



BUSINESS STUDIES

0450/11

Paper 1 Short Answer / Structured Response

May/June 2017

MARK SCHEME

Maximum Mark: 80

Published

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 should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

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This document consists of **16** printed pages.

Question	Answer	Marks	Guidance
1(a)	<p>What is meant by a joint venture?</p> <p>Clear understanding [2]: when two or more businesses agree to start a (new) project together so share risks OR capital OR profits OR resources.</p> <p>Some understanding [1]: two business agree to <u>work</u> together (on a project).</p>	2	Do not accept answers which describe a takeover or merger.
1(b)	<p>Identify two advantages to QCH of having objectives</p> <p>Application [2 × 1]: award 1 mark per advantage</p> <p>Points might include:</p> <ul style="list-style-type: none"> • Have an aim OR target to work towards • Provide a sense of direction OR know what you have to do • Measure of success (to judge performance) • Help budgeting OR planning OR decision making • Motivate 	2	

Question	Answer	Marks	Guidance
1(c)	<p>Identify and explain two reasons why QCH might want to enter new markets.</p> <p>Knowledge [2 × 1]: award 1 mark for each reason identified</p> <p>Application [2 × 1]: award 1 mark for each explanation in context</p> <p>Points might include:</p> <ul style="list-style-type: none"> • Spread risk [k] of selling cars [app] • Economies of scale [k] buying factory stock [app] • Increase sales OR market share OR target market [k] as it is a fast growing economy [app] • Home market saturated [k] • Greater recognition OR brand awareness [k] • Access to cheaper labour OR resources [k] • Fewer trade restrictions [k] 	4	<p>Application marks may be awarded for appropriate use of the following: cars, luxury, factory, profits of \$700m, joint venture, multinational, customer needs, their objective, fast growing economy.</p>

Question	Answer	Marks	Guidance
1(d)	<p>Identify and explain two factors that QCH should consider when deciding the location of the new factory.</p> <p>Knowledge [2 × 1]: award 1 mark for each relevant factor.</p> <p>Application [2 × 1]: award 1 mark if relevant reference made to QCH.</p> <p>Analysis [2 × 1]: award 1 mark for each relevant explanation.</p> <p>Points might include:</p> <ul style="list-style-type: none"> • Demand / customers [k] in the new market [app] so generate revenue [an] • Amount of rent [k] if expensive fixed costs increase [an] using up its \$800m budget [app] • Lower cost of labour OR availability of labour OR access to suitable employees [k] which would decrease variable costs [an] • Lower raw materials cost OR availability of materials [k] so can get materials when needed [app] • Access to transport networks OR access to water OR power [k] or production will stop [an] • Access to subsidies or grants [k] which would reduce costs [an] • Possible external economies of scale [k] if they locate near to other factories [an] • Enough space [k] as need a large area [an] • Environmental considerations [k] therefore must be away from housing [an] • Legal considerations [k] 	6	<p>Application marks may be awarded for appropriate use of the following: Cars or related words, new market, parts, \$800m, joint venture, profit of \$700m, fast growing economy, multinational.</p> <p>Do not award application for factory as stated in the question.</p> <p>Awareness of where competitors are located is a factor for knowledge but analysis must relate to production not retailing.</p>

Question	Answer	Marks	Guidance
1(e)	<p>The Finance Director thinks QCH’s expansion into country C could be good for other businesses there. Do you agree? Justify your answer.</p> <p>Knowledge [1] : award 1 mark for identification of relevant point (s)</p> <p>Application [1] : award 1 mark if relevant reference made to this business</p> <p>Analysis [2]: award up to 2 marks for relevant development of point(s)</p> <p>Evaluation [2]: justified decision made as to whether QCH's expansion into country C will be good for other businesses in country C. Either viewpoint is possible.</p> <p>Points might include:</p> <ul style="list-style-type: none"> • Increased competition [k] can lead to lower prices [an] which could mean some car makers [app] go out of business [an] • Suppliers (local) may gain orders [k] leading to increased revenue [an] • Lose skilled employees [k] as attracted to work for the multinational [app] so become less competitive [an] • Gain new ideas [k] • Increased sales (for local businesses) [k] as more people are employed [an] 	6	<p>Application marks may be awarded for appropriate use of the following: Multinational, cars, luxury, use of numbers, factory, equipment, joint venture, meet customer needs, start producing, fast growing economy, \$800m, \$700m.</p> <p>The focus of the answer must be on other businesses not country C or QCH.</p> <p style="text-align: right;">[Total: 20]</p>

