

## UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

International General Certificate of Secondary Education

### MARK SCHEME for the June 2004 question papers

#### 0450 BUSINESS STUDIES

0450/01 Paper 1, maximum mark 100

0450/02 Paper 2, maximum mark 100

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

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

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

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**JUNE 2004**

**INTERNATIONAL GCSE**

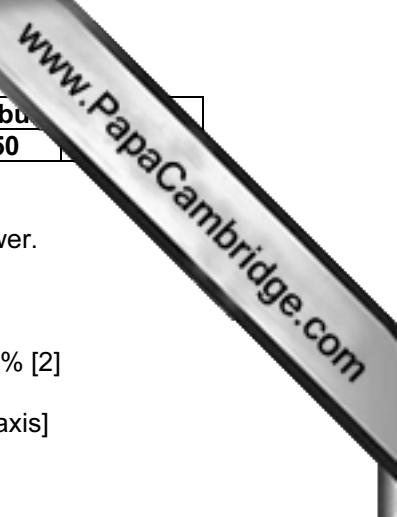
**MARK SCHEME**

**MAXIMUM MARK: 100**

**SYLLABUS/COMPONENT: 0450/01**

**BUSINESS STUDIES**

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	<b>BUSINESS STUDIES – JUNE 2004</b>	<b>0450</b>



- 1 (a) (i).** 1 mark for method [for formula or figures] . 2 marks for correct answer.  
 $\text{unit selling price} = \text{revenue} / \text{volume} ; 400000 / 500 [1] ; = \$800 [2].$
- (ii).** Mark allocation as above [1 for method : 2 for answer]  
 $\text{market share} = \text{total sales} / \text{individual sales} ; \$2\text{m} / \$0.4\text{m} [1] ; = 20\% [2]$
- (b) (i).** 1 mark for correct labelling of both axis [sales on y axis ; time on x axis]  
 1 mark for diagram  
 2 marks for stages [launch / growth / maturity / decline]
- (ii).** Content. Maturity stage is the time when rate of increase in sales slows down and perhaps absolute level of sales begins to fall.

Knowledge/understanding  
 L2 2 marks for understanding  
 L1 1 mark for basic knowledge

- (c) (i).** Content. If price elasticity is greater than 1 then a rise in price will lead to a fall in sales revenue. Given that the market is competitive as well then such a strategy would be unhelpful to the business. Sales will fall / revenue will fall / probably profits will fall.
- Knowledge Understanding  
 L2 2 marks 2 marks ability to show implications  
 L1 1 mark 1 mark limited ability to deduce
- (ii).** Content. Elements of marketing mix could be any 2 from product / place / promotions / packaging. Whichever are chosen then answer must show how the element should impact upon sales.

	Knowledge [2]	Application[2]	Analysis[2]
L2	2 factors identified	good application in context	good explanation
L1	1 factor identified	weakly applied	weak explanation

- 2. (a) (i).** Content. Problems could be related to things like working environment / noise / temperature / dangerous machinery / sanitation. Answers should identify aspect and produce an illustration to gain full marks

	Knowledge [2]	Application [2]
L2	2 problems identified	2 examples given
L1	1 problem identified	1 example given

- (ii).** Content. If no laws then an employer might be tempted to cut costs in order to boost profits. This might lead to exploitation of employees. To prevent any possibility of this occurring laws are needed.

	Understanding	Evaluation
L2	Good appreciation[2]	judgement based upon understanding [2]
L1	Some appreciation[1]	limited judgement exercised[1]

(b) (i). Content. His sales are falling. His costs are rising and hence prices being driven up. Thus cheap imports add to his problems.

Understanding  
 L2 Good appreciation of problem[2]  
 L1 Limited appreciation [1]

(ii). Content. Methods likely to be tariffs or quotas. The first is an import tax which would increase the domestic cost of imports. The second is a volume constraint that would free up some of the market for domestic producers.

Knowledge Understanding  
 method identified[1] Method explained[2]

(c). Content. If the business has debts then it will pay interest on its borrowing. This is a cost and hence if rates rise then profits will fall. The business might try and pass this on in the form of higher prices in which case volume sales will probably decrease. It is also possible that interest rates might have an adverse impact on consumers ability to buy. This too would damage profits.

Knowledge	understanding	evaluation
interest rate known	implication understood	conclusion drawn
[1]	[2]	[2]

3. (a) (i). \$50000 [1]

(ii)  $\$10 / \$120 \%$  [1] answer = 8.3% [2]

(b). Content. Profits are a necessary reward for risk taking / they provide source of funds for future investment / reason for the existence of the business. Necessary for long term survival.

