

**UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS**

GCE Advanced Subsidiary and Advanced Level

**MARK SCHEME for the June 2004 question papers**

**9707 BUSINESS STUDIES**

<b>9707/01</b>	<b>Paper 1 (Short Answer/Essay), maximum raw mark 40</b>
<b>9707/02</b>	<b>Paper 2 (Data Response), maximum raw mark 60</b>
<b>9707/03</b>	<b>Paper 3 (Case Study), maximum raw mark 60</b>
<b>9707/04</b>	<b>Paper 4 (Essay), maximum raw mark 40</b>

These mark schemes are published as an aid to teachers and students, to indicate the requirements of the examination. They show the basis on which Examiners were initially instructed to award marks. They do not indicate the details of the discussions that took place at an Examiners' meeting before marking began. Any substantial changes to the mark scheme that arose from these discussions will be recorded in the published *Report on the Examination*.

All Examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes must be read in conjunction with the question papers and the *Report on the Examination*.

- CIE will not enter into discussion or correspondence in connection with these mark schemes.

CIE is publishing the mark schemes for the June 2004 question papers for most IGCSE and GCE Advanced Level syllabuses.

**Grade thresholds** taken for Syllabus 9707 (Business Studies) in the June 2004 exam

	maximum mark available	minimum mark required for grade:		
		A	B	E
Component 1	40	33	30	22
Component 2	60	37	34	24
Component 3	60	40	37	26
Component 4	40	27	24	17

The thresholds (minimum marks) for Grades C and D are normally set by dividing the mark range between the B and the E thresholds into three. For example, if the difference between the B and the E threshold is 24 marks, the C threshold is set 8 marks below the B threshold and the D threshold is set another 8 marks down. If dividing the interval by three results in a fraction of a mark, then the threshold is normally rounded down.

June 2004

GCE AS AND A LEVEL

**MARK SCHEME**

**MAXIMUM MARK: 40**

**SYLLABUS/COMPONENT: 9707/01**

**BUSINESS STUDIES**  
**Paper 1 (Short Answer/Essay)**

**Section A**

- 1 (a) Partial definition. 1  
Full definition of the term. 2
- (b) Some awareness of a disadvantage. 1  
Partial explanation of an appropriate disadvantage. 2  
Full explanation of an appropriate disadvantage. 3
- 2 (a) Partial understanding of elasticity or partially correct formula. 1  
Full explanation of term or fully correct formula. 2
- (b) Some knowledge of a determinant. 1  
Partial explanation of a determinant. 2  
Full explanation of an appropriate determinant. 3
- 3 Limited understanding of a method of quality control. 1  
Good understanding of one method or partial understanding of two. 2-3  
Good explanation of two methods of quality control in a manufacturing context. 4-5
- 4 (a) Partial explanation. 1  
Full explanation of the statement. 2
- (b) Some awareness of the difference. 1  
Partial explanation of the difference. 2  
The difference well explained. 3

**Section B**

- 5 (a) Answers should focus on the aspects of control and motivation, with abdication of responsibility in Laissez-faire. Task needs can require an autocratic approach, whilst a less prescriptive control will perhaps encourage laissez-faire attitudes.

Knowledge and Application	Analysis and Evaluation
Level Two: Good awareness of key points of both styles. 3-4 marks	
Level One: Good explanation of one style or partial explanation of differences between two. 1-2 marks	Level One: Salient differences between styles explained. 1-2 marks

- (b) Answers should examine the benefits of a democratic style bearing in mind factors such as the quality of subordinates, the personality and ability of the manager and the company history. Factors such as needs are important, and workers' motivation. Appropriate reference to theorists such as Maslow, Mayo and Herzberg should be rewarded, whilst reference to McGregor is important.

Knowledge and Application	Analysis and Evaluation
Level Two: Outlines well how democratic management operates. 3-4 marks	Level Two: Evaluates value of democratic style, taking into account that it is not always appropriate or desirable for all personalities or circumstances. 7-10 marks
Level One: Some knowledge of meaning of democratic style. 1-2 marks	Level One: Analyses ways in which democratic style achieves effect. 1-6 marks

- 6 Answers should include factors such as fiscal and monetary policy (use of taxation, investment, interest rate policy etc.); inflation control measures; exchange rate policy; demand or supply side management; direct involvement through state enterprises etc. Appropriate effects on businesses should be shown, including effect on competitiveness, demand and supply; cost increase/reduction; effect on borrowing; effect of currency on exports/imports etc.

