

# STANDARDS BOOKLET FOR BUSINESS STUDIES

## GCE Advanced Subsidiary and Advanced Level Business Studies 9707

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### INTRODUCTION

The AS/A level (9707) Business Studies examination papers are based on the assessment objectives as described in the syllabus. Broadly speaking, the assessment areas are:

- Knowledge and understanding of the syllabus content
- Application of this knowledge and understanding to problems and issues
- Analysis of problems, issues and situations
- Evaluation of conclusions drawn and of alternative explanations.

The structure and timing of each examination paper are given on page 3 of the syllabus.

This Standards Booklet is designed to provide support to teachers of the subject in the following ways:

- Giving examples of candidates' responses at all achievement levels
- Outlining in detail the criteria used within the mark scheme
- Illustrating the most common errors made by candidates
- Explaining how the mark scheme is applied to different answers.

The examples of candidates' answers that follow are not put forward as perfect, specimen answers. They could probably all be improved upon by outstanding students given a much longer time allocation than that afforded to examination candidates. The answers do demonstrate a variety of strengths and weaknesses and it is hoped that teachers and their students will benefit from analysing both the responses and the examiners' comments in detail. It will be noted that at both AS and A level, but especially at A level, the better answers contain clear evidence of analysis and judgement or evaluation. This is particularly the case with answers to those questions that carry high marks. Candidates are strongly advised, in their search for high grades, to build up not only a really sound understanding of the syllabus content but an appreciation of what these "higher order" assessment skills are and how they can be demonstrated.



## QUESTIONS AND RESPONSES

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### Paper 9707/1 Short Answer and Essay

#### Question 1

- (a) What is meant by the phrase 'Public Sector of the Economy'? [2]
- (b) State, with reasons, whether you consider the Public Sector to be an important part of the economy of your country. [3]

#### General Comment

- (a) Candidates are expected to show a clear understanding of the term 'Public Sector', perhaps with the aid of an appropriate example.
- (b) Candidates are expected to demonstrate an understanding of the relative importance of the public sector in their own country, using examples to support their argument.

#### Individual Candidate Response

##### Candidate A

- (a) The Public Sector of the economy includes businesses that are not privately owned.
- (b) In my country the Public Sector is important because without it people would die because there would not be any hospitals.

##### Candidate B

- (a) The Public Sector of the economy is funded from taxes paid by the people of the country so that important services are provided for everyone e.g. hospitals, schools and transport.
- (b) The Public Sector is very important in my country because the Government makes sure that everyone can get an education which helps them to find employment. Also, a healthy population is good for business since workers will not lose many work days due to illness, this keeps production up to the level needed to earn good profits.

#### Examiner Comment

##### Candidate A

- (a) The candidate demonstrates an understanding of the difference between public and private sector in terms of ownership. However, there is insufficient evidence to convince examiners that the candidate fully understands the true nature of the public sector of an economy.
- (b) Although the candidate in this part does provide an example of a public sector service i.e. health care, they fail to develop their answer in terms of why it is important to have a healthy population.

**Marks awarded = (a) 1 out of 2 (b) 1 out of 3**

**Candidate B**

- (a) The candidate demonstrates a clear understanding of the nature of the public sector in terms of funding, ownership and provision, with the use of appropriate examples.
- (b) The candidate's answer suggests two possible reasons for the importance of the public sector in their own country and earns full marks for fully developing their argument i.e. explaining why education and health care services are important to the individual and businesses.

**Marks awarded = (a) 2 out of 2 (b) 3 out of 3**

**Question 2**

Discuss the contribution informal groups might make towards the overall performance of a business.[5]

**General Comment**

Candidates are expected to demonstrate an understanding of the nature of informal groups within an organisation and how their activities might positively **and** negatively affect business performance.

**Individual Candidate Response**

**Candidate A**

Informal groups are bad for business performance because they spread rumour through grapevine. These rumours might not be true and some workers will feel hurt by them and might even leave to find jobs elsewhere.

**Candidate B**

Informal groups include groups of friends who meet after work or in the staff canteen. They might work in different departments but have a common interest e.g. they play football together after work. Informal groups can be both good and bad for business performance. On the bad side these groups might spread rumour which could damage the reputation of the business or make some workers lose morale. Sometimes informal groups will ignore the manager's instructions and only do what they want to do or what the informal leader says they should do.

However, informal groups are not always a bad thing. They can increase the speed of making decisions and support each other in bad times which helps to improve business performance and worker morale and motivation.

**Examiner Comment**

**Candidate A**

The candidate does not demonstrate an understanding of the nature of informal groups and only identifies one possible disadvantage of such groups, though this is not well developed.

**Marks awarded = 1 out of 5**

**Candidate B**

The candidate clearly understands the nature of informal groups and provides a balanced argument for and against such groups in terms of their possible effect on business performance. Had the answer finished after the first paragraph then this answer would only have been awarded 3 marks.

**Marks awarded = 5 out of 5**

**Question 3**

- (a) Explain the term 'Price Elasticity of Demand'. [2]
- (b) Why might a Marketing Manager try to influence the price elasticity of demand for products? [3]

**General Comment**

- (a) Candidates should give a clear explanation of the price elasticity of demand in terms of the responsiveness of demand to a change in a product's price and a brief explanation of elastic and inelastic demand.
- (b) Answers should demonstrate an understanding of the relationship between price elasticity, pricing and revenue.

**Individual Candidate Response**

**Candidate A**

- (a) Price elasticity of demand is a measure of how much demand for a good changes when price is changed.
- (b) When PED is inelastic this means that the Marketing Manager can increase price without fear of losing many customers for his business.

**Candidate B**

- (a) PED measures the responsiveness of demand to a change in the price of a product. It is measured by the formula 
$$\frac{\% \text{ change in quantity demanded}}{\% \text{ change in price}}$$
 PED can be elastic if it is greater than 1 or inelastic if it is less than 1. If a good is elastic then a small increase in price will greatly decrease the demand.
- (b) A Marketing Manager might try to influence the PED for products because the less sensitive a product is to price the easier it is to increase price without having great effect on demand. Also, if PED is inelastic then the revenue of the firm can be increased by increasing price.

**Examiner Comment**

**Candidate A**

- (a) The answer provides only a very basic level of understanding i.e. the candidate recognises that price elasticity is something to do with the relationship between price and demand.
- (b) In this part of the answer the candidate introduces the concept of inelastic demand but fails to develop the significance of this for the marketing of a product.

**Marks awarded = (a) 1 out of 2 (b) 1 out of 3**

**Candidate B**

- (a) The candidate provides a very clear definition of the term and introduces the concept of elastic and inelastic demand with brief development.
- (b) This answer clearly demonstrates the candidate's knowledge and understanding of the potential usefulness of PED to Marketing Managers in terms of the important relationship between price elasticity, pricing and sales revenue.

**Marks awarded = (a) 2 out of 2 (b) 3 out of 3**

**Question 4**

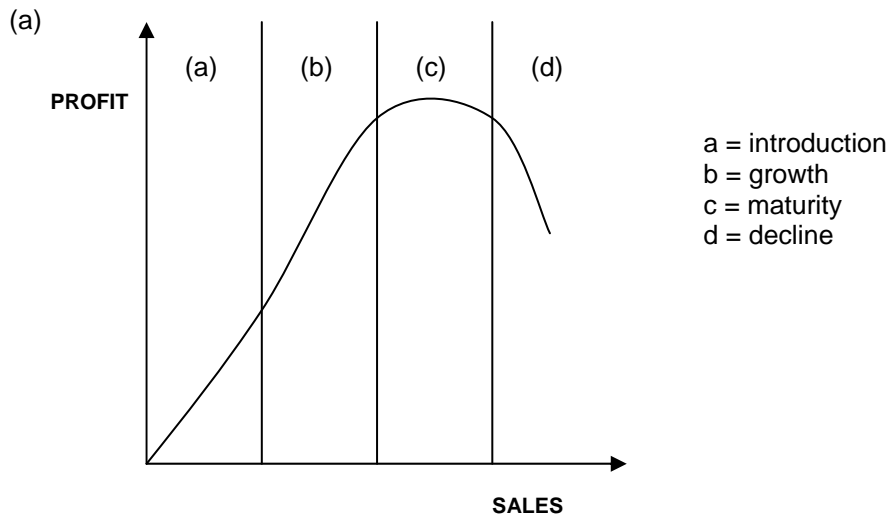
- (a) Draw and label a typical 'Product Life Cycle'. [2]
- (b) Explain how knowledge of a product's life cycle could aid management when making pricing decisions. [3]

**General Comment**

- (a) Candidates are required to produce a correctly labelled diagram showing the different stages of a product life cycle.
- (b) Answers to this part of the question should consider how the pricing policy for a product might change over a product's life.

**Individual Candidate Response**

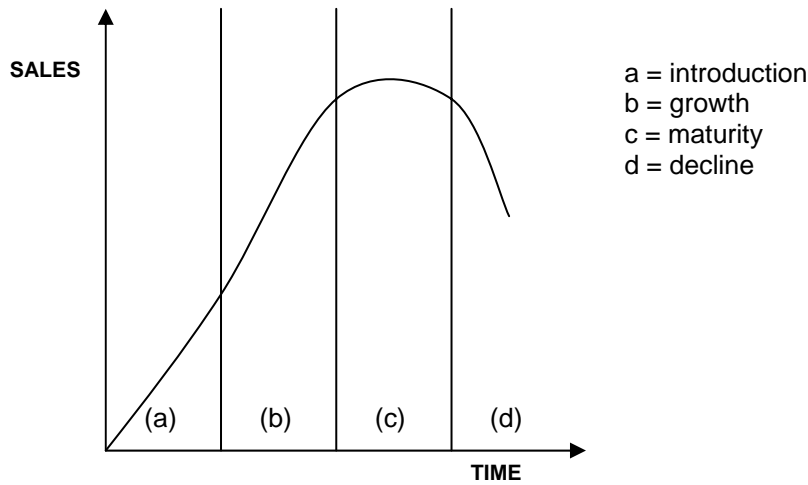
**Candidate A**



- (b) When setting price the product life cycle is very useful because it can be changed, indeed must be changed, at each stage. For example low price set in introduction stage.

**Candidate B**

(a)



(b) The product life cycle can aid management when making pricing decisions because different prices can be charged at different stages of the life cycle depending on the nature of the product and the firm's objectives. When a product is in the introduction stage, price might be set very low so as to penetrate the market. In the growth stage the price might remain low in order to build up brand loyalty. However, once the product has been accepted by consumers then price could be increased to that of competitors. In decline stage the price can be lowered to sell off remaining stocks.

**Examiner Comment**

**Candidate A**

- (a) The diagram has been correctly drawn, however the axes have been incorrectly labelled.
- (b) The candidate has not demonstrated to the examiner that they fully understand the potential usefulness of product life cycles when making pricing decisions. Had they continued to develop their answer by considering pricing at other stages, or had provided an explanation of why low prices might be charged in the introduction stage, then they would have been more highly rewarded.

**Marks awarded = (a) 1 out of 2 (b) 1 out of 3**

**Candidate B**

- (a) The diagram has been correctly drawn and labelled.
- (b) The candidate has explained how pricing policy might be influenced by the stages of a product's life cycle, but more importantly why different prices might be charged at the different life cycle stages.

**Marks awarded = (a) 2 out of 2 (b) 3 out of 3**

**Question 5**

- (a) Should businesses have a separate Human Resources Department? [10]
- (b) How could the effectiveness of a Human Resources Department be assessed? [10]

**General Comment**

- (a) This question requires candidates to discuss the advantages to a business of having a separate HRM department, but at the same time recognising that some businesses will be too small or might not have the financial capabilities to benefit from such a department.
- (b) Answers to this question should discuss a range of indicators that might be used to assess the effectiveness of HRM departments. The emphasis should be on the quality of argument i.e. a few well developed points rather than a simple list of indicators.

**Individual Candidate Response**

**Candidate A**

- (a) Yes a business should have a separate human resources department because they need someone to look after the workers and to recruit and train them. Also, when workers are always late or abuse managers then they will need to be disciplined and even dismissed. The human resources department can arrange this to make sure that everything is done properly. It has been said that workers are the most valuable asset of a business and they should be looked after as if they were family. The human resources department can make sure that the worker is happy and content so that his morale is good. Workers with good morale will be better motivated to work hard and produce more profits for the business. This is why I think businesses should have a separate department for human resources because they can look after workers and keep them happy.
- (b) There are various ways to assess effectiveness of a human resources department such as ask the workers by using questionnaires to see if they are happy with their jobs, do they feel safe and well trained. If they have been well trained then they will produce many products and even improve quality so that customers will be happy. If the workers are motivated and have good morale then this will surely mean that human resources are effective. Besides they will want to come to work and not be absent from their duties or turn up late when they feel like it. The workers will respect their managers and will have good rapport. This is how to assess the effectiveness of human resources department.

**Candidate B**

- (a) The workers are the most important asset of any business so it is important that they are well looked after. This is where the human resource department becomes important, so I would say yes to the question 'should businesses have a separate HRM department'. The HRM department performs many important tasks including manpower planning, recruitment and selection of workers, providing training programmes, dismissal of workers, discipline procedures and making sure that the workers are well motivated and have a good morale.

The human resources department have to plan for the future needs of the business i.e. they must make sure that they will have the right number of workers with the right skills. If they do not do this then the business might have difficulty continuing its production or might have problems with quality or wastage of material. The HRM department is also responsible for making sure that the workers are well trained and have the skills needed to produce good quality products or provide a good service to the firm's customers. If the workforce is well trained then they will be very productive and this will lower average costs and the business will be better than their competitors and this will increase profits. Also, the workers must be well motivated and have good morale so that they will work hard and not be absent or leave for other jobs.



These are the reasons why it is important to have a separate human resources department. However, some firms need not to have such a department because they are too small and the owner of the business is able to do the necessary recruiting and training of the workers.

