CAMBRIDGE INTERNATIONAL EXAMINATIONS

Cambridge Ordinary Level

MARK SCHEME for the October/November 2015 series

7115 BUSINESS STUDIES

7115/21 Paper 2 (Case Study), maximum raw mark 80

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1 (a) Identify and explain <u>one</u> advantage and <u>one</u> disadvantage to CC of being a public limited company. [8]

Knowledge (2× 1) – award one mark for each advantage/disadvantage identified
Analysis (2 × 1) – award one mark for an explanation of each advantage/disadvantage
Application (2 × 2) – award two application marks for each advantage/disadvantage

Award one mark for each advantage/disadvantage (maximum of two), such as:

Advantages:
- Raise large amounts of capital through share issue
- No limit to the number of shares sold
- Shares can be sold to the public
- Shares can be sold on the stock exchange
- Limited liability
- Company has separate legal identify for shareholders
- Continuity of company if shareholder dies

Disadvantages:
- Accounts are published
- Risk of takeover
- Divorce between ownership and control
- Loss of control as increased number of shareholders

Award a maximum of three additional marks for **each** advantage/disadvantage – **2 of which must be applied to this context**.

Indicative response:

Shares can be sold on the stock exchange (k) and this means that CC can raise large amounts of capital to finance the building of new factories in other countries (ap). CC will not have to pay interest on this source of finance and so costs of producing camping equipment are lower (ap) as only dividends may be paid when profits are gained (an).

Possible application marks: recognition that the plc is large; business wants to expand; manufactures camping equipment; customers have tents or caravans; merging with a competitor; three factories; capital intensive method of production; camping cooker; prices just below competitors prices; CC share price; takeover; equipment listed from Appendix 1.

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

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(b) CC needs to communicate a new health and safety regulation to its factory workers. Consider the advantages and disadvantages of each of the following <u>three</u> ways CC could use. Recommend the most effective way to use. Justify your answer. [12]

Relevant points might include:

	Advantages	Disadvantages
Posters on factory noticeboards	Easily seen by factory workers Cheap to produce Placed in relevant position Remains visible for long period of time	Not seen by other employees May not be noticed Easily removed/damaged Not know whether or not poster has been read
CC website	Seen by a large number of people – all employees Visual images enhances the message Cost to set up (can be argued as a disadvantage)	Only seen if employee accesses the website May not have access to Internet
Text (mobile phone) message to factory workers	Directly reaches worker Send it to multiple people at once	May not be noticed Phone switched off May not own a phone Can be expensive to send out text messages Too easily deleted Communication delays/network errors

Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.

	Knowledge/Analysis/Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified recommendation as to the most effective method of communication to use. 7–8 marks for some limited judgement shown in recommendation as to the most effective method of communication to use.
Level 2	4–6 marks Detailed discussion of advantages and/or disadvantages of each communication method.
Level 1	1–3 marks Outline of advantages and/or disadvantages of each communication method.

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Level 1 1 mark for each L1 statement (max of 3 marks) e.g. Posters seen by target workers as they will be in the factory and pass by the noticeboard.

Level 2 one L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. Posters seen by target workers as they will be in the factory and pass by the noticeboard. This is a cost effective method to use as the posters will be cheap to produce. However, it will only be seen by factory workers who pass by those particular noticeboards and there may be many workers who are not working near or walk past these noticeboards and will not see the poster. (4 marks for L2 answer).

Level 3 for L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation which justifies the most effective method to use.

Award up to 2 additional marks for relevant application.

Possible application marks: in country X; manufactures camping equipment; three factories; 100 skilled workers in each factory; many machines in factory; not allowed trade union membership; public limited company; equipment listed from Appendix 1.
There may be other examples in context which have not been included here.