Knowledge and Application	Analysis and Evaluation
Level Two: Answer demonstrates good understanding of macro-economic factors. 5-8 marks	Level Two: Good understanding of how businesses are affected and to what extent they can achieve their objectives. 9-12 marks
Level One: Some awareness of the basic factors in macro policy. 1-4 marks	Level One: Awareness of the effects on businesses in different situations. 1-8 marks

- 7 (a) Answers should include knowledge of all stages of the PLC, including extension strategies. Should also show understanding of how promotion changes, e.g. heavyweight effort on launch; informative ads in growth; emphasis on brand and loyalty in maturity; reduced activity in decline; heavy promotion of extensions.

Knowledge and Application	Analysis and Evaluation
Level Two: Shows good knowledge of the PLC and type(s) of promotion. 3-4 marks	Level Two: Good understanding of the link between the PLC and promotional strategies. 5-8 marks
Level One: Shows awareness of the PLC and/or types of promotion. 1-2 marks	Level One: Some attempt to show how promotion changes with different stages. 1-4 marks

- (b) Answers should show knowledge of how companies need to finance marketing strategies. Long development stages need large cash injections; launch needs heavy spending; growth requires regular investment; maturity should provide cash cows etc.

Knowledge and Application	Analysis and Evaluation
Level Two: Good awareness of how cash flows during PLC. 3-4 marks	
Level One: Some knowledge of investment/returns at different stages. 1-2 marks	Level One: Analysis of the needs for companies to plan cash flows and the trade off between cash cows and products at other stages. 1-4 marks

### INDICATIVE GUIDELINES

To be used with the Mark scheme for Essay Marking

Marks

- 1-4 If the answer is largely irrelevant, but contains a few valid points.
- 5-7 If the answer possesses relevant material but is simple in expression and its grasp of the issues involved.
- 8-9 If the answer seems to be the minimum acceptable for A Level work i.e. it covers the basic textbook material (1) that seems to have been mastered by many of the candidates and (2) that is presented in a routine, unimaginative and sometimes unnecessarily lone-winded fashion; it also shows awareness of the more subtle issues raised by the question.
- 10-11 If the answer seems a basic pass with a little to spare (a few examples, facts etc.) and with an attempt at analysis.
- 12-13 If the answer strikes you as undoubtedly a pass, with something to spare (one or two passages with some insight displayed, some well worked examples, better than usual organisation and presentation of reasonable material).
- 14-16 If the answer is undoubtedly above average, eliciting the instinctive reaction 'good' i.e. it is beginning to stand out above the routine answer in terms of knowledge and understanding of facts and ideas; or it begins to display a genuine attempt to answer the question rather than regurgitate learned material, yet at the same time is clearly capable of improvement at this level.
- 17-19 If the answer is clearly very good, with clarity and economy of expression, use of good material to answer the question (the precise wording of which should be in no doubt from the reading of the answer alone!), sensible and often original exemplification – in other words showing a true insight.
- 20 If the answer immediately strikes you as ranking among the very best you have read at this level, and fulfils the criterion than (in your judgement) it is not capable of improvement by a student of 18 years, who will have to conceive and write the answer in an examination room in 30 minutes.

June 2004

**GCE AS AND A LEVEL**

**MARK SCHEME**

**MAXIMUM MARK: 60**

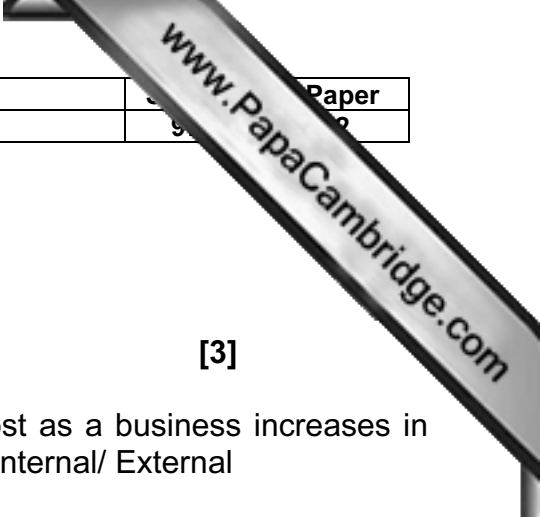
**SYLLABUS/COMPONENT: 9707/02**

**BUSINESS STUDIES**  
**Paper 2 (Data Response)**

## Assessment Grid

Question	Knowledge	Application	Analysis	Evaluation	Total
1(a)(i)	1	2			3
1(a)(ii)	1	2			3
1(b)(i)	2		3		5
1(b)(ii)	1	2			3
1(c)	1	2	2	3	8
1(d)	1	2	2	3	8
2(a)(i)	1	2			3
2(a)(ii)	1	2			3
2(b)	3	3			6
2(c)	1	2	2	3	8
2(d)	2	2	2	4	10
Total	15	21	11	13	60
Syllabus	18 +/- 4	18 +/-4	12 +/-4	12 +/-4	





