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UPDATED TO 2022 SYLLABUS

**CAIE AS LEVEL  
BUSINESS (9609)**

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SUMMARIZED NOTES ON THE MODEL ANSWERS SYLLABUS

## 1. 9609/22/O/N/20

### 1.1. Q1 Energy Solutions

a)i) Revenue is the total income earned by a business from the sale of goods and services in a given time period

ii) Unit costs are the expenses incurred by a business to produce a single product.

Unit costs = total costs/output

b)i) Director =  $0.25/100 \times 12$

= \$0.03m

Manager =  $0.1/100 \times 12$

= \$0.012m

Difference =  $0.03 - 0.012$

= \$0.018m

ii) Using a profit sharing scheme will lead to reduced retained earnings for ES as a greater proportion of the profits is distributed between employees and shareholders. This means that ES will have to greatly depend on external sources of finance to invest in their expansion plans of opening new fracking sites and buy licences worth \$50m for the same.

### 1.2. Q1 Energy Solutions

c) To purchase a fracking licence, ES can use a variety of internal and external sources of finance like retained earnings, sale of assets, debentures, equity capital, bank loans, etc.

One internal source of finance may be retained earnings. As ES has been operating for 25 years and had

*12 million in 2018 it is likely to have enough retained earnings to invest in buying licences worth*

50m. Using retained earnings means they are available immediately, allowing ES to quickly increase supply of energy, leading to high sales and profits. Also, ES will not have to repay this money or pay any interest on it, allowing them to raise finance without increasing their debts and liabilities. But, doing so, has an opportunity cost. ES could've used this money elsewhere, perhaps to buy machines and other capital equipment which may be required in the new fracking sites.

ES can even sell shares as a source of external finance to raise money to buy licences worth \$50m. As it is a public limited company, ES can sell shares to the general public, making it easier to raise finance. Also, as it is an already established business, running for 25 years, it may not have to spend much on advertising about the shares. Furthermore, it is a permanent source of finance and ES does not have to repay it or pay any interest on it. But, shareholders will expect dividends each year, in return for investing in the company. Also, there will be a further delusion of ownership in the company leading to a loss of control for the original owners of ES.

### 1.3. Q1 Energy Solutions

d) Stakeholders are people who are affected by and therefore have an interest in all activities made by a business.

One stakeholder who will be heavily affected by the continuation of the fracking process is the local community. As ES is planning to open newer fracking sites, people in the local community may get more jobs, increasing the average income and living standards in the area. But, they will have to suffer minor earthquakes, making it difficult for them to live. Furthermore, it is leading to a fall in the prices of houses near the fracking sites, meaning their houses are worth less than the actual rate. It is even causing pollution, worsening the health and living standards of people living near the fracking sites.

Another stakeholder that may be affected by the continuation of the fracking process are customers. As fracking sites are increasing, country X is becoming self-sufficient leading to lower energy prices for consumers and other businesses. This increases consumer purchasing power and allows them to increase spending. It even lowers the average cost of living in country X. but, its effectiveness depends on whether ES and its competitors lower the prices or continue to charge high, premium prices.

Overall, the local community will be greatly affected by the continuation of the fracking process. Unless fracking companies like ES become more sustainable and find ways to reduce pollution and earthquake problems, the local community will continue to be negatively affected by the process.

*12 million in 2018 it is likely to have enough retained earnings to invest in buying licences worth*

### 1.4. Q2 Gemini Theatre (GT)

a)i) Cost based pricing involves adding a fixed mark-up to the total cost of the product, to account for profit

ii) Cash is the money available to the business to pay for daily expenses, whereas profit is the difference between revenue and costs. Cash is needed to survive, but a business can survive without profits

b)i)  $40 \times 250 = 10000$

$10000 \times 9 = 90000$

$50\% \times 90000 = \$ 45000$

ii) Renting the theatre to other visiting groups allows GT to reduce the total risks of running the theatre. It allows GT's fixed costs like rent, insurance to be spread over a wide variety of performances. This, further, allows GT to remain liquid, if demand for any one of their performances falls

### 1.5. Q2 Gemini Theatre (GT)

c) Demand is the willingness and ability of a customer to buy a certain quality of a product within a given time period. One main factor affecting the demand for performances at GT's theatre may be the price of each ticket. If the ticket is too expensive when compared to competitors, demand for GT's performances may fall. For ex. the Wise Owl performance may be of higher price than a similar performance at competing theatre, due to which it is only 60% sold. One main reason for GT's uncompetitive pricing may be its pricing method. They use cost-based pricing and add a 50% mark-up which may lead to higher prices.

