Cambridge O Level

Cambridge Assessment International Education
Cambridge Ordinary Level

BUSINESS STUDIES **7115/22**

Paper 2 Case Study **October/November 2018**

MARK SCHEME

Maximum Mark: 80

Published

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.

Cambridge International will not enter into discussions about these mark schemes.

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Generic Marking Principles

These general marking principles must be applied by all examiners when marking candidate answers. They should be applied alongside the specific content of the mark scheme or generic level descriptors for a question. Each question paper and mark scheme will also comply with these marking principles.

GENERIC MARKING PRINCIPLE 1:

Marks must be awarded in line with:

- the specific content of the mark scheme or the generic level descriptors for the question
- the specific skills defined in the mark scheme or in the generic level descriptors for the question
- the standard of response required by a candidate as exemplified by the standardisation scripts.

GENERIC MARKING PRINCIPLE 2:

Marks awarded are always **whole marks** (not half marks, or other fractions).

GENERIC MARKING PRINCIPLE 3:

Marks must be awarded **positively**:

- marks are awarded for correct/valid answers, as defined in the mark scheme. However, credit is given for valid answers which go beyond the scope of the syllabus and mark scheme, referring to your Team Leader as appropriate
- marks are awarded when candidates clearly demonstrate what they know and can do
- marks are not deducted for errors
- marks are not deducted for omissions
- answers should only be judged on the quality of spelling, punctuation and grammar when these features are specifically assessed by the question as indicated by the mark scheme. The meaning, however, should be unambiguous.

GENERIC MARKING PRINCIPLE 4:

Rules must be applied consistently e.g. in situations where candidates have not followed instructions or in the application of generic level descriptors.

GENERIC MARKING PRINCIPLE 5:

Marks should be awarded using the full range of marks defined in the mark scheme for the question (however; the use of the full mark range may be limited according to the quality of the candidate responses seen).

GENERIC MARKING PRINCIPLE 6:

Marks awarded are based solely on the requirements as defined in the mark scheme. Marks should not be awarded with grade thresholds or grade descriptors in mind.

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Question	Answer	Marks
1(a)	**Identify and explain two methods PP could use to improve the quality of its products.** Knowledge [2 × 1] – Award one mark for each relevant method (maximum of two), Analysis [2 × 1] award one mark for a relevant explanation of the method Application [2 × 2] award two application marks for each method Methods might include: • Quality control – checked at the end/checked by inspectors/aims to eliminate faults before product gets to customers/less training needed as inspectors employed to check quality • Quality assurance – checked by employees throughout the production process/eliminates faults before it passes to the next stage of production process/reduced costs as less need to reduce prices of faulty products/more expensive to train staff to check their own work/relies on workers being committed to maintaining a standard • Total Quality Management (TQM) – continuous improvement by focusing on each and every stage of the production process/quality become central ethos of employees/'right first time' means no customer complaints/reduced costs as no faults to repair or price reductions needed/expensive to train all employees/relies on all employees accepting responsibility for ensuring quality • (Employees) Additional training of employees/recruit experienced workers – less likely to make mistakes • (Raw materials) Change supplier/improved quality of raw materials – improved quality of final product if inputs better • (Equipment) Introduction of automation/new technology – fewer faults as products are standardised Award a maximum of three additional marks for **each** explanation of how the method ensures quality production – **2 of which must be applied to this context**. Indicative response: Quality control [k] is a traditional way the pottery can be checked (ap) at the end of the production process to make sure any faulty products are stopped from being sent out of the factory. [an] This means that a selection of cups and saucers are checked before they are packaged to ensure the products are perfect. (ap) **Possible application marks**: manufactures pottery items, factory, vases, plates, private limited company, 30 years ago, skilled production workers, traditional methods, job production. There may be other examples in context, which have not been included here.	**8**

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1(b)</td><td>
Consider the following three ways PP could reduce its costs. Recommend which way PP should choose. Justify your answer.

