Cambridge Assessment International Education

Cambridge O Level

BUSINESS STUDIES **7115/22**

Paper 2 Case Study **October/November 2020**

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.

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This document consists of **15** printed pages.

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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)	**Explain <u>two</u> reasons why finance is needed by CC.** Award 1 mark for each relevant reason (maximum of two): Relevant answers might include: • For the purchase of investment goods/capital/expansion of existing business (1) – e.g. buy equipment/machinery (1) – high amount of finance needed so may not all be from owners capital (1) • To provide working capital/pay expenses/fixed costs/variable costs/ overheads/day-to-day expenses (1) – e.g. payment of wages/purchase of raw materials (1) – if not able to pay costs then output cannot be produced (1) &/or - prevents cash flow problems/lack of liquidity (1) • Development of new product (1) – high cost of producing prototypes/cost of market research for new product (1) – outflow of cash with no inflow for a certain time (1) • Start up a new business (1) – needs to purchase equipment/raw materials (1) owner may lack sufficient capital (1) &/or – may take time for sufficient cash to be built up in the business to pay for assets (1) Award a maximum of 3 additional marks for **each** explanation of the reason – **one of which must be applied to this context**. For example: CC needed money when it started up (1) and each partner invested $10 000 (app). This finance paid for training new employees, so they are effective at work (1) and for equipment to help the workers be efficient (1). Application could include: mobile phone covers; $10 000 invested by each partner; bank loan of $10 000; leased a factory; brother; two partners.	**8**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1(b)</td><td>
Explain the benefits and limitations of the following two ways of achieving quality production. Which way should CC use? Justify your answer.

• Quality control
• Quality assurance
<table>
<tr><th>Level</th><th>Description</th><th>Marks</th></tr>
<tr><td>3</td><td>Sound application of knowledge and understanding of relevant business concepts using appropriate terminology.

Detailed discussion of both methods. Well-justified recommendation.

Candidates discussing both methods in detail, in context and with well-justified recommendation, including why the alternative method was rejected, should be rewarded with the top marks in the band.</td><td>9–12</td></tr>
<tr><td>2</td><td>Sound application of knowledge and understanding of relevant business concepts using appropriate terminology.

Detailed discussion of at least one method.

Judgement with some justification/some evaluation of choice made.

Candidates discussing at least one method in detail and applying it to the case should be rewarded with the top marks in the band.</td><td>5–8</td></tr>
<tr><td>1</td><td>Limited application of knowledge and understanding of relevant business concepts.

Limited ability to discuss the methods with little/no explanation.

Simple judgement with limited justification/limited evaluation of choice made.

Candidates outlining both methods in context should be rewarded with the top marks in the band.</td><td>1–4</td></tr>
<tr><td>0</td><td>No creditable response.</td><td>0</td></tr>
</table>
</td><td>12</td></tr>
</table>

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1(b)</td><td>Relevant points might include:
<table>
<tr><th></th><th>Advantages</th><th>Disadvantages</th></tr>
<tr><td>Quality control</td><td>• Products checked at the end of the production line tries to eliminate faults and errors before the customer receives the mobile phone cover
• Less training is required for the 10 workers as inspectors check the quality of the covers before they leave the factory</td><td>• It raises costs as inspectors need to be employed
• Identifies faulty products at the end of the process but does not identify where the fault has occurred
• If do not identify the fault, then it does not eliminate the faulty process
• High costs if phone covers need to be scrapped</td></tr>
<tr><td>Quality assurance</td><td>• Products checked at every stage of the production process to try to eliminate faults or errors at each stage of production before passing to the next stage reducing faults at the end
• Therefore there are fewer customer complaints of faulty phone covers
• Reduced costs if fewer mobile covers are scrapped
• Can make workers feel trusted and may improve motivation</td><td>• Can be expensive to train employees to check the quality of their own work
• The reliability of employees is important, and they need to be committed or quality assurance will not be effective
• Takes longer to produce phone covers as each worker needs to do their own check for faults</td></tr>
</table></td><td></td></tr>
</table>

Question	Answer	Marks
1(b)	Recommendation: Justification may include: • If the process to produce a **mobile phone cover** is simple, then quality control may be most suitable as inspectors may just carry out a simple check at the end of the production line and the **10 production workers** do not need to be trained to check their own work, reducing training costs, which they would have to do if quality assurance was used. • Quality assurance is best because each stage of production can be checked so it is less likely for a faulty product to go to customers than if quality control is used. It keeps a good brand image for CC products. It will ensure faults do not need to be repaired, **reducing costs of faulty products being scrapped**. Also cost of employing inspectors is saved, which would have to be paid with quality control.	

