

Centre Number	Candidate Number	Name
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UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Ordinary Level

BUSINESS STUDIES

7115/01

Paper 1

May/June 2006

1 hour 45 minutes

Candidates answer on the Question Paper.
No Additional Materials are required.

READ THESE INSTRUCTIONS FIRST

Write your Centre number, candidate number and name on all the work you hand in.
Write in dark blue or black pen.
Do not use staples, paper clips, highlighters, glue or correction fluid.

Answer **all** questions.
The business described in this question paper is entirely fictitious.

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.

For Examiner's Use	
1	
2	
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4	
5	
Total	

This document consists of **15** printed pages and **1** blank page.

1 Playwell is a company that produces a range of games. The company's best selling products are computer games. For many years Playwell only sold games to the domestic market but now they are now trying to export to other countries as well. However export sales have been disappointing. Figs. 1 and 2 show data about the company's sales in 2005 which were \$240 m.

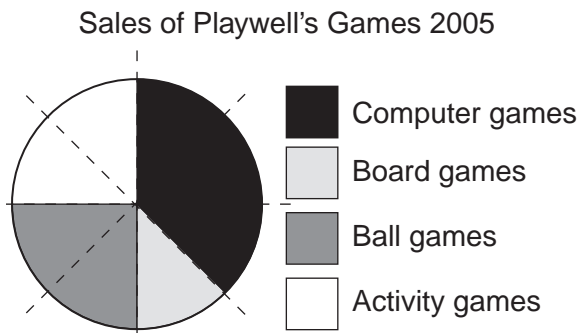


Fig. 1



Fig. 2

(a) Calculate for 2005:

(i) The value of sales of computer games.

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[2]

(ii) The value of Playwell's exports.

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[2]

(b) (i) Playwell's Marketing Director believes that the market demand for the board games is price inelastic. Explain what is meant by 'price inelastic demand'.

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[3]

2 Mirex is a large company that sells a range of insurance policies to businesses and the general public. The market for insurance is very competitive and Mirex are always looking for ways to cut their costs. Recently they have invested heavily in new technology.

(a) (i) Mirex has been described as a large company. State **three** ways of measuring the size of a business.

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.....[3]

(ii) What sector of business activity does Mirex operate in? Explain your answer.

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(iii) What is meant by a competitive market?

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.....[2]

- 3 Gino runs a take-away pizza business. He has estimated that he can produce as many as 1000 pizzas per week although he is only selling 700 on average at present. Gino recently looked again at his costs and prices. These are shown in Table 1.

Table 1

Direct cost per pizza	\$4
Weekly overheads	\$1800
Selling price per pizza	\$7

(a) Give an example of one of Gino's:

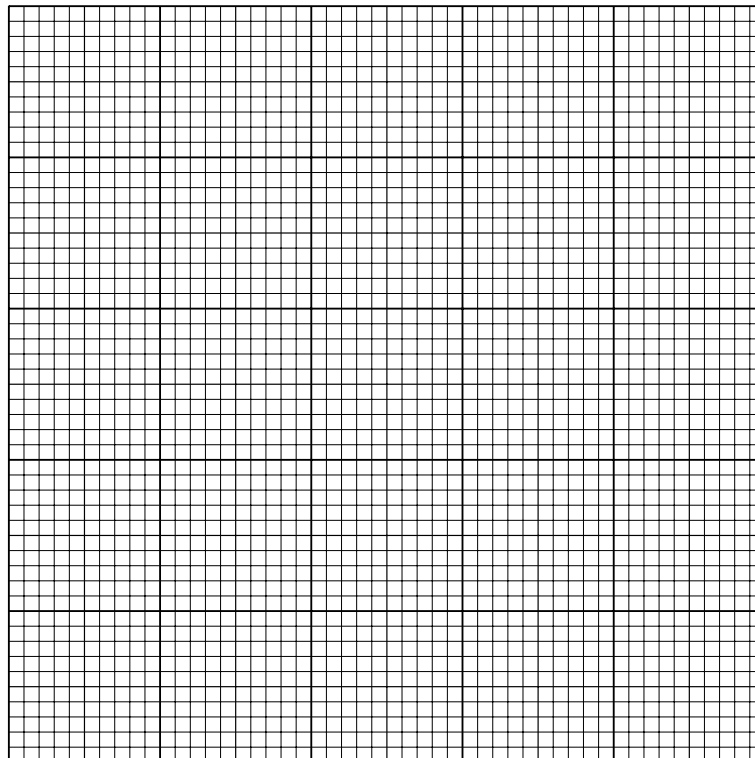
(i) Direct costs

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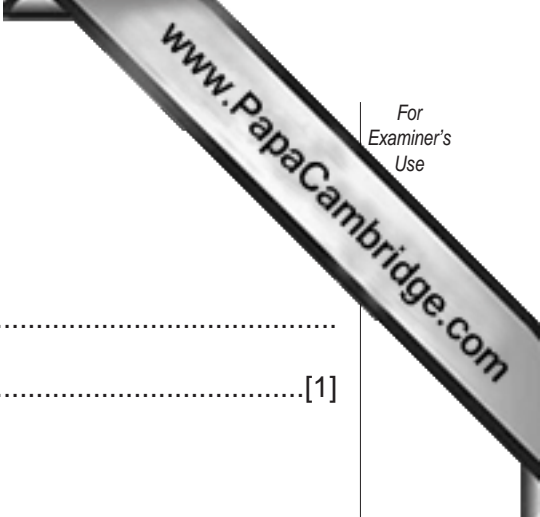
(ii) Overhead costs

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(b) (i) Draw a breakeven chart to show Gino's weekly revenue and costs.



[6]



Calculate:

(ii) How many pizzas Gino has to sell to break even.

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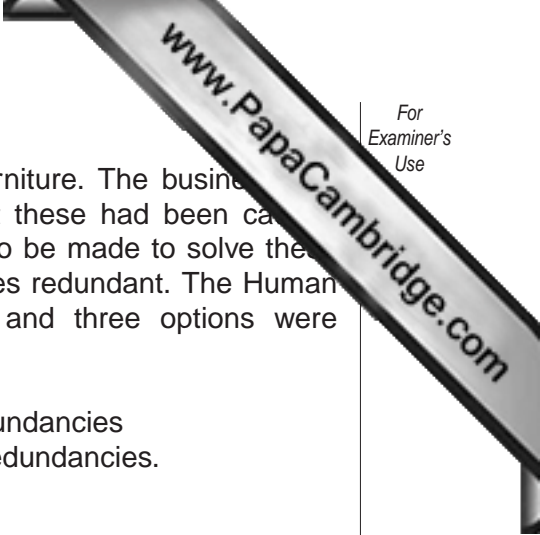
(iii) Gino's **annual** profit when he sells 700 pizzas per week.

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(c) Gino invested \$100000 in his business when he set it up.

Using your profit figure from (b)(iii) calculate the return on capital employed.

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.....[2]



5 Easy Chairs is a private limited company that manufactures furniture. The business recently had financial problems. The management thought that these had been caused largely by an economic recession. Important decisions needed to be made to solve the problems. The management are thinking about making employees redundant. The Human Resources Director has had talks with trade union leaders and three options were discussed:

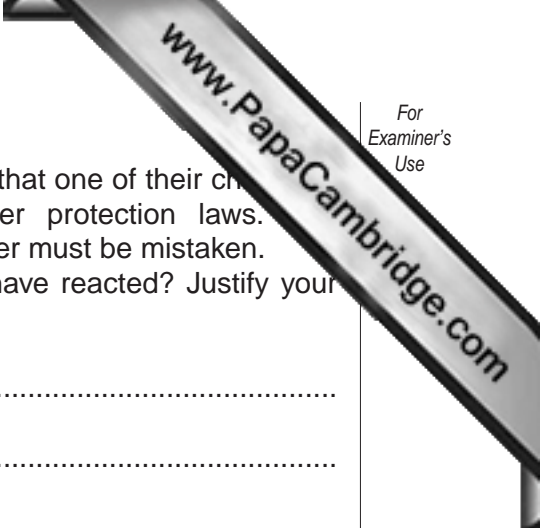
- 100 workers to be made redundant
- Wages of all workers to be cut by \$50 per week but no redundancies
- Working just 3 days a week, so earnings are less, but no redundancies.

(a) (i) Explain what is meant by an economic recession.

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(ii) Why might an economic recession have caused financial problems for Easy Chairs?

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(d) Recently Easy Chairs received a complaint from a customer that one of their chairs did not meet the minimum standards required by consumer protection laws. The management ignored the complaint and said that the customer must be mistaken. Do you think that this is the way the management should have reacted? Justify your answer.

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