Cambridge Assessment International Education

Cambridge O Level

BUSINESS STUDIES **7115/24**

Paper 2 Case Study **October/November 2022**

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 document consists of **21** 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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Social Science-Specific Marking Principles (for point-based marking)

1 Components using point-based marking:

- Point marking is often used to reward knowledge, understanding and application of skills. We give credit where the candidate's answer shows relevant knowledge, understanding and application of skills in answering the question. We do not give credit where the answer shows confusion.

From this it follows that we:

a DO credit answers which are worded differently from the mark scheme if they clearly convey the same meaning (unless the mark scheme requires a specific term)

b DO credit alternative answers/examples which are not written in the mark scheme if they are correct

c DO credit answers where candidates give more than one correct answer in one prompt/numbered/scaffolded space where extended writing is required rather than list-type answers. For example, questions that require *n* reasons (e.g. State two reasons …).

d DO NOT credit answers simply for using a 'key term' unless that is all that is required. (Check for evidence it is understood and not used wrongly.)

e DO NOT credit answers which are obviously self-contradicting or trying to cover all possibilities

f DO NOT give further credit for what is effectively repetition of a correct point already credited unless the language itself is being tested. This applies equally to 'mirror statements' (i.e. polluted/not polluted).

g DO NOT require spellings to be correct, unless this is part of the test. However spellings of syllabus terms must allow for clear and unambiguous separation from other syllabus terms with which they may be confused (e.g. Corrasion/Corrosion)

2 Presentation of mark scheme:

- Slashes (/) or the word 'or' separate alternative ways of making the same point.
- Semi colons (;) bullet points (•) or figures in brackets (1) separate different points.
- Content in the answer column in brackets is for examiner information/context to clarify the marking but is not required to earn the mark (except Accounting syllabuses where they indicate negative numbers).

3 Calculation questions:

- The mark scheme will show the steps in the most likely correct method(s), the mark for each step, the correct answer(s) and the mark for each answer
- If working/explanation is considered essential for full credit, this will be indicated in the question paper and in the mark scheme. In all other instances, the correct answer to a calculation should be given full credit, even if no supporting working is shown.
- Where the candidate uses a valid method which is not covered by the mark scheme, award equivalent marks for reaching equivalent stages.
- Where an answer makes use of a candidate's own incorrect figure from previous working, the 'own figure rule' applies: full marks will be given if a correct and complete method is used. Further guidance will be included in the mark scheme where necessary and any exceptions to this general principle will be noted.

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4 Annotation:

- For point marking, ticks can be used to indicate correct answers and crosses can be used to indicate wrong answers. There is no direct relationship between ticks and marks. Ticks have no defined meaning for levels of response marking.
- For levels of response marking, the level awarded should be annotated on the script.
- Other annotations will be used by examiners as agreed during standardisation, and the meaning will be understood by all examiners who marked that paper.

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0450/7115/0086 Business Studies – Paper 2 Annotations

Annotation	Description	Use
Tick	Tick	Indicates a point which is relevant and rewardable (used in part (a) questions).
Cross	Cross	Indicates a point which is inaccurate/irrelevant and not rewardable.
BOD	Benefit of doubt	Used when the benefit of the doubt is given in order to reward a response.
TV	Too vague	Used when parts of the answer are considered to be too vague.
REP	Repetition	Indicates where content has been repeated.
NAQ	Not answered question	Used when the answer or parts of the answer are not answering the question asked.
APP	Application	Indicates appropriate reference to the information in the context.
OFR	Own figure rule	If a mistake is made in a calculation, and the incorrect figure that results from the mistake is used for subsequent calculations.
SEEN	Noted but no credit given	Indicates that content has been recognised but not rewarded.
L1	Level 1	Used in part (b) questions to indicate where a response includes limited knowledge and understanding.
L2	Level 2	Used in part (b) questions to indicate where a response has a more detailed discussion and contains some evidence of justification.
L3	Level 3	Used in part (b) questions to indicate where a response includes a well-justified recommendation.

