UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Ordinary Level

CANDIDATE NAME

CENTRE NUMBER

CANDIDATE NUMBER

*0622652725*

**BUSINESS STUDIES** **7115/12**

Paper 1 **October/November 2012**

**1 hour 45 minutes**

Candidates answer on the Question Paper.
No Additional Materials are required.

**READ THESE INSTRUCTIONS FIRST**

Write your Centre number, candidate number and name on all the work you hand in.
Write in dark blue or black pen.
Do not use staples, paper clips, highlighters, glue or correction fluid.
DO **NOT** WRITE IN ANY BARCODES.

Answer **all** questions.
The businesses described in this question paper are entirely fictitious.

At the end of the examination, fasten all your work securely together.
The number of marks is given in brackets [ ] at the end of each question or part question.

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|---|---|
| 1 | |
| 2 | |
| 3 | |
| 4 | |
| 5 | |
| Total | |

This document consists of **11** printed pages and **1** blank page.

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**1** Kruger Enterprises manufactures a range of electrical products such as washing machines. Its best-selling product is in the decline stage of its life cycle. The management uses cost plus pricing and believes that the demand for the company's products is price inelastic. Changes in Kruger's marketing mix are being considered. The company is researching the market and plans to introduce some new products next year.

**(a)** Label on Fig. 1 the other two stages of the product life cycle.

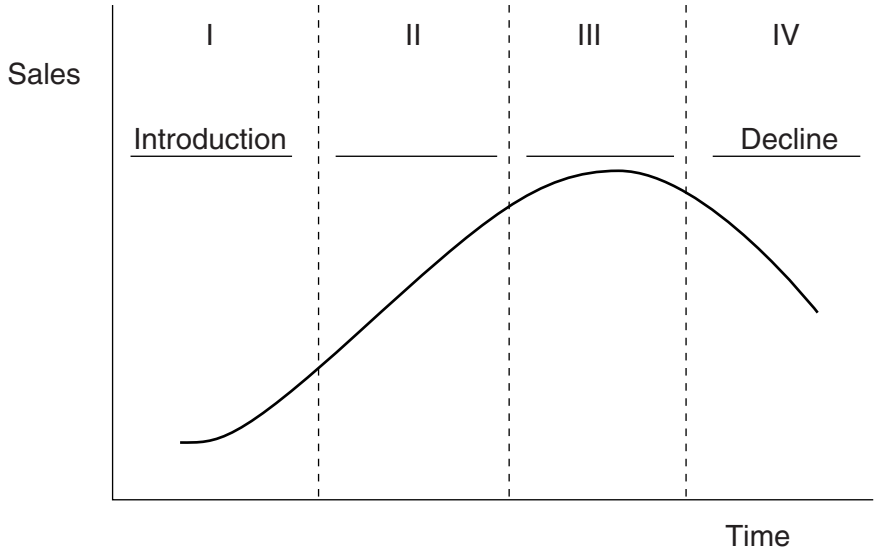



**Fig. 1: Product life cycle**

[2]

**(b)** What is meant by 'cost plus pricing'?

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.....[2]

**(c)** Identify and explain **two** possible advantages to Kruger Enterprises of researching the market.

Advantage 1: .....

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Explanation: .....

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Advantage 2: .....

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Explanation: .....

.....[4]

**(d)** Identify and explain **three** benefits to Kruger Enterprises of introducing new products.

*For Examiner's Use*

Benefit 1: .....

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Explanation: .....

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Benefit 2: .....

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Explanation: .....

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Benefit 3: .....

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Explanation: .....

.....[6]

**(e)** Do you think reducing the price of its washing machines will increase the sales turnover of Kruger Enterprises? Justify your answer.

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*For Examiner's Use*

**2** Just4U manufactures motor car parts. The production methods are capital intensive. The management believes that the company benefits from economies of scale. However, problems with the workers in the factory have led to poor quality production. Despite this, the Managing Director believes that the company must continue to grow if it is to achieve its objectives. The business is planning a takeover of a competitor.

**(a)** What is meant by 'capital intensive'?

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.....[2]

**(b)** Identify **two** objectives that a business like Just4U might have.

Objective 1: .....