Relevant points might include:

<table>
<tr><td></td><td>Advantages</td><td>Disadvantages</td></tr>
<tr><td>Reduce marketing budget by 20%</td><td>• Reduces costs spent on advertising
• Loyal customers may not need advertising to still demand PP pottery products
• Already well-established/well-known brand – so less advertising needed</td><td>• May lead to falling sales if consumers are not persuaded to buy the pottery
• Competitors may be advertising and attract customers
• Reduced spending on market research – less likely to understand customer needs
• Need to research new market in country Z – expansion may be hampered</td></tr>
<tr><td>Increase investment in automated equipment</td><td>• Increases efficiency
• Lowers unit costs
• Improved quality – standard product so less mistakes/fewer faults
• Fewer workers needed leading to reduced wage cost</td><td>• High cost of initial investment may take long time to recoup the expense from lower unit costs
• Costs incurred of making workers redundant
• Increased debt
• Additional training costs</td></tr>
<tr><td>Change to cheaper supplier of raw materials</td><td>• Lower cost of raw materials reduces variable costs – increase in the profit margin/lower prices
• Lower cost of sales – increase profit margin</td><td>• May lead to a lower quality pottery reducing reputation
• May increase transport costs (although existing supplier is not local)</td></tr>
</table>

Level 1 (1–3 marks)

One mark for each advantage and/or disadvantage listed (max of three marks)

E.g. The reduced marketing budget will lead to fewer advertisements for PP products.
</td><td>12</td></tr>
</table>

Question	Answer	Marks
1(b)	**Level 2 (4–6 marks)** Detailed discussion of the advantage(s) or disadvantage(s) of each way OR balanced argument with advantage(s) and disadvantage(s) explained. 1 × L2 explanation can gain four marks and a further mark can be awarded for each additional L2 explanation (max six marks) E.g. The reduced marketing budget will lead to fewer advertisements for PP pottery, which may result in falling sales. However, as the pottery has a good reputation for quality it may have many loyal customers so demand may not reduce much at all. (Four marks for balanced argument plus one application mark for referring to the purchase of pottery). **Level 3 (7–10 marks)** For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation, which justifies which way to choose. 7–8 marks for some limited judgement shown in recommendation as to which way should be chosen and/or the alternatives rejected. 9–10 marks for well justified recommendation as to which way should be chosen and why the alternative ways were not chosen. **Award up to two additional marks for relevant application.** Possible application marks: manufactures pottery items, factory, vases, plates, too many faulty items, private limited company, 30 years ago, skilled production workers, wants to expand by exporting to other countries, traditional methods. There may be other examples in context, which have not been included here.	

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Question	Answer	Marks
2(a)	**Identify and explain two methods of primary research PP could use to research the market in country Z.** Knowledge [2 × 1] – Award one mark for each relevant method (maximum of two), Analysis [2 × 1] award one mark for a relevant explanation of the method Application [2 × 2] award two application marks for each method Award one mark for each method of primary research PP could use (maximum of two), such as: • Questionnaire - lower response rate/relatively cheap • Survey – cheap method/easy to collate responses/may not reach target audience • Interview – face-to-face completion of questions/qualitative data/interviewer bias • Focus group – group of people familiar with the product • Consumer panel – randomly selected group of people – opinions gathered/relatively expensive to carry out • Observation – trained researchers watch how consumers behave and interact in the market **Note: – Survey and Questionnaire = one point unless qualified (e.g. postal/online/face-to-face)** Award a maximum of three additional marks for **each** explanation of the method PP could use – **two of which must be applied to this context.** Indicative response: Questionnaires (k) could be carried out on the streets to gather consumer opinions. (an). Some of the designs of pottery could be shown to the sample to ask their opinion of the designs. (ap) This will gather the personal opinions of consumers to find out their particular needs for dining sets. (ap) **Possible application marks**: manufactures pottery items, factory, vases, plates, private limited company, serve different types of food, 30 years ago, skilled production workers, wants to expand by exporting to other countries, traditional methods. There may be other examples in context, which have not been included here.	**8**

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>2(b)</td><td>

Consider the advantages and disadvantages of the following three ways PP could start selling its products in country Z. Recommend which way PP should choose. Justify your answer.

