CAMBRIDGE INTERNATIONAL EXAMINATIONS

Cambridge Ordinary Level

MARK SCHEME for the October/November 2014 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.

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General Marking Guidance

- Marking should be positive: marks should not be subtracted for errors or inaccuracies.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.
- Errors that are carried forward (e.g. when an incorrect numerical answer to one part of a question is used as the starting point for a calculation in the next part of the question) should not be compounded – use the 'own figure rule'.
- Poor spelling, handwriting or grammar should not be penalised as long as the answer makes sense.
- Answers that are not written on the answer lines should be marked.
- Scoris annotations for part (b) questions are – 'L1', 'L2' and 'L3' should be used to indicate the level being awarded to a response. 'App' should be used to indicate where the application marks are being awarded. Annotations for part (a) questions should be green ticks to indicate where credit is being given and 'App' to indicate application marks.
- A blank space, dash, question mark and a response that bears no relation to the question constitutes a 'no response'.

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 **two** advantages to ACE of being a public limited company. **[8]**

Content:
- Limited liability
- Access to more sources of capital
- Sell shares to the public
- Continuity
- Separate legal identity.

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

1 mark for each advantage identified plus 2 explanation marks and 1 application mark. (4 marks × 2 advantages)

Advantage: Limited liability (1 knowledge mark).

Explanation: Limited liability (1) means the shareholders cannot lose any of their personal belongings only the capital invested in the business (1). This will encourage people to become shareholders in ACE as sales revenue is increasing indicating that the business is successful (1).

Application: Plus 1 application mark because the answer is in the context of increasing sales revenue for this business.

Possible application marks: ovens; financial information from Appendix 1; 200 production workers; purchase production machinery; want to be efficient to remain competitive; export products to different countries; sales revenue increasing; profit increasing.

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

(b) The directors of ACE want to introduce lean production. Consider the advantages and disadvantages of **two** methods of lean production the directors of ACE could use. Recommend which would be the best method to use. Justify your answer. **[12]**

Content:
- Just-in-time
- Kaizen
- Waste reduction
- Kanban
- Cell production.

Level 1: 1 mark for each statement, e.g. the directors could introduce just-in-time methods into the manufacturing of ovens. (1 mark)

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Level 2: 5 marks for the first level 2 answer and then one extra mark for each additional level 2 answer, up to maximum of 8 marks, e.g. the directors could introduce just-in-time methods into the manufacturing of ovens. This would mean that ACE would not hold stocks of electrical components or rubber components. The stock would be ordered and arrive at the production line just as it is required to manufacture the ovens. This will reduce storage space required and save costs.
5 marks for level 2 answer plus 1 application mark for answering in the context of the manufacturing of ovens.

Level 3: Detailed discussion of at least two level 2 answers and then a recommendation at the end which justifies which is the best method compared to the other method.

Possible application marks: ovens; components; rubber seals; electrical components; metal components; financial information from Appendix 1; restaurants and hotels; 200 production workers; low motivation and unhappy workers; can be dismissed if do not follow orders.

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

	Application	Knowledge/Analysis/Evaluation
Level 3		9–10 marks At least 2 × Level 2 + Well justified recommendation as to which is the best method compared to the other method.
Level 2	2 marks Well applied to case. At least two examples of reference to, or use of, the case.	5–8 marks Good discussion of each method to introduce lean production OR explained balanced argument. Some limited judgement shown in recommendation about which is the best method.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, case.	1–4 marks Name of each method to introduce lean production. Outline of each method to introduce lean production.

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2 (a) Identify and explain **one** advantage and **one** disadvantage to ACE of all of its employees being members of a trade union. **[8]**

Advantage:
- Easier to negotiate with employees
- Negotiation over wages takes less time.

Disadvantage:
- Strength in numbers may lead to more disputes
- Easier to organise industrial action
- Industrial action may lead to a poor reputation for the business
- Higher costs if wages increase.

N.B. these must be advantages/disadvantages to the business and NOT to just employees.

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

1 mark for each advantage/disadvantage identified plus 2 explanation marks and 1 application mark. (4 marks × advantage/disadvantage)

Advantage: Easier to negotiate with employees (1 mark for knowledge).

Explanation: Easier to negotiate with employees (1) because all the 200 production workers are in a trade union and so there is only one representative to negotiate with (2). This will take less time for ACE to negotiate wage rates as otherwise it might need to discuss pay with many of the 200 production workers (3).

Application: Plus 1 application mark because the answer refers to the 200 production workers.

Possible application marks: ovens; 200 production workers; 50 office workers; want to be efficient to remain competitive; export products to different countries; sales revenue increasing; profit increasing; poor motivation; high proportion of workers leave each year; autocratic leadership style; HR department.

