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BUSINESS STUDIES **7115/22**

Paper 2 Case Study **October/November 2016**

MARK SCHEME

Maximum Mark: 80

Published

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1 (a) Identify and explain <u>one</u> advantage and <u>one</u> disadvantage to Ghaziz and Jasmin of being in a business partnership. [8]

Knowledge [2 × 1] – award one mark for each 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
- More capital than sole trader
- Share decision making
- Someone to share running the business/cover when holidays
- More ideas/specialisation

Disadvantage
- Unlimited liability
- No continuity
- Share profits
- Conflicts between partners

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

Indicative response:

Unlimited liability (k) so if the demand for the cleaning or gardening services drops and they make a loss (ap) Ghaziz and Jasmin could lose their personal possessions to pay the bills(an). If customers do not pay them Ghaziz and Jasmin will have to pay the wages to the cleaners and gardeners out of their own money (ap).

Possible application marks: gardening services; house cleaning services; partnership set up 5 years ago; partners have different ideas about reasons for success of the business; income in country X is increasing; employment is increasing; expand by offering new service; elderly people; old people; adults children; financial information from Appendix 1; information from the graph in Appendix 3.

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

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(b) Consider the effects of each of the following changes on the success of GJ. Which change do you think will have the biggest effect on the profit of the business? Justify your answer. [12]

Relevant points might include:

Increasing employment in country X	• higher incomes leads to increased demand for services • harder to find new employees • increased wage rates to attract/retain employees
Increase in tax on all services in country X	• increased price leads to falling demand • increased spending on other more essential services – decreased demand for house cleaning/gardening • all services taxed so little/no effect on GJ
Increase in the number of people buying large houses with gardens in country X	• increased demand as more people require cleaning and gardening services • increased incomes meaning larger houses can be purchased – increased demand for cleaning/gardening • increased competition • increased prices as increased demand – increased profit

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 conclusion of which change will have the biggest effect on profit rather than the other changes. 7–8 marks for some limited judgement shown in the conclusion of which change will have the biggest effect on profit
Level 2	4–6 marks Detailed discussion of the effects of each change.
Level 1	1–3 marks Outline of the effects of each change.

Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Higher incomes from more people having jobs leads to increased demand.

Level 2 – 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. Higher incomes from more people having jobs leads to increased demand for gardening and cleaning services. People are working and do not have time to clean their own houses and have higher income so can afford to pay GJ for house cleaning and gardening. This will increase revenue and profit for GJ. (4 marks for L2 answer + 1 application mark for mentioning house cleaning and gardening).

Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a conclusion of which change will have the biggest effect on profit.

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Award up to 2 additional marks for relevant application.
Possible application marks: gardening services; house cleaning services; 50 part-time workers; competitive pricing; old people; expand by offering new service of looking after elderly people; information from the graph in Appendix 3.
There may be other examples in context which have not been included here.

2 (a) (i) Calculate the break-even level of output for the house cleaning service using the information in Appendix 1. [4]

Application [4 × 1] – award four marks for correct calculation.

Cleaning

$$\frac{\$150(1)}{(\$30(1) - \$15(1))}$$

= 10 houses per week (4)
(If just correct answer given with no working shown award 4 marks)

1 mark for correct formula if the rest of the answer is incorrect

= Fixed costs/Contribution

(ii) Calculate the weekly profit for the house cleaning service using the information in Appendix 1. [4]

Application [4 × 1] – award four marks for correct calculation.

Cleaning

30 cleaners × 20 hours a week x \$10 price per hour = \$6 000 TR (1)
30 cleaners × 20 hours a week x \$5 wages per hour = \$3 000 TVC (1)

\$6 000 – (\$150 (1) + \$3 000)

= \$2 850 per week (4)
(If just correct answer with no calculations shown given award 4 marks)

1 mark for correct formula if rest of the answer is incorrect

TR – TC (FC + VC) = profit

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(b) Consider <u>why</u> the following financial information is important to a bank manager when deciding whether to give Ghaziz and Jasmin a loan to launch the new service. Which do you think is the most important information to the bank manager? Justify your answer. [12]

Relevant points might include:

Break-even level of output	• knowing how many customers are needed to cover all costs • how high is the margin of safety
Profitability of the business	• the surplus left over after all the costs have been paid and provides a return on the investment of the partners • ability to repay the loan
Liquidity of the business	• Ensures there is sufficient cash available to pay short-term debts otherwise the business might have to close/not able to repay the loan.

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 conclusion as to which piece of financial information is most important and why it is more important than the other information. 7–8 marks for some limited judgement shown in the conclusion as to which piece of financial information is most important.
Level 2	4–6 marks Detailed discussion of why each piece of financial information is important to the bank manager.
Level 1	1–3 marks Outline of why each piece of financial information is important to the bank manager.

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Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Knowing how many customers are needed to cover all the costs to break-even.

Level 2 – 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. Knowing how many customers are needed to cover all the costs to break-even. This will allow the bank manager to look at the margin of safety and assess how much profit the business is likely to make. They can see if the business will be able to repay the loan. (L2) However, break-even is only an estimate and the sales might not take place at the price they are planning to charge.(L2)(5 marks for good L2 answer)

Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a conclusion as to which piece of financial information is most important.

Award up to 2 additional marks for relevant application.
Possible application marks: gardening services; house cleaning services; partnership set up 5 years ago; their cash flow is positive and finances managed well; 50 part-time workers; income in country X is increasing; employment in country X is increasing; elderly people; old people; adult children; cleaners wages; gardeners wages; information from the graph in Appendix 3. There may be other examples in context which have not been included here.

