

**MARK SCHEME for the October/November 2009 question paper
for the guidance of teachers**

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, which would have considered the acceptability of alternative answers.

Mark schemes must be read in conjunction with the question papers and the report on the examination.

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This mark scheme includes a summary of appropriate content for answering each question. It should be emphasised, however, that this material is for illustrative purposes and is not intended to provide a definitive guide to acceptable answers. It is quite possible that among the scripts there will be candidate answers that are not covered directly by the content of this mark scheme. In such cases professional judgement should be exercised in assessing the merits of the answer and the senior examiners should be consulted if further guidance is required.

Examples of possible answers are also included in this mark scheme. Again, it should be emphasised that this is for illustrative purposes and the examples chosen represent only some of the many possible responses that would merit reward.

Application marks are not awarded for the name of the business or person from the case 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) Dilip is a sole trader. Identify and explain one advantage and one disadvantage to Dilip of being a sole trader. [8]

Content:

Advantages:

There are few legal regulations – this makes it much easier to run the farm as Dilip won't have to pay high costs for accountants.

Freedom to choose holidays – Dilip can take his holidays whenever he wants but he will have to fit in with the harvest.

Close contact with customers – Dilip will personally deal with the customers who buy the vegetables at the market.

Dilip keeps all the profits – if he works hard and increases the farm's profits he doesn't have to share them with anyone else like a partner or other shareholders.

Secrecy in accounts – Dilip doesn't have to publish the farm accounts as he would have to do if the business was a public limited company.

Dilip makes all the decisions.

Easy to set up. (1 mark only)

Disadvantages:

Dilip would have no one to discuss problems with – this could be a downfall as Dilip is clearly facing some big challenges in his business, such as the decision whether to sell to the supermarket chain. He might find it helpful to have a partner or other senior manager to discuss these issues with.

Dilip will have unlimited liability – this means if the farm goes bankrupt Dilip would lose the farm and all his personal possessions.

Capital is limited – only the money invested by Dilip is available to invest in the business. If the business was a partnership or a limited company then additional money would be available for investment by the partners or shareholders.

Lack of continuity.

Possible application marks: farm; autocratic leader; vegetable growing; holiday homes; exports/fair trade; \$50,000; \$10,000. There may be other examples in context which have not been included here.

The marks available for this question are as follows: 2 marks for knowledge; 2 marks for application and 4 marks for explanation/analysis.

1 mark for each advantage/disadvantage identified. Up to 2 further marks are available for explaining the nature of each advantage and disadvantage. 2 application marks are also available.

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Below are two examples to illustrate the difference between a simple explanation worth 1 additional mark and a developed explanation worth 2 additional marks. An example is provided of where the application mark might be awarded in each case.

1 knowledge mark + up to 2 explanation marks + 1 application mark for the advantage or the disadvantage (4 marks × 2)

Advantage: Dilip will be his own boss. (1 knowledge mark)
Simple explanation: Dilip will be his own boss. Dilip will take all the decisions and he doesn't have anyone to argue with him. (1 additional mark for simple explanation)
Developed explanation: Dilip is his own boss. This may be important for Dilip because he favours the autocratic style of leadership and if he worked as a manager or director in a larger company, he might not be allowed to use this management style. Dilip will take all the decisions and he doesn't have anyone to argue with him.
(1 further explanation mark for a developed explanation)
Application: The application mark is achieved as the answer refers to Dilip using the autocratic leadership style. (1 application mark)

Disadvantage: Dilip will have unlimited liability. (1 knowledge mark)
Simple explanation: Dilip will have unlimited liability. This means that Dilip would lose the farm and all his personal possessions if he goes bankrupt.
(1 additional mark for simple explanation)
Developed explanation: Dilip will have unlimited liability – this means if the farm goes bankrupt Dilip would lose the farm and all his personal possessions. Dilip and the farm have the same legal identity and therefore if the business owes money then the business debts are also Dilip's debts and he must pay them out of his own money.
(1 further explanation mark for a developed explanation)
Application: The application mark is achieved as the answer considers that Dilip would lose the farm if he went bankrupt. (1 application mark)

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(b) Consider the advantages and disadvantages of the three options and advise which would be the most suitable source of finance to use. Justify your recommendation.