- (b) The effectiveness of human resource departments can be measured by comparing the productivity of the business. If the right workers have been recruited and the right training given, perhaps using off the job training or on the job training, then productivity will be high and this will reduce average costs. Lower average costs mean that the firm could reduce selling price and make them more competitive which increases profitability. Also, if the workers are well trained there will be less wastage of raw materials or rejected goods, this will also reduce business costs. Less accidents will happen if the workers are well trained and the workers will know how to use machinery properly so there will be less damage to machines. If the workers are happy and have good morale they will not be in conflict with managers. This will reduce the number of strike actions and give a more harmonious work environment. Customers will not complain because the products are well made and free from defect and they will keep buying the products and might even recommend them to friends. Also if the business has a good reputation then they will find it easier to recruit workers because people will know that they are a good firm to work for and will look after their workers, providing good wages and working conditions. These are the ways of assessing the effectiveness of human resource departments.

**Examiner Comment**

**Candidate A**

- (a) This answer displays a reasonable, if rather basic, understanding of the various benefits to businesses of having a separate HRM department and would achieve a Level 2 for Knowledge and Application. However, the candidate has not fully developed the points made and has failed to recognise that there may be circumstances in which a separate HRM department is neither possible or desirable and as a result would not score highly at Level 1 Analysis and Evaluation.
- (b) The answer to this question is rather short and lacks detail and the quality of answer needed to achieve a pass standard at AS/A level. The candidate has identified the importance of training and has made some attempt to link this to business effectiveness and therefore by implication a measure for assessing the effectiveness of HRM. However much of the answer lacks any real focus on the issues involved and would only achieve Level 1 in both Knowledge and Application and Analysis and Evaluation.

**Marks awarded = (a) 5 out of 10 (b) 4 out of 10**

**Candidate B**

- (a) The candidate has displayed a very good knowledge and understanding of the importance of HRM and has developed a number of relevant points, whilst at the same time recognising that not all businesses will find a separate department useful. This answer would achieve marks at Level 2 for Knowledge and Application and towards the top range of Level 1 for Analysis and Evaluation.
- (b) This answer also displays good knowledge and understanding of a range of issues and the points made have been well developed with clear links to the effectiveness of the business and HRM. Although there are omissions from the candidate's knowledge this answer, nevertheless, would achieve Level 2 for both Knowledge and Understanding and Analysis and Evaluation.

**Marks awarded = (a) 8 out of 10 (b) 8 out of 10**

**Question 6**

Discuss the factors a firm should take into account when selecting the most appropriate distribution channel for a new product. [20]

**General Comment**

Candidates are required to discuss a range of factors such as the nature of the product, technical complexity, perishable v non-perishable goods, existing channels used by the firm. There should be some attempt to analyse and evaluate the factors.

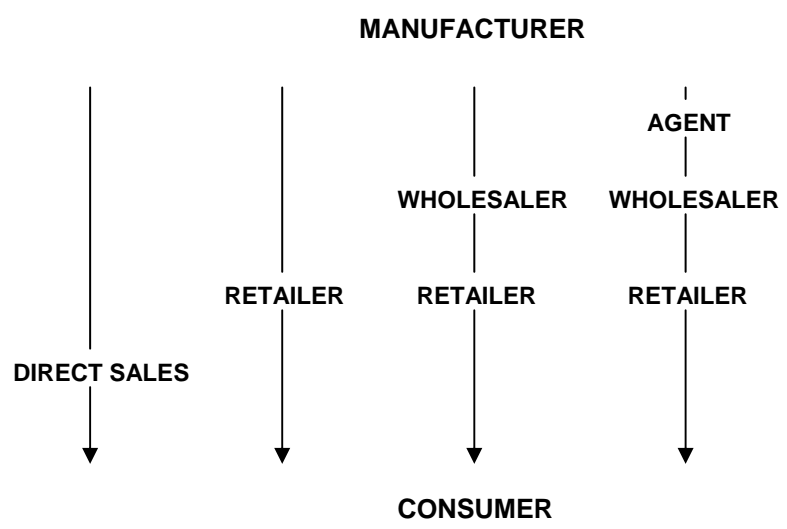
**Individual Candidate Response**

**Candidate A**

There are various factors that might influence the channel of distribution for a new product. If the product is fresh vegetables then it must get to the customer quickly so there would be no point in using a long distribution channel. Some products like tins of drinks such as Coke can have a long distribution channel because they last a long time and can be sold all over the place. If the product is very large then it will need a short channel of distribution because it would be too expensive to pass it through wholesalers and retailers, so the firm might decide to use direct sale such as catalogues. The amount of money the business has might also affect the choice of distribution channel because it is very expensive to use aeroplanes so they might use road transport which is cheaper but much slower. The Government might provide some help or specialist firms might help to distribute the new product. Wholesalers for example might know who are the most likely customers and they will be able to sell the product for the business though this will reduce their profits because the wholesaler will want his share of the profit.

**Candidate B**

Firms can use various distribution channels as shown in the diagram below.



Which one the business decides to use will depend on a number of factors. Firstly, if this is an existing firm then they will already be using distribution channels for their other products and they might decide to use the same one for their new product. The advantage of using existing channels is that they will know how reliable their wholesalers or retailers are. Also, the wholesalers and retailers know of the firm already and will take the new product if the firm has a good reputation with its other products. Very large products can be difficult to get to the consumer using long distribution channels and it might be better for the firm to use a short channel e.g. direct sale or straight to the retailer then the consumer. If the product is latest technology then the firm might have to use specialist agents or retailers as their distribution channel so that they can explain to the customer how to use the product, this is how computers are sold or photocopiers. Perishable products need a short channel of distribution because it is important that they are not handled often and get to the consumer in a short period of time so that they are in good condition. If the channel used is too long then perishable goods will be of poor condition and the customer will return them and might not trust the company anymore, this will affect their reputation and might reduce sales and profits. If the product is to be sold overseas then the firm might use an agent in the other country as they will know where the market is and how best to sell the product. It should be remembered that the choice of distribution channel will depend on a number of factors and that there is no single best channel. Each product is different and will require the most appropriate channel to suit its needs. But if the channel used is long and has wholesalers and retailers then this will reduce the firms profit per unit because these middlemen will want to make a profit for themselves which reduces the profit for the manufacturer since they cannot charge too high a price because consumers will not pay for it.

#### Examiner Comment

#### Candidate A

The candidate has only a very basic level of understanding and does not even outline the channels of distribution that could be used. Some of the material is irrelevant and contributes nothing towards answering the question. This answer would not achieve more than Level 1 for both Knowledge and Understanding and Analysis and Evaluation.

**Marks awarded = 7 out of 20**

#### Candidate B

The candidate makes a useful start to their answer by using a diagram to outline the various channels of distribution that might be considered. It would have been useful if they had spent a little time explaining the role of middlemen and a brief outline of the advantages and disadvantages of using them when distributing products. There is however a reasonable attempt to evaluate some of the factors that influence the choice of distribution channel and this answer would be rewarded at Level 2 for both Knowledge and Understanding and Analysis and Evaluation.

**Marks awarded = 14 out of 20**

#### Question 7

- (a) Why is it important for businesses to aim for the efficient management of stocks? [8]
- (b) Outline and discuss any **two** techniques a business might use to manage stocks. [12]

#### General Comment

- (a) Candidates are required to discuss the costs of holding and not holding stocks.
- (b) Answers should briefly outline the main features of any two methods of stock management, with some discussion of their relative strengths and weaknesses.

**Individual Candidate Response**

**Candidate A**

- (a) Businesses need to manage stocks efficiently because there are costs of holding stocks
  - (i) warehousing
  - (ii) theft or damage
  - (iii) opportunity cost

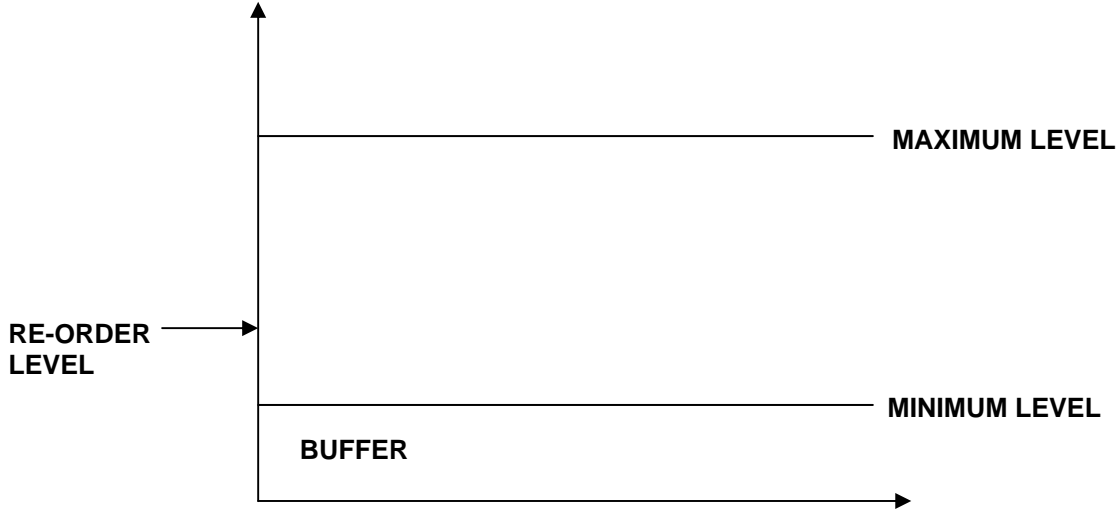
There are also costs of not holding stocks

- (i) production might be stopped
- (ii) customers might not be happy if they have to wait for delivery of goods

So it can be seen that efficient management of stocks is essential if the business is to survive and grow.

- (b) The two methods I will explain are Just-in Time (JIT) and Buffer stock system. The JIT system comes from Japan and is used by many advanced businesses. With JIT the firm does not hold any stocks but receives raw materials just in time for production. This means that the firm does not have any cost of holding stocks and can use this money for other reasons.

The Buffer system is also known as minimum and maximum order level and is shown in the diagram below.



In this system the business will not keep more than the maximum level and will not let the stock fall below the minimum level. If it does fall below the minimum level then they have the buffer stock. When stock reaches re-order level then the firm will order more of the raw material so that it arrives just in time to return the stock back to its maximum.

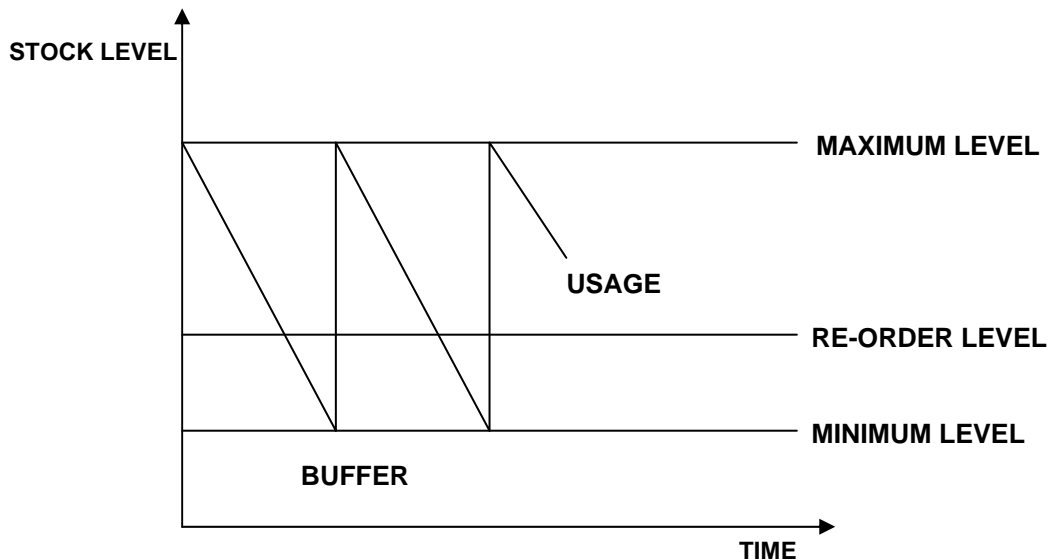
**Candidate B**

- (a) Businesses need an efficient system of stock management because there are both costs of holding stock and costs of not holding stocks. The costs of holding stock can be summarised as follows:
  - (i) Warehousing. The business will need to build a warehouse or rent a warehouse in order to have somewhere to keep their stocks. The more stock they have the bigger the warehouse and the greater the cost.
  - (ii) Insurance Costs. Stocks might be stolen or damaged and the business will have to pay insurance to cover these possibilities.

- (iii) Cash is tied up. There is an opportunity cost of holding stock in that a great amount of money might be tied up in raw materials or finished stocks. This money could be more profitably used by the business in other ventures.
- (iv) Staffing. Workers will be needed to move stocks and to look after stock items. If large quantities of stocks are kept then the business might have to buy expensive computer equipment and train workers in the use of computerised stock management systems.

In addition to the costs of holding stocks the business must also consider the costs of not holding stocks. These costs include:

- (i) Stock-out costs. If the level of stocks falls to zero then there will not be enough raw materials for production. Production will have to stop while the firm waits for more raw materials to be delivered. This will decrease the productivity of the firm.
  - (ii) Loss of orders. If the business cannot meet the orders of customers then they will go elsewhere i.e. to a competitor. The business will lose these sales and the customer might never use the firm again.
  - (iii) Loss of goodwill. Customers will not think very highly of the business if it cannot supply them with goods and this will affect the reputation of the business in the eyes of customers.
- (b) In order to manage stocks efficiently the business might consider using Stock Levels or Just-in-Time System. The stock level system is shown in the diagram below.



In this system the business must calculate the maximum and minimum stock level for each stock item based on the level of usage over a period of time. They must also know how long it takes for new orders to be delivered by their supplier, this is known as lead-time. This will enable the business to calculate the re-order level. This system helps in stock management by making sure that the level of stock held is not too high and therefore incurring unnecessary costs, but at the same time avoiding the costs of stock out. A buffer stock will also be kept to cover for any problems with late delivery or short delivery.

The Just-in-Time system is used mainly by large manufacturers and is so called because raw materials arrive just in time for production i.e. the business does not hold any stocks so avoids the costs of holding stocks explained above. However, if they are to avoid the problems of not holding stocks the business must have a very good relationship with suppliers who must be 100% reliable i.e. they must be able to guarantee that they will supply the right quantity and quality of raw materials or components when needed by the manufacturer.