# 1. Candy Shows Ltd

a) Explain the following terms:

**(i) Economies of scale** **[3]**

Content: The factors that lead to a reduction in average cost as a business increases in size. Could be marketing, financial, managerial, production. Internal/ External

Level 2: Good understanding	<b>(2-3 marks)</b>
Level 1: Partial Understanding	<b>(1 mark)</b>

**(ii) Multinational** **[3]**

Content: Businesses with operations in more than one country. Entertainments industry is dominated by multinationals. Often powerful, but bring needed expertise/ investment.

Level 2: Good understanding	<b>(2-3 marks)</b>
Level 1: Partial Understanding	<b>(1 mark)</b>

**(b) (i)**

Sales  $10,000 \times \$20 = \$200,000$  (1 Mark)  
 Programme sales  $0.1 \times 10,000 \times \$2 = \$2,000$  (1 mark)  
 Less Commission \$2,000 (1 mark)  
 Less Overheads \$10,000  
 Less ground hire \$2000 (1 mark)  
 Less hire of acts \$100,000  
 \$88,000 (1 mark)

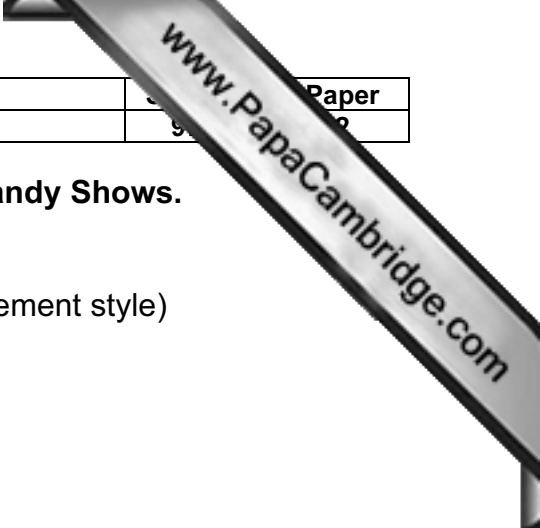
<b>5 marks</b> for correct answer
<b>3-4 marks</b> for correct method but incorrect calculations
<b>1-2 marks</b> for an attempt

**(ii) OFR Applies** **(3 marks)**

Comments must relate to profit calculation.

Simple observations such as large profit made with only large outlay on performers -need for finance to cover timing problems. Risk.

<b>Level 2:</b> Comments applied in context	<b>(2-3 marks)</b>
<b>Level 1:</b> Limited understanding of result	<b>(1 mark)</b>



**(c) Discuss methods for improving staff motivation at Candy Shows.**

Present system:

- Evidence of dissatisfaction (discontent, management style)
- Low pay + small perks
- Increased workload, likely to increase further
- Longer working hours

Possible solutions

- Performance pay
- Bonuses if a show is successful
- Profit sharing
- Improved management style
- ARA

Context is the evidence from the data.

Evaluation is likely to be a recommendation that is justified by the discussion or prioritising the issues, such as identifying key issues, or those issues most difficult to resolve.

<b>Knowledge and Application</b>	<b>Analysis and Evaluation</b>
<b>Level 2:</b> Shows understanding of motivation in context of the business <b>(2-3 marks)</b>	<b>Level 2:</b> Evaluation of motivation issues in context. <b>(3-5 marks)</b>
<b>Level 1:</b> Shows understanding of motivation <b>(1 mark)</b>	<b>Level 1:</b> Analysis of motivation issues <b>(1-2 marks)</b>

(d) Examine whether Candy Shows ltd. should become a plc if the management undertake more ambitious events.

Content:

- Clear need for greater finance
- Need to share risk
- May lead to greater expertise
- Improved credibility

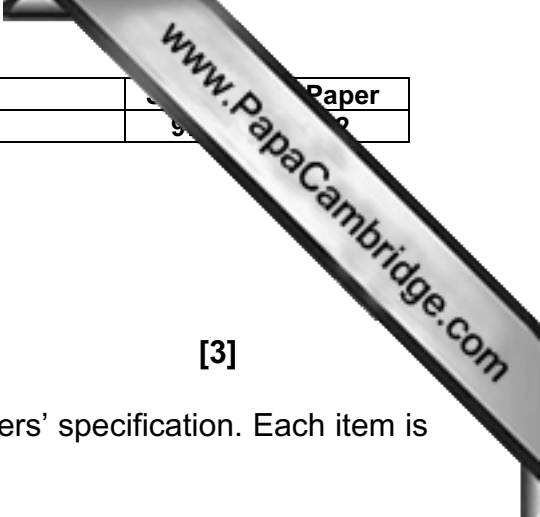
But:

- More rules and regulations
- Greater risk of takeover

Context likely to be: the nature of the business (entertainments), possible use of cash flow, the change proposed.

