CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Ordinary Level

MARK SCHEME for the October/November 2013 series

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 should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

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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 and the senior examiners should be consulted if further guidance is required.

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.

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1 (a) Identify and explain <u>one</u> advantage and <u>one</u> disadvantage to Cagan of his business being a private limited company. [8]

Content:

Advantage

- more capital from shareholders
- limited liability
- continuity

Disadvantage

- sale of shares restricted to family and friends
- accounts not private any more
- more legal requirements

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

1 knowledge mark + up to 2 explanation marks + 1 application mark for each advantage/disadvantage. (4 marks × 1 advantage and 4 marks × 1 disadvantage)

Possible application marks: shop; cloth; wholesaler; blinds; curtains; windows; shop; expansion of the business; new market on the Internet; financial information from Appendix 1.

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

Simple explanation: Limited liability (1 mark for knowledge)

Developed explanation: Limited liability (1) means that if the business owes the wholesaler money for the purchase of cloth and the business goes bankrupt then the shareholders cannot have their personal possessions taken off them to pay the debt (1) and they would only lose the money they invested into the business. (1)

Application: The application mark could be achieved as the answer makes reference to wholesaler and cloth. (1 application mark)

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(b) Cagan buys cloth from a local wholesaler but he could buy directly from foreign manufacturers. Consider the advantages and disadvantages of buying from each of these two sources of supply. Recommend which source of supply you think Cagan should choose. Justify your answer. [12]

Content:

	Advantage	Disadvantage
Local wholesaler	• sells in small quantities • advice • credit • delivery available/ faster delivery	• may be more expensive than manufacturer
Foreign manufacturers	• maybe cheaper as cut out wholesaler profit margin • more variety • better quality	• exchange rate changes affects price of imports • less reliable delivery • storage space required • tariffs and quotas • damage to stock

Level 1 – 1 mark for each statement
E.g. The wholesaler buys in bulk from the manufacturer and sells in small quantities to Cagan (1 mark)

Level 2 – 5 marks for the first level 2 answer and then one extra mark for each additional level 2 answer up to a maximum of 8 marks.
E.g. The wholesaler buys in bulk from the manufacturer and sells in small quantities to Cagan. This means that Cagan doesn't need to have a lot of storage space in the shop which is cheaper for him and it doesn't tie up a lot of cash in stock. 5 marks for level 2 answer plus 1 application mark for mentioning the shop.

Level 3 – Detailed discussion of two × level 2 answers and then a recommendation at the end which justifies which is the best option to choose and why the other option is less suitable.

Possible application marks: shop; fabric; blinds; high/low quality cloth; private limited company; curtains; windows; new market on the Internet; financial information from Appendix 1.

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

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	Application	Knowledge/Analysis/Evaluation
Level 3		9–10 marks Two × Level 2 + well justified recommendation as to the best option to choose compared to the other option.
Level 2	2 marks Well applied to the case. At least two examples of references to, or uses of, the case.	5–8 marks Good discussion of advantages/disadvantages of each option OR balanced argument (even if listed). Limited judgement in recommendation about which option to choose. **Do not reward mirror image answers.**
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, the case.	1–4 marks Advantages or disadvantages of each option listed.

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2 (a) Cagan uses an accountant and a website designer to help him with his business. Explain how each of these people help Cagan's business. [8]

Content:

Accountant

- produce final accounts
- less likely to make mistakes than Cagan
- legal requirement
- Cagan has a lack of knowledge/skills
- Can produce financial forecasts
- Can provide advice to Cagan

Web designer

- more professional website
- more attractive website
- more sales as a result of effective website
- Cagan has a lack of knowledge/skills

1 mark for reason to use the accountant/web designer identified (2 marks max). Up to two further marks are available for explaining the reason to use the accountant/web designer.
2 application marks are also available.

1 knowledge mark + up to 2 explanation marks + 1 application mark for accountant/web designer. (4 marks × accountant and 4 marks × web designer)

NB: A candidate who lists only functions of accountant/website without reference to how this helps Cagan/business, can gain a maximum of 2 marks for each section plus application.

Possible application marks: shop; cloth; fabric; blinds; private limited company; curtains; windows; new market on the Internet; employee information from Appendix 3; financial information from Appendix 1.

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

Simple explanation: Cagan doesn't know how to design a website. (1 mark for knowledge)

Developed explanation: Cagan doesn't know how to design a website (1) so he pays a web designer to design a website for the business (1) this will allow Cagan to sell cloth on the internet and also give information to customers about his products and the shop location and so increase sales. (1)

Application: The application mark could be achieved as the answer makes reference to the shop location and cloth. (1 application mark)

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(b) Cagan has decided on Option 2. Do you think he was right to choose Option 2 and not Option 1? Justify your answer by considering the advantages and disadvantages of each option. [12]

Content: Option 1 Cost = $3600 (L2) $3200 (L1 – as not 5 workers)
Profit = $400 (L2) $800 (L2)
Already experienced in this business; no competition; further growth not expected

Option 2 Cost = $5550 (L2) $4200 (L1 – as not 10 workers)
Profit = $250 (L2) $1600 (L2)
Potential growth in sales; new market; risk of exchange rate changes

NB: If correct profit figure only shown with no calculations award 2 × L2. Reward other correct appropriate calculations at L2.