Content:

Bank loan – large amount available; interest paid; can be long term.

Taking on a partner – share profits; increased capital; responsible for actions of partner; no continuity; shared decision making; work load shared.

Overdraft – interest paid on daily basis; not a large sum available; short term finance.

Level 1 A bank loan can be used to raise a large amount of capital. 1 mark for each advantage/disadvantage listed up to a max of 4 marks.

Level 2 A bank loan can be used to raise a large amount of capital and Dilip needs \$50 000 to convert the farm buildings into holiday houses. The loan can be paid back in instalments and spread over a number of years so that Dilip can receive revenue from renting out the houses to help pay back the loan (5 marks) but he will have to pay interest on the loan and so the loan will cost Dilip more than \$50 000. 6 marks for a good Level 2 answer plus 1 application mark for mentioning renting out the houses. 5 marks for the first Level 2 answer. Plus 1–2 marks for each additional Level 2 answer. i.e. two Level 2 answers = 6 marks; 3 Level 2 answers = 7 marks. 4 Level 2 answers = 8 marks. However, if the Level 2 answer is very well explained then 6 marks can be awarded for the first Level 2 answer. If the second Level 2 answer was also well very explained then 8 marks in total can be awarded.

Level 3 At least two Level 2 answers plus a justified conclusion – not just a statement saying which will be the best source of finance to use. E.g. Level 2 + I think taking out a bank loan would be the best one to use as a partner will want a share of the profits. A bank loan is better than an overdraft as this also has interest to be paid but it is an expensive way of borrowing \$50 000 as the interest rate is higher than for a loan. The bank can ask for the \$50 000 back at any time and then Dilip will be in the same situation as he is in now and will need to raise a large amount of money. Also the repayment of the bank loan may be delayed until the houses have been converted and revenue is starting to flow into Dilip's bank account. 10 marks plus at least 1 application mark for making reference to earnings from the converted houses in the conclusion and possibly another application mark in the Level 2 part of the answer.

Possible application marks: farm; autocratic leader; vegetable growing; holiday homes; exports/fair trade; \$50,000; \$10,000; small business. There may be other examples in context which have not been included here.

	Application	Knowledge/Analysis/Evaluation
Level 3		9–10 marks Level 2 + well justified comparison of the options as to the best source of finance to use.
Level 2	2 marks Well applied to case. At least two examples of reference to, or use of, the case.	5–8 marks Good discussion of at least 1 source of finance. Some limited judgement shown as to which is the best source of finance to use.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, the case.	1–4 marks Advantages/or disadvantages of the different sources of finance listed.

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- 2 (a) Dilip needs to recruit employees to look after the tourists who would stay at the houses (see Appendix 3). Identify *four* questions Dilip should ask when interviewing applicants for these jobs. Explain why each question should be asked.

Content:

E.g. What experience do you have of serving customers? (knowledge/application)
Have you got experience of cooking? (knowledge/application)
Where are you working now? (knowledge)
When can you start work? (knowledge)

The marks available for this question are as follows: 4 marks for knowledge/application of the questions to ask and 4 marks for explanation/analysis of the questions.

1 mark for each question identified (up to a max of 4 marks). Up to one further mark is available for explaining why the question should be asked. (1 + 1 for each question × 4)

Possible application marks: farm; autocratic leader; vegetable growing; holiday homes; exports/fair trade; \$50,000; \$10,000.
There may be other examples in context which have not been included here.

- (b) Dilip wants well motivated employees. Do you think the leadership style used by Dilip will be the most effective way to achieve well motivated employees? Justify your answer. [12]

Content:

Leadership styles: autocratic – direct orders, workers know what they have to do; laissez-faire – employees make own decisions, follow broad objectives; democratic – employees involved in decision making.

Financial methods of motivation – profit sharing, bonus, performance related pay.

Non-financial methods of motivation – discounts on farm's products, health care paid for, free accommodation, pension paid.

Praise for a job well done, job rotation, job enlargement, job enrichment.

Motivation theories might be included in the answer e.g. McGregor, Maslow, Taylor.

Level 1 An autocratic leadership style will mean that workers are told what to do and they will work hard. 1 mark for each style of leadership that is briefly stated or alternative methods of motivating workers listed – up to a max of 4 marks.