Question	Answer	Marks	Guidance
2(a)	What is meant by ‘trade receivables’? Clear understanding [2]: amount of money owed by customers for (goods bought on credit terms) Some understanding [1]: money owed	2	Do not award money owed by the business.
2(b)	Calculate the following values: X, Y. Application [2×1]: award 1 mark for each correct answer • X=30 • Y=50	2	

Question	Answer	Marks	Guidance
2(c)	<p>Identify and explain one advantage and one disadvantage to Josh of using text (SMS) messages as a method of internal communication.</p> <p>Knowledge [2×1] : award 1 mark for each advantage / disadvantage identified</p> <p>Application [2×1] : award 1 mark for each explanation in context</p> <p>Points might include:</p> <p>Advantage:</p> <ul style="list-style-type: none"> • Quick to send [k] which helps as always busy [app] • Can send at any time [k] so can finish cleaning before having to respond [app] • Can be sent simultaneously [k] to all 6 employees [app] • Can be read when receiver has time [k] • Able to refer back to it later [k] so can check details of the cleaning job [app] <p>Disadvantage:</p> <ul style="list-style-type: none"> • Only contain limited information OR might not understand [k] so cleaners may not have all details [app] • Might not receive the message OR no power on the phone OR may not have a signal [k] leading to poor service [app] 	4	<p>Application marks may be awarded for appropriate use of the following: Service, cleaners, businesses, busy (always sending texts), full time, 6 employees, phone, additional work.</p> <p>Do not award cheap or expensive in isolation unless explained.</p> <p>Do not award ‘does not own a phone’ as messages would not be sent to employees without a phone.</p>

Question	Answer	Marks	Guidance
2(d)	<p>Identify one advantage and one disadvantage to Josh of using off-the-job-training.</p> <p>Knowledge [2 × 1] : award one mark for each relevant advantage / disadvantage identified</p> <p>Application [2 × 1] : award 1 mark if relevant reference made to this business</p> <p>Analysis [2 × 1] : award 1 mark for each relevant explanation</p> <p>Points might include:</p> <p>Advantages:</p> <ul style="list-style-type: none"> • Other workers not affected [k] so able to do more cleaning jobs [app] to keep up with demand [an] • Worker has access to skilled trainers [k] so know what needs to do to provide a quality service [app] helping maintain reputation [an] • Workers do not learn bad habits [k] • Workers focus 100% on training [k] <p>Disadvantages:</p> <ul style="list-style-type: none"> • Expensive OR high cost [k] which increases costs for the business [an] to train all 6 workers [app] • Not necessarily tailored to individual company [k] so might not cover the equipment Josh uses [app] • Workers are training rather than cleaning [k + app] and so less output is produced [an] 	6	<p>Application marks may be awarded for appropriate use of the following: Service, cleaners, small / large businesses, full-time, added value, 6.</p> <p>Do not award points that apply to both on or off the job training.</p> <p>The focus of the answer must be the effect on Josh not the workers.</p>