3 (a) Ghaziz and Jasmin plan to expand their business. Identify and explain <u>one</u> economy of scale and <u>one</u> diseconomy of scale for the business as it expands. [8]

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

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

Economy of scale
- Purchasing/bulk buying – discount on cost of materials/equipment
- Technical – use better equipment
- Financial – cheaper interest on bank loans
- Marketing – advertising costs per customer is less
- Managerial – employ specialist managers/more skilled
- Risk bearing – produces a variety of services so if demand for one service falls it is counter balanced by increase in demand of the other services

Diseconomy of scale
- poor communication – more levels of hierarchy to pass through so distorted message/errors in instructions
- lower morale/motivation – more employees and feel less important
- harder to control/coordinate departments – may have too many employees in one area relative to another area so less efficient

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

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Indicative response:

Bulk buying (k) so as the business grows it can bulk buy its cleaning materials for a cheaper price (ap). Bulk buying will lead to reduced costs per unit (an) and this increase the profits of the partners (ap).

Possible application marks: gardening services; house cleaning services; cleaning liquids/equipment; gardening materials/equipment; already advertising in newspapers; 50 part-time workers; 2 office workers; elderly people/parents; old people; adult children; country X; financial information from Appendix 1; information from the graph in Appendix 3.

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

(b) GJ is introducing a new service. Jasmin wants to recruit a manager. Consider the advantages and disadvantages of internal and external recruitment. Recommend which recruitment method Jasmin should use. Justify your answer. [12]

Relevant points might include:

	Advantages	Disadvantages
Internal	• saves time and money • can be motivating • person is already known	• may be jealousy • may need training – increases costs
External	• new ideas • already skilled/trained to correct level reduces costs	• person does not know the organisation and how it works • person not known

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 whether internal or external recruitment is the best method to choose and why not the other method. 7–8 marks for some limited judgement shown in recommendation as to the whether internal or external recruitment is the best method to choose.
Level 2	4–6 marks Detailed discussion of advantages and/or disadvantages of internal and/or external recruitment.
Level 1	1–3 marks Outline of advantages and/or disadvantages of internal and external recruitment.

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Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. New ideas.

Level 2 – 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks). e.g. New ideas can be used from managers who have worked for other businesses and therefore will be experienced in other ways of working. This should make GJ more efficient and improve the productivity of the cleaning staff. (4 marks for L2 answer + 1 application mark for mentioning cleaning staff).

Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation which justifies which is the best method to choose.

Award up to 2 additional marks for relevant application.

Possible application marks: gardening services; house cleaning services; country X; 50 part-time workers; 2 office workers; honest, reliable and hard-working employees; elderly people; old people; adult children; financial information from Appendix 1; information from the graph in Appendix 3.

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

4 (a) Identify and explain <u>two</u> reasons why market research is important to GJ before starting the new service. [8]

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

Relevant points might include:

- To find out customer wants
- To find out about competitors
- To find out the price customers are willing to pay
- To find out if there is a market/demand for the new service
- To find if there have been any changes in customer preferences

Award a maximum of three additional marks for **each** explanation – **2 of which must be applied to this context** – of the reason why market research is important before starting the new service.

To find out what the customer wants (k) so that GJ can provide the kind of service for elderly people that the adult children want (ap). If needs are met then there should be an increase in demand thus increasing sales revenue and profit (an) so then Ghaziz and Jasmin will be able to either reinvest this back into the partnership or take out the money to pay themselves (ap).

Possible application marks: gardening services; house cleaning services; workers punctual with appointments; 50 part-time workers; 2 office workers; honest, reliable and hard-working employees; elderly people; old people; adult children; financial information from Appendix 1; information from the graph in Appendix 3.

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

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(b) Explain the following <u>two</u> elements of the marketing mix for the new service Jasmin is introducing. Which element do you think is more important when the service is in the introduction phase of the product life cycle? Justify your answer. (12)

Relevant points might include:

Price	• Promotional pricing as in introduction phase • Penetration pricing as trying to enter a new market • Competitive pricing as need to price at a similar level to other businesses to increase sales of new service
Promotion	• Advertise in local newspapers or leaflets through doors or posters in local shops • Important to increase awareness of the service as it is new

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 conclusion as to which element is the most important in the introduction phase of the product life cycle. 7–8 marks for some limited judgement shown in the conclusion as to which element is the most important in the introduction phase of the product life cycle.
Level 2	4–6 marks Detailed discussion of price and/or promotion for the new service. Pricing strategies should be discussed. Method of promotion identified and explained how it should be used to attract new customers.
Level 1	1–3 marks Outline of price and/or promotion for the new service.

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

Level 2 – 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. Promotional pricing as the new service needs to become more well known in the market and let customers know about the service that is being introduced to look after elderly parents while the adult children are at work. It encourages the growth of sales in the market with the lower price of this new service.
(4 marks for L2 answer plus 1 application mark for making reference to elderly parents and their adult children being customers).

Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a conclusion as to which element is the most important in the introduction phase of the product life cycle.

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Award up to 2 additional marks for relevant application.
Possible application marks: gardening services; house cleaning services; country X; advertising in local newspaper; income in country X is increasing; elderly people; adult children; old people; financial information from Appendix 1; information from the graph in Appendix 3 e.g. number of people aged 61 and over is increasing.
There may be other examples in context which have not been included here.

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