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2 (a) CC's Marketing manager wants to carry out market research. Identify and explain <u>two factors</u> which could influence the accuracy of the market research data. [8]

Knowledge [2 × 1] – award one mark for each relevant factor
Analysis [2 × 1] – award one mark for a relevant explanation for each factor
Application [2 × 2] – award two application marks for each factor

Award one mark for each relevant factor (maximum of two), such as:

- Ensuring the information is up-to-date
- Ensuring a suitable size of sample is selected
- Ensuring a suitable sample method is used/aimed at target market
- Ensure the questions on a questionnaire are well phrased
- Check who carried out the research
- Check where the research was carried out
- Check if there was any bias/dishonesty
- Method of market research used

Award a maximum of three additional marks for **each** explanation – **2 of which must be applied to this context** – of how it can be ensured that the information is accurate.

Indicative response:

To ensure the information is up-to-date [k] because if the market research had been carried out a few years earlier then customer camping habits may have changed [an]. The Marketing manager needs to ensure that the information has been carried out recently so it reflects current camping habits (ap) and then CC will know whether the current customers are happy with its camping equipment (ap).

Possible application marks: in country X; manufactures camping equipment; customers have tents or caravans; country Z; camping shops; camping cooker; prices just below competitors prices; equipment listed from Appendix 1; Appendix 2 information such as price of cooker = $40 or variable cost per cooker = £20. There may be other examples in context which have not been included here.

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(b) CC's bestselling product is a good quality camping cooker which is similar to those produced by competitors. Explain how each of the following <u>three</u> elements of the marketing mix could be used to market CC's camping cooker. Justify why each element is important to the success of this product. [12]

Relevant points might include:

Price	Competitive pricing as they have several competitors Need to make sure costs are covered – cost plus pricing Psychological pricing – e.g. $39.99 Penetration pricing – to enter new market
Promotion	Posters on campsite noticeboards Discount vouchers in specialist camping magazines Advertise on holiday company websites Examples of promotional offers e.g. buy camping cooker and get another item free
Place	CC equipment is sold through camping shops Could be sold direct to customers through the website Sell through other outlets as well as camping shops Open new stores near camping sites/activity centres

Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.

	Knowledge/Analysis/Evaluation
Level 2	4–10 marks Detailed discussion of each of the elements of the marketing mix. Developed reasoning for the course of action suggested Justification of why the description of the element of the marketing mix will lead to successful sales of the camping cooker.
Level 1	1–3 marks Outline the elements of the marketing mix.

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Level 1 1 mark for each L1 statement (max of 3 marks) e.g. Competitive pricing

Level 2 one L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 10 marks) e.g. Competitive pricing needs to be used with the marketing of the camping cooker as there are many competitors and so CC cannot have very different prices to the other cookers. (4 marks for L2 answer).

Award up to 2 additional marks for relevant application.

NB – do not reward Cooker as an application mark as it is mentioned in the question.

Possible application marks: in country X; loyal customers, need to maintain our competitiveness; manufactures camping equipment; customers have tents or caravans; selling into country Z; camping shops; prices just below competitors prices; equipment listed from Appendix 1; Appendix 2 information such as price of cooker = $40 or variable cost per cooker = £20.
There may be other examples in context which have not been included here.

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3 (a) Identify and explain <u>two</u> benefits to CC workers of joining a trade union. [8]

Knowledge [2 × 1] – award one mark for each relevant benefit
Analysis [2 × 1] – award one mark for a relevant explanation for each benefit
Application [2 × 2] – award two application marks for each benefit

Award one mark for each relevant benefit (maximum of two), such as:

- Gives strength in numbers/collective bargaining so more likely to achieve demands
- Provides services such as insurance
- Improved pay
- Improved working conditions/health and safety
- Representation in grievances
- Represents the views of the workers
- Advice can be given if the worker has problems
- Legal support if the worker has problems
- Access to training/education
- Social activities/clubs
- Unions membership benefits e.g. discounts

Award a maximum of three additional marks for **each** explanation of the benefits – **2 of which must be applied to this context**.

Indicative response:

Being a member of a trade union gives strength in numbers so workers are more likely to achieve their demands [k] rather than if one worker tries to achieve the demands on their own (an). At the moment CC does not allow a worker to be a member of a trade union (ap). Production workers are only paid low wages and they may want to be members of a trade union in order to gain a pay rise (ap).