Level 1 – 1 mark for each statement
E.g. Cagan is already experienced in this business (1 mark)

Level 2 – 5 marks for the first level 2 answer and then one extra mark for each additional level 2 answer up to a maximum of 10 marks.
E.g. The costs for option 1 are £3600 (L2) and the sales are predicted to be $4000 per month giving a net profit of $400 per month. (L2) 6 marks for two level 2 answers.

Level 3 – Detailed discussion of four × Level 2 answers and then a conclusion at the end which justifies which is the best option to choose and why the other option was less suitable.

	Knowledge/Application/Analysis/Evaluation
Level 3	11–12 marks Four × Level 2 + well justified conclusion as to the best option to use compared to the other option.
Level 2	5–10 marks Good discussion of advantages/disadvantages OR balanced argument of each option and/or total costs and net profit calculated for each option. Limited judgement in conclusion about which option to choose.
Level 1	1–4 marks Advantages or disadvantages of each option listed.

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3 (a) Identify and explain <u>four</u> suitable sources of finance that Cagan could use to buy equipment for making curtains. [8]

- bank loan
- sell shares to family and friends
- loan off family or friends
- retained profit
- HP
- lease

1 mark for each source of finance identified (4 marks max). Up to one further mark is available for explaining the source of finance to the purchase of machinery.

1 knowledge mark + 1 explanation mark (2 marks × 4 sources of finance)

NB Do not reward short-term sources of finance

E.g. Bank loan (1) as a large amount of money will be needed to buy the equipment and it can be paid back over several years. (1)

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(b) Cagan needs to choose a method of production for his factory. Consider the advantages and disadvantages of job, batch and flow production. Recommend which would be the best method to use in this factory. Justify your answer. [12]

Content:

	Advantages	Disadvantages
Job	• individual customer wants satisfied • motivating for workers	• more expensive • increased training costs
Batch	• more flexible • more varied jobs for workers	• equipment not fully utilised
Flow	• low unit costs • more efficient	• standardised product • demotivating for workers • machinery breakdown halts production

Level 1 – 1 mark for each statement
E.g. Job production means consumer wants are fully met (1 mark)

Level 2 – 5 marks for the first level 2 answer and then one extra mark for each additional level 2 answer up to a maximum of 8 marks.
E.g. Job production means consumer wants are fully met. This is because the exact measurements for the curtains are followed and the product will fit the windows perfectly. Each set of curtains will be exactly what they require. However, this will be more costly than producing a standard set of curtains and they will take longer to manufacture. 5 marks for balanced level 2 answer plus 1 application mark for mentioning windows and curtains.

Level 3 – Detailed discussion of two × level 2 answers and then a recommendation at the end which justifies which is the best method to choose and why the other methods are less suitable.

Possible application marks: shop; cloth; fabric; wholesaler; blinds; private limited company; curtains; windows; factory manager/factory worker; new market on the Internet.

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

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	Application	Knowledge/Analysis/Evaluation
Level 3		9–10 marks Two × Level 2 + well justified recommendation as to the best method of production to use compared to the alternative methods.
Level 2	2 marks Well applied to the case. At least two examples of references to, or uses of, the case.	5–8 marks Good discussion of advantages/disadvantages of each method of production OR balanced argument (even if listed). Limited judgement in recommendation about which option to choose.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, the case.	1–4 marks Advantages or disadvantages of each method of production listed.

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4 (a) Cagan is going to use market research to find out what type of curtains to make. Identify <u>two</u> items of information Cagan might want to find out. Explain why each of these items of information might be useful. [8]

Content:

- price
- consumer characteristics
- competition
- trends/fashion
- level of demand

1 mark for each item of information identified (2 marks max). Up to two further marks are available for explaining why the information would be useful. 2 application marks are also available.

1 knowledge mark + up to 2 explanation marks + 1 application mark for each item of information. (4 marks × 2 items of information)

Possible application marks: shop; cloth; wholesaler; blinds; fabric; windows; new market on the Internet; factory; made to exact requirements of customer.