Question	Answer	Marks	Guidance
2(e)	<p>Do you think a bank loan is the best source of finance for Josh to use for the new equipment? Justify your answer.</p> <p>Knowledge [1] : award 1 mark for identification of relevant point (s)</p> <p>Application [1] : award 1 mark if relevant reference made to this business</p> <p>Analysis [2] : award up to 2 marks for relevant development of point(s)</p> <p>Evaluation [2] : justified decision made as to whether a bank loan is the best source of finance for Josh to use for the new equipment</p> <p>Points might include:</p> <ul style="list-style-type: none"> • Increased liabilities OR must be repaid [k] by \$60 000 [app] • Loan would give him time to repay [k] • Has cash available [k] of \$30 000 [app] so he would not need to borrow the full amount [an] • Doesn't have enough cash available [k] to pay the \$60 000 [app] • Cost of repayments OR interest [k] • Leasing is a method Josh can use [k] so the latest equipment is always available [app] • Banks may not be willing to lend the money [k] 	6	<p>Application marks may be awarded for appropriate use of the following: Service, cleaners, small / large businesses, \$60 000, correct use of table 1, added value, latest equipment, Josh has a small business.</p> <p>Candidates may analyse other suitable sources of finance.</p> <p>Do not award overdraft as it is not a suitable source of finance to purchase fixed assets.</p> <p style="text-align: right;">[Total: 20]</p>

Question	Answer	Marks	Guidance
3(a)	<p>Identify two ethical issues for a business.</p> <p>Knowledge [2 × 1]: award one mark for each issue</p> <p>Points might include:</p> <ul style="list-style-type: none"> • Paying a fair price to suppliers • Paying a fair wage to workers • Not price fixing • Charging a fair price to customers • Not employing child labour • Source environmentally friendly products • Not harming the environment 	2	
3(b)	<p>What is meant by a focus group?</p> <p>Clear understanding [2] e.g. customers OR people who have similar characteristics to the target market who give their opinions on a product / service</p> <p>Some understanding [1] that this is a form of market research e.g. provide comments OR opinions about the product</p>	2	<p>For 2 marks it must be clear who makes up the focus group.</p> <p>Do not award answers which simply explain what a group is OR references to secondary market research.</p>

Question	Answer	Marks	Guidance
3(c)	<p>Identify and explain two advantages to WSS of selling its franchise</p> <p>Knowledge [2 × 1] : award 1 mark for each advantage identified</p> <p>Application [2 × 1] : award 1 mark for each explanation in context</p> <p>Points might include:</p> <ul style="list-style-type: none"> • Cheaper way to expand [k] the 10 franchisees pay some costs [app] • Each franchisee pays money [k] so may be able to open more shops in future [app] • Can expand more quickly [k] • Widen brand awareness [k] as logo is seen in more places [app] • Franchisees responsible for day to day management [k] WSS has time to focus on extending its product range [app] • Retain control of the image [k] so it can ensure the business remains ethical [app] 	4	<p>Application marks may be awarded for appropriate use of the following: References to food such as soup, hot drinks, curries and cakes, ethical, logo, 10, extend product range, promotion, 30, shops.</p>

Question	Answer	Marks	Guidance
3(d)	<p>Identify and explain one advantage and one disadvantage to WSS of changing its brand image.</p> <p>Knowledge [2 × 1] : award one mark for each relevant advantage/ disadvantage identified</p> <p>Application [2 × 1] : award 1 mark if relevant reference made to this business</p> <p>Analysis [2 × 1] : award 1 mark for each relevant explanation</p> <p>Points might include:</p> <p>Advantages</p> <ul style="list-style-type: none"> • Reflect new product range [k] as now offering cakes and curries [app] can help attract a wider target market / range of people [an] • Image might be out of date [k] as soup bowl is simple design [app] so need to change it to remain competitive [an] • Customers like something new [k] therefore they are more likely to try [an] the curries [app] • Attract new customers [k] <p>Disadvantage</p> <ul style="list-style-type: none"> • Damage customer loyalty [k] as existing customers do not like the new logo created [an] • Customers might not recognise the new logo OR be confused [k] so might miss the shop [app] therefore reducing sales [an] • Time / cost (to change the logo) [k] as may need to ask focus group for their opinion [app] increasing expenses [an] 	6	<p>Application marks may be awarded for appropriate use of the following: References to food such as soup, hot drinks, curries and cakes, ethical, logo, 10, extend product range, promotion, 40 shops, franchise, focus group.</p> <p>The focus of the answer must be the effect on WSS.</p>

