

**MARK SCHEME for the May/June 2007 question paper**

**0450 BUSINESS STUDIES**

**0450/02**

Paper 2 (Case Study), maximum raw mark 100

This mark scheme is published as an aid to teachers and candidates, to indicate the requirements of the examination. It shows the basis on which Examiners were instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began.

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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**N.B. Application marks are not awarded for the name of the business or person from the material. Application is by answering in the context of the case or by using the information in the case to help answer the question.**

- 1 (a) The Directors of EE recently converted the business from a private limited company to a public limited company. Explain **two** possible benefits and **two** possible drawbacks to this business of the change. [10]

**Content: Advantages of a plc – can sell shares to the public; rapid expansion possible with specialist managers appointed; easier to raise finance; high status; easier to attract suppliers.**

**Disadvantages – many legal formalities; have to disclose accounts and other information to any interested parties; expensive to ‘go public’; divorce between ownership and control more likely; risk of takeover.**

Application	Knowledge/Analysis	
2 marks Two or more advantages or disadvantages applied to the case.	1 additional mark for each advantage explained.	1 additional mark for each disadvantage explained.
1 mark At least one advantage or disadvantage applied to the case.	1 mark for each advantage stated.	1 mark for each disadvantage stated.
	2 + 2 marks	2 + 2 marks

- (b) If EE took over Budget Deals they will need to raise finance for new delivery lorries. Explain **THREE** sources of finance EE could use. [10]

**Content: Bank loan; Leasing; Hire Purchase; Retained profit; Issue shares; Sale of assets; Debentures; Venture Capital.**

Application	Knowledge/Analysis/Evaluation
2 marks Applied to the case in at least two sources of finance.	Up to 2 additional marks for each source of finance explained. Maximum of 8 marks in total.
1 mark Limited application in at least one source of finance.	1-3 marks 1 mark for each method of finance listed.

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- 2 (a) EE currently sells its products directly to consumers through its shops. The Director is considering selling goods on the Internet. Discuss whether you think they should do this.

**Content: Advantages – wider market; lower costs; cheaper advertising; because competitors are selling on the Internet; cheaper than having goods on display in store; 24 hour access.**

**Disadvantages – costs of setting up website; more difficult to display goods; have to deliver the goods; needs secure payment methods; customers may not have credit cards; not everyone has access to the Internet.**

***Evaluation could include discussion about customers not being able to see or hear the electrical goods and therefore being less likely to buy off the Internet. Customers are more likely to go into stores where they can try the goods before they buy. Prices may be cheaper on the Internet as selling costs are a lot lower and this may encourage more sales off the Internet.***

	Application	Knowledge/Evaluation
Level 3		9-10 marks Level 2 + Good judgement shown of whether they should sell on the Internet. (Must have both advantages and disadvantages in Level 2).
Level 2	2 marks Well applied to the case.	3-8 marks One or more advantages and/or disadvantages of selling on the Internet explained. Limited judgement shown.
Level 1	1 mark Limited application to the case.	1-2 marks One to two advantages and/or disadvantages of selling on the Internet listed.

- (b) Why would you expect EE to use a different pricing strategy for video recorders to the pricing strategy used for new large screen television sets? [8]

**Content: Because the products are at different stages of the product life cycle. Prices need to stimulate sales so the pricing strategy for video recorders could be 'promotional pricing' for the declining product. As large screen TVs are new then 'skimming' might be suitable as sales would be rising and customers may be willing to pay a high price to be one of the first to buy this new product.**

	Application	Analysis/Evaluation
Level 2	2 marks Well applied to the case.	3-6 marks Explanation of why either or both pricing strategies may be used.
Level 1	1 mark Limited application to the case.	1-2 marks Stating that video recorders have declining sales and new TVs have increasing sales.

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- 3 (a) EE is planning a take over of Budget Deals. State and explain three possible economies of scale from which they might benefit.

