate content for answering each question. It should be emphasised, however, that this material is for illustrative purposes and is not intended to provide a definitive guide to acceptable answers. It is quite possible that among the scripts there will be some candidate answers that are not covered directly by the content of this mark scheme. In such cases, professional judgement should be exercised in assessing the merits of the answer.

Examples of possible answers are also included in this mark scheme. Again, it should be emphasised that this is for illustrative purposes and the examples chosen represent only some of the many possible responses that would merit reward.

Application marks are not awarded for the name of the business or person from the case material. Application is by answering in the context of the case or by using the information in the case to help answer the question.

© University of Cambridge International Examinations 2011

1 (a) Carlos thinks that good customer service is very important to the business. Explain <u>two</u> reasons why this might be true for BB Boat Tours. [8]

Content:
Good reputation; repeat business; satisfied customers; meets customer expectations.

The marks available for this question are as follows: 2 marks for knowledge, 2 marks for application and 4 marks for explanation/analysis.

1 knowledge mark + up to 2 explanation marks + 1 application mark for each reason (4 marks × 2 reasons).

Below is an example to illustrate the difference between a simple explanation worth one additional mark and a developed explanation worth 2 additional marks. An example is also provided of where the application mark might be awarded.

Possible application marks: boats; boat day trips; foreign tourists; dolphins; skilled local fishermen; diving instructors; food and drinks; boats fully booked/half full; business made a loss; employees redundant; boats and equipment; cheaper competitors. There may be other examples in context which have not been included here.

Reason: To give the business a good reputation. (1 knowledge mark)

Simple explanation: To give the business a good reputation (1) so that tourists will keep coming back because they enjoyed the boat tour and this will increase sales revenue because the boat tours will be full. (1 additional mark for simple explanation)

Developed explanation: To give the business a good reputation (1) so that tourists will keep coming back because they enjoyed the boat tour and this will increase sales revenue because the boat tours will be full (1). If the sales revenue increases and the boats are full, then when the costs have been taken away the business will make less of a loss. (2 further explanation marks for a developed explanation)

Application: The application mark could be achieved as the answer refers to customers enjoying their boat tours and the business making less of a loss. (1 application mark)

© University of Cambridge International Examinations 2011

(b) Abdul wants to change the pricing strategy used by the business. It currently uses cost plus pricing. Consider <u>three</u> other pricing strategies that could be used and recommend which pricing strategy you think would be the best one. Justify your answer. [12]

Content:
Competitive pricing; promotional pricing; psychological pricing.

Skimming and penetration and/or description of the strategy if not named can be awarded L1 but not L2 as unsuitable pricing methods for this business.
Do NOT reward cost plus *as in the question.*

Level 1 Competitive pricing means that they will price the boat tours at a similar price to other boat tours.

2 marks for naming and defining the pricing strategy.

Level 2 E.g. Competitive pricing means that they will price the boat tours at a similar price to other boat tours. This should mean that they will attract more customers and so increase the revenue from tourists. The price is similar to their competitors, but the customer service must be at least as good if not better than that of the competitors of BB Boat Tours so that they attract more customers. The price charged must, however, cover the costs of supplying the boat tour.

5 marks for level 2 answer plus 1 application mark for mentioning the pricing of boat tours.

5 marks for the first level 2 answer, plus 1–2 marks for each additional level 2 answer. I.e. two level two answers = 6 marks; 3 level 2 answers = 7 marks; 4 level 2 answers = 8 marks. However, if the level 2 answer is very well explained then 6 marks can be awarded for the first level 2 answer. If the second level 2 answer is also very well explained then 8 marks in total can be awarded. 6 × L2 = 10 marks.

Level 3 Detailed discussion of at least three level 2 answers. There will be a conclusion at the end which justifies which pricing strategy would be the most effective and why it is more effective than the other two strategies.