Question	Answer	Marks	Guidance
3(e)	<p>Do you think WSS should use sponsorship or newspaper advertising as the main method of promotion? Justify your answer.</p> <p>Knowledge [1] : award 1 mark for identification of relevant point (s)</p> <p>Application [1] : award 1 mark if relevant reference made to this business</p> <p>Analysis [2] :award up to 2 marks for relevant development of point(s)</p> <p>Evaluation [2] : justified decision made as to whether WSS should use sponsorship or newspaper advertising as the main method of promotion</p> <p>Points might include:</p> <p>Sponsorship</p> <ul style="list-style-type: none"> • Can target the intended market [k] attracting more customers [an] for the cakes [app] • The business will be linked to the event sponsored [k] • Actions of the sponsored person or group could damage WSS's reputation [k] reducing sales [an] <p>Newspaper advertising</p> <ul style="list-style-type: none"> • Can be seen by a lot of people [k] • Falling readership of newspapers [k] 	6	<p>Application marks may be awarded for appropriate use of the following: Use of numbers, soup or references to food or ingredients, change logo, expand product range, ethical, brand image.</p> <p>The focus of the answer must be on WSS as the sponsor.</p> <p>Do not award sponsorship or newspaper is cheaper as this is not known.</p> <p style="text-align: right;">[Total: 20]</p>

Question	Answer	Marks	Guidance
4(a)	<p>What is meant by ‘chain of command’?</p> <p>Clear understanding [2]: structure within an organisation through which orders are passed from senior management to the lower levels</p> <p>Some understanding [1]: ‘shows who gives orders’</p>	2	For 2 marks must have idea of ‘orders OR instructions OR authority’ and ‘who between’.
4(b)	<p>Identify two Government economic objectives.</p> <p>Knowledge [2 × 1]: award 1 mark per objective</p> <p>Possible answers include:</p> <ul style="list-style-type: none"> • Lower unemployment • Economic growth OR increase GDP OR improve standards of living • Low inflation • Improve balance of payments 	2	
4(c)	<p>Identify and explain two benefits to GKK of increasing efficiency.</p> <p>Knowledge [2 × 1]: award 1 mark for each benefit identified</p> <p>Application [2 × 1] : award 1 mark for each relevant explanation</p> <p>Points might include:</p> <ul style="list-style-type: none"> • Increase output OR quicker production [k] of plastic bottles [app] • Lower average costs [k] so can keep prices low [app] • Fewer workers needed [k] • Better able to compete [k] in this competitive market [app] • Less waste [k] need for less raw materials [app] • Fewer errors [k] 	4	Application marks may be awarded for appropriate use of the following: Plastic bottles, raw materials, environment OR pollution, competitive market, prices are important.

Question	Answer	Marks	Guidance
4(d)	<p>Identify and explain two ways in which new legal controls to protect the environment might affect GKK.</p> <p>Knowledge [2 × 1] : award one mark for each relevant way identified</p> <p>Application [2 × 1] : award 1 mark if relevant reference made to this business</p> <p>Analysis [2 × 1] : award 1 mark for each relevant explanation</p> <p>Points might include:</p> <ul style="list-style-type: none"> • Change OR stop using certain materials [k] moving away from plastic [app] changing production [an] • Increase cost [k] because they may have to pay more fines [an] • May need to change supplier [k] so stop using the low cost country [app] increasing variable costs [an] • Reduced demand [k] as customers look for alternative ways to package food [app] so lose revenue [an] • May have to change location [k] as not allowed to operate in certain places [an] 	6	<p>Application marks may be awarded for appropriate use of the following: Range of products, food, chemicals, plastic bottles, low cost country, low prices.</p>