**Examiner Comment**

**Candidate A**

- (a) This answer highlights the main problem of answering essay questions in point format. The candidate has not explained any of the points listed and therefore it is unclear to the examiner how well the candidate understands this area of the syllabus. An answer of this type will only be rewarded at Level 1 of Knowledge and Application and will not attract any marks for Analysis and Evaluation.
- (b) There is little in this answer beyond a very basic level of understanding. The candidate does not evaluate either method to the level needed to attract high reward and only has a very limited attempt at outlining the essential features of the methods selected. The answer is at Level 2 for Knowledge and Application and Level 1 for Analysis and Evaluation.

**Marks awarded = (a) 2 out of 8 (b) 5 out of 12**

**Candidate B**

- (a) This is a much better example of how candidates might use a point format to organise their answer. Each point has been well developed and has enabled the candidate to demonstrate a very comprehensive understanding of the relevant syllabus material. This answer, though not perfect, would attract maximum marks.
- (b) The answer to this part of the question is not as strong as the answer to part (a) but nevertheless contains good use of material, displaying both understanding and an attempt to evaluate the usefulness of the two chosen methods. The answer would be marked at Level 2 for both Knowledge and Application and Analysis and Evaluation.

**Marks awarded = (a) 8 out of 8 (b) 9 out of 12**

## QUESTIONS AND RESPONSES

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### Paper 9707/2 Data Response

#### Question 1 (a) (i)

Define the term net profit.

[3]

#### General Comment

This question is designed to test the detailed subject knowledge of the candidates. Full understanding of the term is expected for full marks. (See mark scheme).

#### Individual Candidate Response

##### Candidate A

Net profit is equal to gross profit less overhead expenses. To get the gross profit the cost of sales is subtracted from sales revenue.

##### Candidate B

Net profit is sales less costs.

#### Examiner Comment

##### Candidate A

This answer was fine and gained full marks. Clear understanding of the term was demonstrated.

**Marks awarded = 3 out of 3**

##### Candidate B

This answer did not demonstrate the same level of understanding and gained 1 mark. It only showed a general understanding of profit as opposed to net profit in particular. No mention was made of the distinction between cost of sales and overhead expenses which is important to show understanding of the difference between net and gross profit.

**Marks awarded = 1 out of 3**

#### Question 1 (a) (ii)

Define the term public limited company.

[3]

#### General Comment

This question is designed to test the detailed subject knowledge of the candidates. Full understanding of the term is expected for full marks. (See mark scheme.)

### Individual Candidate Response

#### Candidate A

A public limited company is a limited liability company that has been "floated" on the Stock Exchange which means that it can sell shares to anybody. Limited liability means that the shareholders cannot lose all of their assets, only their original investment.

#### Candidate B

A public limited company is a company in the public sector of the economy and is owned by the government.

### Examiner Comment

#### Candidate A

This candidate is clearly aware of the main features of a plc and was awarded full marks.

**Marks awarded = 3 out of 3**

#### Candidate B

This candidate has made one of the more common mistakes in Business Studies. A public limited company is in the private sector of the economy, not the public sector. No marks were awarded to this candidate.

**Marks awarded = 0 out of 3**

### Question 1 (b)

Explain the difference between mass marketing and niche marketing. [6]

### General Comment

The candidate is expected to show an awareness of the distinction between these two marketing strategies and to illustrate this understanding by reference to relevant examples, preferably drawn from the text.

### Individual Candidate Response

#### Candidate A

Mass marketing is a strategy of designing and selling a product with mass appeal. The plan is to sell the product to as many consumers as possible so prices are often quite low and profit margins too. Easyphone seem to have one model of mobile, which they are trying to sell to all consumers. They do not seem to be using market segmentation.

Niche marketing tends to concentrate on more specialised products. They are aimed at smaller groups of consumers who want something different. Prices and profit margins can be quite high. If Easyphone were to develop a mobile phone especially for use by young children then this would be niche marketing. Young children would be a market segment or niche.

#### Candidate B

Mass marketing is when a firm tries to sell its product to everyone, such as a chocolate bar. Niche marketing is when a firm aims its product at a certain segment of the market such as Rolls Royce. These cars are aimed at wealthy people.



**Examiner Comment**

**Candidate A**

The candidate scored full marks at level one as there was well developed understanding of the two terms. Some attempts were made to apply this knowledge to the case and although the example of a niche product might not have been very realistic, in principle, it was appropriate. Full marks at both levels. Candidates should be reminded of the importance to relate answers carefully to the case study material, which is provided to help them with their answers.

**Marks awarded = 6 out of 6**

**Candidate B**

This is a brief but direct answer. The candidate has made a simple but undeveloped distinction between the two strategies and so, without examples, would have earned 2 marks in level one. There are two examples and these support the candidates' understanding sufficiently to allow full marks at level one. As chocolate bars can be either of mass or niche appeal (e.g. bars specifically marketed towards children) it was considered that this part of the answer needed more analysis and application. The examples could have been based upon the business referred to in the case. A total of 4 marks was awarded.

**Marks awarded = 4 out of 6**

**Question 1 (c)**

Assess the advantages and disadvantages for Easyphone of delegating more power to managers. [8]

**General Comment**

Effective use of the relevant material in the text is expected for high marks. The best answers should not only show an understanding of the concept of delegation but contain an evaluation of the advantages and disadvantages of adopting the policy in the business referred to in the case.

**Individual Candidate Response**

**Candidate A**

When managers delegate to their subordinates or juniors they do not transfer responsibility but power to make decisions. Senior managers cannot do everything and do not have the time to take all decisions so most of them delegate authority to middle managers. However, if the middle managers make a mistake or make the wrong decision then the responsibility for this rests with the senior manager. The advantages of delegating include giving senior managers more time to concentrate on important strategic decisions. Also, it can be looked upon as a form of training. The junior managers will also feel more important because confidence is being shown in them and this could help to motivate them. In the case of Easyphone, as the business gets bigger it will probably be essential for Elizabeth Chang to ask her other managers to take over some of her work by delegating them tasks. Also, as the business grows with new products and new markets she could not be expected to look after all of these and delegations would be essential.

Easyphone might suffer some disadvantages too. Delegation means putting trust in people but if they do a job badly or take poor decisions then the firm may suffer. There will be less central control. Different managers may take different decisions so there could be less consistent decision-making. Some people do not like doing important work and so may not accept delegation. This could be the case with Easyphone, which has had a centralised structure. The workers and managers might not be happy taking on extra power and duties.

It seems that the firm will, overall, benefit from more delegation because expansion and diversification will make it very difficult for Elizabeth Chang to do all of the important management jobs.

### **Candidate B**

Delegation means giving more work and responsibility to workers. Managers do this when they have too much work to do. It gives them more time to do other, more important things.

It allows more freedom of ideas and allows more viewpoints from more people. However, although this broadening of ideas and dividing of responsibilities can prove vital to the business, it can lead to inconsistencies in production and development as well as disagreement. It can confuse the direction of the business. If Elizabeth Chang were to delegate more then the managers might take different decisions. This could lead to confusion. She would have more time though and this is important as the business is growing.

### **Examiner Comment**

#### **Candidate A**

This is a very good answer. It has four key features, which make it worth very high marks. Firstly there is a definition of the term. Secondly, the advantages and disadvantages are well explained. Thirdly, these are explained in the context of the business in the case. Fourthly, there is an attempt at final evaluation, which, again, is related to Easyphone, the subject of the case material. Full marks.

**Marks awarded = 8 out of 8**

#### **Candidate B**

This candidate has made some reasonable points but, unfortunately, the definition of delegation is not quite right. The candidate assumes that it is responsibility, which is delegated as opposed to the authority to perform tasks and take decisions. Some attempts are made to make general observations about the advantages and disadvantages of delegation and these helped to demonstrate that the candidate was partly aware of the consequences of delegation. 3 marks were awarded for Knowledge and Application. The analysis of delegation in the context of the case was not good and only brief mention is made of Easyphone and the position it is in. 1 mark was awarded for Analysis and Evaluation and this gives a total of 4 marks.

**Marks awarded = 4 out of 8**

### **Question 1 (d)**

Discuss the importance of the issues that should be considered when deciding on the price of the new telephone. [10]

### **General Comment**

Guidance is given in the case on some of the issues that managers of this business would be likely to consider when deciding on price. They include the increasing level of competition and the possible change in the external economic environment. These factors should be discussed and weighed up in the context of this business and its possible marketing strategies.

## Individual Candidate Response

### Candidate A

Price decisions are part of the marketing mix. The mix is the combination of factors, which a business will use to try to sell a product. Price is very important as if it is set too low the firm might not cover its costs and the consumers might think the product is of low quality. If it is set too high consumers might buy products from a competitor. Price elasticity is important too. There is no point in setting a low price if the demand is very price inelastic. Consumers will still buy the product at a higher price.

Competition is very important. A firm might decide to charge the same price as its competitors. This would be true if the products were the same. If a firm could make its products seem very different then it might be able to charge a higher price. If Easyphone can make the new phone seem different or if it can give it some unusual features then it might be able to charge a high price, at least to start with. This would be called price skimming.

In some countries mobile phones are almost necessities but in others they are still luxuries. If consumers' incomes fell then phone producers might have to lower prices. It says in the case that interest rates might rise. If this happened then consumers' incomes would fall. It also says in the case that more competitors are entering the market so this could encourage Easyphone to charge low prices.

Easyphone will probably charge a low price for the new phone because of the danger of interest rates rising and the increased competition. It might depend on what image they wanted for the new phone though.

### Candidate B

Issues that should be considered when fixing prices include costs, demand and what other firms are charging. Prices are used by consumers to see how good a product is. This might be true with phones as consumers do not know much about them so higher prices might be seen as being for a higher quality good. Competition is important as firms have to watch that their good does not become too expensive compared to others. Elasticity of demand is important. If a good is elastic the firm might fix low prices otherwise people would not buy them. You must also consider covering the costs of production of a phone, which could be quite high for a good like this. The firm wants to make a profit. Economic conditions also have to be looked at. If there is a recession prices might have to fall. There are many issues, which you should consider before setting a price for the new phone.

## Examiner Comment

### Candidate A

This answer has many good qualities. The candidate has clearly revised pricing and the issues that affect prices. There are some very sound references to the case, the product and the market the firm operates in. Full marks were awarded for Knowledge and Application (2). The candidate clearly satisfied all of the requirements for Level One under Analysis and Evaluation. There was an attempt at final evaluation and a suggestion about the price level that the firm might charge but the issues of market strategy, image and need for consistency with the other features of the mix could have been more fully developed. 6 marks were gained under this heading. A total of 8 for a well-argued answer.

**Marks awarded = 8 out of 10**

### Candidate B

This candidate has identified many of the important factors involved in setting the price for a new product. Full marks were again awarded for Knowledge and Application. There were some attempts to analyse two of these factors for a mobile telephone manufacturer – costs and the psychological impact on consumers of low prices. There was no attempt to evaluate the relative importance of the factors and there was no attempt to justify a particular pricing level so only Level One marks were awarded for Analysis and Evaluation – 3. This gives a total of 5 marks for an answer, which needed more structure and further references to the actual product and firm in the case.

**Marks awarded = 5 out of 10**

#### Question 2 (a) (i)

Define the term allocated overhead costs. [3]

#### General Comment

This question is designed to test the accuracy and depth of the candidates' subject specific knowledge. (See mark scheme.)

#### Individual Candidate Response

##### Candidate A

When a business makes more than one product a decision has to be made about allocating fixed or overhead costs. These are costs that do not vary directly with output. Different methods can be used e.g. floor space taken by each product. When the fixed costs have been divided into cost centres they become allocated overhead costs.

##### Candidate B

Costs have to be paid by a business during production. These can be either fixed or variable. Overheads are like fixed costs and do not change with output.

#### Examiner Comment

##### Candidate A

This candidate has a very sound grasp of the principle involved. The explanation is accurate and detailed and would have been worth full marks even without the reference to the "floor space" method.

**Marks awarded = 3 out of 3**

##### Candidate B

This answer shows that the candidate has an awareness of what overhead costs are but there is no reference to the allocation of them to cost centres or products when the firm produces more than one good.

**Marks awarded = 1 out of 3**

**Question 2 (a) (ii)**

Define the term straight-line depreciation.

[3]

**General Comment**

This question is designed to test the accuracy and depth of the candidates' subject specific knowledge. (See mark scheme.)

**Individual Candidate Response**

**Candidate A**

Assets fall in value as they get older. Accountants call this depreciation and it must be shown on business accounts. One way of calculating annual depreciation is the straight-line method using the

formula: 
$$\frac{\text{Total costs - residual value}}{\text{No. of years}}$$

This will be equal each year.

**Candidate B**

Depreciation is when something falls in value. Straight-line depreciation means that value falls by the same amount each year and is calculated by dividing cost by years.

**Examiner Comment**

**Candidate A**

This answer contains the right formula that is worth 2 marks. The statement, which suggests that the amount of depreciation will be equal each year, earns a further mark.

**Marks awarded = 3 out of 3**

**Candidate B**

The candidate gives a weak explanation of depreciation. However, there is recognition that this method will give equal annual depreciation and there is an attempt to give the method of calculation.

**Marks awarded = 2 out of 3**

**Question 2 (b) (i)**

Calculate the break even level of output for the Country Range table.

[3]

**General Comment**

Some calculations can be expected on at least one of the questions on this paper. This question expects the candidate to be able to select the appropriate numerical data from the case and to apply the model of break even analysis. Some marks can be awarded for technique without the correct answer being obtained. A numerical error in (i) will not be penalised again if carried through into (ii).

**Individual Candidate Response**

**Candidate A**

Break-even is the level of output the firm must sell in order to cover all costs. It is calculated by dividing fixed costs by contribution per unit. This gives 5000 units.

**Candidate B**

To break even a firm must cover all costs. The break-even formula is:

$$\frac{\text{Fixed costs}}{\text{Selling price}} \\ \frac{\$150000}{\$80} \\ = 1875 \text{ units}$$

**Examiner Comment**

**Candidate A**

Although there is no formula as such and no explanation as to how the result was obtained, the answer gains 3 marks for the correct result.

**Marks awarded = 3 out of 3**

**Candidate B**

The candidate has made a common mistake. Fixed costs have been divided by price and not contribution per unit (price less variable cost). Only 1 mark was awarded. It is important to note that this mark would not have been given if no working had been shown. By just writing an incorrect result the examiner has no means of knowing whether the correct approach was being used or not. Show all workings with numerical calculations.