Another factor affecting demand for GT's performances may be the income of potential customers. Visiting a theatre may be considered as a luxury service, so even a small fall in incomes will drastically reduce its demand as consumers' purchasing power will reduce. But, if incomes in the economy are rising, people will have a greater disposable income for spending on luxury and leisure goods and services, leading to increased demand for performances at GT's theatre.

## 1.6. Q2 Gemini Theatre (GT)

d) in order to fill the theatre manager position, GT can employ either Nick or Portia.

Recruiting Nick may be beneficial for GT as he already has experience in working in the theatre business, meaning GT will not have to spend much on training Nick. Furthermore, Nick has A levels in business, allowing him to find ways to manage and overcome the cash flow problems GT is facing. Also, it will allow him to easily take up the accounting task GT requires. Plus, hush A levels in Art and Chinese may further help Nick talk to and attract a wider variety of customers and performing groups, helping lower risks. This will further help increase sales and profits and can be used as its USP while promotion and product differentiation. But, Nick has no management experience so he may require someone to supervise and guide him. Also, he may make poor decisions which could lead to the failure of GT. he may not be able to successfully tackle the cash flow problem GT is experiencing. Moreover, Nick has plans to move abroad in future meaning GT will have to find a replacement for Nick in the near future, adding to their recruitment and training costs.

GT can even employ Portia for the theatre manager position. Portia already has 8 years of experience as a manager making it easier for her to manage GT and overcome its cash flow problems. Also, as she was the manager of the bank, she is likely to have good people skills, making it easier for her to attract more customers and performing groups to GT. Also, her good sense of humour may make it easier for people to work with her, attracting more customers. This will lead to increased sales and revenue for GT, leading to higher dividends to all shareholders. Furthermore, unlike Nick she is looking for a long-term career encouraging GT to employ her as they may not have to find a replacement for her and suffer recruitment costs. But, Portia has no experience in

working at a theatre, due to which training costs will rise GT may have to use induction and off the job training for Portia so that she's fully aware about her duties, adding to higher costs for the business. Also, she was late for the interview, which may indicate that she's not organised. This may be a problem for GT as in order to successfully manage the theatre, a person must be organised.

Overall, Nick may be a better employee for GT as he has experience in the industry which is more important than his personality. Also, he may be a better choice as they do not have enough cash flow to fund training programs.

## 2. 9609/12/O/N/20

### 2.1. Section A

1a. Branding is a marketing activity which involves establishing a unique name, logo or symbol of the product which helps differentiate it from its competitors.

1b. Establishing a brand will help a business establish its USP and add greater value to their product. This helps the business gain a competitive edge and maximize customer satisfaction, helping increase sales and profits. Also, establishing a brand aids in customer recognition and perception as it helps create a distinctive, luxury image in consumer's minds. This leads to an improvement in the company's brand image and loyalty, further helping increase sales and market share.

2a. Gross profit margin is a measure of how effective the business is in turning its revenue into gross profit and maintaining its cost of sales.

Gross profit margin =  $\frac{\text{Gross profit}}{\text{revenue}} \times 100$

2b. A business can improve its profit margin by reducing its costs of sales. This can be done by finding cheaper raw material sources, helping lower total inventory costs and improving the profits earned by the business. The business can even improve its profit margin by increasing the price it charges but ensuring its costs remain constant. This may be done by increasing the quality of the product by improving customer service. This will help increase total revenue earned, helping improve profits and profitability margins.

3a. A private limited is a small to medium sized business whose shares can only be sold to friends and family members. Whereas, a public limited company has the ability to sell shares to the public. A business may not want to switch to a public limited company as there is greater risk as any business can easily take over the firm by having enough shares of the company as they are available on the stock exchange. Also, switching into a public limited company is expensive as the business will have to issue a prospectus and float on the stock exchange. The business may not have enough finance to fund this expansion, encouraging them to remain as a private limited company. Furthermore, switching

to a public limited company means that there will be divorce between ownership and management. This means that the original owners will have a lesser say in the business's decision making and may have to forgo its control as a separate board of directors will be appointed. Also, each shareholder will expect a return on their investment in terms of dividends, which may reduce the total retained earnings available for the business for future expansion as the number of shares issued will increase.