Evaluation likely to be: either an effective balancing of the arguments or the relative importance of the issues involved.

Knowledge and Application	Analysis and Evaluation
<p><b>Level 2:</b> Shows understanding of ltd/plc in context of the business</p> <p><b>(2-3 marks)</b></p>	<p><b>Level 2:</b> Good analysis/ evaluation of issues in context of the business</p> <p><b>(3-5 marks)</b></p>
<p><b>Level 1:</b> Shows understanding of ltd/plc</p> <p><b>(1 mark)</b></p>	<p><b>Level 1:</b> Limited analysis of changing from ltd. to plc</p> <p><b>(1-2 marks)</b></p>



# 1. Lasting Memories

(a) Explain the following terms:

**(i) Job production** **[3]**

Content: A single product is made at a time, often to customers' specification. Each item is unique. Costly, but interesting for employees.

Level 2: Good understanding	<b>(2-3 marks)</b>
Level 1: Partial Understanding	<b>(1 mark)</b>

**(ii) Capital expenditure**

Content: Spending now for a return in the future e.g. on plant, machinery, etc. Does not directly affect profit. Linked to investment appraisal.

Level 2: Good understanding	<b>(2-3 marks)</b>
Level 1: Partial Understanding	<b>(1 mark)</b>

**(b) Suggest why the government supported Lasting Memories** **[6]**

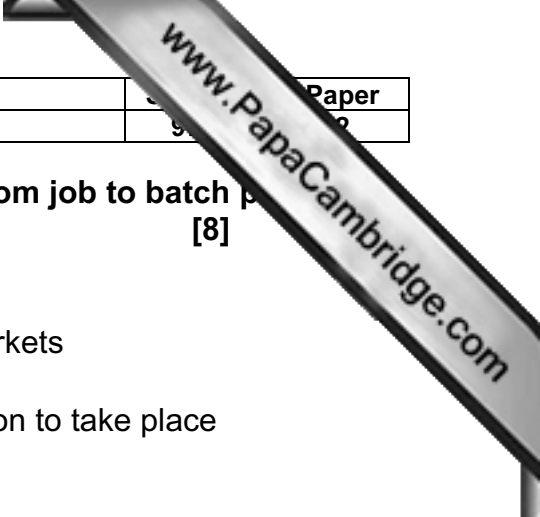
Content:

General issues:

- Encouraging small businesses
- Fostering enterprise culture
- Create employment
- Assistance for rural areas
- Policy to develop tourism
- Protect infant industries

Context is likely to be that the firm makes and sells crafts, it employs people in rural areas (high unemployment), it enables people to work without moving, it is involved in tourism, which is encouraged by most governments.

Level 2: Explanation and Application of government objectives in context of this business	<b>(4-6 marks)</b>
Level 1: States possible reasons or poor explanation in context	<b>(1-3 marks)</b>



**(c) Discuss whether Lasting Memories should change from job to batch production.** [8]

For:

- Will enable increased production for export markets
- Should reduce costs
- Increased production will be needed if expansion to take place

Against

- Will lose unique appeal
- Workers may not like change
- Reduction in skills needed
- Might involve fewer workers, Government may not be so keen on grants
- Do they have management skills/ facilities?
- Cost of implementation

Context likely to be: the village based nature of the business, the uniqueness of the products which is what tourists like, the traditional methods currently used, the skills of the workforce.

Knowledge and Application	Analysis and Evaluation
<b>Level 2:</b> Shows understanding of job/ batch in context of the business  <b>(2-3 marks)</b>	<b>Level 2:</b> Good analysis/ evaluation of issues in context  <b>(3-5 marks)</b>
<b>Level 1:</b> Shows understanding of job/ Batch  <b>(1 mark)</b>	<b>Level 1:</b> Limited analysis of changing from job to batch  <b>(1-2 marks)</b>

**(d) Examine the marketing difficulties that Ahmed & Beatrice might have if they expand into overseas markets.**

[10]

- Competition might be intense
- Unknown market
- No experience
- Retail outlets: where? cost?
- Would there be suitable agents?
- Matching production to demand
- Would the product need to change (taste, regulation etc)?
- Deciding on a price – no experience, completely different from home market
- Getting suitable research to help with decisions

Context is likely to be the international dimension, high degree of competition, the impact of change on a small business.