**Marks awarded = 1 out of 3**

**Question 2 (b) (ii)**

Calculate the safety margin, assuming that the forecasted level of output and sales is reached. [3]

**General Comment**

Some calculations can be expected on at least one of the questions on this paper. This question expects the candidate to be able to select the appropriate numerical data from the case and to apply the model of break-even analysis. Some marks can be awarded for technique without the correct answer being obtained. A numerical error in (i) will not be penalised again if carried through into (ii).

**Individual Candidate Response**

**Candidate A**

The margin of safety is the "spare" output between what the firm produces and the break even point. The firm is currently making 8000 units. From my result above of 1875 for the break-even point, the firm has a safety margin of 6125 units.

**Candidate B**

The margin of safety is the difference between what the firm is producing and the maximum it can produce. This will be =  $x - 8000$  units. This cannot be calculated, as the maximum output is not given.

**Examiner Comment**

**Candidate A**

The candidate understands the concept and has applied the correct formula. The use of the incorrect break-even result did not lose any marks so a maximum of 3 was awarded.

**Marks awarded = 3 out of 3**

**Candidate B**

The candidate should have been alerted to the fact that their definition of the safety margin was wrong by the absence of maximum output in the text. Even if it had been given the understanding of the concept of the safety margin is incorrect. No marks were awarded to this answer.

**Marks awarded = 0 out of 3**

**Question 2 (c)**

The firm only accepts new investment projects if they payback within 3 years and offer an average rate of return above 5%.

In your view, on the evidence provided, should the new machinery be purchased by the business? Support your answer with calculations. [8]

**General Comment**

This question requires candidates to calculate two measures used in investment appraisal and to compare and assess the results against the "benchmarks" set by the business. Candidates are advised to lay out their calculations carefully and to show all working as marks can be awarded for technique even if the correct answer is not obtained. Incorrect solutions can still earn some credit if the comparisons made with the firm's pre-set criteria are appropriate.

**Individual Candidate Response**

**Candidate A**

The payback for this project occurs after two and a half years. After two years the machine has paid back \$5000 so half way through the third year another \$1000 will have been earned which will make \$6000. Fast payback means that the firm can use the money for something else. As it is quicker than 3 years the project seems to be successful and should be bought.

Average rate of return is calculated by using this formula:

$$\frac{\text{Profit} \times 100\%}{\text{Cost}} \text{ divided by the number of years}$$

$$\frac{\$8000}{\$6000} \times 100\% \text{ divided by } 4 = 33\%$$

This is a very high rate of profit and as it is much higher than the firm was hoping for the machine must be profitable. So as it makes more profit and pays back more quickly than the firm wanted the machine should be bought.

### Candidate B

The payback means how long it takes a company to pay back money spent on a new investment project. This new machine will payback half way through year 3 as this is when the net cash inflows exactly equal the cost of the machine. As the company wants new projects to payback in 3 years this is a good result. This machine should be bought, as it will pay back more quickly than the company wanted.

Average rate of return means how much profit a company makes. The profit made on the machine is \$8000 and this is much more than the cost of the machine so will make a return higher than 5% so this is good.

I think the business should go ahead with the decision to buy the machine as it will pay back more quickly than the target and will make an average return higher than 5%.

### Examiner Comment

#### Candidate A

This answer has most of the points being looked for by the examiners. There is a correct calculation and interpretation of the payback result. 4 marks. The ARR formula is understood but the candidate has not used the correct profit figure. A common error made by students is to forget to subtract the cost of the investment from the cash inflows. In this case it would reduce the figure from \$8000 to a correct figure of \$2000. Despite this, the ARR formula has been used and the candidate's own result has been analysed and interpreted correctly. 1 mark for Knowledge and Application and 2 marks for Analysis and Evaluation. This is a further example where one arithmetical error will not penalise the candidate twice.

**Marks awarded = 7 out of 8**

#### Candidate B

This answer shows that the candidate has a good grasp of one form of investment appraisal – the payback period. This is calculated correctly – although the term "half way through year 3" is used rather than two and a half years. The candidate recognises that the shorter the payback the more preferred the project becomes and as it is less than 3 years, the machine should be bought – using just this method of appraisal. 2 marks for Knowledge and Application and 2 marks for Analysis and Evaluation.

Although the candidate recognises that ARR is concerned with profits and not timing of cash flows there is no other creditworthy point to this second part of the answer. The student seems to have forgotten how to calculate the ARR and the analysis cannot be rewarded as there is no comparison with the 5% target. No further marks were awarded to this answer.

**Marks awarded = 4 out of 8**

### Question 2 (d)

If Excel does invest in the new machinery, discuss the possible impact of this change on the motivation of the workforce. [10]

### General Comment

This question tests the ability of the candidate to select from their knowledge of human motivation - including the work of well known theorists - and to apply this to a case situation. Candidates who merely write out a pre-prepared worker motivation answer without relating it to the circumstances of the firm in the case are likely to receive some very limited credit.



**Individual Candidate Response**

**Candidate A**

The workers will be very worried by the new machine. Some of them might have worked for the company for a very long time and if they see a new machine coming in they might fear for their jobs. Even if they do not lose their jobs they could have to retrain and this might be unpopular especially with the older workers as it is often said that you can't teach an old dog new tricks! Maslow in his hierarchy of human needs said that security is a very basic human need and if workers feel that their jobs could be lost then they will lack security and this might demotivate them. They would become too concerned about who was going to lose their job and not worried about the work itself. Some workers will still have to be employed, though, and they could actually have an increase in wages. This is because the new machine will be more efficient and if workers are paid on the number of items they make (piecework) they could earn higher wages. If workers are working for money and are motivated by it, as F. W. Taylor thought, then this would help the company as they would work harder.

If the new machine gets rid of some of the boring jobs in the factory then work could become more interesting. The type of work that people do is said to be very important. If the work is varied then this might help motivate the workers. This would be one of Herzberg's motivators and not a hygiene factor like money. Hygiene factors, said Herzberg, do not motivate.

So, there are several factors that could affect motivation of the workforce if the new machine is built. Some will help motivate the workers and some will not. Perhaps the workers could be asked for their opinion on how the machine could be best used and this would make the workers feel more wanted.

**Candidate B**

The workers should be very motivated by the new machine as it will make their lives easier. They will probably earn more money if output rises. Taylor said that workers work harder when they earn more money. Money is what people work for and the chance to earn more will make people work harder. Taylor said that workers are only interested in money. The new machine will mean that the workers will be able to increase output. If the workers are paid for each item they make then wages will increase. Workers will also work harder for fear of losing their job. They do not want to be the ones who are given the sack so they will work harder to impress the managers. So the machine will increase motivation of the workers.

**Examiner Comment**

**Candidate A**

This candidate has clearly understood the scope and demands of the question. It is not perfectly written and some of the points made need further explanation. However, there is a good attempt to see that the motivation levels could either fall or rise as a result of this decision. This shows evaluation. The use of motivational theorists is effective and is well applied to the case – this shows skills of analysis. The candidate makes frequent references to the information in the case. It is not an answer that just gives details of theories without applying them. The candidate gained full marks.

**Marks awarded = 10 out of 10**

**Candidate B**

Compared to the first answer this is very one sided. The candidate assumes that the workers' motivation will increase as a result of the new machine. No consideration is given to arguments on the other side. Full evaluation marks cannot be earned because of this. In addition, only one motivational theorist is referred to. However, the candidate does explain, simply, what Taylor's views were and does apply them in a limited way to the case. 1 mark was awarded to Knowledge and Application and 3 marks were awarded for Analysis and Evaluation.

**Marks awarded = 4 out of 10**

## QUESTIONS AND RESPONSES

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### Paper 9707/3 Case Study

The new style of Paper 3 from June 2005 tests all of the Advanced level Business Studies syllabus. The three hour paper will have 5 compulsory questions followed by a choice between two essay questions. Candidates will be expected to answer one of these essay questions. Within the five compulsory questions quantitative techniques will be tested.

The paper is worth a total of 100 marks. All 4 of the assessment skills will be examined but, unlike the AS examinations, more weight is given to the higher order skills of analysis and evaluation than knowledge and application. Several of the questions will be evaluative in nature which means that candidates will be asked to demonstrate skills of judgement.

Advanced level includes not just the extension syllabus but also the core AS level syllabus. Candidates must expect some of the questions on Paper 3 to draw upon AS level material but it is likely that a majority of the questions will be based on Advanced level extension topics.

#### Question 1 (a)

Briefly analyse **two** possible reasons for the low levels of motivation of the sports tutors at Sportwize Ltd. [6]

#### General Comment

The prompt word is 'analyse' so there are no marks on the mark scheme for judgement or evaluation. Candidates should avoid evaluating arguments – and thus wasting time – if the question does not demand it.

#### Individual Candidate Response

##### Candidate A

Poor motivation means that workers do not want to work hard. Many things can cause low motivation such as poor communication, low pay and boring jobs. The management theorist, Herzberg, said that if there was no job enrichment then workers would become bored and not work hard. Jobs that need low skills and managers who do not give feedback will all lead to low motivation. These are possible reasons for low motivation at Sportwize.

##### Candidate B

The tutors at Sportwize seem to have low motivation. Customers are complaining about their attitude and there is a lot of absenteeism. Low motivation can occur for several reasons but the ones that are most important at Sportwize seem to be lack of job security and the "direct and close supervision" of Asif. The tutors are not given long term contracts and they have to look for new jobs after each session. This means that they are not satisfying their "security needs". According to Maslow's hierarchy, security needs come after basic physiological needs and if there is no job security then workers will not be motivated.

If Asif controls the staff really closely this probably means that they cannot take decisions for themselves. This means that there will be no responsibility or job enrichment. Herzberg wrote that when workers are able to take decisions for themselves, such as how to run a sports class, then they will be more interested and work harder.

### Examiner Comment

#### Candidate A

This answer correctly identifies two general causes of low motivation. These points earn knowledge marks. The candidate also tries to use Business Studies theory or concepts to explain the answer. In this answer, Herzberg is referred to appropriately. One mark for analysis was awarded.

The main weakness of this answer is the lack of direct application to the business in the case study. Just using the name "Sportwize" does not mean that the answer is rooted in the case. As a result, no marks for application are awarded.

**Marks awarded = 3 out of 6**

#### Candidate B

Candidate B earns full marks in all three assessment criteria. Two marks are awarded for the correct identification of factors that can cause low labour productivity. These two points are then very well applied to Sportwize. The candidate had clearly read and understood the case study material. The points regarding the temporary employment contracts and the management style of Asif are both put into context.

Finally, the candidate makes two very well observed analytical points by drawing from Business Studies theory and this allows the examiner to award both of the marks available for analysis.

**Marks awarded = 6 out of 6**

### Question 1 (b)

Recommend to the owners how they might improve the motivation of the sports tutors. Justify your recommendation. [12]

### General Comment

The prompt word is 'recommend' and this means that candidates should not only suggest and explain how motivation might be improved – but should evaluate these methods and judge which might be most effective.

### Individual Candidate Response

#### Candidate A

Asif and Gowri could make several changes that could improve staff motivation. Pay might be a real problem and they could start by increasing the pay levels to all tutors. According to F. W. Taylor, pay is the main motivating force so if the tutors were paid for each student on their courses – a form of piece work – then this could raise their motivation. Asif could also increase the commission paid on sports wear that is paid to the tutors.

By offering staff annual contracts Asif would be satisfying the security needs of workers. Instead of having to look for a new job at the end of every winter or summer session the tutors would know that their jobs would be safe. Maslow's hierarchy of needs put security needs after physical needs and before social needs and this means that if workers do not have job security they will not be able to satisfy their other needs.

Asif and Gowri could try other things too. They could introduce works councils or quality circles. They could give staff some responsibility and increase their job satisfaction.

### Candidate B

To motivate the tutors at Sportwize Asif could increase their pay. The case does not say how much tutors earn but if they were to be paid more for each day that they attended to teach a class this should increase motivation and reduce absenteeism. One management thinker who believed that pay motivates workers to work harder was Taylor. He said that all workers are like "economic man" and will only be driven to work harder by the chance of earning more money. However, increasing their pay might not increase motivation. Herzberg said that pay is a "hygiene" factor and will only remove dissatisfaction not motivate workers to do better. If this is true then Sportwize could be wasting their money on higher wages for tutors and this could be a particular problem for a small business like this.

Another way they could solve the problem with the tutors is to involve them more in the running of the business. Giving responsibility and involving tutors in taking decisions such as which sports to offer could lead to higher motivation. Tutors will want to work harder if they feel they are more of a part of the business. This would be a type of job enrichment which, according to Herzberg acts as a motivating force. The problem with this method is that not all tutors will be interested in taking on responsibility. They might be more worried about the short employment contracts and lack of job security and this could be the main problem that Asif has to deal with. Also, methods of job enrichment can take time and tutors would need to be trained in decision making to be really well involved.

### Examiner Comment

#### Candidate A

This answer has some strong points. It gains all of the marks available for knowledge as there is correct identification of some ways in which motivation might be improved. Application skills are also demonstrated by the references to the case. For example, the points made regarding how staff are currently paid and their short term labour contracts could only have come from reading of the case. Full marks for application are, therefore, gained. The candidate makes good attempts to analyse the points made. Quite effective use is made of both Taylor's and Maslow's theories and these are employed to help explain the candidate's answer. Full marks are awarded for analysis.

The weakness of this answer is that there is no attempt to evaluate the points made. The candidate does not judge which methods of increasing motivation might work most effectively. Neither does the candidate suggest reasons why Asif and Gowri might not use the methods suggested. Therefore, no marks are awarded for evaluation.

**Marks awarded = 8 out of 12**

#### Candidate B

This candidate earns full marks for this answer. It is better than the answer from candidate A because there is a real attempt to evaluate the points made. For example, the candidate recognises that increasing pay might be ineffective – and that this firm might not be able to afford it anyway. In addition, judgement is shown when discussing the suggestion of increasing staff participation. This answer is quite short for a 12 mark question – but it is very relevant and concise. It has sufficient subject content to demonstrate that the candidate understands this area of the syllabus. There is good application to the case. Theory is used to help support and explain the answer. Finally, evaluative skills are well in evidence.

**Marks awarded = 12 out of 12**

### Question 2 (a)

Analyse and comment on the liquidity of this business.

[8]

### General Comment

This is the first calculation question on the paper. It requires candidates to understand the concept of liquidity and to analyse it with appropriate ratios. Supporting comment is also required.

