

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS  
General Certificate of Education  
Advanced Subsidiary Level and Advanced Level

**BUSINESS STUDIES**

**9707/02**

Paper 2 Data Response

October/November 2005

**1 hour 30 minutes**

Additional Materials: Answer Booklet/Paper

**READ THESE INSTRUCTIONS FIRST**

If you have been given an Answer Booklet, follow the instructions on the front cover of the Booklet.  
Write your Centre number, candidate number and name on all the work you hand in.  
Write in dark blue or black pen on both sides of the paper.  
Do not use staples, paper clips, highlighters, glue or correction fluid.

Answer **all** questions.

At the end of the examination, fasten all your work securely together.

The number of marks is given in brackets [ ] at the end of each question or part question.

The businesses described in this question paper are entirely fictitious.

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## The Read & Learn Bookshop

Sophia owns and manages Read & Learn, a small bookshop in the town centre. She stocks a wide range of books although her target market is mainly students. She aims to stock recommended textbooks and CDROMs for various courses at schools and colleges in the town.

Sophia has looked at recent sales data:

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**Table 1 Sales (\$000)**

	2000	2002	2004
School Textbooks	4	4	4
Travel Books	10	8	6
CDROMs	0	0	4
University Books	0	4	12
Other Books	5	5	5
Total	19	21	31

Sophia is concerned at the decline in sales of travel books. Travel books have become more expensive for Sophia to buy so she had to increase the price by 20% between 2002 and 2004. However, they still make a positive contribution. Sophia could decide to stop selling travel books. She could use the space that they take up to increase her stocks of books for University courses by including books for the new Business School at the University. Sophia is worried that the market for University business books might be difficult to enter. The books are very expensive to buy from the wholesaler. She is not sure how to price them for retail sales. She knows, though, that a large number of students have enrolled for business courses for the next year.

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As with all businesses involved in the education sector, Sophia's success depends largely on how much the government spends on education. With an economic recession predicted, Sophia is not very optimistic about the future for school books.

(a) Explain the following terms:

- (i) contribution (line 8) [3]  
 (ii) wholesaler (line 13). [3]

(b) (i) Calculate the price elasticity of demand for travel books between 2002 and 2004. [4]

(ii) Briefly explain the significance of your result for (i). [2]

(c) Analyse the factors that Sophia should take into account in deciding whether to stop selling travel books and to stock more University books. [8]

(d) Using Table 1, evaluate the usefulness of the Product Life Cycle to Sophia when deciding on the future product mix of her business. [10]

2

### The Sun Hotel Ltd

The Sun Hotel is situated in an attractive location just outside of the city. Most of the hotel's customers are foreign tourists. However, the hotel has conference facilities used by local businesses.

A rise in the exchange rate for the country's currency has recently reduced the hotel's profits.

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Padman, the Chairman and Managing Director, employs three managers, one for each of the functional areas:

- Rooms
- Restaurants
- Kitchens.

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He uses delegation to give each manager authority over his or her own budgets, buying of stock as well as managing staff. Padman looks after the marketing aspects of the business and customer care. Once a year he and the other managers decide what to do with any surplus cash the business might have.

Padman's accountant has told him that the business has too much working capital (see Table 1).

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**Table1 Extracts from The Sun Hotel's Balance Sheet as at June 2005 (\$000)**

<u>Current Assets</u>	
Stock	200
Debtors	200
Cash + Bank	500
<u>Current Liabilities</u>	
Short term loans	100
Trade Creditors	200

The Hotel's employees receive a low basic wage together with extra payments given by customers pleased with good service. Customers are encouraged to name the member of staff that they found most helpful; the member of staff will then receive a further bonus from the business. Many of the staff are unhappy with their pay, as it is only the employees who deal directly with the public who can receive the additional payments. Another hotel in the city has introduced high monthly salaries for all their staff. This other hotel is attracting staff away from the Sun Hotel. Padman is thinking of introducing the same pay system at The Sun Hotel.

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- (a) Explain the following terms:
- (i) delegation (line 11)
  - (ii) working capital (line 15).
- (b) (i) Calculate the current ratio. [4]
- (ii) Briefly explain the significance of your result. [2]
- (iii) Explain two ways in which Padman might improve the management of working capital. [4]
- (c) Would you advise Padman to change to a salary only based pay system at the Sun Hotel? Justify your answer. [10]
- (d) Outline briefly how a rise in the country's exchange rates might affect the Sun Hotel. [4]