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

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(b) Consider the advantages and disadvantages of **two** management styles which could be used by managers at ACE. Recommend which would be the best style for the managers to use if they want to improve motivation. Justify your answer. **[12]**

Content:
- Democratic
- Autocratic
- Laissez-faire.

Level 1: 1 mark for each statement, e.g. the managers could use a democratic management style. (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 maximum of 8 marks, e.g. the managers could use a democratic management style which would make employees feel more involved in decision making and therefore increase worker motivation. Production workers who make the ovens could be asked for their views on how the ovens are manufactured, but this takes time to carry out.
5 marks for level 2 answer plus one application mark for including reference to manufacturing ovens in the answer.

Level 3: Detailed discussion of at least two level 2 answers and then a recommendation at the end which justifies which management style should be used rather than the other style.

Possible application marks: ovens; 200 production workers; low motivation and unhappy workers; high proportion of workers leave each year; currently using autocratic leadership style; HR department; meetings of directors to discuss managing employees; trade union membership; not follow instructions may be dismissed.
There may be other examples in context which have not been included here.

	Application	Knowledge/Analysis/ Evaluation
Level 3		9–10 marks At least 2 × Level 2 + Well justified recommendation as to which management style should be used rather than the other styles.
Level 2	2 marks Well applied to case. At least two examples of reference to, or use of, the case.	5–8 marks Good discussion of advantages/disadvantages of each management style OR explained balanced argument. Some limited judgement shown in recommendation about which management style should be used.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, case.	1–4 marks Name of each management style. Outline of advantages/disadvantages of each management style.

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3 (a) Identify and explain **two** suitable pricing strategies ACE could use when selling its products in new markets in other countries. **[8]**

Content:
- Cost-plus
- Competitive
- Promotional
- Penetration
- Skimming
- Psychological.

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 pricing strategy identified – a further mark for effect on price – plus 1 mark for further development or explanation of the strategy – plus 1 mark for application.

Possible application marks: ovens; components; restaurants and hotels; new markets in country X.
There may be other examples in context which have not been included here.

1 knowledge mark + up to 2 explanation marks + 1 application mark for each pricing strategy. (4 marks × 2 pricing strategies)

Pricing strategy: ACE could use a competitive pricing strategy (1 mark for knowledge).

Developed Explanation: ACE could use a competitive pricing strategy (1). It is selling its ovens to many different countries where there will be competitors (2). In order to ensure its ovens sell well the price must be similar to its competitors' prices or it will not sell many ovens unless its oven are much better quality (3).

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

(b) ACE needs to communicate with a foreign supplier because there is a problem with the delivery of electrical components. Consider the advantages and disadvantages of **three** methods of communicating with the foreign supplier. Recommend which method should be used. Justify your answer. **[12]**

Content:
- Email
- Telephone
- Letter
- Text/SMS
- Video conferencing
- Meetings
- Fax.

Level 1: 1 mark for each statement, e.g. the purchasing manager could use email to inform suppliers about the problem with the delivery of electrical components (1 mark).

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Level 2: 5 marks for the first level 2 answer and then 1 extra mark for each additional level 2 answer up to maximum of 8 marks, e.g. the purchasing manager could use email to inform suppliers about the problem with the delivery of electrical components. Email is quick and cheap to use and can be easily sent out to businesses located in other countries. However, the email may not be read straight away and so the message may not get through to supplier quickly enough to stop a delay in the production of ovens and it will be difficult to know if the message has been read. 5 marks for level 2 answer plus 1 application mark for including reference to a delay in the production of ovens in the answer.

Level 3: Detailed discussion of at least two level 2 answers and then a recommendation at the end which justifies which is the best method of communication to choose compared to the other forms of communication.

Possible application marks: ovens; restaurants and hotels; 200 production workers; plc/large company; country Z.
There may be other examples in context which have not been included here.

	Application	Knowledge/Analysis/Evaluation
Level 3		9–10 marks At least 2 × Level 2 + Well justified recommendation as to the best method of communication to choose compared to the other methods of communication.
Level 2	2 marks Well applied to case. At least two examples of reference to, or use of, the case.	5–8 marks Good discussion of advantages/disadvantages of each method of communication OR explained balanced argument. Some limited judgement shown in recommendation about the best method of communication to choose.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, case.	1–4 marks Outline of advantages/disadvantages of each method of communication.

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4 (a) Identify **four** stakeholder groups of ACE and explain why each group will be interested in the published accounts. **[8]**

Content:

- Shareholders/owners
- Workers
- Managers
- Customers
- Suppliers
- Local community
- Bank
- Director
- Government
- Competitors
- Pressure Groups.