Level 2 Paying people more money will encourage them to work harder. Taylor said that money is a way of motivating workers and Dilip could change his payment methods to piece-rate and pay the workers according to how many vegetables the worker picks and then they should work hard in order to receive more pay. 5 marks for Level 2 answer plus 1 application mark for mentioning picking vegetables.

5 marks for the first Level 2 answer. Plus 1–2 marks for each additional Level 2 answer i.e. 2 Level 2 answers = 6 marks; 3 Level 2 answers = 7 marks. 4 Level 2 answers = 8 marks.

However, if the Level 2 answer is very well explained then 6 marks can be awarded for the first Level 2 answer. If the second Level 2 answer was also well very explained then 8 marks in total can be awarded.

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Level 3 At least 2 Level 2 answers plus a justified conclusion – not just a statement which will be the best way of motivating employees.
 E.g. Level 2 + I don't think Dilip should change his leadership style from autocratic to democratic or laissez faire. This is because the farm workers need to be told what to do so that they know they have to work hard picking vegetables. If he used a democratic leadership style then workers do not know what to do and they won't be able to make useful suggestions about what to do – Dilip is the boss and this is how he should act.
 9 marks plus at least 1 application mark for making reference to farm workers picking vegetables in the conclusion and possibly another application mark in the Level 2 part of the answer.

Possible application marks: farm workers; autocratic leader; vegetable picking; holiday homes; below legal minimum wage.
 There may be other examples in context which have not been included here.

	Application	Knowledge/Analysis/Evaluation
Level 3		9–10 marks Level 2 + well justified recommendation as to the best leadership style to use or which method of motivation to use.
Level 2	2 marks Well applied to case. At least two examples of reference to, or use of, the case.	5–8 marks Good discussion of leadership styles or motivation techniques. Some limited judgement shown as to which is the best leadership style to use or which method of motivation to use.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, case.	1–4 marks Statements made showing knowledge of leadership styles and/or different methods of motivating employees.

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3 (a) Identify and explain *two* advantages of using interviews to research the market for Dilip's holiday houses.

Content:

Interview – Interviewer can explain questions; detailed information can be gathered, customer opinions can be gathered.

E.g. first hand information – Dilip will know how the information has been collected and therefore how accurate and relevant it is for his business. With secondary research you can never be certain how the information has been collected and whether it is truthful and accurate.

The marks available for this question are as follows: 2 marks for knowledge; 2 marks for application and 4 marks for explanation/analysis.

1 mark for each advantage identified. Up to 2 further marks are available for explaining the nature of each advantage. 1 application mark is also available for each advantage.

Possible application marks: vacation; food and services at the holiday home; customer requirements; quality service; high income customers. There may be other examples in context which have not been included here.
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Below is an example to illustrate the difference between a simple explanation worth 1 additional mark and a developed explanation worth 2 additional marks. An example is also provided of where the application mark might be awarded.

1 knowledge mark + up to 2 explanation marks + 1 application mark for the advantage or the disadvantage (4 marks × 2).

Advantage:	Interviews provide first hand information. (1 knowledge mark)
Simple explanation:	Interviews provide first hand information. Dilip will know what consumers think about the holiday houses and what services they would want as customers will be asked directly for their opinions. (1 additional mark for simple explanation)
Developed explanation:	Interviews provide first hand information. Dilip will know what consumers think about the holiday houses and what services they would want as customers will be asked directly for their opinions. The information will be specific to Dilip's holiday houses as the questions asked in the interview will be specific to them and may find out how the houses should be decorated and how much the customers would be willing to pay for a 3–4 day holiday. Secondary research would not provide information specifically about the plans that Dilip has for the farm. (1 further explanation mark for a developed explanation)
Application:	The application mark is achieved as the answer refers to holiday houses, the services provided and how much customers are willing to pay to rent them. (1 application mark)

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(b) In what ways do you think the market research results will affect the 'product' and 'promotion' parts of the marketing mix for Dilip's holiday houses? Justify your answer.

Content:

Product – affect the style of the houses; type of furniture used; luxury décor.

Promotion – in tourist magazines; magazines targeted at high income groups; own website; through travel agents.