**Individual Candidate Response**

**Candidate A**

$$\begin{aligned} \text{The current ratio is} &= \frac{\text{Current liabilities}}{\text{Current assets}} \\ &= \frac{\$32000}{\$48000} \\ &= .67 \end{aligned}$$

This is quite a low result. The firm is clearly in a liquidity crisis as it cannot pay off all of its assets. This is shown by the low cash level of the business. If a supplier asked to be paid immediately then Sportwize would not be able to do it. The firm needs to take action to overcome this problem.

**Candidate B**

The current ratio is 1.5 and the acid test ratio is 1.28. These results suggest that liquidity is not a major problem for this business. Liquidity measures a firm's ability to pay off short term debts and Sportwize does not seem to be in any danger of not being able to pay. But more information is needed. What were the ratio results like last year? Perhaps they were much higher which means that liquidity is actually falling. Also, even these two results do not tell the whole story. The firm actually holds very little cash and has very high debtors. If some of these debtors cannot pay, e.g. poor students, then the business could find itself in a serious liquidity problem. More information about debtors would be useful.

**Examiner Comment**

**Candidate A**

Unfortunately, this candidate has made an all too common mistake. The current ratio has been calculated incorrectly. However, although very few marks can be given for this lack of subject knowledge, the examiner will always read the remainder of the answer. If a candidate makes a correct analysis of an incorrect calculation then credit can still be awarded – otherwise the candidate will be penalised twice for one mistake.

This answer does demonstrate some understanding. The candidate has correctly interpreted the incorrect calculation. If the current ratio really was .67 then the candidate's analysis would be sound. Two marks is the maximum this answer can be given, however. One mark for some knowledge about the current ratio result and 1 mark for attempted analysis of it.

**Marks awarded = 2 out of 8**

**Candidate B**

This candidate has a very solid understanding of ratio analysis. Not only are full marks given for knowledge and application of this knowledge to the business but there are some very effective comments on the results. The candidate understands the limitations of just using two ratio results and there is an awareness of the weak aspects of Sportwize's liquidity position not shown up in the ratios. Although the debtor days ratio was not calculated the candidate demonstrates sufficient understanding of the accounts and the ratio results to gain all 4 marks for analysis.

The candidate has not shown all workings including the ratios used. This would have been a problem if the results had been incorrect. Incorrect results to any calculation question will earn zero marks if there are no supporting workings. All candidates should be encouraged to show the steps that they are going through in their calculations so that some credit may be awarded if the final result is incorrect.

**Marks awarded = 8 out of 8**

**Question 2 (b)**

Evaluate **two** ways in which the business could improve its cash flow position in coming months. [10]

**General Comment**

This question is designed to allow candidates to build upon their answer to part (a). It is asking candidates for information about ways to improve future cash flow for this sports based business. These methods – and two suggestions would be adequate – should then be evaluated in the context of Sportwize.

**Individual Candidate Response**

**Candidate A**

Cash flows in the future could be improved in a number of ways. Debtors could be asked to pay more quickly, suppliers could be asked for more credit, customers could be refused credit, capital expenditure could be delayed and existing assets could be sold for cash and leased back. All of these methods would either cut down on expenditure or get cash into the business more quickly.

Sportwize need to get control of debtors. Due to the illness of the finance administrator debtors have not been sent invoices and so they have not paid. If Gowri writes to them all and asks for immediate payment then this should increase cash flow. The only problem with this is that if some customers are used to receiving credit and it is now not offered they might take their custom to another sports business.

Gowri could also cancel the orders for new capital equipment. This would mean that Sportwize would not have to make these capital expenditures. This would reduce their cash outflows in the next few months. The main problem with this is that new capital equipment might be important to the success of this business. If it is meant to replace worn out equipment then to keep using the old equipment might be dangerous. Also, if the equipment is needed for new sports training classes that have already been advertised then to cancel the order could give the firm a very bad reputation.

**Candidate B**

Cash flows could be improved by asking suppliers for more credit. This would mean that Sportwize would not have to make so many cash payments and this would leave them with more cash in the bank, at least in the short run. Suppliers of equipment and sports clothing would then be paid several months after they delivered the goods to the firm. Sportwize might find, though, that suppliers become reluctant to deliver goods to the business. They could even refuse to supply or not offer discounts because Sportwize is not paying its bills on time. This could be serious for the firm especially if customers are expecting new sports clothing to arrive.

The second way of improving cash flow is to lower the price and increase sales. This will increase demand for the sports courses and raise the revenue of the business. This would be a very good way of improving sales revenue.

**Examiner Comment**

**Candidate A**

This candidate has shown sufficient knowledge to gain all of the marks available for this skill. The answer is also rooted in the case study – there are clear references to this business and the situation it is in. The answer contains sufficient analysis too. The candidate has explained how the methods suggested will improve future cash flow. Finally, both methods are evaluated because the possible negative effects on this business are briefly examined. Full marks.

**Marks awarded = 10 out of 10**

### Candidate B

There are some good points in this answer that deserve marks. The first paragraph is fine. It suggests a method, puts it into context, analyses briefly how it would assist the business and then evaluates the negative side of the method. This paragraph gains half the marks available – 1 each for knowledge, application, analysis and 2 for evaluation as this is good and in context.

The second paragraph is not awarded any marks. The link between reducing price and increasing cash flow is not explained or evaluated. Reducing price could actually worsen cash inflows if price elasticity is less than -1. So no marks can be awarded for the identification of this point – and if the knowledge base is incorrect then no marks can be gained for the other assessment skills either.

**Marks awarded = 5 out of 10**

### Question 3 (a)

Explain how the sales data in Appendix A could be used to obtain a sales forecast for Sportwize Ltd for Quarter 3 in 2002. (No calculations are required.) [4]

### General Comment

It is important to note that no calculations are required. The relatively low number of marks allocated to this question suggests that a brief but accurate answer could gain full marks.

### Individual Candidate Response

#### Candidate A

Forecasting from past data can be done by using the moving average method. By averaging the actual sales data and then finding the moving average trend a graph could be drawn. This line is then extended to Q3 2002 – this is called extrapolation. It might be necessary to seasonally adjust this figure to arrive at a more realistic forecast.

#### Candidate B

A graph could be drawn of the actual data and then this is taken into the future. If the trend line is taken to Q3 2002 then this becomes the forecasted sales figure.

### Examiner Comment

#### Candidate A

This candidate clearly understands the process of identifying the trend, extrapolating this to the future and then seasonally adjusting the result. No time is wasted with unnecessary detail or with calculations.

**Marks awarded = 4 out of 4**

#### Candidate B

This answer displays much less knowledge and understanding. There is some recognition of the need to extrapolate results into the future – but little else. No reference is made to moving averages or the need to seasonally adjust the extrapolated trend line.

**Marks awarded = 1 out of 4**

**Question 3 (b)**

To what extent might sales forecasts be useful for a business such as Sportwize Ltd? [10]

**General Comment**

This question goes beyond the mere mechanics of forecasting and asks candidates for an analysis of how forecasting might assist this business. In addition, the answer should include an evaluation of why sales forecasting might not aid the business greatly.

**Individual Candidate Response**

**Candidate A**

Sales forecasting means making predictions for the future. If firms know what will happen in the future then they can start to make plans. So if sales look as if they are rising the firm could plan to increase output. This might mean increasing staff or buying new fixed assets. If, on the other hand, sales are forecast to fall then the firm could make people redundant to save costs. Seeing what might happen in the future helps to reduce risks and uncertainty and so businesses are not taken so much by surprise. This could be important to Sportwize as they are likely to have seasonal demand.

**Candidate B**

By sales forecasting any firm will have a clearer idea of what they are likely to sell in the next few years. They must remember, though, that these are only forecasts and the future might be very different. Recessions and economic booms could occur which were not forecast and this might mean that sales will be higher or lower than the business thought they would be.

By having a sales forecast firms should know how many staff to employ. This could be particularly important to Sportwize as they do not employ permanent staff. So, if they can forecast sales for the summer season they can plan to employ the right number of temporary staff. This would save them money and mean that they would run enough courses for the demand.

Forecasts are never definite though and can be wrong. An economic boom could increase demand for luxury goods and then producers would find that they are not producing enough. It is probably better to make some attempt to forecast, though, rather than to make no plans for the future.

**Examiner Comment**

**Candidate A**

This candidate has made a good start to answering the question but fails to analyse or evaluate in the context of this business. 2 marks are awarded for knowledge as there is sufficient understanding of the uses of sales forecasting. There is only one reference to the business – the likelihood of seasonal demand. Therefore, only 1 mark for application. Analysis is weak but there is an attempt to link the uses of sales forecasts to achieve cost savings. 1 mark for analysis but no marks for evaluation as there is no judgement worthy of credit.

**Marks awarded = 4 out of 10**



**Candidate B**

This is a slightly better answer. There are clearer references to Sportwize and the possible benefits to staffing decisions and number of courses offered. Analysis is slightly stronger too and although the evaluative point regarding the limitations of forecasting is repeated it does illustrate some judgement. More marks for evaluation could have been earned by commenting on the points made in the mark scheme and relating these to Sportwize. 2 marks each for knowledge, application and for analysis and 1 mark for evaluation.

**Marks awarded = 7 out of 10**

**Question 4 (a)**

Calculate the contribution per day that Sportwize would receive if they accepted the contract from the college. [6]

**General Comment**

A calculation question that requires no written comment. It will be important for candidates to show their working though, especially if the final answer is incorrect.

**Individual Candidate Response**

**Candidate A**

Daily sales revenue	=	\$240
Labour costs	=	\$80
Hire costs	=	\$40
Total direct costs	=	\$120
Daily contribution	=	\$120

**Candidate B**

Extra revenue	=	\$240
Costs	=	\$80
Profit	=	\$160 per student

**Examiner Comment**

**Candidate A**

This candidate clearly understands the concept of contribution and has correctly calculated the daily contribution figure.

**Marks awarded = 6 out of 6**

**Candidate B**

This candidate is confusing contribution with profit – never a good sign. Also, only the labour charge for one member of staff is included not the cost of 2 tutors. Finally, the candidate believes that the result is per student not per class. Three errors leads to a 3 mark deduction.

**Marks awarded = 3 out of 6**

**Question 4 (b)**

Using your result to (a) and any other information, recommend to Asif whether he should accept this new contract. Justify your recommendation. [12]

**General Comment**

This question is asking candidates to analyse their result to the previous question and evaluate other data available in the text. The own figure rule applies here in that if the result in (a) is incorrect full marks can still be gained in part (b) if the result is analysed and evaluated correctly. Candidates who failed to obtain any answer to (a) can still score marks on (b) if they use the other information available in the case.

**Individual Candidate Response**

**Candidate A**

The case for accepting the new contract is a strong one. The new courses will, according to my results, make a positive contribution. This means that they add more to revenue than they do to direct costs. Fixed costs are ignored in this calculation as it is assumed that they do not increase. If there does need to be a substantial increase in overheads that is not mentioned in the case then my decision to accept the contract might have to be changed. However, if they cannot find a college to accept a price of \$15 per student then it would be a good idea to accept this contract.

The new contract also offers the chance of selling courses to a new customer. This could lead to other orders in the future. If Asif does not accept the price suggested by the college then competitors of Sportwize might step in and take this new business. Finally, there is a risk that the government might introduce economic measures to slow down growth in the economy. This will reduce demand for Sportwize services so they will be need any extra business that is available.

The main drawback to accepting the new courses is that other schools and colleges might find out about the new low price and demand the same. If prices were lowered to all schools then Sportwize might end up making an overall loss.

However, assuming that Asif can keep the new price secret, for all of the reasons I have explained I would accept the new contract.

**Candidate B**

The profit made looks very good. If the company accepts the contract it will make \$160 per student and this is worth going for. It is always worth taking on new business if it makes a profit. The only problem might be that the company does not have enough workers to take the classes but if they do then I can think of no other reason why they should not accept the contract.

**Examiner Comment**

**Candidate A**

This is a very good answer. The candidate demonstrates a very clear understanding of the contribution concept. There is a recognition that fixed overheads are not included in this calculation but that if they do need to be increased for the new contract then the decision might have to change. Other factors are also considered and put into the context of the case study. There is a clear final recommendation and this is important as the question specifically asked for one. This recommendation is well supported and justified.

**Marks awarded = 12 out of 12**

### Candidate B

The candidate takes the incorrect result from (a) and uses this to justify taking the contract. Therefore, there is some merit in this answer. The point about the availability of tutors is also a valid one. There is much missing from this answer, however. There is no discussion about fixed costs or the possible impact on other customers. There is no reference to the economic situation and there is still confusion between profit and contribution. 2 marks for knowledge, 1 for application, 0 marks for analysis and 1 for evaluation.

**Marks awarded = 4 out of 12**

#### Question 5

Assess the case for each of the three possible sites for the activity holiday centre. Give a justified recommendation to Asif and Gowri of which, in your opinion, is the best location. [12]

#### General Comment

This question covers an AS syllabus topic and it must be remembered that A level includes all AS material as well as the extension topics. It is clearly an evaluative question and this helps to make it quite a challenging A level question. Candidates are expected to select from and analyse the data contained in the case study.

#### Individual Candidate Response

##### Candidate A

The location decision is a very important one for any business. It cannot easily be reversed and could affect the future profits of the business. Asif and Gowri have three sites to choose from. They all have strengths and weaknesses. Site A has quite low land costs and is near a large town. There are poor transport links and another activity holiday centre is nearby. The unemployment rate is high and government grants are available. Site B has the highest land costs which will raise fixed costs and is furthest from a large town. Local transport is good and there is low unemployment. No government grants are available. Site C is in another country. The transport links are improving but there is a competitor nearby. The unemployment rate is high and government grants are available. Based on all of this information I would choose Site C as it might open up a new market for Asif and Gowri's business.

##### Candidate B

I would advise Asif and Gowri to open the new activity centre in Site A. There are many points to consider before taking this decision. All of the sites have some benefits for Sportwize but A offers more of them with fewer disadvantages. For example, the relatively low land costs will make it cheaper for Sportwize to set up in Site A. The lower fixed costs will be important for a small business such as this one and it will help to keep the break-even point low. The government grants will also help to keep down set up costs and might mean that the business could afford better equipment. Poor local transport is a problem as customers might find it difficult to get to the activity centre but perhaps Sportwize could get around this by buying their own minibuses.