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	<b>BUSINESS STUDIES – JUNE 2004</b>	

Evaluation is likely to be prioritising the issues, such as identifying key issues and the issues most difficult to resolve.

<b>Knowledge and Application</b>	<b>Analysis and Evaluation</b>
<b>Level 2:</b> Shows understanding of marketing in context of the business <b>(3-4 marks)</b>	<b>Level 2:</b> Evaluation of marketing issues in context <b>(3-6 marks)</b>
<b>Level 1:</b> Shows understanding of marketing <b>(1-2 marks)</b>	<b>Level 1:</b> Limited analysis of marketing issues <b>(1-2 marks)</b>

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June 2004

GCE A LEVEL

**MARK SCHEME**

**MAXIMUM MARK: 60**

**SYLLABUS/COMPONENT: 9707/03**

**BUSINESS STUDIES**  
**Paper 3 (Case Study)**

Page 1	Mark Scheme	Syllabus
	BUSINESS STUDIES – JUNE 2004	9701

## Decision time at Topaz

Topaz Toys Ltd. is a medium sized toy manufacturing business. It started by making expensive hand-crafted wooden games and toys aimed at children under 8 years old. In recent years, the company has also entered other market segments. Currently, two of the best selling product lines are “Robot Warrior”, which sells well to 8-12 year old boys and “Gita Doll” which is popular with girls of the same age. Although made from plastic, these toys are not cheap. One of the reasons for their sales success is the imaginative promotion campaigns used by the company.

The sales of these two products has not been enough to satisfy everyone. Some shareholders are concerned about the lack of clear business objectives. Total Topaz sales have grown at a slow rate in recent years – below that of the whole market. The directors have, secretly, been discussing three strategy options to deal with this problem.

**Strategy A** is to accept a huge order from Adams, one of the country’s largest toy retailers, for 5000 “Robot Warrior” toys per month. These would be packaged and sold using the Adams brand name and the toy would be called the “Adams Attacker”. **Appendix A** contains details of the costs involved in meeting this order. Full workforce cooperation will be essential for this option to be successful. Adams are insisting on a financial penalty if the toys are not delivered on time.

**Strategy B** is to export “Robot Warrior” and “Gita Doll” into several other countries. This would probably be done by using wholesalers in those countries. New packaging, distribution charges and different consumer protection laws would all add to costs.

**Strategy C** is a longer term plan. It would involve establishing a Research and Development division to create inter-active computer games. These games would feature “Robot Warrior” and “Gita Doll”. Specialist computer programmers would have to be recruited. The games would be produced by low cost suppliers in other countries. Topaz’ Marketing Director believes that these new games would appeal to older consumers – perhaps up to the age of 18. He has worked closely with the Finance Director to estimate future cash flows from this strategy. These are shown in **Appendix B**.

Falling market share is not the only problem that the directors have to deal with. The Human Resources Director, Joe Sharma, is concerned about the rising staff turnover. Local unemployment is falling and it is becoming more difficult to fill staff vacancies. Joe has interviewed some workers who have decided to leave Topaz. He was surprised to discover that higher wages in other businesses was not the major reason for them leaving. This answer from one worker was typical:

*“At Topaz we never have the chance to express our opinions. New production targets and new products are introduced without any consultation. Also, many of the staff want to join a Trade Union but Topaz managers will not recognise unions within its factory. They expect our cooperation – but what is in it for us?”*

This comment made Joe think. Should he encourage the other directors to accept Trade Union recognition? How could he involve the workforce more? Would a system of Management by Objectives solve this problem? Would it lead to clearer objectives for the whole company? Joe knew that if he could not get the workers on his side none of the strategy options had a chance of success.



**Appendix A**

**Contract for Adams – cost and price details**

Direct Labour cost per unit	\$4
Direct Material cost per unit	\$2
Allocated fixed overheads per unit	\$3
Additional cost of special packaging and delivery to Adams per unit	\$1
Price to Adams per unit	\$8

**Appendix B**

**Estimated net cash flows (\$000) from Computer games:**

Year 0	(400)
End of year 1	200
End of year 2	300
End of year 3	300

10% Discount factors

End of year 1	.91
End of year 2	.83
End of year 3	.75

- (a) **Discuss the advantages and disadvantages for Topaz of its staff joining a Trade Union.** [10]

Possible answers to include: Explanation of what TU's are and why workers often join them; act as a channel of communication between staff and managers (seems to be needed in this case), used for collective bargaining, can help to resolve grievances and improve sense of involvement (needed in this case), can be part of a single union/no-strike deal. BUT may stimulate grievances (could be damaging to **Strategy A** with time limit penalty), can lead to industrial action, change balance of power between workers and managers.