Knowledge Understanding  
 Basic statement[1] good understanding[2]  
 some understanding[1]

(c) Content. The change would have significant implications to include – limited liability / access to more capital / possible dilution of control / legal formalities / disclosure of information. Answer requires a recommendation to gain full marks.

Knowledge	Understanding	Evaluation
L2 2 points identified [2]	good understanding[2]	Judgement logically arrived at[2]
L1 1 point identified[1]	Some understanding[1]	Some attempt to justify recommendation[1]

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- (d) (i). Content. A fixed asset is an asset owned by a business held over a period of time. It cannot be easily converted into cash.  
1 mark for knowledge plus 1 mark for understanding of some characteristic.
- (ii). Content. Debtors represent outstanding sums of cash owed to a business by its customers. They therefore represent an asset of the business because they are of value to the business.  
1 mark for basic knowledge. 1 mark for understanding as shown by development of point.
- (iii). Content. A number of ratios could be used e.g. Profit / capital employed ; Gross profit / sales . Explanation will involve showing what ratio measures and hence sheds some light on financial success of the business.

Knowledge	Understanding	Evaluation
1 ratio identified [1]	explanation [2]	shows success[1]

4. (a). Content. Yes because average number of years in job is 2.5 compared to average of 6 [1] This implies much shorter stay on average and hence indicates a higher rate of labour turnover [1].  
1 mark for understanding ; 1 mark for evaluation
- (b). Content. Table suggests little chance of fast promotion / salary progression is slow / long working week. Ability to draw inferences from this needed to produce high level response.

Understanding	Application
3 points identified [3]	Inferences drawn successfully [3]

- (c). Content. Staff leave jobs for a variety of reasons. One of these is of course the pay. Thus an increase in salaries should have a positive impact on staff turnover. However it will clearly have little impact on other causes such as long hours / lack of job satisfaction etc. Evaluative comment will be some sort of judgement based upon understanding of the situation shown.

Knowledge / Understanding	Application	Evaluation
[2]	[2]	[2]

- (d) (i). Content. This is training given to new staff to acquaint them with procedures and in house methods of operation.  
2 marks for good understanding as demonstrated by development or illustration of basic knowledge. 1 mark for basic knowledge.
- (ii). Content. The training should better equip the employee to carry out tasks required and to be able to deal with problems as they arise. Thus it should improve employee efficiency / minimise procedural errors / speed up operations and hence reduce costs. Much depends on the effectiveness of the training.

Analysis	Evaluation
Interpretation of likely impact [2]	Judgement based on impact [2]

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5. (a). Content. Secondary [1] because business is a manufacturer[1]
- (b). Content. The public sector comprises business activities that are not usually profit motivated but whose rationale is to provide a range of acceptable quality services to all irrespective of ability to pay.

Knowledge	Understanding
Aware of what public sector comprises [2]	Appreciates significance of differences [2]

- (c). (i). £200 times \$1.5 [1] = \$300[2]

- (ii). Content. Rise in exchange rate implies that £ rate is higher against \$. Thus might have risen to say £1 = \$1.75. Thus consequence will be that export price will rise and hence outcome is unhelpful to the business.

Knowledge	Understanding / application
Shows what change means [1]	Shows appreciation of significance [2]

- (d). (i). Content. Pressure groups might bring bad publicity or increase public awareness of their anti social activities. The purpose of this approach is to damage the company's sales and hence profits. Fear of this might bring about a change in company policies.

Knowledge	Understanding	Application
Awareness of action [1]	appreciation of action [2]	applied to context [1]

- (ii). Content. Firms are often profit driven. Thus only consider financial costs. Social consequences of action often ignored. Thus the logic of legislation to curtail such activity. Opinion required in answer based upon argument.

Understanding	Evaluation
Appreciation of issues [2]	Conclusion justified [2]

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**BUSINESS STUDIES**



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	BUSINESS STUDIES– JUNE 2004	0450

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**Question 1**

- (a) Why do you think Shama set up her own business rather than working for someone else? (4)

Content: to be her own boss, to keep all the profits,

	Analysis
Level 2	4-3 marks 2 reasons explained
Level 1	2-1 marks 2 reasons given

- (b) Explain the advantages to the business of having Phillippe as a partner. (6)

Content: Accountancy skills, to raise additional capital. Explanation as to how these might benefit the business:

By bringing skills that Shama does not possess and therefore raise the efficiency of the business.

Increase capital as otherwise the money would come from Shama which would limit the size of the business.