Question	Answer	Marks	Guidance
4(e)	<p>Explain one lean production technique. Recommend whether GKK should introduce this technique. Justify your answer.</p> <p>Knowledge [1] : award 1 mark for identification of relevant point (s) [max 1]</p> <p>Application [1] : award 1 mark if relevant reference made to this business</p> <p>Analysis [2] : award up to 2 marks for relevant development of point(s)</p> <p>Evaluation [2] : justified decision made as to whether GKK should introduce this technique</p> <p>Points might include:</p> <ul style="list-style-type: none"> • Just in Time inventory control [k] which would help reduce storage costs [an] • Kaizen /continuous improvement [k] by using delegation [app] • Cell production [k] 	6	<p>Application marks may be awarded for appropriate use of the following: Range of products, food, chemicals, plastic bottles, delegation, low cost country, low prices, competitive market, short chain of command, wide structure.</p> <p style="text-align: right;">[Total: 20]</p>



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Question	Answer	Marks	Guidance
1(a)	<p>What is meant by ‘market research’?</p> <p>Clear understanding [2]: e.g.</p> <ul style="list-style-type: none"> • Process of finding out what consumers want or need [1] before a product is made [1] • Process of finding out what consumers want or need [1] depending on age group, income and location [1] • Process of gathering (primary and secondary) data [1] on the buying habits and attitudes of potential customers [1] • Process of gathering data about customers, competitors and market trends [2] <p>Some understanding [1]: e.g. find out what customers want, find out about competition</p>	2	Do not award examples of primary research or secondary research.
1(b)	<p>Identify what will happen to each of the following when Cheung’s shop rent increases.</p> <p>Application [2 × 1]: award 1 mark for each correct answer.</p> <p>(i) Variable cost: No change / same (ii) Fixed cost: Increase</p>	2	Do not award ‘fixed costs will change’ as this is too vague.

Question	Answer	Marks	Guidance
1(c)	<p>Identify and explain two possible reasons why Cheung thinks the shop is in a good location.</p> <p>Knowledge [2 × 1]: award 1 mark for each way identified</p> <p>Application [2 × 1]: award 1 mark for each explanation in context</p> <p>Points might include:</p> <ul style="list-style-type: none"> • Near potential target market OR customers [k] so need to be somewhere where there are lots of children [app] • Busy area OR high footfall [k] as many people likely to visit city centre [app] • Good access OR there is parking [k] • Good Image of site [k] as sell fashion items [app] • There are utilities or other facilities [k] to reduce other costs [app] • Proximity (far from or near) to competitors [k] • Near to other shops and services [k] • Low transport costs OR already has relationship with supplier [k] as near wholesaler [app] 	4	<p>Application marks may be awarded for appropriate use of the following: city-centre, small, clothing or related words such as t-shirts, fashion, children, competitive market, market research, wholesaler in nearby town, need to increase revenue or reduce other costs, manufacturer in another country, increase in rent.</p> <p>Do not award location factors on its own as this does not necessarily explain why this may make it a good location. E.g. transport cost is a factor but it is low transport costs, which makes it a good location.</p> <p>Do not award shop as application as it is stated in the question.</p> <p>Note: Points such as ‘In city centre’ or ‘competitive market’ are too vague to be awarded as knowledge.</p>

Question	Answer	Marks	Guidance
1(d)	<p>Identify and explain two ways that Cheung could use to increase revenue.</p> <p>Knowledge [2 × 1]: award 1 mark for each way identified</p> <p>Application [2 × 1]: award 1 mark for each relevant reference made to this business</p> <p>Analysis [2 × 1]: award 1 mark for each relevant explanation</p> <p>Points might include:</p> <ul style="list-style-type: none"> • Increase advertising (allow only once) [k] attracting or persuading or encourage new customers [an] to his shop [app] • Sell to different target market [k] so do not sell only to children [app] so able to attract different customer [an] • Increase prices [k] increases amount of revenue per item sold [an] • Lower price or offer price promotions OR discounts [k] acts as incentive to buy more [an] • Offer new OR additional products [k] e.g. different clothing [app] to appeal to a new market segment [an] • Loyalty schemes [k] could encourage existing customers to buy more from him [an] • Use of sales promotions e.g. competitions [k] • Increase quality [k] • Use e-commerce or sell via website [k] 	6	<p>Application marks may be awarded for appropriate use of the following: city-centre, small, shop, clothing or related words such as t-shirts, fashion, children or parents, competitive market, market research, wholesaler, manufacturer in another country.</p> <p>Note: this business is a retailer not a manufacturer.</p> <p>Do not award the same analysis twice. E.g. persuade OR encourage OR attract are the same analysis points, as is create awareness OR inform. To be awarded, development must be different in each point e.g. attract more existing customers or different types of customer.</p> <p>Do not award ways to lower costs as this does not answer the question.</p> <p>Do not award free sample as not appropriate for this context.</p>