Relevant points might include:

<table>
<tr><th></th><th>Advantages to PP</th><th>Disadvantage to PP</th></tr>
<tr><td>Form a joint venture with a retailer in country Z</td><td>• Can benefit from local knowledge/more ideas
• Increase sales and likelihood of success
• Have more control</td><td>• Have to share profit
• May have disagreements and may not work well together</td></tr>
<tr><td>Sell to retailers in country Z</td><td>• Knowledge of the market in country Z
• Has retail outlets across country Z – no need for PP to set up outlets
• Local retailer may cover some distribution costs such as warehousing costs
• Saves set up costs of a PP store</td><td>• PP has reduced profit as retailer expects a profit margin
• Less control over how the pottery is displayed</td></tr>
<tr><td>Sell on-line to customers in country Z</td><td>• PP keeps profit margin of the retailer
• Sells directly to customers so gets to know customers wants and needs better
• Wider market so higher sales likely
• Can sell at a cheaper price as lower costs</td><td>• Increased costs of packaging and delivery
• Possibility of pottery being broken in transit
• Some customers may not have access to the internet/may not see website
• Danger of fraud/hacking
• Refunds/exchanges may be more difficult
• Increase in storage costs
• Cannot touch the product</td></tr>
</table>

Level 1 (1–3 marks)

One mark for each advantage and/or disadvantage listed (max of three marks)

E.g. A joint venture means PP can benefit from local knowledge.

</td><td>**12**</td></tr>
</table>

Question	Answer	Marks
2(b)	**Level 2 (4–6 marks)** Detailed discussion of the advantage(s) or disadvantage(s) of each way OR balanced argument with advantage(s) and disadvantage(s) explained. 1 × L2 explanation can gain four marks and a further mark can be awarded for each additional L2 explanation (max six marks) E.g. A joint venture means PP can benefit from local knowledge of the customer wants and preferences for pottery designs. This makes it more likely for PP to increase sales and be successful in country Z. However, PP will have to share the profits with the other company, which will reduce PP profit. (four marks for balanced answer + one application mark for mentioning pottery designs). **Level 3 (7–10 marks)** For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation of the best way to start selling in country Z. 7–8 marks for some limited judgement shown in recommendation of the way to start selling in country Z and/or why the alternatives were not chosen. 9–10 marks for well justified recommendation of the way to start selling in country Z and why the other ways were not chosen. **Award up to two additional marks for relevant application.** Possible application marks: manufactures pottery items, fragile products/easily broken, factory, vases, plates, private limited company, 30 years ago, skilled production workers, wants to expand by exporting to other countries, traditional methods. There may be other examples in context, which have not been included here.	

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Question	Answer	Marks
3(a)	**Identify and explain one advantage and one disadvantage of Peter delegating tasks to the new Operations manager.** Knowledge [2 × 1] – Award one mark for each relevant advantage and disadvantage (maximum one for each) Analysis [2 × 1] award one mark for a relevant explanation of the advantage and disadvantage Application [2 × 2] award two application marks for each method Award one mark for each advantage/disadvantage (maximum of two), such as: Advantage – • Allows Peter to focus on main tasks as he cannot do every job himself • Managers are less likely to make mistakes if some of the tasks are being performed by subordinates • Managers can measure the success of their staff more easily • The work becomes more interesting for subordinates/subordinates may be more motivated • The operations manager feels more important and trusted • Allows PP to expand as Peter will need more free time to focus on the expansion Disadvantage – • Still responsible if there are errors/some managers are reluctant to delegate/checking and/or monitoring takes time • Senior managers lose some control • Tasks may not be carried out effectively/makes mistakes/manager might not carry out the tasks effectively so quality may suffer Award a maximum of three additional marks for **each** explanation of the advantage/disadvantage of delegating tasks to the new operations manager – **two of which must be applied to this context**. **Note: do not reward answers that discuss the advantages/disadvantages of appointing a new Operations manager (e.g. new ideas) – the answer must be about delegation** Indicative response: Managers cannot do all the tasks themselves (k) and it will free up some of Peter's time to spend on more important issues such as decisions about expanding into overseas markets. (ap) Peter is less likely to make mistakes if he has more time to spend on these important decisions. (an) The new Operations manager may be experienced in manufacturing pottery leading to fewer faulty pottery items produced. (ap) **Possible application marks**: Operations manager recruited from a competitor, manufactures pottery items, factory, vases, plates, private limited company, 30 years ago, skilled production workers, wants to expand by exporting to other countries, traditional methods, use of figures from Appendix 3. There may be other examples in context, which have not been included here.	**8**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>3(b)</td><td>