Level 1 The market research results will influence the product part of the marketing mix by giving Dilip information on the type of service customers would want (1 knowledge mark). The research will also let him know what colour the holiday houses should be painted so that the customers will like them. (1 analysis mark for identifying an influence on the design of the houses plus 1 application mark for applying the answer to the colour of the houses)

Level 2 The research will also let him know what colour the holiday houses should be painted so that the customers will like them. The image of the holiday houses will be luxurious and so the décor should be high quality and expensive to be in keeping with the image that Dilip is trying to create. This is assuming the market research results confirm that this is the type of house that people want. 5 marks for an explanation of how the design of the product is supporting the image that Dilip wants to create for the houses. (1 application mark will also be awarded for considering the design of the houses)

5 marks for the first Level 2 answer. Plus 1–2 marks for each additional Level 2 answer i.e. 2 Level 2 answers = 6 marks; 3 Level 2 answers = 7 marks. 4 Level 2 answers = 8 marks.

However, if the Level 2 answer is very well explained then 6 marks can be awarded for the first Level 2 answer. If the second Level 2 answer was also well very explained then 8 marks in total can be awarded.

Possible application marks: high income group; tourists; customers; the style of the houses; type of furniture used; luxury décor.
 In tourist magazines; magazines targeted at high income groups; own website; through travel agents.
 There may be other examples in context which have not been included here.

	Knowledge	Application	Analysis and Evaluation
Level 2	2 marks Knowledge of both product and promotion.	2 marks Applied to both product and promotion.	Detailed explanation of why the product and/or promotion elements of the marketing mix would be determined in the way suggested. 5–8 marks
Level 1	1 mark Knowledge of either product or promotion.	1 mark Applied to either product or promotion.	Statements made of how the product and/or promotion elements of the marketing mix would be affected. 1–4 marks

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4 (a) Dilip keeps the financial accounts for the business. Identify *three* stakeholders who would be interested in the business' accounts and explain why each would be interested in the accounts.

Content:

- Dilip – to assess profitability and performance of the farm.
- Bank manager – to see if business can pay back overdraft/loan; Government – to ensure correct taxes paid.
- Prospective investors – to assess profitability and performance of the farm to see if worth investing in (do not reward shareholders).
- Suppliers – to see if Dilip will be able to pay his bills.
- Employees (including managers) – to see if Dilip will be able to pay increased wages.
- Competitors – to see how well Dilip is doing.
- Customers – to know that supplies of its products will be available in the future.

The marks available for this question are as follows: 3 marks for knowledge; 2 marks for application and 3 marks for explanation/analysis.

1 mark for each stakeholder identified. Up to 1 further mark is available for explaining why they are interested in the accounts. 1 application mark is also available for each stakeholder (up to a max of 2 marks).

1 knowledge mark + up to 1 explanation mark + 1 application mark for the stakeholder (2 marks for each of the 3 stakeholders + 2 application marks).

Possible application marks: vegetables; low wages; expansion.
There may be other examples in context which have not been included here.

(b) Do you think Dilip should sign a contract to supply vegetables to the European Supermarket chain? Justify your answer using the information in the break-even charts in Appendix 2 and other information in the case. [12]

Content:

- Level 1 Statements e.g. fixed costs are higher for European buyer
\$2 000 a year – \$1 000 a year for the existing products
Variable costs are higher – \$0.25/kg compared to 0.125/kg
Break-even is at a lower output – 4 000 compared to 8 000
Profits are higher (no figures given)
- Level 2 Calculations e.g. prices are higher for European buyer – \$0.75
(Level 2) compared to \$0.25 (Level 2) for the existing vegetables sold at the local market
Profits are higher – \$2 500 (2 × Level 2) a year compared to \$125 (2 × Level 2)
Margin of safety higher – 5 000 compared to 1 000 (Level 2)
(Maximum 4 × Level 2 = 8 marks)
Maximum of 1 × Level 2 can be awarded where the candidate has attempted to calculate profit but make an arithmetic error and then correctly interpreted the results.