Possible application marks:

boat day trips; foreign tourists; dolphins; fishing; diving instructors; food and drinks; boats fully booked/half full; business made a loss; cheaper competitors; financial information from Appendix 1, e.g. $19.99/$29.99/$59.99; information from the graphs from Appendix 3.

There may be other examples in context which have not been included here.

© University of Cambridge International Examinations 2011

	Application	Knowledge/Analysis/Evaluation
Level 3		9–10 marks 3 × level 2 + good judgement shown as to the best pricing strategy to use and why it is better than the other two strategies.
Level 2	2 marks Well applied to the case. At least two examples of reference to, or use of, the case.	5–8 marks Good discussion of the advantages or disadvantages of the different pricing strategies OR balanced argument (even if listed). Limited judgement in recommendation.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, the case.	1–4 marks Name and/or definition of pricing strategies.

2 (a) Bruce is thinking of leaving the partnership. Identify and explain <u>two</u> factors Bruce might consider when deciding whether or not to leave the partnership. [8]

Content:
Factors – will he get his investment back; alternative use of money; alternative job; setting up alternative business; effect on the business and his brothers.

The marks available for this question are as follows: 2 marks for knowledge, 2 marks for application and 4 marks for explanation/analysis.

1 knowledge mark + up to 2 explanation marks + 1 application mark for each reason. (4 marks × 2 factors)

Below is an example to illustrate the difference between a simple explanation worth one additional mark and a developed explanation worth 2 additional marks. An example is also provided of where the application mark might be awarded.

Possible application marks:

15 years ago; three brothers; grew rapidly and made good profits; boats fully booked/half full; business made a loss; selling boat; financial information from Appendix 1; information from the graphs from Appendix 3.

There may be other examples in context which have not been included here.

Factor: Bruce will need to see if he can get all of his investment back. (1 knowledge mark)

Explanation: Bruce will need to see if he can get all of his investment back (1) because the business might not be worth as much as when he first invested his money in the business as it made a loss last year (1). For the business to pay Bruce back it will need to get cash and in order to do this it may need to sell some of its fishing or diving equipment or a boat. It may not be worth very much as it will have been used for several years (1).

Application: The application mark could be achieved as the answer considers boats, fishing and diving equipment and also making a loss last year. (1 application mark)

© University of Cambridge International Examinations 2011

(b) The brothers want to reduce the size of the business to reduce their losses. Using the information in Appendix 1, calculate the net profit per day for each of the <u>three</u> boat tours. Using these results and other information from the case, recommend which boat tour they should stop operating. Justify your answer. [12]

Content:

		Boat half full		**or Full Boat**	
Dolphin-watching	Revenue per day =	400	(L1)	**800**	**(L1)**
	Total cost per day =	500	(L2)	**700**	**(L2)**
	Net profit per day =	–100	(L2)	or **$100**	**(L2)**
Fishing	Revenue per day =	450	(L1)	**900**	**(L1)**
	Total cost per day =	525	(L2)	**750**	**(L2)**
	Net profit per day =	–75	(L2)	or **$150**	**(L2)**
Diving	Revenue per day =	600	(L1)	**1200**	**(L1)**
	Total cost per day =	600	(L2)	**900**	**(L2)**
	Net profit per day =	0	(L2)	or **$300**	**(L2)**

Fishing is used mainly by local tourists and may be going down as unemployment is rising – lower sales revenue.
Diving and dolphin-watching are used mainly by foreign tourists and their numbers are increasing – increased sales – increased revenue.
Comparison with competitors' prices – twice as expensive for dolphin-watching but only 33% more expensive for fishing and diving.
Fishing and diving require skilled staff to accompany the tours.

Level 1 E.g. The revenue for the dolphin-watching is $400 per day.

1 mark for each statement.

Level 2 E.g. The revenue = $400 (L1) and TC = $500 (L2) and net profit/loss for dolphin-watching is –$100 per day (L2).

