Cambridge O Level

Cambridge Assessment International Education
Cambridge Ordinary Level

BUSINESS STUDIES **7115/21**

Paper 2 Case Study **October/November 2019**

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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This syllabus is regulated for use in England, Wales and Northern Ireland as a Cambridge International Level 1/Level 2 Certificate.

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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 one benefit and one cost to MF of developing the new product.** Knowledge [2 × 1] – award one mark for each relevant benefit/cost Analysis [2 × 1] – award one mark for a relevant explanation for each benefit/cost Application [2 × 2] – award two application marks for each benefit/cost Answers are likely to include: Benefit: • Provides a USP • Allows diversification/spreads risk • Allows the business to expand into new markets/attracts new customers/accommodates changing customer needs • Allows the business to expand into existing markets/increases market share/improved competitive advantage • Increase revenue/increased sales Cost: • Costs of carrying out market research/product trials • Increased production costs – new equipment/training/recruitment costs/high cost of raw materials/high cost of waste removal • Increased marketing costs – to build customer awareness • If target market wrong, the company reputation may be damaged Indicative response: Provides a USP (1) if there are no other sugar-free ice creams in the market (ap). This will allow MF to increase sales revenue of the ice cream (1). This is a new market and MF is taking advantage of the trends for healthier foods (ap). Possible application marks: Sugar free ice-cream; MF has a large market share of the food markets; large variety of food products; objectives are growth and increased market share; new automated production line required; new skilled workers need recruiting; existing workers need to be retrained. There may be other examples in context that have not been included here.	**8**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1(b)</td><td>
Consider how the following three elements of the marketing mix could help to make the new product successful. Which do you think is the most important element for the success of the new product? Justify your answer.

Relevant points might include:

<table>
<tr><td>• Price</td><td>• Penetration pricing into existing dessert market
• Cost-plus pricing as need to recoup development costs</td></tr>
<tr><td>• Place</td><td>• Distribute through wholesalers or large supermarkets to reach a mass market
• Distribute through gyms or health food outlets to reach health conscious market</td></tr>
<tr><td>• Promotion</td><td>• Advertise in health and fitness magazines for the health conscious consumers
• TV advertising as aimed at large market
• Free samples to ensure potential consumers try the new dessert</td></tr>
</table>

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

<table>
<tr><td></td><td>Knowledge/Analysis/ Evaluation</td></tr>
<tr><td>Level 3</td><td>At least 2 × Level 2 +
9–10 mark for well justified conclusion of which element of the marketing mix will contribute the most to the success of the new product and why the other elements will contribute less.
7–8 mark for some limited judgement shown in conclusion of which element of the marketing mix will contribute the most to the success of the new product</td></tr>
<tr><td>Level 2</td><td>4–6 marks
Detailed discussion of how each element of the marketing mix can contribute to the success of the new product.
A clear strategy needs to be explained, e.g. pricing method named and explained as to why it would be effective</td></tr>
<tr><td>Level 1</td><td>1–3 marks
Outline of how each element of the marketing mix can contribute to the success of the new product.
Simple statement made, e.g. reduce the price to gain more customers</td></tr>
</table>
</td><td>12</td></tr>
</table>

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Question	Answer	Marks
1(b)	Level 1 – 1 mark for each L1 statement (max of 3 marks), e.g. place can be through wholesalers and supermarkets as they can sell a lot of the products to this large market. 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. Place can be through wholesalers and supermarkets as they can sell a lot of the products to this large market. These outlets are where the most customers will buy desserts and so it will increase the chance of the new ice-cream being seen on the shelves and then purchased (L2 + application for referring to ice-cream in the answer). Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a justified conclusion of which element of the marketing mix will contribute most to the success of the new product. **Award up to 2 additional marks for relevant application.** Possible application marks: Sugar free ice-cream; MF has a large market share of the food markets; objectives are growth and increased market share; 10% of adults should not be eating sugary foods; 40% of adults are overweight; other food businesses are planning the introduction of low sugar food products; health conscious consumers. There may be other examples in context that have not been included here.	

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Question	Answer	Marks
2(a)	**Identify and explain how the following two stakeholder groups of MF will be affected by the production of this new product.** Knowledge [2 × 1] – award one mark for how each stakeholder group is affected Analysis [2 × 1] – award one mark for a relevant explanation of how each stakeholder group is affected Application [2 × 2] – award two application marks for how each stakeholder group is affected Answers are likely to include: **Employees** • increased production – output per worker increase • increased job security – more skills acquired • new production methods used – workers may not like change • more training required – feel more motivated – gain more • job satisfaction – gain higher wages **Customers** • more choice of products/ help to reduce weight for some consumers • may not buy the new product – as customers are unhappy with the effect on the environment • better meets the needs of some customers – makes customers feel more loyal to the company • will have to pay a higher price if customers want the new ice cream Indicative response: Increased production (1) as the new sugar free ice cream will be produced (ap). This will require further training for employees as the new equipment is different to the original equipment in the factory (1) and the new automated equipment that has been installed to produce the new ice cream will require quite different skills (ap). Possible application marks: Sugar free ice-cream; MF has a large market share of the food markets; objectives are growth and increased market share; new automated production line required; new skilled workers need recruiting; increasing trends of people being overweight in country X. There may be other examples in context that 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 how each of the following might use MF's financial statements as shown in Appendix 1. Which user would find the information most helpful? Justify your answer.

