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## FOREWORD

This booklet contains reports written by Examiners on the work of candidates in certain papers. **Its contents are primarily for the information of the subject teachers concerned.**

# BUSINESS STUDIES

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## GCE Ordinary Level

Paper 7115/01

Paper 1

### General comments

The paper performed in a similar fashion to previous sessions. The mean mark and standard deviation were almost identical to last year. The paper provided scope for a wide range of responses which was reflected in a spread of marks from the mid-nineties to single figures. Thus effective differentiation was achieved. Able candidates demonstrated an impressive level of knowledge and understanding along with an ability to make evaluative comments in line with analysis undertaken. Weaker candidates were able to show some knowledge and understanding gained from their study of the syllabus. Generally, candidates demonstrated a clear basic grasp of the concepts being tested and could demonstrate some valid development of the points being made. The candidates' performances overall would be improved by careful consideration of the following:

- show methods in numerate calculations
- take note of the specific command word in a question
- provide examples in an appropriate context required by the question
- ensure that the angle that the question demands is appreciated, e.g. is the focus from the point of view of the business or the employee
- avoid simple repetition of a 'learnt' response based upon a question set in previous years
- ensuring that the specific requirement of the question is addressed, e.g. if *two* reasons are asked for then providing three or four reasons is not necessary and is often unhelpful.

Overall, the quality of work produced by candidates was very sound although there remain considerable differences between Centres.

### Comments on specific questions

#### Question 1

- (a)(i) This proved surprisingly accessible for almost all candidates with the vast majority giving the correct answer of \$200.
- (ii) This part of the question discriminated more effectively. Some candidates failed to alter the gradient of the revenue line and merely showed the new price as an extension of the old. Others found the calculation of the new price difficult with answers showing \$2m or \$1.2m being common errors.
- (iii) Another question that differentiated well. The level of understanding shown here by many candidates was a little disappointing. Most recognised that the market was competitive but somewhat illogically thought it made sense to increase prices as this would increase income. The Examiners were looking for reference to the fact that the demand for the product was likely to be price elastic and hence raising prices was unlikely to be a sound strategy. Many candidates found it surprisingly difficult to develop a logical argument.

- (b)(i) Well answered with many candidates recognising the reasons why sales and expenditure are usually positively correlated.
- (ii) Less well answered with many candidates simply indicating that advertising is an expense. The better candidates were able to discuss the reasons why advertising might fail, e.g. wrong targeted or simply not cost effective.
- (c) Probably the least well done question on the whole paper. Too often, answers made reference to consumer protection legislation with no mention of the potential impact on a company's advertising. The Examiners were looking for consideration of issues such as misleading/inaccurate statements. The impact is thus on the message in the advertisement covering matters such as what is said and how it is said.

### Question 2

- (a)(i) Done very well, with the majority of candidates correctly giving the answers as 2 000 units in 2003 and 1 800 in 2004.
- (ii) The Examiners were looking for answers that focused on the fact that the change would damage the business because a fall in labour productivity would result usually in an increase in unit costs. Many answers incorrectly considered *why* the fall might have occurred, not on what the impact might be on the business. Careful reading of the question is very important.
- (b) Many candidates answered this accurately. However, in a minority of cases candidates from certain Centres were unaware of the concept and discussed unrelated issues such as work or taking on a piece of work. Understanding of job production as an alternative to batch and flow methods was insecurely understood by some candidates.
- (c) Although methods of communication were known to many candidates an ability to evaluate them was rare. Thus many answers failed to support and justify the method(s) suggested.
- (d) Many very naïve answers were given in response to this question. Most candidates seemed to assume that employees would like to work harder and increase their output without ever really considering whether this would be the case. The Examiners were hoping to see much greater insight than this. The issue all depended on the rate of pay per piece produced compared to the current time based method. This was not considered by the vast majority of candidates at all. It was possible that employees could end up earning less under the new system, yet most candidates seemed to discount this as even a possibility. Understanding of the significance of payment systems appears limited in many cases.

### Question 3

- (a) Answers were \$150 000 and \$80 000 respectively. The greatest error here was in the calculation of the overheads with the common mistake being \$50 000.
- (b)(i)(ii) Both parts well answered.
- (c)(i) A number of candidates found this calculation difficult, common errors being to express net profit as a percentage of gross profit. The Examiners accepted both the pre- and post-net profit figure as being correct in calculating the margin. Answers were 23.2% after tax and 31.6% before tax.
- (ii) This proved a challenge for many. The most common error was to confuse net profits with net profit margin. Thus candidates often said that sales must have risen. This would increase the net profit but not the margin.
- (d) Generally well answered with many candidates discussing access to more capital and growth possibilities. Some candidates got confused between the private and public sectors.
- (e) This question produced a great variety of responses. Fundamentally, share prices reflect market conditions and they represent the outcome of the demand and supply forces at work. Some candidates knew this but many seemed to think that share prices are in the hands of the company concerned. Thus frequently answers said things like the company sold at a lower price to raise money. These were not new issue shares and hence such an explanation was unacceptable.

