

**MARK SCHEME for the May/June 2008 question paper**

**7115 BUSINESS STUDIES**

**7115/02**

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.

- CIE will not enter into discussions or correspondence in connection with these mark schemes.

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**N.B. This mark scheme includes a summary of appropriate content for answering the question. It should be emphasised, however, that this material is for illustrative purposes only and is not intended to provide a definitive guide to acceptable answers. It is quite possible among the scripts there will be some 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.**

**N.B. 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) (i) 1 mark for each suitable question.  
 Suitable questions might include:  
 How much money are you putting in?  
 How much is the total investment required?  
 How much profit do you expect to make?  
 What security against the loan can you offer? [3]

- (ii) Up to 3 marks for each question explained as to why the information is needed by the Bank Manager.  
 E.g. 'The Bank Manager wants to know how much money is required to see if the business can pay it back (1) because if it is a large amount of money and the business only makes small sales revenue it will be hard to repay the loan (2). The Bank Manager will also discuss with him if the loan will be large enough to cover all the start up expenses of the business and nothing has been forgotten otherwise there might not be enough money in the business to get started properly (3).' [9]

- (b) Content:  
 It would help Abdul estimate how many sales each business would need to make to cover all the costs.  
 He can compare the break-even point with the predicted sales for each business.  
 Help to estimate how much profit each business might make.  
 Help him to estimate how long it would take for the business to break even after starting up.

	Application	Knowledge and Analysis
<b>Level 2</b>	2 marks Well applied to the case.	5–6 marks Usefulness of break-even analysis explained when choosing between the two businesses – or why break-even analysis may not be reliable.
<b>Level 1</b>	1 mark Limited application to the case.	1–4 marks Knowledge of break-even shown. Elements of break-even analysis listed. How break-even analysis might be used.

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- 2 (a) Content:
- Business failure less likely as well known brand name.
  - Franchisor carries out advertising.
  - Supplies are obtained from franchisor.
  - Help and advice when setting up.
  - Training for staff and owner.
  - Banks more willing to lend money.
  - But – less independence.
  - May not be able to make decisions that would suit the local area.
  - Licence must be paid to start up.
  - Share of the profits paid to franchisor.

1 mark for each advantage/disadvantage. For each advantage/disadvantage up to 4 additional marks for explanation can be awarded.

5 marks maximum for advantages and 5 marks maximum for disadvantages. [10]

- (b) Content:
- Availability of suitable vacant shop.
  - What other shops are nearby – competitors/other shops which attract customers/busy retail area.
  - Availability of customer parking nearby.
  - Security of the area and shop.
  - Rent paid and other local charges.
  - Access for delivery vehicles.

	<b>Application</b>	<b>Knowledge/Analysis/Evaluation</b>
<b>Level 2</b>	2 marks Well applied to case.	5–8 marks Location factors explained as to why they are important.
<b>Level 1</b>	1 mark Weak application to case.	1–4 marks Location factors listed.

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- 3 (a) Content:  
 Level 2 response –  
 Car repair business net profit ratio is 10% (10,000/100,000 x 100)  
 Gross profit ratio is 90% (90,000/100,000 x 100)  
 ROCE is 67% (10,000/15,000 x 100)  
 Furniture business net profit ratio is 20% (40,000/200,000 x 100)  
 Gross profit ratio is 50% (100,000/200,000 x 100)  
 ROCE is 42% (40,000/95,000 x 100)

Level 1 statements –  
 The net profit is higher for the furniture shop.  
 The gross profit is higher for the furniture shop.  
 The sales revenue is higher for the furniture shop.  
 Only \$15,000 is needed to invest in the car repair business whereas \$95,000 is needed for the furniture business.

	<b>Knowledge/Application/Analysis/Evaluation</b>
<b>Level 3</b>	9–12marks Level 2 + Comments made on the ratios and decision made and justified as to which might be best.
<b>Level 2</b>	5–8 marks Ratios calculated on the profitability of the two businesses/Some justification as to which business to open.
<b>Level 1</b>	1–4 marks Basic statements about financial situations/Limited judgement shown.

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- (b) Content:  
 To encourage job creation as unemployment is a problem.  
 To help more businesses get started to encourage further economic growth. Increased taxation and decreased government spending on welfare payments.

	<b>Knowledge/Analysis/Application</b>
<b>Level 2</b>	5–8 marks Reasons for government help explained. This may or may not be in context.
<b>Level 1</b>	1–4 marks Reasons for government help listed.

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- 4 (a) 1 mark for each axis correctly labelled - 2 marks in total.  
 1 mark for accurately plotted graph (10,8,3,3).  
 1 mark for title.

(b) Content:

Pricing strategy; Location/place; product/quality of service; advertising/promotion; demand/market.

Example: People usually pay \$21-30 for servicing their car (1 Application mark) this means that Abdul will need to keep his prices down to around this amount (Level 1 Analysis/Evaluation). Abdul should use competitive pricing and charge prices at the same level as ABC Cars or slightly less so that he will attract new customers (Level 2 Analysis/Evaluation).

	<b>Application</b>	<b>Analysis/Evaluation</b>
<b>Level 2</b>	2 marks Well applied to case.	5–8 marks How the information from Appendix 3 will affect his marketing decisions explained.
<b>Level 1</b>	1 mark Weak application to case.	1–4 marks How the information from Appendix 3 will affect his marketing decisions listed.

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(c) Content:

Advertise – cheap and reaches a wide audience; Email suppliers/customers – cheaper;  
 Order stock – quicker and cheaper.

	<b>Application</b>	<b>Analysis/Evaluation</b>
<b>Level 2</b>	2 marks Well applied to case.	3–4 marks Advantages and/or disadvantages of Internet to Abdul explained.
<b>Level 1</b>	1 mark Limited application to case.	1–2 marks Advantages and/or disadvantages of Internet to Abdul listed.

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5 (a) Content:  
 Job analysis (to decide the requirements of the job) – job description (outlines the duties the job involves) – job (person) specification (outlines in detail the type of person who is qualified to do the job) – advertise the vacancy (where to place the advertisement to be decided)– send out application forms (for applicants to fill in and return giving the required personal details)– short list (from the applications a short list will be produced of those best matching the job requirements) – interview (different techniques can be used to select the best person for the job).

<b>Knowledge/Analysis/Evaluation</b>	
<b>Level 3</b>	9–10 marks Level 2 + clear judgement as to why the methods will lead to the best staff being employed.
<b>Level 2</b>	5–8 marks Explanation given for the recruitment and selection methods used and/or why they are used.
<b>Level 1</b>	1–4 marks Methods of recruitment and selection listed.

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(b) Content:  
 Financial – commission, profit sharing, bonus, performance related pay.  
 Non-financial – discounts on firms' 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, and Taylor should be rewarded.

	<b>Application</b>	<b>Analysis/Evaluation</b>
<b>Level 2</b>	2 marks Well applied to the case.	5–8 marks Ways to motivate employees explained as to why they might be effective.
<b>Level 1</b>	1 mark Weak application to the case.	1–4 marks Ways to motivate employees listed. Only limited judgement shown.

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