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Question	Answer	Marks
1(a)	**Explain <u>two</u> reasons why KAT is at risk of failing.** Award 1 mark for each relevant reason (maximum of two marks). Award a maximum of 3 additional marks for **each** explanation of the reason – **one of which must be applied to this context.** Relevant answers might include: • Liquidity problems/poor financial management – high fixed costs and revenue fell – shortage of cash leading to cash flow problems – **possible payment to make one employee redundant** • Poor management – **Kris and Anaa had no previous experience of managing a business when they started KAT** – difficulties in managing a business in recession/when demand fell – may not have reacted quickly enough when revenue fell – lack of experience leading to bad decisions • Over-expansion – tried to grow too quickly – objectives too ambitious when lack of experience in running the business – **purchased 3 new taxis after only 5 years of operating** – high expenses when revenue fell – difficult to make loan repayments • Change in the business environment – **fall in the number of tourists visiting the country –** leading to fall in demand for services – fall in revenue relative to costs • Lack of finance • Poor planning and lack of objectives • Poor marketing • Competition For example: Poor management (1) as the owners had not been able to pay the bills due to lack of revenue from taxi fares (app). Kris and Anaa did not have the experience to know how to deal with a fall in demand (1) and this may have resulted in cash flow problems causing KAT to run short of cash to operate the business (1). **Application** could include: taxi services; 5 taxis; 3 employees; taxi drivers; partnership; started 7 years ago; transport tourists; airport; hotel; demand fell for taxi services; economy in recession; no experience of managing a business; repaying the loan.	**8**

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1(b)</td><td>Referring to Appendix 1 and other information, consider the advantages and disadvantages of KAT's <u>three</u> employees. Which employee should Kris and Anaa make redundant? Justify your answer.
<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 employees. Well-justified recommendation.

Candidates discussing all three employees in detail, in context and with a well-justified recommendation, including why the alternative employees 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 employee.

Judgement with some justification / some evaluation of choice made.

Candidates discussing two or more employees 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 employees with little/no explanation.

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

Candidates outlining all three employees 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>Aamir</td><td>• Able to repair taxis so can save Kris and Anaa cost of repairing taxis
• Good time keeping so will not cause problems by being late to pick up passengers keeping a good reputation for KAT
• He is friendly and this will help to have good customer service and encourage repeat business from tourists travelling from the airport</td><td>• Taxis are only 2 years old so should not need many repairs
• Most expensive wage rate per hour at $10
• High wage cost of $300 per week and only works 30 hours a week so may carry out fewer journeys than other two drivers</td></tr>
<tr><td>Samuel</td><td>• Cheapest of the three drivers at $240 per week if working maximum hours – saves on wage costs
• Cheapest to employ at $5 per hour
• Qualifications in tourism will make him suitable to provide the new service for tourists without Kris and Anaa having to train anyone else so saves training costs</td><td>• He is not willing to work overtime if needed so may not be able to cover all the taxi services requested
• Will not work out of daytime hours of 0900–1700 so may not be able to carry out some taxi services to the airport if passengers arrive early or late at night</td></tr>
</table></td><td></td></tr>
</table>

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1(b)</td><td>
<table>
<tr><td></td><td>Advantages</td><td>Disadvantages</td></tr>
<tr><td>Bilaal</td><td>• Speaks several languages so can talk to tourists which improves the service and reputation of KAT taxi business
• Will work early so will be more flexible for passengers requiring services for early morning pick-ups</td><td>• Not punctual so KAT may get a bad reputation for taxis being late with unhappy customers demanding their taxi fare back
• The most expensive in terms of total wages of the three drivers at $320 per week</td></tr>
<tr><td>Recommendation</td><td colspan="2">• Aamir should be made redundant because he is the most expensive per hour to employ of the three drivers at $10 per hour. This will save the high hourly wage cost for the business. Samuel can be used to offer the new service for tourists so KAT can get started with the new service quickly as KAT has a driver who is already trained. Whilst Bilaal speaks several languages and can offer a better customer service when transporting tourists gaining a better reputation and more sales for KAT. So, these two drivers should not be made redundant.
• Samuel should be made redundant because he is not willing to work early or late and these times may be when taxi services are required. Therefore, if Samuel is kept some jobs will be lost and KAT may lose revenue.
• Bilaal should be made redundant because he is often late, and KAT will get a poor reputation with customers. KAT will lose revenue from lost taxi services which may lead to lower profits.</td></tr>
</table>
</td><td></td></tr>
</table>