Relevant points might include:

<table>
<tr><td>Government</td><td>• Helps to see/calculate the amount of tax due
• Increased profitability means higher tax revenue
• May need to support failing business with grant or subsidy</td></tr>
<tr><td>Bank</td><td>• Helps establishes if MF can repay any outstanding loans – or if any further loans might be required – shows liquidity of MF – shows profitability of MF – can be used to assess risk to the bank from loans or overdraft
• Improved liquidity is good as more likely to repay debts</td></tr>
<tr><td>Shareholders</td><td>• See whether dividends are likely to be paid – judge likely direction of share price – consider whether further investment should be made
• Increased profitability should lead to increased dividends</td></tr>
</table>
</td><td>12</td></tr>
</table>

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>2(b)</td><td>Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.

<table>
<tr><td></td><td>Knowledge/Analysis/Evaluation</td></tr>
<tr><td>Level 3</td><td>At least 2 × Level 2 +
9–10 marks for well justified conclusion as to which user would find the information most helpful and why the other two users will find the information less helpful.
7–8 for limited conclusion as to which user of the accounts will find the information most helpful</td></tr>
<tr><td>Level 2</td><td>4–6 marks
Detailed discussion of how each user might find the accounts helpful.</td></tr>
<tr><td>Level 1</td><td>1–3 marks
Outline of how each user might find the accounts helpful.</td></tr>
</table>

Level 1 – 1 mark for each L1 statement (max of 3 marks), e.g. the bank might want to see if MF is making a profit to see if they can repay any loans.

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. the bank might want to see if MF is making a profit to see if it can repay any loans otherwise the bank may not have the loan repaid. This would cause problems for the bank as it would risk losing its money. Also MF might need an overdraft and the bank could also see that the overdraft is likely to be repaid after seeing that the liquidity of the business is good (L2).

Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a conclusion as to which user of the accounts will find the information most helpful.

Award up to 2 additional marks for relevant application.

Possible application marks:
Sugar free ice-cream; MF is a public limited company established 30 years ago; MF has a large market share of the food markets; objectives are growth and increased market share; new automated production line required; increasing trends of people being overweight in country x; increased government costs to treat overweight people. Reference to data in Appendix 1.

There may be other examples in context that have not been included here.</td><td></td></tr>
</table>

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Question	Answer	Marks
3(a)	**Identify and explain how the following four departments of MF are likely to be affected by the development of its new product.** Award one mark for an explanation of a likely way each department will be affected (max 4) Award one mark for applying an explanation **in context** of how each department will be affected (max 4) Answers are likely to include: • Marketing department will have increased workload from carrying out market research/promoting the new product • HR will need to recruit additional workers/training requirements • Operations will need new automated equipment – to produce the new ice-cream • Finance will need to raise the funds necessary for the investment in the new equipment – and working capital for the purchase of new ingredients/produce financial statements, e.g. income statement Indicative response: The Marketing department will have an increased workload from carrying out market research (1). This is because the sugar-free ice cream is new and MF will not know if consumers are interested in buying it (1). Possible application marks: Sugar free ice-cream; MF has a large market share of the food markets; objectives are growth and increased market share; new automated production line required; new skilled workers need recruiting; waste produced causes pollution if thrown into local landfill; increasing trends of people being overweight in country X. There may be other examples in context that have not been included here.	**8**

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>3(b)</td><td>
Using the information provided in Appendix 3, consider the following two options for MF's new product. Recommend which option MF should choose to ensure the highest profit for the new product. Justify your answer.

Relevant points might include:
<table>
<tr><th></th><th>Level 1</th><th>Level 2</th></tr>
<tr><td>Option 1 –raise price from $5.00 to $7.50</td><td>May put off potential customers/demand may fall
Revenue at $5 for 5000 units = $25 000
Fixed costs = $10 000
Total cost at 2000 units of output = $15 000
Higher price will give impression of higher quality product
May increase profit</td><td>B/E identified at 4000 and now fallen to 2000
Profit is $15 000 at maximum capacity (or profit at alternative output)
Margin of safety increases by 2000
Increased price leads to increased gross profit per unit however, revenue might not increase if sales fall</td></tr>
<tr><td>Option 2 – lower VC fall from $2.50 to $2.00</td><td>May be lower quality product
Found cheaper raw materials/found cheaper ways to dispose of waste
Total cost will be lower
Fixed costs remain at $10 000
Total cost at 3334 units of output = $16 668 (or $16 500)</td><td>B/E identified at 4000 and now 3334 (accept 3200 up to 3500)
Profit is $5000 at maximum capacity (or profit at alternative output)
Margin of safety increases by 666 (accept OFR)</td></tr>
</table>
</td><td>12</td></tr>
</table>

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>3(b)</td><td>Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.