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Objective 2: .....

.....[2]

**(c)** Identify and explain **two** economies of scale from which Just4U could benefit.

Economy of scale 1: .....

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Explanation: .....

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Economy of scale 2: .....

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Explanation: .....

.....[4]

**(d)** Identify and explain **two** problems that poor quality might create for Just4U.

*For Examiner's Use*

Problem 1: .....

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Explanation: .....

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Problem 2: .....

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Explanation: .....

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**(e)** Do you think that a takeover of a competitor will benefit the shareholders of Just4U? Justify your answer.

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*For Examiner's Use*

**3** Celtic Springs, a public limited company, is a water bottling business. Its shareholders have been unhappy with the performance of the business and are threatening to take action at the next Annual General Meeting (AGM). Table 1 shows an extract from the company's latest Profit/Loss Account.

**Table 1:** Celtic Springs Profit/Loss Account 2011 ($m)

| | |
|---|---|
| Sales revenue | ? |
| Cost of sales | 150 |
| Gross profit | ? |
| Overheads/expenses | 70 |
| Net profit | 10 |

The accounts of the business also show that the capital employed by Celtic Springs was $650m.

**(a)** Calculate gross profit and sales revenue in 2011.

Gross profit: .....

Sales revenue: .....[2]

**(b)** Identify **two** functions of an Annual General Meeting.

Function 1: .....

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Function 2: .....

.....[2]

**(c)** Identify and explain **two** ways Celtic Springs could reduce its cost of sales.

Way 1: .....

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Explanation: .....

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Way 2: .....

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Explanation: .....

.....[4]

**(d)** Identify and explain **three** reasons why profit is important to a company such as Celtic Springs.

*For Examiner's Use*

Reason 1: .....

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Explanation: .....

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Reason 2: .....

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Explanation: .....

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Reason 3: .....

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Explanation: .....

.....[6]

**(e)** Do you think that the shareholders of Celtic Springs are right to be unhappy with the company's performance? Justify your answer using the data provided.

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*For Examiner's Use*

**4** Colour Rack manufactures paint in country Z. It sells its products to customers both nationally and internationally. Colour Rack uses a specialist transport company to deliver its products to customers. The Colour Rack brand is well known. Many of its factory employees are unhappy at work. They are well paid but lack motivation due to the repetitive nature of their work.

**(a)** Paint manufacturing is a secondary sector business activity. Identify **two** types of business activity in the **tertiary** sector.

Type 1: .....

Type 2: .....[2]

**(b)** Identify **two** problems Colour Rack could have when exporting its paint to customers in other countries.

Problem 1: .....

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Problem 2: .....

.....[2]

**(c)** Explain how a manufacturing business adds value to its products.

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**(d)** Identify and explain **three** factors Colour Rack should consider in deciding which transport company to use to deliver its products.

*For Examiner's Use*

Factor 1: .....

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Explanation: .....

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Factor 2: .....

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Explanation: .....

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Factor 3: .....

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Explanation: .....

.....[6]

**(e)** Recommend **two** strategies for improving the motivation of Colour Rack's factory employees. Justify your answer.

Strategy 1: .....

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Strategy 2: .....

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*For Examiner's Use*

**5** Country W has a mixed economy. Herio is a Government economist. He said: 'Business activity in the private sector can lead to external costs, such as pollution. It can also create external benefits. I believe that businesses that create external benefits should be encouraged and those that create external costs should be closed down.' Country W has low economic growth and rising inflation.

**(a)** What is meant by 'the private sector'?

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**(b)** What is meant by 'rising inflation'?

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**(c)** Most businesses set objectives. Identify and explain **two** reasons why having objectives may be important for a business.

Reason 1: .....

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Explanation: .....

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Reason 2: .....

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Explanation: .....

.....[4]

**(d)** Identify **three** external benefits and explain how business activity can create each benefit.

*For Examiner's Use*

Benefit 1: .....

Explanation of how benefit is created: .....

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Benefit 2: .....

Explanation of how benefit is created: .....

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Benefit 3: .....

Explanation of how benefit is created: .....

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**(e)** Herio believes businesses that create external costs should be closed down. Do you agree with him? Justify your answer.

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