	Application	Analysis
Level 2	2 marks Advantages well applied to the case	4-3 marks two advantages explained
Level 1	1 mark Advantages briefly applied to the case	2-1 marks One advantage explained or Two advantages stated

- (c) Finance is needed for expansion. Would changing the business to a private limited company be the best option to take? Justify your answer. (10)

Content: Discussion of a private limited company being able to sell shares, but only to family and friends not to the general public.

Alternative types of business - plc sell shares to the public.

Take on additional partners - raises capital but limited amount of money available however, accounts kept private.

Take out a bank loan instead of changing business type - keeps accounts private but the money must be repaid with interest.

Evaluation of these alternatives in the context of the business:

Shama only has a limited amount of money available, as there are only two partners. Reinvested profits might not be enough in the future if they want to expand quite quickly

They want to open 10 cafe bars, which will be expensive.

Limited company status would give them limited liability - this would be more important when the business is larger.

	Knowledge	Application	Analysis	Evaluation
Level 2	2 marks Two or more different types of business	2 marks Business finance applied to this case study	3 marks Good discussion of advantages/disadvantages to business(s)	2-3 marks Good judgement shown as to which would be the <b>best</b> option
Level 1	1 mark Knowledge of one type of business	1 mark Business finance weakly applied to this case study	2-1 marks Limited discussion of advantages/disadvantages to business	1 mark Limited judgement shown

NB 6 marks maximum if only one type of business is considered

**Question 2**

- (a) What is meant by batch production (line 9)? (2)

Content: Products are made in batches of a certain quantity, usually as orders come in. Each stage of production of a certain quantity is completed before moving on to the next stage.

	Knowledge
Level 2	2 marks Good understanding of batch production shown
Level 1	1 mark Limited understanding of batch production shown

- (b) Would flow production be a better method of production for the new fruit drink? Explain your answer. (8)

Content: Discussion of what is meant by flow and batch production. Evaluation of flow production in the context of S and P Partners. Flow production would give standard quality drink in large quantities but would there be sufficient demand to warrant this quantity? Batch would allow more variety of flavours to be produced but production costs are probably higher.

	Knowledge	Application	Evaluation
Level 2	2 marks Good knowledge of flow and/or batch production	2 marks Flow and/or batch production well applied to the case study	4-3 marks Good judgement shown as to which would be the <b>better</b> method
Level 1	1 mark Limited knowledge of flow and/or batch production	1 mark Flow and/or batch production weakly applied to the case study	2-1 marks Limited judgement shown

- (c) Outline what is meant by 'spans of control will widen and the chain of command will lengthen' (line 27). (4)

Content: Span of control - the number of subordinates working directly under a manager will increase.

Chain of command - a structure within an organisation which allows instructions to be passed down from senior management to the lower levels of management will increase in terms of the number of levels messages have to pass through.

	Knowledge and Application
Level 2	4-3 marks Both explained clearly
Level 1	2-1 marks For explaining either chain of command or span of control or both weak explanations

- (d) Several new employees need to be recruited. Would you advise Shama to use internal recruitment or external recruitment for managers of the cafe bars? Give reasons for your answer. (6)

Content: Internal recruitment - vacancy filled by an existing employee. External recruitment - vacancy filled by someone new to the business.

Discussion and evaluation of which method would be best:

External would bring in new ideas but internal would be motivating for existing staff. Internal already know the employees reliability whereas external the people are completely new.

Internal is often quicker and cheaper.

	Knowledge	Analysis	Evaluation
Level 2	2 marks Knowledge of both internal and external recruitment shown	2 marks Good discussion of suitability of internal and/or external recruitment	2 marks Good judgement shown of which would be the most suitable
Level 1	1 mark Knowledge of Internal or External recruitment shown	1 mark Limited discussion of internal and/or external recruitment	1 mark Limited judgement shown

**Question 3**

- (a) Do you think that primary research would be better than secondary research when estimating the number of customers for the new drink? Justify your answer. (10)

Content: Primary research is the gathering of first hand/original information. Secondary research is second hand information.

Discussion and evaluation of the two types of data gathering applied to this business: The drink is new, there is no competition at the moment so primary would be more suitable. This will provide information about how people feel about the new drink. However, secondary will give information about the drinks market in general.