The high unemployment rate has both positive and negative effects. Firstly, it will mean that there is more choice of available workers to fill jobs at the new centre. On the other hand, high unemployment might mean that incomes are low in the area and this could reduce the demand for activity holidays. Site B seems to be too expensive and Site C has the problem of being in another country. Asif and Gowri would have to do market research in this country to find out what customers might want. There could also be a language problem. As quite a small business these problems could become very serious. So, all sites have their drawbacks but Site A in my opinion has fewer of them.

### Examiner Comment

#### Candidate A

This is a poor answer despite its length. The candidate has done little more than copy out all of the data provided. There is very little comment, analysis, application to Sportwize or evaluation. There has been very little selectivity – the candidate is making no attempt to suggest which would be the most important data influencing this particular location decision. 2 marks for knowledge, 1 for application, 1 for analysis (the point made about fixed costs) and 1 mark for a weak recommendation.

**Marks awarded = 5 out of 12**

#### Candidate B

This gains full marks as it demonstrates all four assessment skills to a good level. There is clear understanding of location factors. These are applied to Sportwize on several occasions. There is some use of theory to explain the points made e.g. fixed costs, break-even point and labour market analysis. There is a clear and supported recommendation.

**Marks awarded = 12 out of 12**

### Question 6

'By setting a high promotion budget, businesses such as Sportwize could guarantee their future success.' To what extent do you agree with this statement? [20]

### General Comment

There will always be a choice for candidates between two essay titles. These questions will carry more marks [20] than any other question so more time should be spent on them than any other single answer. Evaluation will always be heavily rewarded on the essay questions – mere knowledge and application will not gain many marks. Candidates are advised to think carefully before deciding which essay to choose. Starting one and then deciding it is the wrong one to do will waste valuable time.

### Individual Candidate Response

#### Candidate A

Sportwize do not seem to do very much promotion. It seems they only advertise when they have to and this means that they do not advertise very often. It is very important to any business to advertise as this will let customers know what you offer. Without advertising customers will not even know that you exist and they might never buy anything from you. Advertising on television or on the cinema would let so many people know about your product and this would lead to success. In my country there is a great deal of advertising on television and this leads to more people knowing about the products.

I think promotion is important for Sportwize as it will lead to their success. Without advertising how will customers know about the sports activities? Success is what Asif and Gowri seem to want so how can they be successful without advertising? It can be expensive but it is always worth it. Asif and Gowri should immediately spend more on promotion and then they will have a successful business.

### Candidate B

Promotion is part of the marketing mix. The four P's also include price, place and product. Promotion includes above and below the line promotion. Sportwize seem to do very little promotion and this could be reducing their chances of success. Promotion can let customers know about a new product or service – informative advertising. This is particularly important for new businesses but Sportwize have been operating for some years. This could mean that they are already quite well known so they do not have to advertise very much. Promotion can also be used to encourage repeat sales like vouchers and competitions. Perhaps Sportwize could use more of this below the line promotion to boost sales and increase business. All promotion is expensive and it could be that Sportwize cannot afford any advertising. They do not have much cash and to suddenly increase their marketing budget could lead to a serious financial problem.

Business success does not just depend upon promotion. If it did then all a business would have to do is to spend more on advertising. If customers really do not want to buy a product then spending more on advertising could be a waste of money. It is not always easy to work out how successful advertising is as other things could have affected sales too.

I would advise Sportwize to spend more on promotion especially on getting existing customers to book more courses. This would certainly help the business be successful. A special offer, discount voucher or competition for the students to enter could all lead to more orders.

So I do think that promotion will help Sportwize but they should not spend too much on it. If they run out of cash then the advertising will not have been worthwhile.

### Examiner Comment

#### Candidate A

The candidate recognises that promotion includes advertising. There is a weak attempt to explain how advertising can lead to business success but this point is not put into context. Again, just mentioning the name of the business does not constitute genuine application. There is no detailed analysis and none of the points are evaluated. Can the firm afford a promotion campaign? Will it always lead to increased sales? What other factors will influence the success of this business? This is a weak answer that lacks important assessment skills. 2 marks for knowledge, 1 for application and 1 for analysis.

**Marks awarded = 4 out of 20**

#### Candidate B

There are some very good points here and there is a very solid foundation for a good answer. Unfortunately the candidate seems to run out of ideas, or time – or both. There is clear understanding of promotion and relevant subject material. Some of this is applied to the case – but not all of it. Paragraph 2 does not refer to this business at all. There is some analysis but there is scope for more. What about advertising elasticity of demand? How important is an integrated marketing mix? Why are the other aspects of the marketing mix – such as price – likely to be important factors in the success of this business too? Apart from marketing, what other factors could determine the success of businesses such as Sportwize? Human and operations decisions are likely to be just as important.

So, this answer does have strengths. The point about the cost of promotion is well made and in context. It is a pity that the candidate did not use this answer as a basis for a wider and more evaluative consideration of other factors influencing business success. 3 marks for knowledge, 2 for application, 2 for analysis and 3 for evaluation.

**Marks awarded = 10 out of 20**

### Question 7

Assume that the government of your country took the economic policy decisions referred to in lines 10-14. Evaluate the possible impact of these decisions on small firms such as Sportwize Ltd. [20]

### General Comment

This question clearly demands a good understanding of macro-economic constraints, the identification of the main changes in government policy proposed in the case and an ability to apply these to the Sportwize business.

### Individual Candidate Response

#### Candidate A

At the moment the economy seems to be doing well. There has been rapid economic growth. Consumer incomes are rising and they have more money to spend on holidays. This is probably good news for Sportwize as they will have more people demanding their courses. As people buy more of the courses so the profits of the business should increase. One of the problems with an economic boom is that it can lead to inflation which means prices rise every year. The government will want to slow inflation down. They can do this by making some changes to economic policy. The case study says that the government might increase interest rates and taxes.

How would these affect Sportwize? If interest rates are increased then this makes borrowing money more expensive. This could hit the demand for luxury goods. As holidays are not really necessary then demand for them could fall if interest rates rise. Sportwize will find that fewer people will demand their holidays and activities. They might have to lay off staff and close some courses so this would be bad news for the company. An increase in taxes though will leave the government with more money to spend. The government could spend this on many things but they might spend it on schools. If schools get more money then they could increase demand for sports activities. So Sportwize might benefit from this.

It is difficult to say how Sportwize will be affected by these economic policy decisions. They could be hard hit but it might not affect them very much. If the currency appreciates then exports become cheaper and imports more expensive but I cannot see how Sportwize will be affected. The impact of higher interest rates will be important for the company though.

#### Candidate B

The state of the economy can have a big impact on a small firm like Sportwize. Holidays are an income elastic product and when consumer incomes are rising then the demand for holidays should increase at an even faster rate. This would mean that Sportwize could expand quickly. As the case says when an economy is booming there is a danger of higher inflation. When prices rise faster and faster this means trouble for the economy and the government will try to stop this. The case study says that the government is planning to take some economic policy decisions. Interest rates could be put up and direct taxes raised. Government spending on schools and hospitals might be cut. All of these changes might lead to the currency appreciating.

How will these decisions affect small firms like Sportwize? I will take them one at a time. Higher interest rates could affect the company in three ways. Consumers will have less money to spend as they will be paying more for loans. This will mean that they will cut back on spending on income elastic goods. Secondly, if Sportwize have any loans the interest on these will now become more expensive and will hit the profits of the business. Lastly, higher interest rates could mean the currency could appreciate.

Higher direct taxes mean that taxes on wages and profits will increase. Again Sportwize will be hit badly. Demand will fall as people have less disposable income. The company's profits will be taxed more leaving lower retained profits. This means that it could not afford to spend so much on expanding the business.

If the currency does appreciate then this means that it buys more foreign currency than before. This makes imports into the country cheaper but exports become more expensive. Sportwize are planning to import sports equipment so this could be cheaper if the currency does appreciate.

So the company will be affected by these changes, in some cases negatively but not in all cases. How badly will the company be affected? This depends on a number of factors. For example, if the company has a high gearing ratio then an increase in interest rates will add to its overheads greatly. If the income elasticity of demand is high then demand will fall substantially after the reduction in consumer incomes. On the other hand, if inflation is reduced by these policies then Sportwize will benefit from lower inflation as tutors will not ask for such big wage increases.

However, Sportwize might not be affected very much if the government does not increase interest rates and taxes by very much. Also, if the exchange rate does not appreciate by very much then it will not make much difference to import prices. As the company could locate one of its activity centres abroad it would not be affected by economic policies in the original country.

So Sportwize is likely to be affected quite a lot by these changes but it does also depend on how long the government keeps these policies for. If they are changed back again quite quickly then the impact will not be great.

**Examiner Comment**

**Candidate A**

This answer makes some important points. It identifies the current economic state of the economy and how the company might be benefiting from this. It recognises some of the economic policy changes that the government is predicted to make. There is some limited analysis of how an increase in interest rates could have an impact on Sportwize. An attempt is also made at evaluation by recognising that this change is likely to have the greatest impact of all on the company.

There are serious limitations too. The analysis of the currency appreciation is incorrect. There is some confusion over the logic behind the government's possible decision to increase direct taxes – this would be designed to cut back on aggregate demand not to finance increased government spending. 2 marks for knowledge, 1 for application, 1 for analysis and 2 for evaluation.

**Marks awarded = 6 out of 20**

**Candidate B**

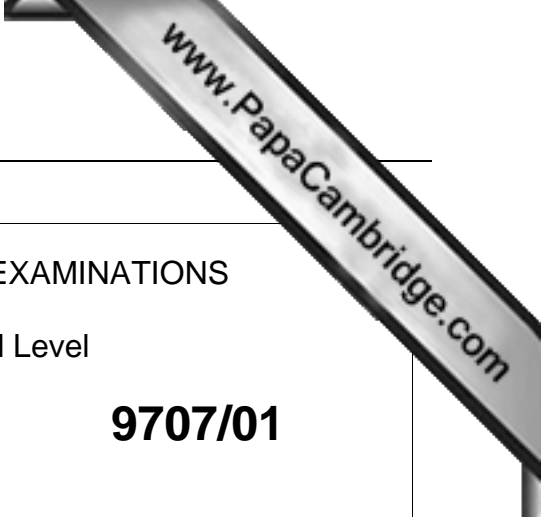
The answer demonstrates a very clear understanding of macro-economic policies. The subject knowledge included is certainly sufficient for the candidate to gain all 3 knowledge marks. There are important references to the business throughout the answer and the analysis of interest rates and the exchange rate changes are clearly in context. Full marks again, for application. The analysis is as detailed as the examiner could reasonably expect from a candidate working under timed conditions. The analysis of interest rate, tax and exchange rate changes is accurate and detailed and earns the candidate full marks.

Judgement is demonstrated at several crucial stages of the answer. There is recognition that the effects might not be all that great under certain conditions. There is no attempt to suggest or justify which of these changes might be the most significant for this business so the answer just misses out on full marks for evaluation – 8 out of 10.

**Marks awarded = 18 out of 20**







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

**BUSINESS STUDIES**

**9707/01**

Paper 1 Short Answer and Essay

Specimen Paper for 2005 Examination

**1 hour 15 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.  
You may use a soft pencil for any diagrams, graphs or rough working.  
Do not use staples, paper clips, highlighters, glue or correction fluid.

Section A  
Answer **all** questions.  
Section B  
Answer **one** question.

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.



### Section A

Answer **all** questions.

- 1 (a) What is meant by the phrase 'Public Sector of the Economy'? [2]  
(b) State, with reasons, whether you consider the Public Sector to be an important part of the economy of your country. [3]
- 2 Discuss the contribution informal groups might make towards the overall performance of a business. [5]
- 3 (a) Explain the term 'Price Elasticity of Demand'. [2]  
(b) Why might a Marketing Manager try to influence the price elasticity of demand for products? [3]
- 4 (a) Draw and label a typical 'Product Life Cycle'. [2]  
(b) Explain how knowledge of a product's life cycle could aid management when making pricing decisions. [3]

### Section B

Answer **one** question only.

- 5 (a) Should businesses have a separate Human Resource Department? [10]  
(b) How could the effectiveness of a Human Resource Department be assessed? [10]
- 6 Discuss the factors a firm should take into account when selecting the most appropriate distribution channel for a new product. [20]
- 7 (a) Why is it important for businesses to aim for the efficient management of stocks? [8]  
(b) Outline and discuss any **two** techniques a business might use to manage stocks. [12]

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

**BUSINESS STUDIES**

**9707/01**

Paper 1 Short Answer and Essay

Specimen Mark Scheme for 2005 Examination

MARK SCHEME

**1 hour 15 minutes**

MAXIMUM MARK	40
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**Section A**

- 1 (a) Simple definition without reference to funding or type of services provided. Clear definition with reference to funding and services provided. 2
- (b) Simple statement with one reason. 1  
At least two well developed reasons in support of the statement. 2-3
- 2 Limited understanding, one or two undeveloped points not linked to performance. 1  
Good understanding but only considers either the positive or negative effect on business performance. 2-3  
Well developed understanding of the positive **and** negative effect of informal groups on business performance. 4-5
- 3 (a) Price elasticity measures the responsiveness of demand to a change in the price of a product. 1  
The above statement plus a brief explanation i.e. by how much the demand for a product will fall if its price is increased, or a brief explanation of elastic/inelastic. 2
- (b) Simple understanding of the relationship between PED and sales revenue. 1  
Well developed understanding of the above relationship. 2-3
- 4 (a) Correct diagram with each stage correctly labelled but not the axis, or correct labelling of axis and at least two correct labels for the stages of the PLC. 1  
Diagram correctly labelled – allow for one error. 2
- (b) Simple explanation of how price might change at different stages of the PLC. 1  
Well developed understanding with reference to appropriate pricing strategies for different stages. 2-3

**Section B**

- 5 (a) Answers should recognise that the size of a business will be an important factor in determining whether a HRM Department is needed. The advantages and disadvantages to businesses of having a HRM Department should be discussed e.g. specialist knowledge in areas such as recruitment, employment legislation, manpower planning, training needs analysis, collective bargaining etc.