Question	Answer	Marks
2(a)	**Explain <u>two</u> possible reasons why Aisha set up CC as a business partnership.** Award 1 mark for each relevant reason (maximum of two reasons). Relevant answers might include: • More capital can be raised - than if the business was a sole trader when only one person would be providing capital • Shared responsibilities of running the business – each partner can specialise in one aspect of the business where they have expertise • To share risks – if there are debts or losses these are shared between the partners • To share ideas/more ideas/help make decisions • To share the workload/cover when one partner takes holidays Award a maximum of 3 additional marks for **each** explanation of the reason – **one of which must be applied to this context.** For example: Aisha can raise more capital (1) as she can also gain $10000 from her brother (app). If CC was a sole trader then she would only have her own money which may not be sufficient (1) and additional capital will allow Aisha to invest in more equipment for the factory (1). Application could include: mobile phone covers; $10000 invested by each partner; bank loan of $10000; leased a factory when setting up; brother; always wanted to be her own boss; new business; Operations Manager.	**8**

<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 <u>three</u> methods of employee selection. Which method should CC use when recruiting production workers? Justify your answer.

• Application form
• Interview
• Aptitude tests

<table>
<tr><th>Level</th><th>Description</th><th>Marks</th></tr>
<tr><td>3</td><td>Sound application of knowledge and understanding of relevant business concepts using appropriate terminology.

Detailed discussion of the two or more methods. Well-justified recommendation.

Candidates discussing the three methods in detail, in context and with well-justified recommendation, including why the alternative methods were rejected, should be rewarded with the top marks in the band.</td><td>9–12</td></tr>
<tr><td>2</td><td>Sound application of knowledge and understanding of relevant business concepts using appropriate terminology.

Detailed discussion of at least one method.

Judgement with some justification/some evaluation of choices made.

Candidates discussing two or more methods in detail and applying them to the case should be rewarded with the top marks in the band.</td><td>5–8</td></tr>
<tr><td>1</td><td>Limited application of knowledge and understanding of relevant business concepts.

Limited ability to discuss the methods with little/no explanation.

Simple judgement with limited justification/limited evaluation of choices made.

Candidates outlining the three methods in context should be rewarded with the top marks in the band.</td><td>1–4</td></tr>
<tr><td>0</td><td>No creditable response.</td><td>0</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>Relevant points might include:

<table>
<tr><td>Application form</td><td>• Provides a wide range of written information on the applicants – quicker to gather information than interviewing applicants
• Easier to compare applicants
• Takes time to review application forms – and can be referred back to later to compare applicants
• Applicants may lie on the form
• The workers need to be skilled to operate the equipment and therefore an application form will show the qualifications they have so CC can see if they can do the job efficiently
• The two new production workers may need qualifications/basic education to show they are capable of being trained to operate machinery and this can be a question on the application form</td></tr>
<tr><td>Interview</td><td>• Will show Aisha the personality of the applicant. Meeting them face-to-face will be easier to assess their personality and whether the applicant may fit into the working environment of the factory making phone covers
• Shows whether the worker will work well in a team as team work is required on the production line – this may improve worker motivation
• If the worker is unfriendly then they may not be good to employ as the other workers may not like them and output may fall
• It will allow applicants to ask questions and therefore they can be sure the job is right for them. If they are appointed and do not like the work, then they may leave and CC will have increased costs from recruiting more workers to replace those that have left</td></tr>
<tr><td>Aptitude test</td><td>• Shows whether the worker can do the job effectively – cannot lie about own skills
• Should prevent an unsuitable person being employed and efficiency producing phone covers being reduced in the factory
• Easier to select the most skillful person for the job – possibly reducing unit costs if productivity is higher
• Can be expensive and time consuming to carry out tests showing their skill at operating the equipment on the production line</td></tr>
</table>
</td><td></td></tr>
</table>

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Question	Answer	Marks
2(b)	Recommendation: Justification may include: • Application forms should be used as all the necessary information is provided on the form and a written record is provided that can be checked. Interviews may miss out questions and are time consuming to carry out. Aptitude tests may also take too much time to carry out and may not show the potential of applicants to learn new skills suitable for CC **to produce mobile phone covers.** • Interviews should be used as they allow CC to assess if the worker will fit into the teams in the factory and work well with the other employees **in producing mobile phone covers.** An application form will not allow CC to assess whether the applicant will fit into the working environment. • Aptitude tests should be used as they show the ability of the applicant to actually carry out the job efficiently when **producing mobile phone covers**, whereas someone can seem very good on an application form but be less suitable in practice.	