Refer to Appendix 3. Consider the two summaries of financial information for PP and its main competitor. Do you think PP's Finance manager should be worried? Justify your answer.

Relevant points might include:

<table>
<tr><td>Summary of financial information for PP</td><td>• Revenue is $30m (Ap) and is higher by $10m for PP (L1)
• The gross profit is $22m (L2)
• The gross profit margin is lower (L1) at 73% for PP (L2) ($22m/$30m × 100)
• Profit margin is higher for PP by 3% (L1) and the profit for PP is $7m (L2)
• The expenses are $15m for PP (Ap) and are $3m higher than the competitor (L1)
• The acid test ratio is 1 (Ap) and it does not have a liquidity problem (L1) but shows that PP can pay all its short-term liabilities (L2)</td></tr>
<tr><td>Summary of financial information competitor</td><td>• The gross profit is $16m (L2).
• The gross profit margin is 80% for the competitor (L2) ($16m/$20m × 100)
• The profit for the competitor is $4m (L2)
• Expenses are lower for competitor (L1)
• The acid test ratio is 1.5 (Ap) and is higher than PP (L1) but the acid test suggests this liquidity is possibly too high and they have too much working capital tied up in cash and trade receivables. (L2)</td></tr>
</table>

Level 1 (1–3 marks)

One mark for each limited statement about the financial information.

E.g. Revenue is higher for PP than competitors by $10m.

Level 2 (4–6 marks)

Profit calculated and/or detailed discussion of the significance of the financial information. 1 × L2 explanation can gain four marks and a further mark can be awarded for each additional L2 explanation (Max six marks)

E.g. Revenue is higher by $10m for PP. However, the gross profit margin is lower at 73%. (Four marks for L2 answer)

</td><td>**12**</td></tr>
</table>

Question	Answer	Marks
3(b)	**Level 3 (7–10 marks)** For L3 to be awarded there needs to be at least two L2 marks awarded and then a conclusion of which is in the better financial position and whether or not the financial manager should be worried. 7–8 marks for some limited judgement shown in the conclusion of which is in the better financial position and/or why the other is not as good and whether or not the financial manager should be worried. 9–10 marks for well justified conclusion of which is in the better financial position and why it is better than the other and whether or not the financial manager should be worried. **Award up to two additional marks for relevant application.** Possible application marks: manufactures pottery items, factory, vases, plates, private limited company, 30 years ago, wants to expand by exporting to other countries, use of figures from Appendix 3. There may be other examples in context, which have not been included here.	