6 marks for level 2 answer calculating TC and net profit/loss for each of the boat tours.

5 marks for the first level 2 answer, plus 1–2 marks for each additional level 2 answer. I.e. two level two answers = 6 marks; 3 level 2 answers = 7 marks; 4 level 2 answers = 8 marks. However, if the level 2 answer is very well explained then 6 marks can be awarded for the first level 2 answer. If the second level 2 answer is also very well explained then 8 marks in total can be awarded. 6 × L2 = 10 marks.

Level 3 Detailed discussion of at least three level 2 answers and then a conclusion at the end which justifies which boat tour to close.

E.g. (3 × level 2 answer) + recommendation – the dolphin-watching makes the greatest loss of –$100 and is also the least competitive on pricing as it is twice as expensive (L3), whilst fishing and diving are only 33% more expensive than the other business and so may be more able to compete (L3). Also, it doesn't require any skilled workers to be made redundant and it will be better in the future to keep the skilled employees (L3). Therefore dolphin-watching should be the tour which is stopped.

© University of Cambridge International Examinations 2011

	Application/Analysis/Evaluation
Level 3	9–12 marks 3 × Level 2 + used net profit calculations and included other information from the case to support the decision. 11–12 marks for well-justified recommendation as to which boat tour to close.
Level 2	5–8 marks Total cost and/or net profits calculated.
Level 1	1–4 marks Revenue or variable costs calculated for the tours. Stated relevant information from the case or calculations.

3 (a) Appendix 2 shows the website of one of BB Boat Tours' competitors. Identify and explain <u>four</u> ways that BB Boat Tours could make use of the Internet. [8]

Content:
E.g. to advertise their boat tours; to promote the business; to compare their prices with competitors' prices; to search for equipment to buy; online banking; email customers; customers can make a booking; customers can make a payment.

The marks available for this question are as follows: 4 marks for application, 4 marks for knowledge.

1 mark for each way identified. (4 marks max)
1 mark for applying the way to the case. (4 marks max)
1 knowledge mark for each way + 1 application mark. (2 marks × 4 ways)

Example and explanation: To communicate with customers (1 knowledge mark) they could email customers about the boat tour they have booked – the date, details of the trip, map of where to go (plus 1 application mark).

© University of Cambridge International Examinations 2011

(b) The brothers have decided to reduce the number of employees. Explain <u>three</u> factors they should consider when deciding which employees to make redundant. Which do you think is the most important factor? Justify your answer. [12]

Content:
Qualifications of the employees; how long they have worked for the business; reliability/good employee; skills relevant to the business; age/physical ability; trade union influence.

Level 1 E.g. How long the employee has worked for BB Boat Tours.

1 mark for each statement.

Level 2 E.g. How long the employee has worked for BB Boat Tours. If the employee has been with the business a long time then they will know how to run the boat tours and will be able to do several different tours. They will be familiar with all the fishing and diving equipment and will know how to look after it.

5 marks for level 2 answer plus 1 application mark for mentioning the fishing and diving equipment and boat tours.

5 marks for the first level 2 answer, plus 1–2 marks for each additional level 2 answer. I.e. two level two answers = 6 marks; 3 level 2 answers = 7 marks; 4 level 2 answers = 8 marks. However, if the level 2 answer is very well explained then 6 marks can be awarded for the first level 2 answer. If the second level 2 answer is also very well explained then 8 marks in total can be awarded. 6 × L2 = 10 marks.

Level 3 Detailed discussion of at least three level 2 answers and then a conclusion at the end which justifies the most important factor compared with the other factors.

Possible application marks:

15 years ago; boat day trips; foreign tourists; skilled local fishermen; diving instructors; food and drinks; boats fully booked/half full; business made a loss; financial information from Appendix 1; information from the graphs in Appendix 3.

There may be other examples in context which have not been included here.