Question	Answer	Marks
3(a)	**Explain <u>two</u> reasons why a new business is at a greater risk of failing than an established business.** Award 1 mark for each relevant reason (maximum of two reasons). Relevant answers might include: • Lacks finance – liquidity/cash flow problems • Poor planning - lack of experience - may not have a business plan - may lack management skills – lacks efficiency • Inadequate research – no effective market research – not identified customer needs - lack of demand • Difficulties of breaking into a new market - does not have brand loyalty/there is high competition in the market • Difficulty competing with larger established firms in the market – as cannot benefit from economies of scale • Overexpansion – tries to grow too quickly at the start – objectives too ambitious when lack of experience in running the business • Unable to respond quickly enough to changes in the external influences – lack of financial reserves – e.g. not responding to shift to online sales Award a maximum of 3 additional marks for **each** explanation of the reason. For example: Inadequate research (1) as a business might not have carried out accurate market research and felt that their products will be in demand (1) but if the products are not popular it will lead to fewer products being sold (1) resulting in lower revenue and possible business failure if costs cannot be covered (1).	**8**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>3(b)</td><td>
Consider the following <u>three</u> elements of a suitable marketing mix for CC's new range of personalised mobile phone covers. Justify which element is the most important.

Pricing method
Method of promotion
Place – distribution channel

<table>
<tr><th>Level</th><th>Description</th><th>Marks</th></tr>
<tr><td>3</td><td>Sound application of knowledge and understanding of relevant business concepts using appropriate terminology.

Detailed discussion of two or more elements.

Well-justified conclusion of the most important element of the marketing mix.

Candidates discussing three elements of the marketing mix in detail, in context and with well-justified conclusion, including why the alternative elements were rejected, should be rewarded with the top marks in the band.</td><td>9–12</td></tr>
<tr><td>2</td><td>Sound application of knowledge and understanding of relevant business concepts using appropriate terminology.

Detailed discussion of at least one element of the marketing mix.

Judgement with some justification/some evaluation of choices made.

Candidates discussing two or more elements of the marketing mix in detail and applying them to the case should be rewarded with the top marks in the band.</td><td>5–8</td></tr>
<tr><td>1</td><td>Limited application of knowledge and understanding of relevant business concepts.

Limited ability to discuss the elements of the marketing mix with little/no explanation.

Simple judgement with limited justification/limited evaluation of choices made.

Candidates outlining three elements of the marketing mix in context should be rewarded with the top marks in the band.</td><td>1–4</td></tr>
<tr><td>0</td><td>No creditable response.</td><td>0</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>Relevant points might include:

<table>
<tr><td>Price</td><td>Identifies and justifies a suitable pricing method for new phone covers aimed at high income 18–25 year olds
• Price skimming as it's a new product with few competitors at the introductory stage of the product life cycle – so can charge a high price as high income customers willing to pay to own one first
• Cost-plus pricing to make sure a profit is made on the new cover
• Competitive pricing could be used as there are few competitors in this market at present
• Penetration pricing to enter a new target market of 18–25 year olds</td></tr>
<tr><td>Promotion</td><td>Identifies and justifies a suitable promotional method for new phone covers aimed at high income 18–25 year olds
• Advertise in specific magazines read by young people - niche market aimed at young people
• Targets young people aged 18–25 – advertising on social media may go viral and low marketing costs – CC is a small business so needs to keep down the marketing costs
• Suitable examples of promotional methods used for targeting high income 18–25 year olds – e.g. discounting</td></tr>
<tr><td>Place</td><td>Identifies and justifies a suitable distribution channel for new phone covers aimed at high income 18–25 year olds
• Sold online – easily accessible by young people aged 18–25 – used to ordering online – download an app to order directly from CC – as young people may not use main retail outlets
• Shopping malls are used by target market of higher income young people
• Direct distribution increases delivery costs – but CC keeps profit margin of retail outlets</td></tr>
<tr><td>Conclusion</td><td>Justification of the most important element may include:
• If the pricing method is wrong, then the target market will not be interested in the new product even if it is promoted effectively and sold using the most suitable distribution channel for young people aged 18–25 so price is most important.
• Promotion is most important as if people are not aware of the covers then even if the price and place are suitable high income consumers will not buy the new covers.
• Place has to be suitable because even if consumers are attracted to buying the mobile phone covers with the right price and promotions to attract them, if these high income consumers cannot easily find where to buy the covers they will not sell well.</td></tr>
</table>
</td><td></td></tr>
</table>