	K and App	An and E
Level 2	4-3 marks Applies points made to the case	6-4 marks Judgement shown in text or conclusion
Level 1	2-1 marks Knowledge shown about TU's	3-1 marks Uses theory to explain the impact that TU's might have on a business

- (b)(i) **Using Appendix A, calculate the contribution per toy that Topaz would receive from the Adams order.** [4]

Answer: \$1 per unit = 4 marks

Good attempt at calculating contribution (e.g. ignores extra packaging cost) or only calculates on monthly basis (\$5000) = 3 marks

Some attempt = 2 marks (e.g. \$2 with no working)

Poor attempt = 1 mark (e.g. - \$2) or just a definition of contribution.

(2 App. marks and 2 An. marks)

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- (ii) Using all of the evidence, recommend to the directors of Topaz whether the order should be accepted.

Possible answers to include: OFR contribution – positive so better to accept the order (overheads being ignored for “marginal” contracts); will increase overall sales (Topaz worried about sales), maintain production and employment; avoids order going to a competitor; major retailer – could lead to further orders BUT is there spare capacity?; will it reduce sales of the original product?; could it lead to excess dependence on just one customer?

Marks awarded for quality of discussion – either YES or NO acceptable.

	K and App	An and E
Level 2	4-3 marks Points made applied to case	6-4 marks Judgement shown in text or in final recommendation
Level 1	2-1 marks Relevant points made about accepting new orders.	3-1 marks Use of theory to explain the importance of points made

- (c) Assume that the directors decide to start exporting “Robot Warrior” and “Gita Doll” to your country.

- (i) Outline TWO problems that Topaz might experience. [4]

Possible answers include: Exchange rates; different consumer laws e.g. safety of toys; market needs may differ; language on packaging. Must be clearly applied to toys and/or own country for level 2.

	K and App
Level 2	4-3 marks Applies points to the case
Level 1	2-1 marks Relevant points made about selling in foreign markets

- (ii) Suggest and evaluate a strategy for marketing these toys in your own country. [12]

Possible answers to include: Market research needed to inform M. mix decisions – this will help to determine appropriate marketing objectives; marketing budget must be adequate; price must reflect local market conditions and required image of product; promotion needed to inform and raise awareness – directed at parents and/or children; product may need to be adapted to local conditions; method of distribution should suit local conditions. Must be put into own country context for full marks. (Accept discussion of computer games not dolls).

	K and App	An and E
Level 2	4-3 marks Applies points to this product and own country	8 - 5 marks Judgement shown in text or conclusions that demonstrates own country context
Level 1	2-1 marks Relevant points made about marketing strategy	4 - 1 marks Theory used to analyse relevant points

**(d)(i) Outline TWO problems of forecasting cash flows for Strategy C. [4]**

Possible answers: Future is always uncertain especially in technology markets; this product/market for this firm – no previous data; prices from overseas suppliers subject to exchange rate changes; economic conditions might change.

	K and App
Level 2	4-3 marks Points made clearly applied to case
Level 1	2-1 marks Relevant points made

**(ii) Using Appendix B and the discount factors provided, calculate the net present value of Strategy C. [4]**

NPV = \$256,000 (accept 256)  
 Year 1 = 182  
 Year 2 = 249  
 Year 3 = 225  
 4 marks for correct answer  
 3 marks for correct PDV's but no deduction of original cost – or deduction twice  
 2 marks for attempted answer e.g. correct PDV's but no addition of them and no subtraction of original cost.  
 1 mark for some attempt to multiply discount factors by cash flows.

**(iii) Explain whether your result to ii) might influence the directors to choose Strategy C. [4]**

Possible analysis might include: This NPV might be sufficiently positive to reward the firm for the risk associated with R and D as long as they could afford the initial cost; result is high and even if the discount rate is increased it might still be positive; other (relevant) factors might be considered before a decision is taken.

	K and App	Analysis
Level 2	2 marks This might encourage the directors to go ahead with Strategy C.	
Level 1	1 mark NPV is positive (OFR)	2-1 marks Analyses the significance of the result

**(e) Do you think that Topaz should introduce Management by Objectives? Justify your answer. [8]**

Possible answers to include: Explanation of MBO; application to this case e.g. might give the firm a real sense of direction (more obvious to shareholders); opportunity to involve staff and will give them some sense of "ownership" over objectives and targets; may reduce labour turnover. BUT time consuming, can be rather inflexible, requires a change in Topaz management culture, staff might not be convinced by it given their lack of involvement in the past.