	Application	Knowledge/Analysis/Evaluation
Level 3		9–10 marks 3 × level 2 + good judgement shown as to the most important factor and why it is better than the other two factors.
Level 2	2 marks Well applied to the case. At least two examples of reference to, or use of, the case.	5–8 marks Good discussion of the different factors. Limited judgement in recommendation.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, the case.	1–4 marks Factors listed or statements made about the factors.

© University of Cambridge International Examinations 2011

4 (a) BB Boat Tours made a loss last year and this worried the brothers. Identify and explain <u>two</u> reasons why converting the partnership to a private limited company might be better for Abdul, Bruce and Carlos. [8]

Content:
To gain limited liability; to make it easier to raise additional finance by selling shares; could bring in more investors and expertise; continuity.

The marks available for this question are as follows: 2 marks for knowledge, 2 marks for application and 4 marks for explanation/analysis.

1 knowledge mark + up to 2 explanation marks + 1 application mark for each reason. (4 marks × 2 reasons)

Below is an example to illustrate the difference between a simple explanation worth one additional mark and a developed explanation worth 2 additional marks. An example is also provided of where the application mark might be awarded.

Possible application marks: 15 years ago; boat day trips; foreign tourists; grew rapidly and made good profits; boats fully booked/half full; selling boat; employees redundant; information from the graphs in Appendix 3. There may be other examples in context which have not been included here.

Reason: To gain limited liability (1 knowledge mark).

Simple explanation: To gain limited liability (1) will be an advantage as, if the business owes money for the purchase of new boats or equipment, the owners will only be liable for their individual investment in the business. (1 additional mark for simple explanation)

Developed explanation: To gain limited liability (1) will be an advantage as if the business owes money for the purchase of new boats or equipment then the owners will only be liable for their individual investment in the business (1). This means that the owners will not put any of their personal possessions at risk and will not lose any of their own assets as payment for the business debts. (1 further explanation mark for a developed explanation)

Application: The application mark could be achieved as the answer refers to the purchase of new boats or equipment. (1 application mark)

© University of Cambridge International Examinations 2011

(b) BB Boat Tours will need to communicate with its employees about reducing the size of the business. Explain <u>three</u> suitable methods of internal communication the brothers could use to consult with and inform the employees about the job losses. Recommend the best communication method to use. Justify your answer. [12]

Content:
Email; telephone; notice board; poster; fax; letter; memo; meeting. (Written/verbal/visual – only credit if example given in explanation.)

Level 1 E.g. They could hold a meeting.

1 mark for each statement.

Level 2 E.g. They could hold a meeting where the owners could discuss with the employees that the business has made a loss and it needs to save money or it could go bankrupt. A meeting would allow the owners to explain any misunderstandings to the employees and they would listen to any suggestions that employees might have.

5 marks for level 2 answer plus 1 application mark for mentioning the business is making a loss.

5 marks for the first level 2 answer, plus 1–2 marks for each additional level 2 answer. I.e. two level two answers = 6 marks; 3 level 2 answers = 7 marks; 4 level 2 answers = 8 marks. However, if the level 2 answer is very well explained then 6 marks can be awarded for the first level 2 answer. If the second level 2 answer is also very well explained then 8 marks in total can be awarded. 6 × L2 = 10 marks.

Level 3 Detailed discussion of at least three level 2 answers. There will be a conclusion at the end which justifies which method of communication would be the most effective and why it is better than the other ways to communicate.

Possible application marks:

boat day trips; business made a loss; employees redundant; cheaper competitors; financial information from Appendix 1; information from the graphs in Appendix 3.

There may be other examples in context which have not been included here.

© University of Cambridge International Examinations 2011

	Application	Knowledge/Analysis/Evaluation
Level 3		9–10 marks 3 × level 2 + good judgement shown as to the best method of communication to use and why it is better than the other two methods.
Level 2	2 marks Well applied to the case. At least two examples of reference to, or use of, the case.	5–8 marks Good discussion of the advantages or disadvantages of the different communication methods. OR balanced argument (even if listed). Some judgement shown about which method should be used in the recommendation.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, the case.	1–4 marks Methods of internal communication listed or statements made about the methods.