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Question	Answer	Marks
2(a)	**Explain how each of the stages of the business cycle may affect a business.** Award 1 mark for each way a business may be affected by the stage of the business cycle (maximum of 4 marks). Award 1 additional mark for each explanation of the way a business may be affected (maximum of 4 marks). There are no application marks for this question. Relevant answers might include: Growth: • Increasing demand (1) resulting in increasing sales and output (1) • Increasing business confidence (1) so more likely to invest in the business (1) Boom: • There are high levels of demand (1), so prices are likely to be rising (1) • There are shortages of raw materials / inflation rising (1) which results in costs rising (1) • Shortages of workers as unemployment is falling (1) during the boom stage when many businesses will be expanding (1) Recession: • Falling sales (1) when in the recession stage where there is too little spending (1) • Business has to cut costs (1) as revenue is likely to be falling (1) Slump: • In the slump stage of the business cycle revenue will be falling (1) which may lead to workers needing to be made redundant (1) • Businesses may fail and need to close down (1) during the slump which is a long-term recession when there are high levels of unemployment (1)	**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 <u>three</u> methods Kris and Anaa could use to communicate with their employees. Which method should they choose if a taxi is needed urgently? Justify your answer.
<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 methods. Well-justified conclusion.

Candidates discussing all three methods in detail, in context and with a well-justified conclusion, 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 choice 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 choice made.

Candidates outlining all 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></td><td>Advantages</td><td>Disadvantages</td></tr>
<tr><td>Mobile (cell) phone</td><td>• Two-way communication – chance for the driver to ask questions – feedback if the driver needs to check the pick-up location of the passengers
• Know the message has been received by the employee and the driver knows where to go</td><td>• Making calls can increase costs
• Time consuming to talk to each taxi driver separately
• May not be a signal – so cannot get through to any of the three employees – time taken to keep calling</td></tr>
<tr><td>Email</td><td>• Written record – there is hard evidence of the message – can be referred to in the future if the driver forgets where to pick up the passenger – evidence if any dispute about the location of the job
• Able to provide detailed information / details can be included
• Can send to all employees at the same time – quicker than calling each driver separately</td><td>• No chance for clarification by taxi drivers – immediate feedback not possible – employee may have questions about the number of passengers to pick-up
• No internet access makes it undeliverable
• Not sure if the message has been received – no confirmation it was received
• Not personal and may make employee feel not valued – may reduce motivation</td></tr>
</table></td><td></td></tr>
</table>

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>2(b)</td><td>
<table>
<tr><td></td><td>Advantages</td><td>Disadvantages</td></tr>
<tr><td>One-to-one meeting</td><td>• More personal – makes employee feel valued – more likely to accept their tasks
• Can judge the body language of the taxi driver and can assess the reaction to the allocated work</td><td>• Time consuming to meet each of the three employees individually
• Loss of time when Kris or Anaa could be carrying out taxi services themselves and earning revenue for the business</td></tr>
<tr><td>Conclusion</td><td colspan="2">• Mobile (cell) phone call is best as the message can be passed on directly to each of the three taxi drivers. Kris and Anaa will know the message has been received and understood and there is more chance for the drivers to ask questions if they require clarification of a location or number of passengers to pick-up. Emails are too impersonal and there is no guarantee the drivers will receive the message as it could have gone into junk mail. One-to-one meeting will require each of the drivers to come into the office to speak to Kris and Anaa and this will stop them from carrying out taxi services which could lose revenue for the business.
• Email is best as the drivers may need the information written down so they can read it over again if they forget what time and where they need to go. They can reply to Kris and Anaa if they need anything clarifying.
• One-to-one meeting is the best method of communication to use as there are only three drivers so it will not take that long to speak to each of them. The drivers are more likely to understand the job if it is personally explained by Kris or Anaa.</td></tr>
</table>
</td><td></td></tr>
</table>