	Knowledge and Application	Analysis and Evaluation
Level 2	4-3 marks Applies points to the case	4 – 3 marks Judgement shown in text or conclusion
Level 1	2-1 marks Knowledge shown about MBO or objective setting.	2 – 1 marks Uses theory to explain how MBO might or might not assist a business.

June 2004

**GCE A LEVEL**

**MARK SCHEME**

**MAXIMUM MARK: 40**

**SYLLABUS/COMPONENT: 9707/04**

**BUSINESS STUDIES**  
Paper 4 (Essay)

Page 1	Mark Scheme	System	Number
	BUSINESS STUDIES – JUNE 2004	970	

Question  
Number  
1 (a)

**Explain how the management of the liquidity of a business might be made more effective with the use of appropriate accounting ratios.** [8]

*Candidates are not expected to produce the formula for the calculation of appropriate ratios. They should explain how they might be used to manage liquidity e.g. current ratio, acid test ratio, days sales in debtors ratio, creditors ratio etc*

**Knowledge and Application**

Level 1: States appropriate ratios/and or explains liquidity 1-2

Level 2: Outlines appropriate ratios, perhaps with the aid of formula, though this is not necessary. However, little understanding displayed of the usefulness in managing liquidity 3-4

**Analysis and Evaluation**

Level 1: Explains how appropriate ratios might be used to analyse and manage a business's liquidity position 1-4

**(b) Evaluate the methods a business might use to improve its liquidity.** [12]

*Answers might include a discussion of various methods such as: factoring, better stock management, perhaps reference to JIT, better credit control procedures, discounts, extending creditors period, increasing cash sales, overdraft etc*

**Knowledge and Application**

Level 1: States relevant methods 1-2

Level 2: Outlines appropriate methods without showing relevance to improving liquidity 3-4

**Analysis and Evaluation**

Level 1: Explains how appropriate methods might be used to improve liquidity 1-2

Level 2: Evaluates the usefulness of appropriate methods 3-8

Page 2	Mark Scheme	System	per
	BUSINESS STUDIES – JUNE 2004	970	

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2 **A manufacturer of chocolate bars is considering changing the price of its products in order to increase its market share.**

(a) **Analyse the usefulness of price elasticity of demand to managers of the business.** [8]

*Answers should define the concept of price elasticity, perhaps with the aid of the formula. An evaluation of the usefulness in terms of the relationship between price and revenue, with some appreciation of how difficult it might be to actually calculate PED in a real world situation.*

**Knowledge and Application**

- Level 1: Defines PED with no attempt to outline its usefulness 1-2
- Level 2: Outlines how the technique might be used 3-6
- Max 3 marks for no application to context.

**Analysis and Evaluation**

- Level 1: Explains the usefulness of the technique to the chocolate bar manufacturer 1-2

(b) **Evaluate changes to the marketing strategy, other than price, that would be needed to increase the business' market share.** [12]

*Answers should recognise that a marketing strategy requires planning and the setting of appropriate objectives. An appreciation of the resources available might also be usefully explained. A discussion of an appropriate marketing mix to the chocolate bar manufacturer is required.*

**Knowledge and Application**

- Level 1: States the elements of the marketing mix with little/no attempt to apply it to the context 1-2

**Analysis and Evaluation**

- Level 1: Explains an appropriate marketing strategy with reference to the marketing mix and its application within context 1-4
- Level 2: Evaluates an appropriate marketing strategy (including reference to planning, objectives and resources), to the chocolate bar manufacturer 5-10

3 **With reference to the theories of Taylor and Herzberg, discuss the importance of financial incentives as a way of improving the productivity of workers. [20]**

*Answers should outline appropriate financial incentives and then explain how successful these might be in increasing the productivity of workers with reference to the stated theories. Better answers will discuss the importance of non-financial incentives, once again with reference to the stated theories.*

**Knowledge and Application**

Level 1: States financial incentives with no/little attempt to relate their appropriateness to labour productivity, or weak/no references to appropriate theories 1-4

Level 2: Outlines appropriate theories and attempts to assess the appropriateness of financial incentives as a means of improving labour productivity 5-8

**Analysis and Evaluation**

Level 1: Explains, with the aid of appropriate theories, the appropriateness of using both financial and non-financial incentives to increase worker productivity 1-6

Level 2: Evaluates the usefulness of both financial and/or non-financial incentives as a means of improving worker productivity – fully supported by reference to appropriate theories 7-12

4 (a) **To what extent should ethical issues influence business objectives? [10]**

*Answers might discuss a range of ethical issues such as environmental concerns, treatment of employees, nature of products etc and the extent to which these concerns might, or do, influence the objectives of business.*

**Knowledge and Application**

Level 1: Identifies ethical issues without any attempt at explaining how they might influence business objectives 1-3

Level 2: Outlines how ethical issues should influence the objectives of a business 4-5  
2 issues required. Max 3 marks for 1 issue.