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

Simple explanation: The price customers are willing to pay. (1 mark for knowledge)

Developed explanation: The price customers are willing to pay (1) so that Cagan will know how much to charge customers for different quality of curtains (1). If Cagan charges too low a price for high quality fabric then there may be fewer sales if customers think the curtains are not high quality. (1)

Application: The application mark could be achieved as the answer makes reference to curtains made from high quality fabric. (1 application mark)

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(b) Appendix 2 has <u>four</u> items of information requested on Cagan's application form for recruiting a manager. Explain <u>why</u> each item of information is important to Cagan in selecting the most suitable applicant. [12]

Content:
Qualifications – to show if the applicant has the qualifications necessary to carry out the job
Experience – sufficient experience to do the job efficiently without training
Previous employers – to know which businesses they had worked for before; to know if worked for competitors
Interests/hobbies – see what sort of person they are

Level 1 – 1 mark for each statement
E.g. – To show if the applicant has the qualifications necessary to carry out the job (1 mark)

Level 2 – 5 marks for the first level 2 answer and then one extra mark for each additional level 2 answer up to a maximum of 10 marks.
E.g. – To show if the applicant has the qualifications necessary to carry out the job otherwise they may need training to be able to carry out the ordering of cloth and this will increase costs. If they have appropriate qualifications then they may be able to carry out the job straight away and also be more efficient. 5 marks for level 2 answer plus 1 application mark for mentioning cloth.

Possible application marks: shop; cloth; fabric; blinds; curtains; windows; shop manager/shop worker; factory manager/factory worker; new market on the Internet.

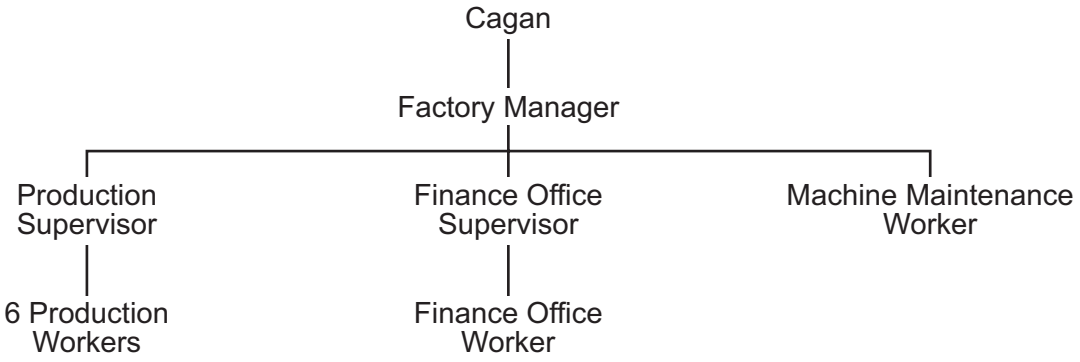
There may be other examples in context which have not been included here.

	Application	Knowledge/Analysis/Evaluation
Level 2	2 marks Well applied to the case. At least two examples of references to, or uses of, the case.	5–10 marks Good discussion of what each item of information shows about the applicant. Justification of why each item of information is important in selecting the best applicant.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, the case.	1–4 marks Suitable items of information listed.

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5 (a) (i) Using the information in Appendix 3, complete the organisation chart shown below for the factory. [4]

Content:



The marks available for this question are as follows:

4 marks for organisation chart if all correct.
3 marks if five correct positions
2 marks if four correct positions
1 mark if three correct positions
0 marks if two or less correct positions

(ii) Use the organisation chart to explain the term 'span of control'. [4]

4 marks for explanation/analysis of span of control of the workers.

E.g. The span of control is the number of subordinates working directly under a manager. (1) The factory manager is in charge of the whole factory and has a span of control of 3 people. (1) The production supervisor has a wide span of control of 6 production workers (1) and the finance office supervisor only has a narrow span of control with 1 worker below them. (1)

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(b) Consider how each of the following changes might affect the future demand for Cagan's curtains. Which factor do you think will be the most important? Justify your answer. [12]

Content:
Price of Cagan's raw materials increases – increased costs – high price – lower sales

Price of competitors' products decreases – price of blinds/curtains falls – then fall in demand for CC curtains

Unemployment falls – income levels increases – leading to an increase in sales

Level 1 – 1 mark for each statement
E.g. Higher cost of raw materials leads to higher prices (1 mark)

Level 2 – 5 marks for the first level 2 answer and then one extra mark for each additional level 2 answer up to a maximum of 8 marks.
E.g. Higher cost of raw materials leads to higher prices and possibly lower sales and lower profits. However the extent of the change in demand will depend on the price elasticity of demand. As curtains have a close substitute such as blinds, then demand will be elastic. This will mean that if price is raised then sales will fall by a larger percentage change than the price change. 6 marks for good level 2 answer plus 1 application mark for mentioning blinds.

Level 3 – Detailed discussion of two × level 2 answers and then a conclusion at the end which justifies which is the most important factor and why the other factors are less important.

Possible application marks: shop; cloth; fabrics; wholesaler; blinds; windows; shop manager/shop worker; factory manager/factory worker; new market on the Internet; high quality curtains; CC sales have been growing quickly.

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

	Application	Knowledge/Analysis/Evaluation
Level 3		9–10 marks Two × Level 2 + well justified conclusion as to the most important factor compared to the other factors.
Level 2	2 marks Well applied to the case. At least two examples of references to, or uses of, the case.	5–8 marks Good discussion of effect on future demand. Limited judgement in conclusion about which factor is the most important.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, the case.	1–4 marks Each effect on future demand listed.

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