4a. Effectiveness involves meeting the objectives of the business by using inputs productively to produce output which meet customers' needs.

4b. A business can increase its productivity by training its workers. This will help increase the skills of the workers and their motivation levels, allowing them to become more efficient as their job satisfaction rises. This allows workers to increase the total output produced, helping raise productivity. Also, increase in productivity can be done by employing new, more advanced technology. This will allow the business to increase the total output as the number of mistakes and accidents will fall, in turn indicating a rise in productivity.

## 2.2. Section B

5a. Self-actualisation is a sense of self-fulfilment reached by feeling enriched and developed by what one has learned and achieved. It involves reaching one's full potential.

A business can satisfy an employee's self-actualisation needs by delegating greater tasks to the worker. This will allow the employee to make creative and innovative decisions and find unique solutions, leading to personal growth and development. However, if the business can even train workers which will help improve their efficiency and skills, making it easier for them to take up more challenging tasks and helping them reach their full potential. This will give the worker opportunities to develop and apply new skills in the work, allowing them to increase their potential. The business can even adopt a job enrichment policy for helping workers achieve their self-actualisation needs. Job enrichment aims to use the full capabilities of workers by giving them the opportunity to do more challenging and fulfilling work. This involves complete units of work, variety of tasks and proper feedback on performance. The business can use a team working policy which will allow workers to produce complete units of a product, helping improve their job satisfaction and allowing them to widen the range of skills they have. Also, providing a variety of tasks will allow an employee to further increase their skills, allowing them to specialise and achieve their full potential. Furthermore, if the managers provide proper feedback on employee's work and appreciate and recognise good work, it will help improve an employee's self esteem needs and lead to personal growth, helping in reaching self-actualisation.

7a. Cost information is a record of a firm's expenses like labour costs, marketing expenses, inventory costs, etc.

Accurate cost information will allow a manager to set prices for their goods and services, in a way to ensure all costs are being covered and a profit is earned. It allows the business to assess their margin of safety and identify the minimum sales/production they require to ensure all costs are covered and losses are avoided. Furthermore, information about specific costs in terms of direct costs, indirect costs, fixed costs, variable costs will allow a manager to identify specific strategies which will help reach their targeted profit and achieve their corporate objectives. For example, if the business is facing higher direct costs, the manager may find cheaper suppliers to help lower their inventory costs, allowing them to increase output and profits. Also, it will allow the manager to compare the data with previous years to identify the effectiveness of the policies they have implemented in helping lower costs and raise profits. It will even allow the business to compare information with competitors to help identify who is more efficient at controlling costs and assess who has a competitive edge. This may be highly important for a business in a highly competitive market. Having cost information will allow a senior manager to efficiently allocate resources. For example, it will allow the manager to identify the marketing budget for each product, which will allow the marketing department to make more accurate decisions about the promotion and market research.

7b. Cash flow forecast is an estimate of a firm's future inflows and outflows. Having a cash flow forecast will allow the new car hire business to identify times it may run out of cash and arrange for other sources of finance like a bank loan to avoid liquidity problems like insolvency. It will make sure the business has enough money to pay salaries, rent, insurance, etc and other short term costs of a business. It will help lower the risk of business failure due to financial problems as it will act as a warning system and allow the entrepreneur to increase the working capital available. Also, having a cash flow forecast may make it easier for the new business to get access to sources of finance like a bank loan or attract venture capitalists as it will help the bank understand the financial position of the business and assess its ability to repay money. It will help provide the bank information regarding the business's working capital position, helping the bank assess whether the business is a good credit risk. This will even help the manager plan for the future in terms of expansion by purchasing new cars or employing more workers, etc. Furthermore, it will allow the manager to identify ways to lower their total cash outflows to improve the net monthly balance. It will help the business identify how to deal with cash flow and liquidity problems. They may be able to do this by leasing out cars rather than purchasing them, lowering the need for a huge capital outflow. The business can even employ part time workers rather than full time so that they don't face high cash outflows during off-peak seasons.

But, a cash flow forecast is an estimate created based on the market research. It may or may not be accurate due to the dynamic business environment as there may be increased

competition, changes in economic activity, etc. also, as the new entrepreneur may not be experienced, they may make wrong sales and cost forecasts for the business and making all decisions on this basis may lead to business failure as it may not be accurate. The business could have overestimated its sales and under-estimated its costs, indicating a positive net monthly balance, which may not be true.