Question	Answer	Marks	Guidance
1(e)	<p>Do you think Cheung should change his supplier? Justify your answer.</p> <p>Knowledge [1]: award 1 mark for identification of relevant point(s)</p> <p>Application [1]: award 1 mark for a relevant reference made to this business</p> <p>Analysis [2]: award up to 2 marks for relevant development of point(s)</p> <p>Evaluation [2]: award up to 2 marks for justified decision made as to whether Cheung should change his supplier</p> <p>Points might include:</p> <ul style="list-style-type: none"> • Build relationship with supplier [k] in the nearby town [app] • Wholesaler offers choice OR variety OR feedback [k] which could help increase revenue [app] • Wholesaler breaks bulk [k] helpful for a small shop [app] as do not have to worry about storing additional stock [an] • More time OR paperwork [k] if buy from manufacturer overseas [app] • Cheaper to buy direct [k] from overseas manufacturer [app] as do not have to pay anything to third party [an] • Purchasing economies of scale OR buy in larger quantities when buy direct [k] leading to lower average costs [an] of its clothing [app] • Quicker access to inventory (stock) [k] from wholesaler [app] so can satisfy any increases in demand [an] • Not able to check quality [k] as manufacturer is based in another country [app] 	6	<p>Application marks may be awarded for appropriate use of the following: wholesaler, city-centre, small, shop, clothing or related words such as t-shirts, fashion, competitive market, market research, increase in rent cost, looking to reduce costs or increase revenue, manufacturer in another country.</p> <p>Do not award fabric or materials as application as this suggests it is a manufacturer.</p> <p>Note: Can award points that focus on either advantages OR disadvantages of using a wholesaler OR buying inventory from overseas.</p>

Question	Answer	Marks	Guidance
2(a)	<p>What is meant by ‘liquidity’</p> <p>Clear understanding [2]: ability of a business to pay back its short-term OR day to day debts</p> <p>OR ability of a business to pay its current liabilities using its current assets</p> <p>OR A measure of how quickly you can turn (current) assets into cash to pay short term debts</p> <p>Some understanding [1]: whether business can pay its debts OR how easily is it to convert assets to cash OR Amount of cash available</p>	2	Do not award measures of liquidity such as current asset ratio or acid test ratio as these do not explain the term.
2(b)	<p>Identify two reasons why a director might want to measure business performance.</p> <p>Knowledge [2 × 1]: award 1 mark for each reason</p> <p>Points might include:</p> <ul style="list-style-type: none"> • See how well meeting objectives OR see how well business is doing OR indicates what a business objective might be e.g. level of profitability or levels of sales or productivity • Aid decision making OR Identify strengths and weaknesses OR Identify what needs to be done to improve OR practical examples such as to determine rewards for employees • Way to compare with competitors • To compare with previous years OR Spot trends • Report to shareholders 	2	

Question	Answer	Marks	Guidance
2(c)(i)	<p>Calculate the Return on Capital Employed (ROCE) for 2016</p> <p>Good application [2]: e.g. 25 or 25%</p> <p>Some understanding [1]: e.g. profit / capital employed *100 [1]</p> <p>OR incomplete answer 1000 / 4000 [1]</p>	2	
2(c)(ii)	<p>Explain what this result shows about LWM's performance</p> <p>Good application [2]: ratio has fallen [1] which shows that profitability fallen OR not using capital as efficiently as last year</p> <p>OR ratio fallen from 33% to 25% [2]</p> <p>OR for every \$100 invested the business generates \$25 in profit [2]</p> <p>Some application [1] e.g. not as good</p>	2	<p>Answer can compare results between years or outline what the ratio figure means.</p> <p>OFR rule does apply but answer must be linked to their ROCE ratio calculation.</p>