The marks available for this question are as follows: 4 marks for knowledge; 4 marks for application/explanation.

1 mark for each stakeholder group identified plus 1 explanation mark for why each stakeholder group will be interested in the published accounts (2 marks × 4 stakeholders).

Stakeholder: Shareholders (1 knowledge mark).

Explanation: Shareholders (1) will want to see if ACE has made high net profit as they will want to be paid a dividend (1 explanation mark).

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(b) Refer to Appendix 1. Consider the profitability of ACE by calculating the profitability ratios for 2013. Do you think the directors of ACE should be pleased with the profitability of the company? Justify your answer. **[12]**

Content:	2013
Gross profit margin	80% (L2)
Net profit margin	16% (L2)
ROCE	33.3% (L2)

Level 1: 1 mark for each statement e.g. the net profit increased by $20 m from $20 m to $40 m (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 maximum of 8 marks, e.g. the gross profit margin in 2013 is 80% and the net profit margin is 16%.
6 marks for two level 2 answers.

Level 3: At least three level 2 calculations included and then a recommendation at the end which justifies whether ACE has an improving financial position or not.

	Knowledge/Application/Analysis/Evaluation
Level 3	9–12 marks 3 correct ratios calculated + limited conclusion of the results (9 marks). 3 correct ratios calculated + well justified conclusion as to whether ACE should be pleased or not (10–12 marks).
Level 2	5–8 marks Correct calculation of gross profit margin, net profit margin or ROCE Analysis of the ratios calculated.
Level 1	1–4 marks Limited discussion of the financial position of ACE with no correct ratio calculations. Listing of difference in the figures between the two years.

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5 (a) Refer to Appendix 2.

(i) Identify and explain **one** effect on businesses in Country Z of changes in the agricultural sector. **[4]**

(ii) Identify and explain **one** effect on businesses in Country Z of changes in the secondary sector. **[4]**

Content:

(i)
- More labour available for other sectors
- Less agricultural output and other raw materials e.g. rubber
- More import of food products
- Rising food prices
- Increased demand for higher wages due to rising food prices.

(ii)
- More manufacturing output
- Wages rising in secondary sector jobs
- Increased customers from restaurants or hotels
- More domestic products available
- Increased exports.

The marks available for this question are as follows: 2 marks for knowledge and 6 marks for explanation/analysis.

1 mark for each effect identified – 1 mark for recognising the change in the figures – Up to 2 further marks are available for explaining the effect on businesses in Country Z.

1 knowledge mark + up to 3 explanation marks (4 marks × 2)

Effect: More labour available for other sectors (1 mark for knowledge).

Developed explanation: More labour available for other sectors (1) because workers leave the farms and move to the cities in search of work (2). ACE could find it easier to recruit workers to work in its factory making ovens (3). Output and exports of manufactured products are likely to increase in Country Z (4).

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(b) Consider how the following changes might affect ACE as it starts to export its products to another country (called country X). How important do you think each of these changes will be to ACE? Justify your answer. **[12]**

Content: *Unemployment rises in country X* – demand lowers in overseas market as incomes fall – sales revenue falls.

Subsidies introduced for domestic businesses in country X – prices of domestically produced ovens reduce – may be more competitive with imported ovens – decrease sales revenue. Accept – recognising subsidies could be for restaurants, therefore increased demand for ovens. Also accept relocation to country X for ACE to benefit from subsidies.

Country X's currency depreciates– imports become more expensive – ACE find it more difficult to sell their ovens – sales reduce as less competitive – unless ACE sell higher quality ovens or have no domestic competitors.

Level 1: 1 mark for each statement e.g. ACE will sell fewer ovens as they are less competitive (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 maximum of 10 marks e.g. the price of ACE ovens increases due to the exchange rate depreciation in country X and so ACE products will be less competitive against domestically produced ovens. (L2) This will mean that sales of ACE ovens will fall and so will profits. This is assuming there are domestically produced ovens otherwise it may not be that important to ACE (L2).
6 marks for 2 × level 2 answers plus one application mark for answering in the context of making ovens.

Possible application marks: ovens; components; rubber seals; electrical components; restaurants and hotels; financial information in Appendix 1; country Z.
There may be other examples in context which have not been included here.

	Application	Knowledge/Analysis/Evaluation
Level 2	2 marks Well applied to case. At least two examples of reference to, or use of, the case.	5–10 marks Good discussion of the effect of each of the changes (1 × L2 can be awarded for each change if not directly referring to the effect on ACE). Good discussion of the effect on ACE of each of the changes. (1 or 2 × L2 can be awarded for each change directly referring to the effect(s) on ACE). Judgement of how important each change is to ACE when increasing its exports.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, case.	1–4 marks Effects of each of the changes listed.

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