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Question	Answer	Marks
3(a)	**Explain <u>one</u> suitable objective for each of KAT's stakeholder groups.** • **Owners** • **Employees** • **Customers** • **Local community** Award 1 mark for each objective of the stakeholder group (maximum of 4 marks). Award 1 additional mark for **each explanation of the stakeholder group's objectives in context**. Relevant answers might include: Owners: • To increase profit/make a profit – **for the two partners of KAT** • To expand/grow the business • To increase sales • To maintain brand image/high reputation/customer satisfaction • To reduce costs • To increase productivity/efficiency • To survive Employees: • To receive higher wages – **for the three taxi drivers** • To have job security • To have improved working conditions • To work sociable hours • To be motivated and happy at work Customers: • To have low prices – **for taxi services from the airport to the hotel** • Want to be able to go back and use them again • Receive a reliable service Local community: • Clean environment – **for tourists who visit country Z** • Not cause traffic congestion in the area • Taxis to be driven carefully – so as not to cause accidents or damage to property in the local area For example: Employees will want to have job security (1) so that any of the three employees can keep earning a living and providing for their families (app). **Application** could include: tourists; taxi services; 5 taxis; 3 employees; taxi drivers; partnership; started 7 years ago; airport; hotel; demand fell for taxi services; economy in recession; fuel; journeys; travelling.	**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> methods of market research Kris and Anaa could carry out when choosing which new taxi services to introduce. Which method will be most useful to Kris and Anaa? Justify your answer.

- **Online questionnaire**
- **Accessing government population statistics**
- **Focus group**

<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 methods of market research.

Well-justified conclusion.

Candidates discussing the three methods in detail, in context and with a well-justified conclusion 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 choice 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 of market research with little/no explanation.

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

Candidates outlining the three methods of market research 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>Online questionnaire</td><td>• Wider range of respondents as may be more convenient to complete
• Cheaper to collect quantitative data about customer demand for tourist trips than using focus groups
• Can automatically collate results about customer demand for transport services saving Kris and Anaa time
• But with no interviewer, questions may not be understood and so answers may be less valid
• May not gain a wide range of views if some people do not have the internet and therefore the replies from these people are missed</td></tr>
<tr><td>Accessing government population statistics</td><td>• Quicker and cheaper to collect than primary research sources
• Gives an idea of age groups in the local area and total size of the market for taxi services for elderly customers
• Statistics may be out of date
• Data is available to all taxi businesses including competitors</td></tr>
<tr><td>Focus group</td><td>• Qualitative data so more detailed opinions on different taxi routes and fares can be gathered
• Questions can be explained so opinions on what sort of transport services potential customers want can be gathered, therefore the data is more reliable and relevant
• Primary research is up-to-date and relevant to the specific taxi services Kris and Anaa are considering offering
• But it is expensive and time consuming to collect as it will take time away from working as a taxi driver for Kris or Anaa
• Discussion could be biased if some of panel members have strong opinions on which types of tourist trips they want offered
• Difficult to ask tourists as they may not be available to join a focus group</td></tr>
</table></td><td></td></tr>
</table>

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Question	Answer		Marks
3(b)	Conclusion	Justification might include: • If opinions are required, then a focus group or online questionnaire may be better than population statistics, as this data is directly from potential customers and population statistics are about everyone. Online questionnaires are more likely to gather **information from tourists from other countries**. However, as a **small partnership business** the budget for market research is likely to be low therefore a focus group will be too expensive, and an online questionnaire should be chosen. • Government population statistics should be chosen if Kris and Anaa want to find out about the total size of the market for elderly consumers. Their budget is likely to be low and they will not have much time to spend collecting the data as they **already drive two of the taxis**. • A focus group is the best one if Kris and Anaa have the budget and the time to collect the data. It will provide the most detailed information about the opinions of consumers and is more likely to help Kris and Anaa provide the most popular **day trips** for taxi services for consumers. This should enable KAT to be most successful in the future using the data collected to better meet customer needs.	