<table>
<tr><td></td><td>Knowledge/Analysis/ Evaluation</td></tr>
<tr><td>Level 3</td><td>Only given if 2 × L2 correct break-even or profit figures
9–10 marks for well justified recommendation as to the best way to increase profit compared to other option.
7–8 marks for some limited judgement shown in recommendation as to the best way to increase profit.</td></tr>
<tr><td>Level 2</td><td>4–6 marks
Explanation of the effects of higher price and/or lower variable cost as a way to increase profit.
Calculations of break-even or profit at relevant levels of output</td></tr>
<tr><td>Level 1</td><td>1–3 marks
Outline of the effects of higher price and/or lower variable cost as a way to increase profit.
Basic statements related to revenue or costs figures</td></tr>
</table>

Level 1 – 1 mark for each L1 statement (max of 3 marks), e.g. increasing the price will lead to higher profit.

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. the new break-even output is 2000 whereas the original break-even output was 4000 (L2).

Level 3 – For level 3 to be awarded there must have been 2 × L2 correct break-even or profit figures, then a well justified recommendation as to the best way to increase profit to choose compared to other option.

Award up to 2 additional marks for relevant application

Possible application marks:
Sugar free ice-cream; MF has a large market share of the food markets; objectives are growth and increased market share; new automated production line required; new skilled workers need recruiting; increasing trends of people being overweight in country X.

There may be other examples in context that have not been included here.</td><td></td></tr>
</table>

Question	Answer	Marks
4(a)(i)	**Identify and explain two differences between MF and unincorporated businesses:** Award one mark for each difference (2 max) plus one additional mark for explaining why it is a difference in context. Answers are likely to include: • MF has limited liability • There is continuity with MF • MF has a separate legal identity • MF is able to sell shares Note: Do not accept MF is an incorporated business Indicative response: MF has limited liability whereas an unincorporated business has unlimited liability (1). This protects the shareholders of MF (1). Context is from recognising that MF is an incorporated business – shareholders; MF is a public limited company; MF is not a sole trader or partnership; MF competitors are partnership businesses	**4**
4(a)(ii)	**Identify and explain two differences between MF and public sector organisations:** Award one mark for each difference (2 max) plus one additional mark for explaining why it is a difference in context. Answers are likely to include: • MF is not owned by the government • Different objectives such as private sector aim to make profits whereas public sector aim to provide a service to the public/different pricing strategies • Investment from the shareholders whereas public sector investment by the government Note: Do not accept MF is an incorporated business Indicative response: MF has profit and increased market share as objectives whereas public sector organisations will have different objectives such as public provision of a service (1) Context is from recognising that MF is a private sector business – MF objective is to increase profit; MF objective is to increase market share; MF is in the private sector; MF may fund investment by selling shares	**4**

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>4(b)</td><td>
Consider the possible external costs and external benefits resulting from MF's new product. Recommend whether the Government should encourage MF to produce this new product. Justify your answer.

Relevant points might include:

<table>
<tr><td>External costs</td><td>• Waste thrown into the landfill causes pollution for local people – farmers lose some of their land – reduces locally produced food – increased spending on buying food
• High cost to the government to clean up the waste – raise taxes or reduce spending elsewhere
• Environmental damage when rainforest is cut down</td></tr>
<tr><td>External benefits</td><td>• Healthier population – employees have less time off work – more efficient – increased output in the economy
• Government spending on health provision falls – can spend money elsewhere
• Recruitment of new workers will reduce unemployment in the local area</td></tr>
</table>

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

<table>
<tr><td></td><td>Knowledge/Analysis/ Evaluation</td></tr>
<tr><td>Level 3</td><td>At least 2 × Level 2 +
9–10 marks for well justified recommendation as to whether or not the government should encourage the production of this new product.

7–8 marks for some limited judgement shown in recommendation as to whether or not the government should encourage the production of this new product.</td></tr>
<tr><td>Level 2</td><td>4–6 marks
Detailed discussion of external costs and/or benefits.</td></tr>
<tr><td>Level 1</td><td>1–3 marks
Outline of external costs and/or benefits.</td></tr>
</table>
</td><td>4</td></tr>
</table>

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Question	Answer	Marks
4(b)	Level 1 – 1 mark for each L1 statement (max of 3 marks), e.g. waste thrown into the landfill causes pollution. 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. waste thrown into the landfill causes pollution and the farmers will lose their land meaning less food will be produced locally. Local people will have to pay more for food and this will leave them with less income to spend on other goods and services, therefore lowering their standard of living (L2). Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation as to whether or not the government should encourage the production of this new product. **Award up to 2 additional marks for relevant application.** Possible application marks: Sugar free ice-cream; waste produced causes pollution if thrown into the local landfill; farmers may lose their land; sugary foods cause health problems; increasing trends of people being overweight in country x; increased government costs to treat overweight people. There may be other examples in context that have not been included here.	

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