**Question 4**

- (a) Most candidates were aware of factors that impact on location decisions of business. Some found it more difficult to explain why these factors mattered and hence should be taken into account. The biggest weakness here was to include points that had little relevance in the context of a service business, e.g. nearness to supply of raw materials.
- (b)(i) Although often well answered, some candidates included factors that are in a personal specification not a job specification.
- (ii) Many candidates answered this from the wrong perspective. The question required a focus on why the job description might help the recruitment process. A number of answers looked purely at the issue from the point of view of the applicant.
- (c)(i) This question was misinterpreted by some candidates. The Examiners were expecting answers to consider how a range of partner skills might benefit the business in terms of the range of specialism it could offer and hence in terms of its ability to attract clients. Many candidates seemed to think that the skills would help the business recruit staff (was this likely in such a small business?) and deal with arguments over issues between them and the customers.
- (ii) Identification of two problems did not create difficulties for most candidates but explaining them proved much more challenging.

**Question 5**

- (a) Most candidates recognised that cost factors probably lay behind the relocation decisions. Some candidates appeared to think that Asian countries were much wealthier than Britain and hence had more disposable income.
- (b) Very well answered, with many sophisticated observations made both in favour of multinational growth and against. This is clearly a business area of much interest to many Centres and candidates.
- (c) This proved an excellent discriminator, very much as expected. A significant number of candidates incorrectly interpreted the direction of the currency movement from the viewpoint of the supermarket business. The change meant that food imports would fall in price significantly and this would obviously be of benefit to the business as input costs would be reduced and profits would rise. Some candidates looked at the situation from the viewpoint of the food producers. This was not what the question asked.
- (d) Both economies and diseconomies of scale were concepts known to most. However, an element of sloppiness was often present in answers, e.g. costs fall as output rises was often written. Some candidates failed to give an example of an economy of scale.

**Paper 7115/02****Paper 2****General comments**

The paper proved accessible to candidates of all levels. Candidates responded well to the paper and no question appeared to present problems. Sound knowledge of Business Studies' theory was demonstrated, although it must be emphasised again that many marks were lost through failure to apply the theory to the case study. The case study itself appeared to be within the understanding of candidates. The standard did vary between Centres and many candidates did not answer the questions, that called for evaluation effectively. Candidates often preferred to list points rather than explain them. There are a number of considerations that might be helpful in enabling candidates to achieve higher marks by using the information they know in a better way.

- To gain the highest marks, the candidates must answer the question asked. This seems obvious but some candidates wrote what they knew and hoped they would gain some credit. The mark scheme is written to reward the answer required for the question and there is no allowance for alternative responses.
- Candidates need to pay careful attention to the wording of the question. If the question says 'list three ways' then no explanation is required. If the question says 'explain' then the candidate must give a fuller answer not just a list. The number of marks for the question also gives an indication of the amount of explanation required. Full sentences and a paragraph for each point will often encourage candidates to write more detailed explanation.
- Candidates also need to respond to the command words used in the question. In particular, command words calling for evaluation were not always answered well. This is often a matter of technique by candidates. If the question asks for a judgement, such as, 'Would you advise the owners of Lopez Ltd to convert the business into a plc? Explain your answer'. The answer should explain the advantages and disadvantages of changing to a plc for Lopez Ltd and then make a judgement as to whether Lopez Ltd should change to a plc, explaining why this decision was reached. If the candidate does not tell the Examiner why they think this particular strategy is the best one to take then the Examiner cannot reward the candidates reasoning.
- Paper 2 is a case study and the majority of the questions will be in the context of the business in the case study. For example, 'A new sales manager has just been recruited. Discuss how Jennifer and Miguel could motivate this new manager.' Therefore marks will be awarded for applying the answer to this business. Candidates should try to avoid textbook answers to questions, as full marks will not be gained by doing this. Marks are going to be awarded for applying these concepts to the business in the case in most of the questions on the paper and failure to do so will mean these marks are not achieved.
- Where a question carries 8 or 10 marks, usually some of the marks will be for demonstrating knowledge of the business terms/concepts in the question, some will be for applying the answer to the business in the case study, some will be for analysing the advantages, information, etc. and finally some marks will be for evaluation, if a judgement is called for in the question. Candidates need to realise that marks will often be awarded for all these assessment criteria when they are constructing their answer to the question. They should try to demonstrate all these assessment criteria in their answers if they are to achieve full marks, depending on the command words used in the question of course as evaluation is not always asked for.