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Question	Answer	Marks
4(a)	**Explain <u>two</u> reasons why it is important for KAT to have sufficient working capital.** Award 1 mark for each relevant reason (maximum of 2 marks). Award a maximum of 3 additional marks for **each** explanation of the reasons why having sufficient working capital is important to KAT – **one of which must be applied to this context.** Relevant answers might include: • To be able to pay for day-to-day expenses e.g. fixed costs/variable costs/overheads (1) if not able to pay for these costs, then output cannot be produced (1) and no taxi services could be offered (app) • To prevent cash flow problems (1) so the business does not lack liquidity (1) and does not become insolvent / cease trading / not survive (1) • To support a bank loan application (1) as having enough working capital will help to show an ability to repay the loan (1) as there are more current assets than current liabilities (1) • To ensure the business has a good credit reputation (1) and is able to buy supplies of petrol/gas (app) to satisfy customer needs (1) as if not then it will gain a poor reputation with customers for being unreliable (1) • To be able to offer customers credit terms to encourage sales (1) • To pay for unexpected expenses (1) For example: Needed to pay day-to day expenses (1) as KAT will need to buy petrol/gas to carry out the taxi services (app). If there is insufficient working capital, then it will be difficult for KAT to continue trading (1) because without wages and other expenses paid Kris and Anaa cannot continue operating KAT (1). **Application** could include: taxi services; 5 taxis; 3 employees; taxi drivers; partnership; started 7 years ago; transport tourists; airport; hotel; demand fell for taxi services; economy in recession; fuel/petrol.	**8**

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>4(b)</td><td>Referring to Appendix 3 and other information, consider KAT’s <u>three</u> vehicles. Which vehicle should Kris and Anaa decide to sell? Justify your answer.
<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 vehicles. Well-justified recommendation.

Candidates discussing all three vehicles in detail, in context and with a well-justified recommendation, including why the alternative vehicles 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 vehicle.

Judgement with some justification / some evaluation of choice made.

Candidates discussing two or more vehicles 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 vehicles with little/no explanation.

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

Candidates outlining all three vehicles 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 points might include:

<table>
<tr><td>Vehicle A</td><td>• Can carry 10 passengers which is the highest number of passengers so can potentially earn more revenue
• Can meet the demand from larger families as the average size of the tourist families is 6
• The amount left over is $2800, after repaying the loan of $7200
• The highest variable cost of $0.60 per kilometer but can carry more passengers per journey
• Variable costs are higher than for the other two vehicles and therefore profit may be lower, if costs are higher, and assuming revenue is the same</td></tr>
<tr><td>Vehicle B</td><td>• Highest current value of vehicle of $20 000 if sold
• Cash outflow is improved if vehicle sold as $300 per month is no longer paid for loan
• Uses electricity and is therefore environmentally friendly which may make KAT more attractive for some tourists possibly increasing sales and revenue / may be prepared to pay a higher price
• The lowest variable cost of all three vehicles – half of taxi C and a third of taxi A
• Highest amount left to pay on the loan – $18 000
• The highest number of years left to pay on the bank loan – 4 years more than vehicle C
• $2000 surplus after loan repaid</td></tr>
<tr><td>Vehicle C</td><td>• Has the lowest resale value at $5000 which will not provide much cash for the new taxi service
• Lowest amount left to pay on the remaining loan – $1800
• Highest amount left over after repaying the loan of $3200
• Carries the lowest number of passengers therefore revenue may be lower for this taxi
• May be a more suitable vehicle for local people if introducing new services for elderly customers</td></tr>
</table></td><td></td></tr>
</table>

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Question	Answer		Marks
4(b)	Recommendation	• Vehicle A is the best one to sell as it has the highest variable cost and only achieves $2800 after paying off the bank loan, which is less than vehicle C. Vehicle C has the highest amount left over after repaying the loan and Vehicle B has the lowest variable cost at $0.20 per kilometre so both these vehicles should be kept. • Vehicle B is the best one to sell as it has the biggest monthly reduction in **loan repayments of $300** and should improve the cash flow. • Vehicle C is the best one to sell as it carries the smallest number of tourists and cannot be used for the **average tourist family of 6.** This restricts the number of journeys that can be taken and may lead to lower revenue for KAT. It will bring in the most money to help with the cash flow with $3200 after the loan has been repaid.	

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