Knowledge and Application	Analysis and Evaluation
Level Two: Answer demonstrates a good understanding of the importance of HRM with good development. 3 – 6 marks	
Level One: A simple understanding of the role of HRM with one or two relevant but undeveloped points. 1 – 2 marks	Level One: Explanation of the reasons why HRM might be important, with some appreciation of why businesses might not have an HRM Department. 1 – 4 marks

- (b) Answers could focus on indicators such as recruitment and retention of workers, skill levels of employees, the level of industrial disputes, health and safety record, comparison with pre-set objectives or budget, number of internal promotions etc.

Knowledge and Application	Analysis and Evaluation
Level Two: Outlines relevant indicators and makes some attempt at linking these to HRM effectiveness. 3 – 4 marks	Level Two: Attempts to evaluate the usefulness of indicators. 4 – 6 marks
Level One: Outlines relevant indicators, but without any attempt to link to effectiveness. 1 – 2 marks	Level One: Explanation of relevant indicators with clear linking to HRM effectiveness. 1 – 3 marks

- 6 Answers should discuss factors such as: the nature of the product i.e. perishable v non-perishable goods, technical complexity, size, value etc; objectives e.g. profit/sales targets, quality aspects; niche v mass marketing; existing distribution channels used by the business; domestic or overseas markets etc.

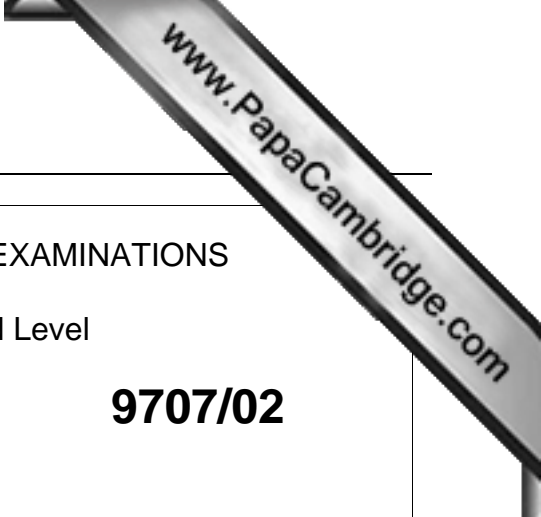
Knowledge and Application	Analysis and Evaluation
Level Two: Outlines a range of relevant factors with some attempt to discuss their appropriateness. 6 – 10 marks	Level Two: Some attempt to evaluate the relevant importance of factors, clearly recognising the nature of the product. 8 – 10 marks
Level One: Outlines relevant factors but without any attempt to discuss their appropriateness. 1 – 5 marks	Level One: Attempts to analyse the importance of factors, perhaps with the use of relevant examples. 1 – 7 marks

- 7 (a) Answers need to give a balanced account of both the costs of holding stocks and the costs of not holding stocks e.g. insurance, warehouse rent, damage, obsolescence, opportunity cost of cash tied up versus cost of running out of stock i.e. loss of orders/production delays, loss of bulk buying discounts etc.

Knowledge and Application	Analysis and Evaluation
Level Two: Outlines the costs of holding and not holding stocks with some appreciation of their importance to businesses. 3 – 4 marks	
Level One: Outlines either the costs of holding stocks, or the costs of not holding stocks. 1 – 2 marks	Level One: Explains how the costs of holding/not holding stocks might influence business activity. 1 – 4 marks

(b) Answers should discuss the relative strengths and weaknesses of at least two methods of improving stock management. The appropriateness of the technique for given situations should be fully understood.

Knowledge and Application	Analysis and Evaluation
Level Two: Outlines the main features of one or two methods and clearly demonstrates some application to stock management. 3 – 6 marks	Level Two: As below but for TWO techniques. 4 – 6 marks
Level One: Outlines the main features of one or two methods but without any understanding of how they might be used to manage stocks. 1 – 3 marks	Level One: Clear analysis of the strengths and weaknesses of ONE method of stock management with a well developed understanding of the appropriateness of technique for different business situations. 1 – 3 marks



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

**BUSINESS STUDIES**

**9707/02**

Paper 2 Data Response

Specimen Paper for 2005 Examination

**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.  
You may use a soft pencil for any diagrams, graphs or rough working.  
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.



## EASYPHONE PLC

Easyphone plc is a mobile phone operating company. It sells mobile phones, which use the company's own satellite telephone network. The users of the mobile phones – called subscribers – buy the phones and pay call charges each time they use them. The business was only established eight years ago but it has experienced very rapid growth. Annual sales turnover in 2000 was \$650m and net profit was \$200m.

The marketing strategy is based on mass marketing and the company has been successful in selling one basic model to a wide range of consumers. The latest version of this model is about to be launched and the final selling price has not yet been decided. As competitors enter the market and as consumers become more selective, there is evidence from some countries that Easyphone's mass marketing strategy may have to change. The marketing director believes that extensive market research might be necessary to assess the changing tastes of consumers in this rapidly expanding market.

Easyphone was set up by a young entrepreneur, Elizabeth Chang. She has always believed in controlling her business using a centralised management structure. Since converting her business to a public limited company three years ago, many new managers have been appointed. Some of them are becoming concerned about the lack of delegation which exists in the business. There was a feeling that this style of management could limit the future success of the business, especially if it expanded into new markets and products.

The financial press has recently reported rumours that the Central Bank is considering an increase in interest rates as part of a tighter monetary policy. This could have an impact on the demand for luxury goods such as mobile phones.

**(a)** Define the following terms:

**(i)** Net profit (line 4) [3]

**(ii)** Public limited company (line 12). [3]

**(b)** Explain the difference between mass marketing and niche marketing. [6]

**(c)** Assess the advantages and disadvantages for Easyphone of delegating more power to managers. [8]

**(d)** Discuss the importance of the issues that should be considered when deciding on the price of the new telephone. [10]



## EXCEL FURNITURE

Excel Furniture manufactures a range of cupboards, desks and tables. The business is considering two important issues which will have a great impact on the success of the business. It is planning to introduce a new style of table called "Country Range". The forecasted costs of this product are as follows:

Country Range Table

Variable costs per unit	\$50
Allocated annual overhead costs	\$150000

Demand for the table has been forecast at 8000 units per year. It is expected that the selling price to retailers will be \$80 per table.

The second issue concerns the purchase of new machinery. This will replace some of the repetitive, boring jobs involved in furniture making. Workers will need to be retrained but their jobs could become more varied and interesting. Bonus payments could rise if output increases. The company will need fewer workers than previously. The machinery will reduce variable costs considerably and this will improve the annual cash flows of the business. The operations manager and finance director have worked together to produce the following table of net cash flows for the new machinery.

## Net cash flows – new machinery

Year 0	(\$6000)
Year 1	\$3000
Year 2	\$2000
Year 3	\$2000
Year 4	\$1000

The machines will have an expected useful life of four years. They will be depreciated using straight-line depreciation. They are expected to have no residual value at the end of their useful lives.

**(a)** Define the following terms:

- (i)** Allocated overhead costs (line 6) [3]
- (ii)** Straight-line depreciation (lines 21-22). [3]

**(b)** Calculate

- (i)** the break even level of output for the Country Range table, [3]
- (ii)** the safety margin, assuming that the forecasted level of output and sales is reached. [3]

**(c)** The firm only accepts new investment projects if they payback within 3 years and offer an average rate of return above 5%.

In your view, on the evidence provided, should the new machinery be purchased by the business? Support your answer with calculations. [8]

**(d)** If Excel does invest in the new machinery, discuss the possible impact of this change on the motivation of the workforce. [10]

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

**BUSINESS STUDIES**

**9707/02**

Paper 2 Data Response

Specimen Mark Scheme for 2005 Examination

MARK SCHEME

**1 hour 30 minutes**

MAXIMUM MARK	60
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[www.PapaCambridge.com](http://www.PapaCambridge.com)



1 EASYPHONE PLC

- (a) (i) Content: This is sales revenue less all of the operating costs of the business. In other words gross profit less overhead expenses.  
 Marking: recognition that it is sales revenue less all operating costs. 2 marks  
 Additional reference to overhead expenses subtracted from gross profit. 3 marks
- (ii) Content: This is a limited liability, incorporated business that is able to sell shares to the public.  
 Marking: recognition that business can sell shares to the public or gain a listing on the Stock Exchange. 2 marks  
Additional reference to incorporated business or limited liability status. 3 marks
- (b) Content: Mass marketing is undifferentiated marketing where products are designed with mass appeal and promoted to all types of consumer.  
 Niche marketing is designing products to appeal to consumers with certain characteristics in a section of the total market.

Knowledge and Application	
Level Two: Explains these concepts with examples – which could be drawn from the text to show application.	4 - 6 marks
Level One: Correct definitions of terms.	1 - 3 marks

- (c) Content: Definition or explanation of the term: passing down power and authority to subordinates. Easyphone might benefit from this strategy because it is a very centralised organisation, which offers few opportunities to managers to take on challenging tasks. Motivation amongst managers and staff may be low as a result – this could improve if more trust is placed in them. As the business seems to be considering expansion into other markets and regions, a more decentralised approach with greater delegation would seem to be appropriate.

The business could face the following disadvantages. There is not a culture of delegation at present so to change this might take time and cause uncertainty, especially for those staff not willing to accept additional authority. All delegation runs the risk of loss of control over subordinates and the senior managers may not be prepared for this.

Knowledge and Application		Analysis and Evaluation	
Level Two: Described the advantages and disadvantages in general terms. 3 – 4 marks		Level Two: Based on analysis of this concept, the candidate evaluates the impact of delegation on this business. Answer must be firmly rooted in the case. 3 – 4 marks	
Level One: Definition or explanation of the term. 1 – 2 marks		Level One: Analyses the advantages and disadvantages of delegation to this business. 1 – 2 marks	

- (d) Content: Pricing decisions will depend upon costs, competition, state of the market, external factors such as the economy, price elasticity etc.  
 Factors drawn from the case: increasing competition, changing market trends/consumer tastes, danger of increase in interest rates, high net profit margin – have adopted skimming in the past?

Knowledge and Application		Analysis and Evaluation	
		Level Two: Evaluates the significance of pricing factors, firmly basing the discussion in the context of the case. 5 – 8 marks	
Level One: Outlines in general terms the factors involved in a pricing decision. 1 – 2 marks		Level One: Explanation of the reasons why pricing factors are important in the context of the case. 1 – 4 marks	

2 EXCEL FURNITURE

(a) (i) Content: Overheads are the indirect (accept fixed) costs of the business that cannot be directly apportioned to cost centres. Allocated overheads are the costs allocated to overheads using a pre-determined formula.

Marking: definition of overhead or indirect costs. 1 mark  
 Recognition that these costs can be allocated by a pre-determined formula. 2 - 3 marks

(ii) Content: A method of depreciation that depreciates assets by equal amounts over their useful life. It calculates the annual depreciation amount by subtracting estimated scrap value from the cost and dividing by the expected life of the asset. Formula may be given instead of this explanation.

Marking: attempted definition that refers to equal amounts of cost being depreciated each year. 1 mark  
 Full definition or correct formula plus explanation of it. 2 - 3 marks

(b) (i) Content: Break even point =  $\frac{\text{Fixed costs}}{\text{Contribution per unit}}$   
 =  $\frac{\$150000}{\$30}$   
 = 5000 units

Marking: Correct formula given. 1 mark  
 Correct formula used and one figure correct or both correct but incorrect result obtained. 2 marks  
 Correct answer with or without working. 3 marks

(ii) Content: safety margin = Target output level – break even level of output  
 = 8000 units – 5000 units = 3000 units

Marking: Correct formula stated. 1 mark  
 Correct formula stated and one figure correct or both figures correct but incorrect result obtained. 2 marks  
 Correct answer with or without working. 3 marks

(c) Content: Payback period = two and a half years.

ARR = 8.33%

Both investment appraisal criteria have been exceeded and therefore, on numerate grounds alone, the project should be accepted.

Knowledge and Application	Analysis and Evaluation
Level Two: Both calculations attempted and at least one is correct - full marks if both correct. 3 - 4 marks	Level Two: Correct interpretation of both of the candidate's results compared to the targets set. 3 - 4 marks
Level One: One calculation attempted – 2 marks if correct. 1 - 2 marks	Level One: Correct interpretation of one of the candidate marks against the targets set. 1 - 2 marks

- (d) Content: Motivational theorists need to be considered e.g. Maslow – loss of security as jobs are at risk; Herzberg – new machinery and production system may offer scope for job enrichment; Taylor – will bonus payments motivate staff to work harder?  
 However, impact on motivation will depend on how staff are selected for redundancy, how training programme is organised and managed and how workers are viewed by management (leadership style) and the needs of the workforce which need to be fulfilled.

Knowledge and Application	Analysis and Evaluation
	Level Two: Based on preceding analysis, evaluation of the likely impact of these changes on the motivation of the workforce of this business. <div style="text-align: right;">5 – 8 marks</div>
Level One: Either unsupported arguments not based on motivation theories or theories unsupported by reference to the data. <div style="text-align: right;">1 – 2 marks</div>	Level One: Appropriate textual references and explanations are well supported by reference to theorists. <div style="text-align: right;">1 – 4 marks</div>

## APPENDIX 3

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS  
General Certificate of Education  
Advanced Level

**BUSINESS STUDIES**

**9707/03**

Paper 3 Case Study

Specimen Paper for 2005 Examination

Additional Materials: Answer Booklet/Paper

**3 hours**

### 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.  
You may use a soft pencil for any diagrams, graphs or rough working.  
Do not use staples, paper clips, highlighters, glue or correction fluid.

Section A

Answer **all** questions.

Section B

Answer **one** question.

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.

Candidates are advised to spend 40 minutes on Section B.

This document consists of 4 printed pages.



UNIVERSITY of CAMBRIDGE

## SPORTWIZE LTD

### Background details

Asif and Gowri have always been very keen on sports of all kinds. After several years teaching in a secondary school they decided to form their own activity holiday business called Sportwize. The business organises activity holidays involving both indoor and outdoor sports activities, depending on the time of year. Their main market is schools that want a fully organised and integrated holiday and activity package for groups of students. The popularity of the business has grown rapidly and past sales data for the last two and a half years are given in Appendix A.

5

### The Economic situation

Rapid economic growth has increased consumer incomes in recent years and the holiday industry, and activity holidays in particular, has seen a substantial increase in demand. There are reports in the financial press that the Government is considering taking action to prevent inflation from rising too rapidly. The predictions are that interest rates and direct taxes could rise and there will be reductions in Government expenditure projects such as hospitals and schools. Some economists believe that these measures could lead to an appreciation in the country's currency.