**Analysis and Evaluation**

Level 1: Explains the extent to which ethical issues should influence business objectives 1-3

Level 2: Attempts to evaluate the influence ethical issues should have on business activity 4-5

- (b) **Apart from ethical issues, evaluate the impact of one other external influence business objectives. [10]**

*Answers should identify a single influence other than ethical issues and evaluate its impact on business activities with reference to the candidate's own country.*

**Knowledge and Application**

Level 1: States appropriate influence without any attempt at explaining their influence on business activities 1

Level 2: Outlines an appropriate influence and attempts to identify their impact on business activities 2-3

**Analysis and Evaluation**

Level 1: Explains how an external influence might affect business activities in their own country 1-3

Level 2: Evaluates the impact of the candidate's chosen external influences on business activities in their own country 4-7

- 5 (a) **Examine the factors that a business might consider when deciding whether to decentralize. [10]**

*Answers might include a discussion of factors such as: size, geographical location, capability of local managers, strategic importance of decisions, response to local conditions, motivation factors, costs etc*

**Knowledge and Application**

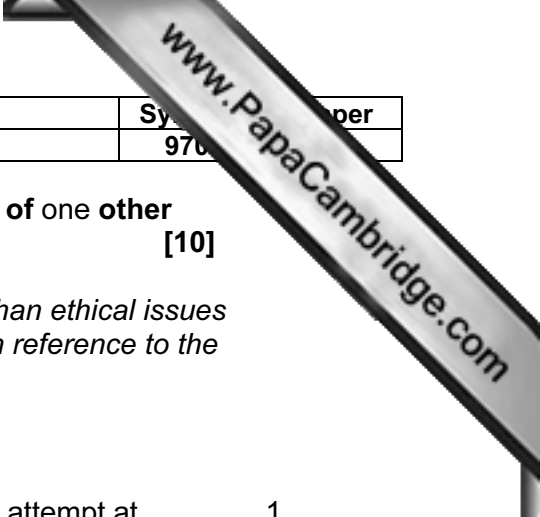
Level 1: Defines decentralization and states one or two factors without any explanation 1-2

Level 2: Outlines several factors with some attempt to explain the importance of these to the business 3-4

**Analysis and Evaluation**

Level 1: Analyses the importance of relevant factors 1-4

Level 2: Evaluates the importance of factors on business efficiency and effectiveness 5-6





(b) **Evaluate the methods management might consider to ensure effective communication within a decentralised organisation.**

[10]

*Answers should explain what is meant by effective communication and then proceed to explain the appropriateness of various methods. These might include, meetings, internet/intranet, telephone, video-conferencing, memorandum etc*

**Knowledge and Application**

Level 1: Defines effective communication and states methods with no attempt to assess their appropriateness 1-2

Level 2: Outlines appropriate methods without any attempt to assess their appropriateness 3-4

**Analysis and Evaluation**

Level 1: Explains relevant methods and relates these to effective communication 1-2

Level 2: Evaluates the appropriateness of methods 3-6

NB: any answer which does not focus on communication in a decentralized organization Max 4 marks.

6 **Two medium-sized show retailers are proposing to merge.**

(a) **Examine the possible reasons for this merger.** [8]

*Answers might include: to gain economies of scale, to be more competitive, particularly in international markets, to gain market dominance, to share expertise, neither can survive alone etc*

**Knowledge and Application**

Level 1: Describes the nature of a merger without any reference to the context or reasons for merging 1-2

Level 2: States appropriate reasons for the merger 3-4

**Analysis and Evaluation**

Level 1: Explains the possible reasons for the merger within the given context 1-4

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- (b) **Critically discuss how the stakeholders of these retailers might react to the proposed merger.** [12]

*Relevant stakeholders should be identified e.g. owners, employees, suppliers customers, creditors, Government etc. Answers should evaluate the possible reaction and impact of the proposed merger on each stakeholder group of the two shoe retailers*

**Knowledge and Application**

Level 1: Identifies relevant stakeholders 1-2

Level 2: States the possible effects of the merger on different/at least two stakeholders of the shoe retailers 3-4

**Analysis and Evaluation**

Level 1: Explains how different stakeholder groups of the two companies might be affected by the merger and their reaction 1-2

Level 2: Evaluates the impact on stakeholders of the two shoe retailers of the proposed merger 3-8