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Question	Answer	Marks
4(a)	**Using the data in Appendix 3, calculate the following ratios for CC:** • **Gross profit margin** • **Profit margin** • **Current ratio** • **Acid test ratio** **Show your workings.** Award 1 mark for each correct formula (maximum of four) gross profit/revenue × 100 (1) profit/revenue × 100 (1) current assets/current liabilities (1) current assets – inventory/current liabilities (1) OR 1 mark for use of correct formula + 1 mark for correct answer (4 × 2 marks) $400 000/$800 000 × 100 (1) = 50% (1) $150 000/$800 000 × 100 (1) = 18.75% (1) $20 000/$15 000 (1) = 1.33 or 4:3 (1) $15 000/$15 000 (1) = 1 (1)	**8**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>4(b)</td><td>

Consider how the changes in the following <u>three</u> government legal controls could affect CC. Which change is likely to have the greatest effect on profit? Justify your answer.

- **Increase in the minimum wage**
- **More controls over what can be stated in advertisements**
- **No waste plastic can be sent to landfill sites**

<table>
<tr><th>Level</th><th>Description</th><th>Marks</th></tr>
<tr><td>3</td><td>Sound application of knowledge and understanding of relevant business concepts using appropriate terminology.

Detailed discussion of two or more changes. Well-justified conclusion.

Candidates discussing all three changes in detail, in context and with well-justified conclusion, including why the alternative changes were rejected, should be rewarded with the top marks in the band.</td><td>9–12</td></tr>
<tr><td>2</td><td>Sound application of knowledge and understanding of relevant business concepts using appropriate terminology.

Detailed discussion of at least one change.

Judgement with some justification/some evaluation of choices made.

Candidates discussing two or more changes in detail and applying them to the case should be rewarded with the top marks in the band.</td><td>5–8</td></tr>
<tr><td>1</td><td>Limited application of knowledge and understanding of relevant business concepts.

Limited ability to discuss the changes with little/no explanation.

Simple judgement with limited justification/limited evaluation of choices made.

Candidates outlining the three changes in context should be rewarded with the top marks in the band.</td><td>1–4</td></tr>
<tr><td>0</td><td>No creditable response.</td><td>0</td></tr>
</table>

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

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>4(b)</td><td>Relevant reasons might include:

<table>
<tr><td>Increase in the minimum wage</td><td>• If wages increase it may improve motivation
• Increased costs as have to pay 10 workers higher pay
• Already pay just above minimum wage so may not have to increase pay – costs may not change
• Alternative employers may attract the workers away from CC if does not give a pay increase – higher recruitment costs
• Increase in potential customers due to increase in disposable income leading to more sales of CC’s mobile phone covers</td></tr>
<tr><td>More controls over what can be stated in advertisements</td><td>• Adverts for mobile phone covers may have to be changed if they are misleading and may be less appealing/less attractive to customers leading to lower sales
• May not make any difference if CC already only makes true claims about the covers always preventing phones from being damaged
• Competitors will have to tell the truth so may increase sales of CC phone covers if they are better</td></tr>
<tr><td>No waste plastic can be sent to landfill sites</td><td>• Increased cost to remove waste from factory as all plastic will need to be disposed of correctly – may recycle plastic
• If competitors have higher costs because they produce more plastic waste then CC will be more competitive and increase sales of phone covers and possibly have higher profit
• Need to train 10 workers and change production techniques to minimise waste – increases cost initially – long-term could save on purchasing raw materials</td></tr>
</table>
</td><td></td></tr>
</table>

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Question	Answer		Marks
4(b)	Conclusion	Justification may include: • Impact will depend on what competitors are paying as wages but CC is **paying just above** the minimum wage and if it has to increase pay then wage costs will rise and this will have the greatest effect on profit as it is likely to fall. CC is already producing plastic waste but it could simply change the materials used to produce the **phone covers** so this legal control would have no effect. Advertising claims may already be truthful so this will not have any effect on profit. • Stricter laws on advertising are likely to have a big effect on profit if CC is taken to court and fined for making false claims. If the claims about **protecting phones from damage** are not true then CC may need to change its advertising to stop it having bad publicity. Otherwise, this could lead to a large fall in sales and profit and it will be the biggest effect on profit of the three changes in legal controls. • Increased costs from the disposal of plastic waste will have the biggest impact on profit as prices may have to rise to cover the increased costs of alternative ways of waste disposal. CC **already produces a large amount of** plastic waste so costs will increase significantly, and sales will fall due to the higher prices.	

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