Possible application marks: paid lower wages than wages paid to workers in similar businesses; part-time workers; use machinery in the factory; in country X; manufactures camping equipment; merging with a competitor; three factories; 100 skilled workers in each factory; capital intensive method of production; not allowed trade union membership; country Z; camping cooker; public limited company; takeover; equipment listed from Appendix 1.
There may be other examples in context which have not been included here.

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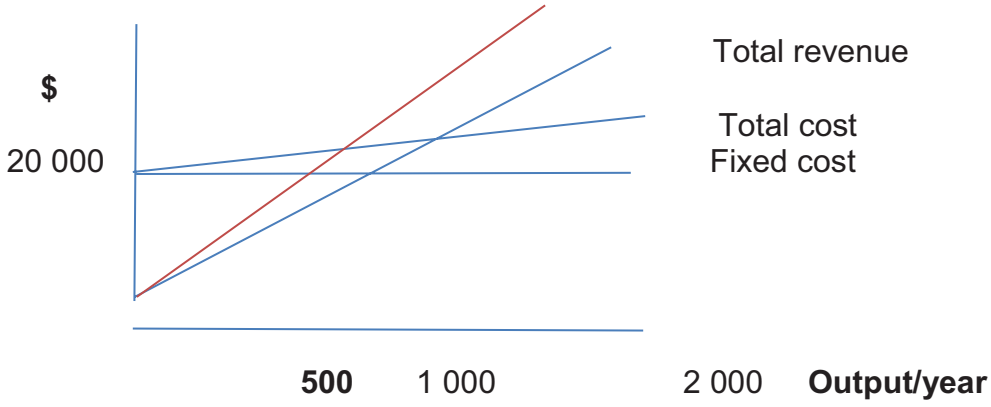
(b) Show what happens to the break-even point for <u>each</u> of the following options by <u>drawing</u> on each chart. Consider these two options for increasing the profitability of the camping cooker. Recommend which option the directors should choose. Justify your answer. [12]

Option 1 – Increase the price of the camping cooker to $60

B/E = $20 000/($60–$20) (L1) = 500 (L2)

Revenue increases to $120 000 – difference of $40 000 (L1)

B/E at a lower output – increase profit – But – will sales be maintained with higher price?

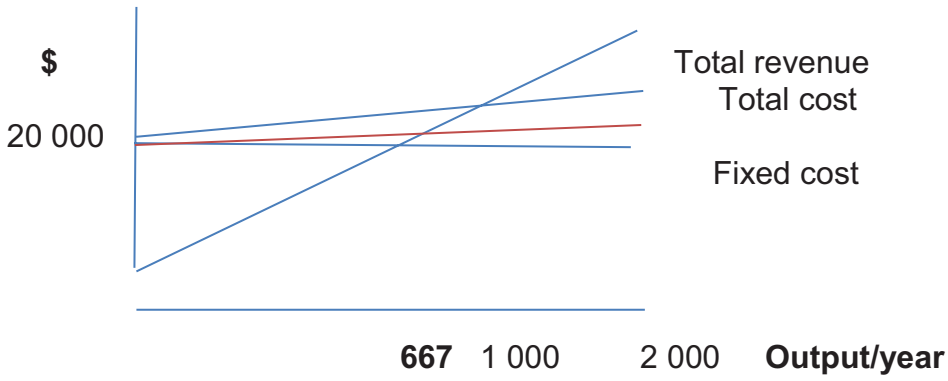


Option 2 – Decrease the variable cost of the camping cooker to $10

B/E = $20 000/($40–$10) (L1) = 667 (accept 666) (L2)

Variable cost decreases to $20 000 – difference of $20 000 (L1)

B/E at a lower output – takes longer to gain higher profit – But – cheaper materials may reduce quality



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Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.