Overall, for a new hire business, cash flow forecast is important for its success, but may not be the most important factor. Other factors like quality of service, customer relations, level of value added by the business, profitability may also be necessary factors while determining a company's success. For example, even if a business is in a good cash flow position, but is unable to remain flexible and provide for changing customer needs, it may fail as customers will be dissatisfied.

But, for a new business, cash flow may be considered as the most important factor in the short run, as they must ensure they are liquid enough to be able to continue trading as they may face intense competition. But, in the long run, profitability may be the most important factor of the new car hire business as it is the main aim of any business activity.

### 3. 9609/11/O/N/20

#### 3.1. Section A

1a. Market share is the total proportion of sales achieved by one business in the market.

Market share =  $\frac{\text{total sales by one business}}{\text{total market sales}} \times 100$

1b. A retailer can increase their market share by improving the quality of customer service provided. They may do this by training workers, taking customer feedback and improving customer relations. A retailer can even increase its market share by providing special offers and discounts like price reductions and buy one get one free. This will encourage consumers to switch to the business instead of competitors, helping increase total sales of the business.

2a. Venture capital is the risk capital invested in new, small and medium-sized businesses who have good profit potential but find it difficult to raise finance from other sources.

2b. A venture capitalist will provide advice and guidance to the entrepreneur about how to run and manage the business. This will help avoid cash flow problems, marketing problems, etc and reduce the risk of failure. Venture capitalists provide long term finance for a business allowing them to expand and invest in capital goods and advanced technology, which may not be possible otherwise as the business found it difficult to raise money from other sources like banks.

3a. Team-working occurs when production is organised so that groups of workers undertake complete units of work. Motivation is the internal and external factors that encourage

an employee to work more productively towards achieving a specific aim. Working as a team helps satisfy employees social and self-esteem needs, as identified by Maslow in his Human needs theory. It allows workers to undertake complete units of production, increasing job satisfaction derived, improving their productivity. Also, team working increases the opportunities for job enrichment, which is a key motivator as identified by Herzberg, in his 2-factor theory. It encourages managers to delegate greater tasks to the team, increasing the opportunities for empowerment, increasing job satisfaction. Also, it will allow employees to participate in decision making, which will make the employee feel more valued and trusted. Furthermore, it will allow employees to develop and become multiskilled by learning from each other, leading to personal development and allowing a person to reach their self-actualisation (full potential) level. Working as teams will even reduce conflicts between workers which will create a more positive work environment.

4a. Productivity is the ratio of inputs and outputs during production. It is a measure of how effectively inputs were converted into outputs.

4b. Process innovation involves the use of new, more advanced technology and machinery. This will allow the business to increase its total output and lower the total costs of production as wastage is minimized. Also, it will ensure the quality of the goods produced is standardised, increasing the value added by the business, leading to improved competitiveness. Furthermore, using better inventory control systems like JIT will help lower storage costs and improve the inventory management system.

#### 3.2. Section B

5a. Laissez-faire leadership is a leadership style that leaves much of the business decision-making to the workforce. It is a hands-off approach and the reverse of the autocratic style. It helps improve worker motivation as they feel more trusted and valued. It allows workers to achieve self-actualisation. This in turn assists in improving worker productivity, helping lower average costs and increase the quality of goods produced. Also, it leads to lower labour turnover, reducing recruitment and training costs for a business, increasing their profits. Moreover, using laissez-faire leadership allows workers to be creative and innovative while making their decisions which can improve the quality of the good/service produced, helping improve customer satisfaction and the level of value-added by the business. This in turn increases the business's competitiveness and leads to a rise in sales and profits earned by the business. Also, it reduces the need for a business to have close supervision of each employee, allowing them to use a delayering policy and reduce the overall costs of a business. Furthermore, it makes the decision making the process faster. This is because employees are able to make their own decisions without the need to consult others.

5b. Democratic leadership is a leadership style which encourages workers to play an active role in the decision-making process of a business. Using democratic leadership style may delay the decision making process as all employees may be consulted which may be time taking. This may make the business less flexible in terms of responding to changes in consumer demand, market conditions, etc. This will lead to a fall in the business's competitiveness, reducing its sales and profits. Also, some workers may not want to get involved in the complicated decision making process. Some workers may work well with autocratic leadership style where they are directly told what to do. For ex. factory workers in a manufacturing business may not be interested in being involved in the company's decision making process. Forcing them to take part in the decision making process, may actually demotivate the workers. It can even lead to fall in productivity and increased costs. This may lead to fall in the company's profitability.