Calculations for vegetables sold at local markets
Total Cost – VC (0.125 × 9000) = \$1125 plus FC = \$1000*
Total Cost = \$2125 (Level 2)
Profit = \$2250* (Total Revenue) – \$2125 (Total Cost) = \$125 (2 × Level 2)

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Calculations for vegetables sold at European markets
 Total Cost – VC (0.25×9000) = \$2250 plus FC = \$2000*
 Total Cost = \$4250 (Level 2)
 Profit = \$6750* (Total Revenue) – \$4250 (Total Cost) = \$2500 (2 × Level 2)
 *indicates figures taken directly from graph and not calculated.

	Knowledge/Application/Analysis/Evaluation
Level 3	9–12marks Level 2 calculations + comments made on profits & output. Decision made and justified as to whether to change to the European supermarket chain.
Level 2	5–8 marks Financial information calculated and/or profits calculated.
Level 1	1–4 marks Basic statements about the break-even charts or other financial information from the case/limited judgement shown.

5 (a) Identify and explain **two disadvantages to the farmers in country A of an increase (an appreciation) in country A's exchange rate.** [8]

Content:

Exports become more expensive.
 Imports become cheaper.

The marks available for this question are as follows: 2 marks for knowledge; 2 marks for application and 4 marks for explanation/analysis.

1 mark for each disadvantage identified. Up to 2 further marks are available for explaining the nature of each disadvantage. 1 application mark is also available for each disadvantage.

Below is an example to illustrate the difference between a simple explanation worth one additional mark and a developed explanation worth 2 additional marks. An example is also provided of where the application mark might be awarded.

1 knowledge mark + up to 2 explanation marks + 1 application mark for the disadvantage (4 marks × 2)

Possible application marks: sale of vegetables; lower profit margins.
 There may be other examples in context which have not been included here.

- Disadvantage: Dilip's vegetables would become expensive for his customers in other countries to buy. (1 knowledge mark)
- Simple explanation: The value of the currency in Dilip's country increases (appreciates); his vegetables would become expensive for his customers in other countries to buy. This may mean that sales of his vegetables abroad fall. (1 additional mark for simple explanation)
- Developed explanation: The value of the currency in Dilip's country increases (appreciates); his vegetables would become expensive for his customers in other countries to buy. This may mean that sales of his vegetables abroad fall. Revenue will fall as sales have fallen but the extent of the fall in sales and revenue depends on the elasticity of demand for his produce. (1 further explanation mark for a developed explanation)
- Application: The application mark is achieved as the answer refers to the sales of vegetables. (1 application mark)

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(b) Do you think that all farmers in country A should produce only 'fair trade' products? Justify your answer.

Content:

- Yes – increased demand; higher price, easier to sell into European markets.
- No – higher wage costs; inspected regularly, other products more profitable.

Level 1 Dilip could charge higher prices for 'fair trade' products. 1 mark for each advantage/disadvantage of selling fair trade products listed up to a max of 4 marks.

Level 2 By charging higher prices Dilip could increase his profit margins, thereby gaining greater reward for his enterprise and hard work. Some of the extra profit could be retained within the business and perhaps ploughed back as investment to further develop the holiday houses for the future. 5 marks for Level 2 answer plus 1 application mark for mentioning investment required for the holiday houses.

5 marks for the first Level 2 answer. Plus 1–2 marks for each additional Level 2 answer i.e. 2 Level 2 answers = 6 marks; 3 Level 2 answers = 7 marks; 4 Level 2 answers = 8 marks.

However, if the Level 2 answer is very well explained then 6 marks can be awarded for the first Level 2 answer. If the second Level 2 answer was also well very explained then 8 marks in total can be awarded.

Level 3 At least 2 Level 2 answers plus a justified conclusion – do not reward just a single statement saying they should/should not sell fair trade products.

Possible application marks: Child labour; minimum wage; inspection of farms; 10% increase in prices.
There may be other application marks which have not been included here.

	Application	Knowledge/Analysis/Evaluation
Level 3		9–10 marks At least 2 Level 2 answers and a well justified recommendation as to whether or not to sell fair trade products.
Level 2	2 marks Well applied to case. At least two examples of reference to, or use of, the case.	5–8 marks Clear explanation of the advantages and/or disadvantages of selling fair trade products and/or alternative products.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, the case.	1–4 marks Statements made of the advantages and/or disadvantages of selling fair trade products and/or alternative products.