	Knowledge/Analysis/Evaluation
Level 3	**Correct break-even calculations of output for both options +** 9–10 marks for well justified recommendation as to the best option to choose. 7–8 marks for some limited judgement shown in recommendation as to the best option to choose.
Level 2	4–6 marks Break-even level of output correctly calculated. Comments on what happens to the break-even output/profitability. Recommendation but no correct break-even output calculated.
Level 1	1–3 marks States about the options and what will happen to the break-even output/profitability.

Level 1 1 mark for each L1 statement – increased price may lead to increased profit. (max of 3 marks)

Level 2 one L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation. (max 6 marks) Break-even output of option 1 is 500. (L2)

Level 3 For L3 to be awarded there needs to be both break-even outputs correctly calculated and then a recommendation which justifies which is the best option to choose.

Award up to 2 marks for application – one mark for each correct line on the graphs (label not required)

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4 (a) Identify and explain <u>one</u> advantage and <u>one</u> disadvantage to CC of employing skilled workers in the factories. [8]

Knowledge [2 × 1] – award one mark for each relevant advantage/disadvantage
Analysis [2 × 1] – award one mark for a relevant explanation for each advantage/disadvantage
Application [2 × 2] – award two application marks for each advantage/disadvantage

Award one mark for each relevant advantage/disadvantage (maximum of two), such as:

Advantage	Increased productivity/More efficient Less training required/Reduced training costs Reduces supervision Can train other workers High quality products Fewer errors/Less waste
Disadvantage	Higher wages paid Increased wage costs May be more difficult to recruit Skilled workers may be specialised in just one area/less flexible

Award a maximum of three additional marks for **each** advantage/disadvantage – **2 of which must be applied to this context**.

Indicative response:

Employing skilled workers will increase labour productivity (k) and this means there will be a greater number of camping cookers produced (ap) and at a lower unit cost (an). This may lead to higher profits and higher dividends paid to shareholders (ap).

Possible application marks: loyal customers, need to maintain competitiveness; other businesses may pay higher wages to attract these workers; business wants to expand; many machines used in factory; part-time workers; in country X; manufactures camping equipment; three factories; 100 skilled workers in each factory; capital-intensive method of production; not allowed trade union membership; country Z; prices just below competitors prices; public limited company; takeover; equipment listed from Appendix 1.
There may be other examples in context which have not been included here.

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(b) CC wants to expand into country Z and has the choice of merging with a competitor in country Z or setting up its own factory in country Z. Consider these two options and recommend which one CC should choose. Justify your answer. [12]

Relevant points might include:

	Advantages	Disadvantages
Merging with a competitor in country Z	Already established in the market Know target market well Existing workforce of competitor has necessary skills No need to build own factory May be cheaper	Less control over other company May be disagreements between staff in the two firms May incur redundancy costs
Setting up its own factory in country Z	Choose location etc. New equipment will be up to date Choose own staff Government support	Little knowledge of new market May be different culture Costs of setting up may be more expensive Need to recruit new staff

Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.

	Knowledge/Analysis/Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified recommendation as to the best way to increase sales compared to the other way. 7–8 marks for some limited judgement shown in recommendation as to the best way to increase sales.
Level 2	4–6 marks Detailed discussion of advantages and/or disadvantages of each option.
Level 1	1–3 marks Outline of advantages and/or disadvantages of each option.

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Level 1 1 mark for each L1 statement (max of 3 marks) e.g. The company is already established in the market.

Level 2 one L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. The company is already established in the market therefore it will be familiar with the culture and trends in the camping market in country Z. This will save CC time and money in carrying out market research as it will not need to do this. (4 marks for L2 answer + 1 application mark for mentioning trends in the camping market in country Z).

Level 3 For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation which justifies which option CC should choose.

Award up to 2 additional marks for relevant application.

Possible application marks: existing business is already large; set up 20 years ago; in country X; manufactures camping equipment; three factories; 100 skilled workers in each factory; capital intensive method of production; not allowed trade union membership; public limited company; equipment listed from Appendix 1; Government grants available; similar range of camping equipment.
There may be other examples in context which have not been included here.

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