**Comments on specific questions****Question 1**

- (a) The first part of the question was not well answered by a disappointingly large number of candidates. If they knew Memorandum of Association and Articles of Association then this was an easy question. However, many candidates confused this with prospectus or a financial document such as cash flow forecast. In the second part of the question many candidates showed knowledge and understanding of the advantages, such as increased capital through the issue of shares to the public, and disadvantages, such as loss of control, but only stronger candidates could justify a change to a plc for Lopez which would allow expansion into other markets. Some candidates interpreted 'public' as being government owned and controlled and others incorrectly said they would benefit from limited liability.
- (b) Many candidates recognised the benefits of clear objectives as giving a focus and sense of direction for the business and how this might be motivating for workers through the setting and achieving of targets. Weaker candidates just listed the possible business objectives that a business might have.
- (c) Better candidates outlined the responsibilities that were clearly relevant to a marketing manager while weaker candidates gave very general responsibilities such as planning and controlling. Many candidates did not apply their answer to the case and consequently lost marks. Because candidates tended to list rather than explain their answer it was not common to see more than half marks being awarded.

**Question 2**

- (a) The first part was well answered. The majority of candidates outlined valid reasons why market research should be undertaken before launching a new product. Better answers gave clear justification for the market research by outlining the increased potential for failure if the exact needs of the market had not been established. The second part was not well answered. Many candidates showed some understanding of market research methods, such as carry out a questionnaire but only a minority responded to the 'how' part of the question by outlining a sequence of events that would take place. Several candidates gave a list of different methods or primary research that could be used but did not actually state just how the method would be carried out and so few marks were gained. A good answer would have followed the method through from deciding on the content of the questionnaire for example, through to collating the results. Answers were poorly applied to the case and some responses discussed the merits of primary and secondary methods of research without any consideration of how they could be carried out.
- (b) Many candidates identified the four P's and so achieved some marks but fewer candidates identified factors such as the nature of the target market or the size of the advertising budget. Better answers did identify such factors and then explained how the actual marketing might be affected. For example a small marketing budget might mean that they had to advertise using newspapers rather than television. Again, not well applied to the sweet market by most candidates.

**Question 3**

- (a) The majority of candidates gained full marks. The main error was to reverse the 100/80 and use 80/100, hence getting a number for sales revenue that was less than the gross profit.
- (b) The majority of candidates understood the concept of cash flow and only a small minority confused it with profit and loss. Most candidates seemed to appreciate that a negative cash flow is a serious problem for all organisations but few candidates could refer to an inability to pay short term debts, etc. In the second part of the question most candidates merely listed the strategies which any organisation could adopt such as reducing credit periods to debtors but only better candidates could refer to such obvious features in the case study such as the generous credit terms allowed by Lopez Ltd, etc.

**Question 4**

- (a) Several good answers were given to this question but some candidates gave a person specification rather than a job description and some constructed a job advertisement. A number of candidates gave only the content headings with no further comments which were disappointing as they knew how to draw up a job description but did not specifically apply this to the post specified in the question. Most candidates, however, made good use of the scenario in their answers and gained 3 or 4 marks.
- (b) Answers were both 'yes' and 'no' to this question and many candidates gave valid reasons for their response. Better candidates related training to the motivating effect it can have and also to the need for a new employee to learn about the specific methods employed in their new place of work. Few candidates raised the issue of cost to the business relative to the benefits gained. An error by a small number of candidates was to describe on-the-job training and off-the-job training instead of answering the question.
- (c) The majority of candidates were able to demonstrate a good understanding of financial and non-financial methods of motivation but then only listed these methods instead of explaining them and consequently scored few marks. Only a small number of candidates actually related their chosen methods to the post of sales manager. Some thought that piece rate would be suitable as a means of payment, suggesting that the post was a production one rather than being related to sales.

**Question 5**

- (a) Many candidates just referred to products being made in batches and there were insufficient sales to justify flow production. A large number again used the information in the scenario and referred to the fact that a wide variety was produced and supplied to small shops. However, some merely stated that they used batch production because it was profitable but did not show any specific understanding of batch production. In the second part a clear understanding was shown of flow production and better candidates reflected that due to the fact that Lopez produces a wide variety of products it might still not be appropriate for them to change.
- (b) There were many good answers to this question that included the fact that it is a food product that is being produced and therefore making quality in terms of food safety being very important. Better candidates discussed the impact on the image and reputation of the business and their ability to compete with rivals if they do not maintain a quality product. Generally well answered by the majority of candidates.