**Content: Purchasing/Bulk buying; Financial; Risk bearing; Marketing/Advertising; Managerial; Production/Technical; Trading; Distribution/Transport.**

Application	Knowledge/Analysis
2 marks Applied to the case in two or more economies of scale.	1 additional mark for each example of economies of scale explained.
1 mark Applied to the case in at least one economy of scale.	1 mark for each example of economies of scale listed. 3 × 2 marks

- (b) See Appendix 1. There are two shops in New City. Recommend which shop EE should close if they take over Budget Deals. Justify your choice. [12]

**Content: Budget Deals shop**

Low rent  
No electrical shops nearby  
Cheap parking available  
Out of town  
On side road

**EE shop**

High rent  
Lots of electrical shops nearby  
Parking restricted and expensive  
City centre  
On main road

**Evaluation – closure of either shop is acceptable as long as it is fully justified.**

	Application /Analysis/Evaluation
Level 3	11-12 marks Level 2 + Reasons justified showing good judgement of which shop to close.
Level 2	5-10 marks Good application and/or advantages/disadvantages of either or both of the two shops explained. Judgement shown.
Level 1	1-4 marks Some application and/or advantages/disadvantages of either or both of the two shops. Limited judgement shown.

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- 4 (a) Appendix 2 outlines the possible need to reduce the number of employees following the takeover. Discuss the factors that will be **most** important to EE when deciding which employees will be made redundant. [8]

**Content: Length of employment; Age; Experience; Skills/qualifications; Behaviour/conduct; Effectiveness in job; Attendance/punctuality.**

**Evaluation can be any factors as most important as long as the factors are justified. E.g. The employees to be made redundant first will be those who are the least experienced as these employees will be less valuable to EE. More experienced employees will be more productive to EE and should be able to make the greatest contribution to sales and profits.**

	Application	Knowledge/Analysis/Evaluation
Level 3		9-10 marks Level 2 + Good judgement shown as to the most important factors.
Level 2	2 marks Well applied to case.	5-8 marks Good discussion of different factors. Limited judgement shown.
Level 1	1 mark Limited application to the case.	1-4 marks Outline of one or more factors.

- (b) EE provides training to its staff. Analyse the benefits of this training to customers and employees of EE. [8]

**Content: Benefits to customers – more informed sales staff give better advice; more likely to be sold a product that suits their requirements.**

**Benefits to employees – greater job satisfaction; more motivated; more sales may increase bonus payments.**

One mark for a benefit stated for customers. Two additional marks for analysis of benefits to customers. One mark for application to case. [1 + 2 + 1]

One mark for a benefit stated for employees. Two additional marks for analysis of benefits to employees. One mark for application to the case. [1 + 2 + 1]

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5 (a) See Appendix 3. Do you think EE should change their main supplier? Explain your answer.

**Content:** Exchange rate appreciation; quality and reliability of products; delivery dates.

**Evaluation –** the exchange rate has appreciated against most currencies which makes the imports from these countries cheaper but the same price from Country Z. The quality of imports are higher from Country Z but the other countries have products which are improving in quality. It takes longer to get imports from other countries than from Country Z.

	Knowledge/Application/Analysis/Evaluation
Level 3	9-10 marks Level 2 + Decision made as to whether to change supplier and decision fully justified.
Level 2	5-8 marks Discussion of different factors affecting the choice of suppliers. Limited judgement shown.
Level 1	1-4 marks Knowledge of factors outlined in Appendix 3.

(b) Governments often pass laws which affect how employees are treated and how customers are treated.

(i) Outline **ONE** law to protect employees and **ONE** law to protect customers (the names of the laws need not be included). [4]

**Content: Description of any labour law – up to 2 marks.**  
**Description of any consumer law – up to 2 marks.**

(ii) Discuss the effects each of these laws might have on EE. [6]

One mark for an effect on EE of labour law stated. Two additional marks for analysis of effects of labour law on EE. [1 + 2 marks]

One mark for an effect on EE of consumer law stated. Two additional marks for analysis of effects of consumer law on EE. [1 + 2 marks]