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### Marketing the business

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Asif is responsible for marketing and he has recently contacted a college regarding some courses for its students. The teacher in charge wants to book some outdoor sports activity courses for a group of 20 students but is not prepared to pay the price Asif has set. Asif set the price of \$15 per student per day on the basis of variable and fixed cost plus mark up. The college is only able to pay \$12 and Asif did not know whether to accept the contract. Two tutors would be needed and each one earns \$40 per day. The school wanted rock climbing to be one of the activities. Asif would have to hire extra equipment, costing \$40 per day.

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The business does not have an annual promotion budget. The owners decided only to advertise if sales fall below the previous year's level. If sales are rising then no promotion is undertaken at all.

### Staffing issues

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The company employs ten staff. Three full time staff deal with administration, finance and maintenance of equipment. All of the other staff are temporary and they are the sports tutors who are employed on a six monthly contract. These tutors are under the direct and close supervision of Asif. They are reappointed each session – either winter or summer – depending on the level of demand in that year. When the time comes to issue new employment contracts, Gowri often finds that tutors have found jobs with other centres, so she is forced to advertise for replacement staff. All tutors are paid a weekly wage plus a bonus worked out on commission from the sale of any sports wear that the centre stocks to students or teachers. Recently, there have been reports from schools that some sports tutors were unhelpful and ended activities earlier than planned. Also, there has been an increase in absenteeism amongst tutors and this has led to the cancellation of some activities at short notice.

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### Financial control

As with any small business, control over cash and working capital has proved to be a vital ingredient of success. The lengthy illness of Sportwize finance administrator is now, however, leading to serious problems. The bank has recently contacted Gowri to inform her of the increasing overdraft. Also, some schools have not paid their accounts for several months so control over debtors is being lost. The two owners recognise that this issue has to be sorted out very quickly, especially as it is planned to purchase expensive imported sports equipment in the next two months. An extract from the accounts of Sportwize is shown in Appendix B.

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**Future plans**

A wealthy hotel owner, Sam, has recently contacted Gowri. One of his sons has just completed a most enjoyable Sportwize activity holiday. He proposed to Gowri that Sportwize should set up a permanent activity holiday location. This would offer accommodation to students as well as all of the activity equipment needed. Sam would provide the finance but Asif and Gowri would manage the centre. He already had three possible locations in mind. One of them was in another country. When Gowri told Asif about Sam's proposals they agreed that it was an exciting offer but they did not know which location would be best. In the end they decided to make a table of the main features of each of the three sites. This is shown in Appendix C.

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**Appendix A**

Sportwize Ltd sales data

2000	1 <sup>st</sup> Quarter	\$25000
	2 <sup>nd</sup> Quarter	\$30000
	3 <sup>rd</sup> Quarter	\$50000
	4 <sup>th</sup> Quarter	\$15000
2001	1 <sup>st</sup> Quarter	\$30000
	2 <sup>nd</sup> Quarter	\$40000
	3 <sup>rd</sup> Quarter	\$60000
	4 <sup>th</sup> Quarter	\$20000
2002	1 <sup>st</sup> Quarter	\$40000
	2 <sup>nd</sup> Quarter	\$48000

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**Appendix B**

Extract from Sportwize Ltd accounts. Year ending 31/6/03

Stocks	\$7000
Debtors	\$40000
Cash	\$1000
Current Liabilities	\$32000
Capital Employed	\$175000

65

70

**Appendix C**

	Site A	Site B	Site C (in another country)
Land costs per square metre (\$)	5	8	4
Nearest large town (kilometres)	20	60	25
Local transport infrastructure	Poor	Good	Poor but improving
Rival activity holiday sites within 4 kilometres	3	5	2
Local unemployment rate (%)	10	4	12
Government grants available for capital equipment	Yes	No	Yes

75

80

### Section A

Answer **all** questions in this section.

- 1 (a) Briefly analyse **two** possible reasons for the low levels of motivation of the sports tutors at Sportwize Ltd. [6]  
(b) Recommend to the owners how they might improve the motivation of the sports tutors. Justify your recommendation. [12]
- 2 (a) Analyse and comment on the liquidity of this business. [8]  
(b) Evaluate **two** ways in which the business could improve its cash flow position in coming months. [10]
- 3 (a) Explain how the sales data in Appendix A could be used to obtain a sales forecast for Sportwize Ltd for Quarter 3 in 2002. (No calculations are required.) [4]  
(b) To what extent might sales forecasts be useful for a business such as Sportwize Ltd? [10]
- 4 (a) Calculate the contribution per day that Sportwize would receive if they accepted the contract from the college. [6]  
(b) Using your result to (a) and any other information, recommend to Asif whether he should accept this new contract. Justify your recommendation. [12]
- 5 Assess the case for each of the three possible sites for the activity holiday centre. Give a justified recommendation to Asif and Gowri of which, in your opinion, is the best location. [12]

### Section B (Essay)

Answer **either** Question 6 **or** Question 7 in this section.

- 6 'By setting a high promotion budget, businesses such as Sportwize could guarantee their future success.' To what extent do you agree with this statement? [20]
- 7 Assume that the government of your country took the economic policy decisions referred to in lines 10-14. Evaluate the possible impact of these decisions on small firms such as Sportwize Ltd. [20]

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS  
General Certificate of Education Advanced Level

**BUSINESS STUDIES**

**9707/03**

Paper 3 Case Study

Specimen Mark Scheme for 2005 Examination

MARK SCHEME

**3 hours**

MAXIMUM MARK	100
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### Section A

Answer **all** questions in this section.

- 1 (a)** Briefly analyse **two** possible reasons for the low levels of motivation of the sports tutors at Sportwize Ltd. [6]

Content: Pay levels, short term contracts and lack of security, management style used by owners.

	Knowledge	Application	Analysis
Level 2	2 marks Two factors identified	2 marks Both factors applied to case	2 marks Good use of theory to explain answer
Level 1	1 mark One factor identified	1 mark One factor applied to case	1 mark Limited use of theory

- (b)** Recommend to the owners how they might improve the motivation of the sports tutors. Justify your recommendation. [12]

Content: Permanent contract – tied in with Maslow's security needs, pay levels or method of payment – tied in with Taylor, job enrichment (with examples) – tied in with Herzberg, improved communication and/or participative style of leadership. The appropriateness of the measure(s) selected, to this business, need to be evaluated for high marks.

Possible evaluation includes:

Are permanent contracts too expensive and inflexible for this type of business?

Would long-term motivation be increased by higher pay or other pay systems?

Would the main forms of enrichment e.g. teamworking, be applicable to this business which depends on individual tutors skills? etc.

	Knowledge	Application	Analysis	Evaluation
Level 2	2 marks Two ways of improving motivation suggested	2 marks Ways of improving motivation applied to case	4-3 marks Good use of theory to answer question	4-3 marks Good judgement shown
Level 1	1 mark One way suggested	1 mark One way applied	2-1 marks Limited use of theory to answer question	2-1 marks Limited judgement shown

- 2 (a)** Analyse and comment on the liquidity of this business. [8]

Content: Current Ratio = 1.5 Acid test = 1.28 (accept 1.3)

It seems that there is no liquidity problem – best answers will explain why this is BUT debtors are high (debtor days based on revenue for 4 quarters to 30/6/02 is 83.4 days) and cash is low for a business of this size. This could prove to be a risky position if creditors need to be paid soon and if debtors do not pay due to illness of financial administrator.

	Knowledge and Application	Analysis
Level 2	4-3 marks Both correct 4 marks One correct and other incorrect 3 marks	4-3 marks Assessment made of results and other issues concerned with liquidity
Level 1	2-1 marks Attempted but incorrect attempt at ratio calculation(s)	2-1 marks Limited use of theory to explain results

**(b)** Evaluate **two** ways in which the business could improve its cash flow position in 6 months.

Content: Delay payment to creditors, sell assets, delay purchase of new equipment or lease it, improve credit control – encourage debtors to pay quickly.

Evaluation of these measures in the context of this business:

Creditors may refuse to supply just before summer season is due to start

No new equipment could damage image of the business

Expanding business may not have assets to sell

Debtors should respond to credit control pressure as business can claim illness has prevented chasing up – but undue pressure could discourage further business.

	Knowledge	Application	Analysis	Evaluation
Level 2	2 marks Two ways suggested	2 marks Both ways applied to this business	3 marks Good use of theory to explain ways suggested	3 marks Good judgement shown
Level 1	1 mark One way suggested	1 mark One way applied	2-1 marks Limited use of theory to explain ways	2-1 marks Limited judgement shown

**3 (a)** Explain how the sales data in Appendix A could be used to obtain a sales forecast for Sportwize Ltd for Quarter 3 in 2002. (No calculations are required.) [4]

Content: Moving average method of identifying the trend and seasonal variations. Obtain moving average by calculating moving 4 period total and divide by 4. Adjust the trend by average seasonal variation. Explanation could be made by referring to the graphical method of extrapolating the trend and visual seasonal adjustments. Other methods of forecasting also acceptable. Award some credit (max. 2 marks) for answers that refer to trend of the data and/or the seasonal variations that exist.

Knowledge and Application
Level 1: Candidate displays appropriate awareness of forecasting techniques. 1 – 4 marks

**(b)** To what extent might sales forecasts be useful for a business such as Sportwize Ltd? [10]

Content: Useful as it is a rapidly growing industry with obvious seasonal variations. Such forecasts would reduce risk and uncertainty, aid planning e.g. over staffing and equipment levels and aid cash flow forecasting. BUT how accurate are the forecasts? What external factors could make them inaccurate? New competition would affect the sales of this business. Economic policy changes of government would affect consumer demand and these are difficult to predict.

	Knowledge	Application	Analysis	Evaluation
Level 2	2 marks Two uses given	2 marks Both uses applied to this business	3 marks Good use of theory to explain answer	3 marks Good judgement shown
Level 1	1 mark One use given	1 mark One use applied	2-1 marks Limited use of theory to explain answer	2-1 marks Limited judgement shown

4 (a) Calculate the contribution per day that Sportwize would receive if they accepted the contract from the college.

Daily sales revenue = \$240  
 Labour costs = \$80  
 Hire costs = \$40  
 Daily contribution = \$120

Fixed costs should NOT be included.

6 marks for correct answer

Deduct 1 mark for each error e.g. arithmetical error, attempt to calculate profit, inclusion of, or attempt to include fixed costs, not calculating daily.

(b) Using your result to (a) and any other information, recommend to Asif whether he should accept this new contract. Justify your recommendation. [12]

Content: Will other customers find out about this price and ask for similar reductions? Makes a positive contribution therefore should add to profits. Are staff available – is there excess capacity? Will additional overheads be incurred? Will it lead to other orders from the college? Will it affect the image of the business?

	Knowledge	Application	Analysis	Evaluation
Level 2	2 marks 2 points made that could influence such a decision	2 marks Both points applied to case	4-3 marks Good use of theory to answer the question	4-3 marks Good judgement shown
Level 1	1 mark 1 point made	1 mark 1 point applied to case	2-1 marks Limited use of theory	2-1 marks Limited judgement shown

5 Assess the case for each of the three possible sites for the activity holiday centre. Give a justified recommendation to Asif and Gowri of which, in your opinion, is the best location. [12]

Content: Each have their merits and drawbacks. These need to be explained in context e.g. site costs, likely labour costs (unemployment rate could affect this), Government grants and transport links etc. Recommendation should examine all of these and should include an assessment of: Do owners want to move abroad? Will exchange rates be a problem? Which is closest to most schools – or will students travel a long way? Extra information would have been useful.

	Knowledge	Application	Analysis	Evaluation
Level 2	2 marks Two relevant points about location made	2 marks Both applied to this business	4-3 marks Good use of theory to answer question	4-3 marks Good judgement shown
Level 1	1 mark One relevant point made	1 mark One point applied to this business	2-1 marks Limited use of theory to answer question	2-1 marks Good judgement shown

**Section B (Essay)**

Answer **either** Question 6 **or** Question 7 in this section.

- 6** 'By setting a high promotion budget, businesses such as Sportwize could guarantee their future success.' To what extent do you agree with this statement? [20]

Content: Promotion budgets will allow regular spending on advertising and promotion. This could be very useful for a firm in building up new business, in informing existing and potential customers about services and creating a good impression of the business. BUT it will not guarantee success as other factors are important: The rest of the marketing mix, whether it is integrated or not, industrial relations, economic environment and other external constraints will all have an influence on the success of the business.

	Knowledge	Application	Analysis	Evaluation
Level 3				10 – 6 marks Good judgement shown in both text and final recommendation
Level 2	3 marks Good subject knowledge shown	3 marks Points made well applied to case	4-3 marks Good use of theory to answer question	5- 3 marks Limited judgement shown in both text and recommendation
Level 1	2-1 marks Limited subject knowledge shown	2-1 marks Some application to case	2-1 marks Some use of theory to answer question	2-1 marks Limited judgement shown

- 7** Assume that the government of your country took the economic policy decisions referred to in lines 10-14. Evaluate the possible impact of these decisions on small firms such as Sportwize Ltd. [20]

Content: Small businesses could be particularly badly affected by these measures, especially if borrowing is high. Likely to be an income elastic product – tax increases will reduce consumers' disposable incomes and affect demand for this type of holiday. Government expenditure cuts may affect schools' budgets and could reduce the number of school groups. Higher interest rates will reduce chances of loans to pay for new equipment. Higher direct tax on profits will reduce retained profits. Higher exchange rate could make imported equipment cheaper. Could influence the decision to locate abroad. BUT the effects will depend on income elasticity, the ability of small businesses to diversify or adapt their marketing strategy to attract overseas customers and the impact of the exchange rate on import prices e.g. equipment prices for Sportwize.

	Knowledge	Application	Analysis	Evaluation
Level 3				10 – 6 marks Good judgement shown in both text and final conclusion
Level 2	3 marks Good subject knowledge shown	3 marks Points made well applied to case or small firms in general	4-3 marks Good use of theory to answer question	5- 3 marks Limited judgement shown in both text and conclusion
Level 1	2-1 marks Limited subject knowledge shown	2-1 marks Some application to case/small firms	2-1 marks Some use of theory to answer question	2-1 marks Limited judgement shown