But, using democratic leadership may actually motivate some workers as they may feel valued and trusted in the organisation. It is a key part of job enrichment, which as identified by Herzberg and Maslow are important motivating factors. It may help a business find better solutions to certain problems as different viewpoints will be heard and taken into account. It may allow a business to find more creative and innovative ways to respond to problems like increased competition, allowing them to improve their competitiveness and market share. This will, in the future, lead to increased profitability and brand loyalty.

Overall, democratic leadership style may cause businesses to underperform in certain situations as it is more expensive and timetaking. But, the extent to which the performance of a business is affected by democratic leadership depends on many reasons like whether it is capital intensive or labour intensive, the culture of the organisation, which sector it operates in etc. If it is a capital intensive business, it is likely to employ greater unskilled workers rather than highly trained ones, encouraging the business to use autocratic leadership. But, if it is a service sector business which requires a greater level of creativity, democratic or *laissez-faire* may be more efficient as it will allow employees to reach their full potential and maximize customer satisfaction. But, every business has a level of autocratic leadership as not all information may be shared with employees. Decisions which require a quick response, for example, a fire emergency in a hotel, a manager may choose to use an autocratic leadership style as quick solutions are required.

### 3.3. Section B

7a. Price skimming involves setting a high price for a new product when a firm's product is a highly differentiated product with a low price elasticity of demand.

Using a price skimming strategy allows a business to quickly cover its research and development costs and start making a profit. It will ensure the company is able to maintain its cash flow balance and not A firm may use price skimming strategy to maximise their revenue as demand for their product is

likely to be price inelastic. This will allow the business to increase returns to shareholders and invest in future growth as profits will rise. Price skimming strategy may even be used to set a certain perception of the product in consumer minds as consumers may take the price as an indication of the product's quality. The business may want to establish their product as a luxury good, encouraging them to maintain a high price. Moreover, the business may charge a high price as the price is justified by the uniqueness of the product. Due to the USP of the product, consumers may be willing to purchase the product with higher prices, encouraging the business to exploit the market and maximise their revenue. A business may even want to exploit the market and gain a larger, loyal customer base before other competitors enter the market. This will allow the firm to maximize their short term profits.

7b. A brand is an identifiable symbol, name or image that distinguishes a product from its competitors. Marketing is the management task that links the business to the customer by identifying and meeting the needs of customers profitably.

If a business establishes a brand, it will allow its restaurant to stand out from its competitors. It will help add greater value to the service provided by the restaurant, leading to improved sales and increase in long-term loyalty. A new restaurant may find it difficult to capture a larger market share in such a competitive market as other competitors may enjoy long term brand loyalty. Building a brand will increase the trust consumers have in the business in terms of the quality of food served, helping increase the restaurant's sales and profits. It will help the business differentiate its service from competitors making it easier for the new restaurant to attract customers. Furthermore, establishing a brand will help lower the PED of the product and make customers less responsive to changes in price as they may be willing to pay higher prices for an exclusive service. This will allow the business to charge higher prices for their food as customers. Moreover, branding helps improve the 'product' part of the marketing mix as it becomes unique and differentiated. It even helps improve customer relations as the 'customer solution' part of the 4C's is improving. This helps maximise customer satisfaction, helping improve the brand image of the new restaurant.

But, for a new restaurant business, there may be other short term marketing objectives and activities which may be of greater importance. For example, a new restaurant business may aim to remain competitive and survive in their first year of trading so that they are able to establish themselves, rather than aiming to build a brand. Also, they may want to focus on the promotion part of the marketing mix to make consumers aware about the new restaurant and persuade them to try it. A new business's short term goal may even be maintaining a positive, stable cash flow so that liquidity problems are avoided.

Overall, branding may not be the most important marketing activity for a new restaurant business at least in the short run as they may want to focus on other activities like market

research. A new business may want to conduct market research to identify the price consumers are willing to pay, the type of cuisine they want, etc.

But, branding may be a long term objective for a business and all the short term objectives like market research and promotion will contribute in building a strong brand image in the long run.

# CAIE AS LEVEL

## Business (9609)

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