Question	Answer	Marks
4(a)	**Identify and explain <u>two</u> sources of finance PP could use for its expansion.** Knowledge [2 × 1] – Award one mark for each relevant source (maximum of two), Analysis [2 × 1] award one mark for a relevant explanation of the source Application [2 × 2] award two marks for application relevant to each source Award one mark for each source of finance (maximum of two), such as: • Bank loan – repaid in monthly instalments/interest charged • Issue more shares to family and friends/no interest charged/doesn't need to be repaid/original owners may lose some control • Issue shares to public by becoming a public limited company – no interest paid/not repaid/potential for takeover • Debentures – fixed interest charged/needs to be repaid after a certain period of time • Hire purchase – no initial payment required / not owned until final payment made/paid in instalments/interest charged • Leasing – do not own the equipment/repairs not paid for by PP/maybe more expensive in the long run • Sale of assets – no repayment needed/may not raise sufficient finance/ takes time to sell assets • Retained profit – no need to repay it/no interest to pay/shareholders may not be happy as dividend payment lower Award three additional marks for **each** explanation of the source of finance – **two of which must be applied to this context.** Indicative response: Bank loan (k) that will allow a large sum of money e.g. for market research of the new market (ap) to be borrowed and paid back over a long period of time (an) because it will probably take several years to expand and sell in other countries. (ap) **Possible application marks**: PP is in strong financial position as shown in Appendix 3, making profits, family members have invested in PP, manufactures pottery items, factory, vases, plates, private limited company, 30 years ago, wants to expand by exporting to other countries, traditional methods. There may be other examples in context, which have not been included here.	**8**

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>4(b)</td><td>
Consider the benefits and drawbacks to country Z if PP decides to locate a factory there. Recommend whether the government of country Z should allow PP to set up a factory. Justify your answer.

Relevant points might include:

<table>
<tr><td rowspan="2">Locating a factory in country Z</td><td>Benefits

• Jobs created/Unemployment reduced (L1) – less payments made by the government to support the unemployed/more money available for alternative government spending/higher wages leads to increased spending
• Increasing incomes (L1) – increased economic growth – leads to increased spending in country Z – higher tax revenue from income tax/improved standard of living
• Reduced imports as no need to import PP products (L1) – improves B of P and less likely for exchange rate to depreciate as a result
• Lower prices from increased competition (L1) – improved standard of living for the population of country Z
• More competition leads to more choice for consumers</td></tr>
<tr><td>Drawbacks

• Local businesses have increased competition (L1) – may lead to lower demand/jobs lost/close down
• Repatriated profit (L1) – so less tax revenue for the government in country Z
• Pollution/environmental effects (L1) – external costs/increased traffic/overcrowded/congestion increases
• Depletion of natural resources (L1) – possibly lower economic growth in the future
• PP might bring in own senior staff and therefore jobs created are low skilled</td></tr>
</table>

Note: do not reward an answer that is from the point of view of PP

Level 1 (1–3 marks)

One mark for each benefit and/or drawback stated of PP locating a factory in country Z. (max of three marks)

E.g. Jobs are created.
</td><td>12</td></tr>
</table>

Question	Answer	Marks
4(b)	**Level 2 (4–6 marks)** Detailed discussion of the benefit(s) and/or drawback(s) of PP locating a factory in country Z. 1 × L2 explanation can gain four marks and a further mark can be awarded for each additional L2 explanation (max six marks) E.g. Jobs are created which leads to lower unemployment. (L1) However, as the economy of country Z is already growing (Ap) it may not need any further help in boosting jobs and growth and it may even lead to inflation as wage rates increase due to labour shortages. (Four marks for L2 answer plus application for recognising that country Z has higher rates of economic growth). **Level 3 (7–10 marks)** For L3 to be awarded there needs to be at least two L2 marks awarded and then a justified recommendation as to whether or not the government of country Z should allow PP to locate a factory there. 7–8 marks for some limited judgement shown in the recommendation as to whether or not the government of country Z should allow PP to locate a factory there. 9–10 marks for well justified recommendation as to whether or not the government of country Z should allow PP to locate a factory there. **Award up to two additional marks for relevant application.** Possible application marks: high economic growth, falling unemployment in country Z, sales of pottery increasing, increased competition in country Z, manufactures pottery items, vases, plates, private limited company, 30 years ago, wants to expand by exporting to other countries, traditional methods. There may be other examples in context, which have not been included here.	

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