© University of Cambridge International Examinations 2011

5 (a) The local currency has fallen in value (depreciated) against the euro. This means each unit of the local currency buys fewer euros than last year. Identify and explain <u>two</u> effects this might have on BB Boat Tours. [8]

Content:
Imported equipment is more expensive; foreign tourists will find the tours cheaper; overseas holidays dearer for domestic holiday-makers.

The marks available for this question are as follows: 2 marks for knowledge, 2 marks for application and 4 marks for explanation/analysis.

1 mark for each effect identified (2 marks max). Up to two further marks are available for explaining the effect. 2 application marks are also available.

Below is an example to illustrate the difference between a simple explanation worth one additional mark and a developed explanation worth 2 additional marks. An example is also provided of where the application mark might be awarded.

1 knowledge mark + up to 2 explanation marks + 1 application mark for each effect. (4 marks × 2 effects)

Possible application marks: boat day trips; foreign tourists; boats fully booked/half full; business made a loss; selling boat; European Union; boats and equipment; information from the graphs in Appendix 3. There may be other examples in context which have not been included here.

Simple explanation: Foreign tourists will find the boat tours appear cheaper. (1 mark for knowledge)

Developed explanation: Foreign tourists will find the boat tours appear cheaper (1) because the exchange rate has fallen. This will encourage more foreign tourists to come to the country (1) and they may go on the boat tours, which increases the sales revenue for BB Boat Tours (1).

Application: The application mark could be achieved as the answer makes reference to boat tours. (1 application mark)

© University of Cambridge International Examinations 2011

(b) Appendix 3 shows economic information about the country in which BB Boat Tours is based. Do you think the current economic situation of the country is helpful for BB Boat Tours' business? Justify your answer. [12]

Content:
Higher unemployment – less income for local people – lower demand; easier to recruit workers – less pressure to increase wages.
Rising inflation – rising costs – increased pressure on wages; increase prices – lower demand – reduced sales revenue.
Increasing number of foreign tourists – higher demand – increased sales revenue – increased net profit.
Lower interest rates – cheaper to borrow; local tourists have more money to spend – increased demand for fishing – increased sales revenue.

Level 1 E.g. Tourism is a growing market.

1 mark for each statement.

Level 2 E.g. Tourism is a growing market and therefore there is an increasing demand. The boats can be used more efficiently and will be full. This will raise revenue and should reduce losses for the boat tours.

5 marks for level 2 answer plus 1 application mark for mentioning boat tours.

5 marks for the first level 2 answer, plus 1–2 marks for each additional level 2 answer. I.e. two level two answers = 6 marks; 3 level 2 answers = 7 marks; 4 level 2 answers = 8 marks. However, if the level 2 answer is very well explained then 6 marks can be awarded for the first level 2 answer. If the second level 2 answer is also very well explained then 8 marks in total can be awarded. 6 × L2 = 10 marks.

Level 3 Detailed discussion of at least three level 2 answers. There will be a conclusion at the end which summarises the overall effect on BB Boat Tours.

Possible application marks:

boat day trips; foreign tourists; skilled local fishermen; diving instructors; boats fully booked/half full; business made a loss; euro; employees redundant; information from the graphs in Appendix 3.

There may be other examples in context which have not been included here.

	Application	Knowledge/Analysis/Evaluation
Level 3		9–10 marks 3 × Level 2 + good overall judgement made.
Level 2	2 marks Well applied to the case. At least two examples of reference to, or use of, the case.	5–8 marks Good discussion of the different pieces of economic information to the business.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, the case.	1–4 marks Outlined advantages/disadvantages of each piece of information to the business.

© University of Cambridge International Examinations 2011