	Knowledge	Application	Analysis	Evaluation
Level 2	2 marks Knowledge of both primary and secondary research shown	2 marks Research methods well applied to the case study	3 marks Good discussion of advantages/disadvantages of primary and/or secondary research	2- 3 marks Good judgement shown as to which would be the <b>better</b> research method
Level 1	1 mark Knowledge of primary or secondary research shown	1 mark Limited application of the research methods to the case study	2-1 marks Limited discussion of primary and/or secondary research	1 mark Limited judgement shown

- (b) Fig. 1 shows part of a questionnaire drawn up by S and P Partners to find out the market segment for their new drink. It has not been finished.
- (i) Add 4 additional questions (Q3, Q4, Q5, Q6) in the spaces provided on the questionnaire. (4)

Content: Suitable questions might include - What is your job/occupation? What soft drink do you usually drink? How often do you buy this drink? Where do you buy this drink?

Application
4-1 marks 1 mark for each suitable question

- (ii) Justify your choice of questions. (6)

	Evaluation
Level 2	2-1 additional marks can be awarded for any question well explained.
Level 1	4-1 marks Limited judgement shown for all questions

**Question 4**

- (a) The business currently uses wholesalers and supermarkets to distribute its existing fruit drinks. Explain the possible advantages to the business of using wholesalers in the method of distribution. (8)

Content: Producer – Wholesaler – Retailer – Consumer  
 Advantages of wholesalers discussed – breaking bulk, storage provided, advice given, delivery, credit.

	Knowledge	Application	Analysis
Level 2			6-4 marks Good discussion of two or more advantages
Level 1	1 mark Some knowledge of chain of distribution which includes wholesalers	1 mark Channel of distribution applied to this case study	3-1 marks Limited discussion of advantages or good discussion of one advantage

- (b) Outline the marketing mix you would suggest for the new drink. Give reasons for your choice. (12)

Content: All four elements of the marketing mix applied to the case study. Choice of element clearly justified e.g. Place sold in their own juice bars so that they can control the quality of the drink as it soon loses its good taste. They can make sure it is sold at the correct temperature so that it is at its best and customers will keep coming back for more. It will maintain its reputation.

	Knowledge	Application	Evaluation
Level 2	3 marks Three or four elements of the marketing mix present	3 marks Three or four elements of the marketing mix applied to the case study	6-4 marks Good judgement shown as to the suitability of the marketing mix. <b>All four</b> elements fit together as a clear strategy.
Level 1	2-1 marks One to two elements of the marketing mix present	2-1 marks One to two elements of the marketing mix applied to the case study	3-1 marks Limited judgement shown. All four elements do not fit together.

**Question 5**

- (a) Why might groups other than the partners be interested in the accounts of S and P Partners? (8)

Content: Other interested parties might include the bank manager, the government, potential investors, and suppliers.

Discussion and evaluation of why these groups would want to see the accounts:

The bank manager would want to see if the business had sound finances if it wanted an overdraft or loan. To check if the business would be able to pay back the overdraft or loan.

The government would want to assess the tax due.

Potential investors would want to see the likely return on their investment.

Suppliers would want to see the assets of the business to see if they could sell these assets if the business does not pay them.

	Knowledge	Analysis and Evaluation
Level 2	2 marks Two or more interested parties named	6-4 marks Good discussion of why two or more groups are interested in the accounts
Level 1	1 mark Knowledge of one other interested party shown	3-1 marks Limited discussion of why these groups are interested or good discussion of one interested group

- (b) Interpret the performance of the business using the summary accounts provided. Include calculations to justify your conclusion. (12)

Content:	<b>2003</b>	<b>2002</b>
Net profit ratio -	20%	15%
Gross profit ratio -	80%	80%
ROCE -	30%	15%

Gross profit ratio the same

Net profit ratio increased

ROCE increased

Sales increased 50%

Cost of sales increased 50%

Expenses increased 38%

Evaluation - business seems to be doing better as controlling expenses and ratios improving.

	Knowledge Application	Analysis	Evaluation
Level 2	<p>4-3 marks Two or more different ratios correctly calculated - 4 marks</p> <p>Or one correct ratio calculation and one correctly attempted but incorrect answer to ratio calculation - 3 marks</p>	<p>4-3 marks Good discussion of what the figures show</p>	<p>4-3 marks Good judgement shown as to the performance of the business using comparisons of two or more calculations</p>
Level 1	<p>2-1 marks Correct method but incorrect answer to all ratio calculations</p> <p>Or only one ratio correctly calculated - 2 marks</p> <p>Or descriptions of changes in the figures e.g. cost of sales has increased</p> <p>NB Do not reward straight repetition of the figures i.e. net profit was \$150000 in 2002 and \$300000 in 2003</p>	<p>2-1 marks Limited discussion of what the figures show</p>	<p>2-1 marks Limited judgement shown using comparisons of two or more calculations/changes in the figures</p>