Question	Answer	Marks	Guidance
2(d)	<p>Identify and explain one advantage and one disadvantage to LWM of using batch production.</p> <p>Knowledge [2 × 1]: award 1 mark for one relevant advantage and one disadvantage identified</p> <p>Application [2 × 1]: award 1 mark for each relevant reference made to this business</p> <p>Analysis [2 × 1]: award 1 mark for each relevant explanation</p> <p>Advantages might include:</p> <ul style="list-style-type: none"> • Flexible OR easy to switch production [k] to help meet changes in demand [an] for the 15 different sizes [app] • Variety of products [k] leading to possibly more sales [an] of tyres [app] • Some variety in workers' jobs [k] • Some economies of scale [k] helping reduce unit cost [an] • Less effect on production if machinery breaks down [k] • Spread risk as not focusing on only one type of product [k] <p>Disadvantages might include:</p> <ul style="list-style-type: none"> • Time lost switching OR reset machines between batches [k] could lead to lower productivity / lost output [an] • A fault with one product is likely to affect entire batch [k] which could increase waste [an] • Inventory (Stock) may be sitting around between stages [k] • Added cost of moving OR storing semi-finished goods [k] • Demotivating for employees as work is repetitive [k] 	6	<p>Application marks may be awarded for appropriate use of the following: increased competition, correct use of data from table 1, correct use of numbers e.g. 66%, 15, (Different) size, tyres or related words such as wheels or rubber, liquidity is important.</p> <p>Do not award points that can be applied to any other production method.</p> <p>Do not award variety in jobs or economies of scale unless qualified by the word some or compared to another method of production.</p> <p>Do not award 'motivated' or 'demotivated' as knowledge unless explained. The analysis must explain the impact on the business e.g. lower output.</p> <p>Do not award knowledge mark for reference to whole production as this implies flow. Answer must relate to idea of it being semi-finished or between stages to be awarded.</p>

Question	Answer	Marks	Guidance
2(e)	<p>Explain two ways in which LWM might respond to increased competition. Recommend which way LWM should choose. Justify your answer.</p> <p>Knowledge [1]: award 1 mark for each relevant way(s) identified</p> <p>Application [1]: award 1 mark for a relevant reference made to this business</p> <p>Analysis [2]: award up to 2 marks for relevant development of point(s)</p> <p>Evaluation [2]: award up to 2 marks for justified decision made as to which is the best option for LWM to choose. For second mark must explain why choice made is better than the other option</p> <p>Points might include:</p> <ul style="list-style-type: none"> • Introduce new products [k] as its main product accounts for 66% of its sales [app + an] • Lower prices [k] for its 15 different sizes [app] customers might want cheaper products [an]; • Merge or takeover [k] with another tyre company [app] which would increase its market share [an] • Advertise OR use promotion [k] to raise awareness [an] of its tyres [app] • Keep costs low [k] so able to offer more competitive prices [an] • Keep improving existing products OR quality [k] allowing them to stay ahead of the competition [an] • Provide good customer service [k] so that customers want to keep buying from them [an] 	6	<p>Application marks may be awarded for appropriate use of the following: correct use of numbers e.g. 60 or 40 million, 15 (different) sizes, correct use of data from Table 1, tyres or related words such as wheels or rubber, liquidity is important, batch production.</p> <p>Do not award the same analysis twice. E.g. persuade OR encourage OR attract are the same analysis points, as is create awareness OR inform. To be awarded development must be different in each point e.g. attract more existing customers or different types of customer.</p> <p>Note: Maximum of 4 marks if candidates only discuss 1 valid way.</p>

Question	Answer	Marks	Guidance
3(a)	<p>What is meant by an ‘economic boom’?</p> <p>Clear understanding [2]: strong rise in level of economic activity OR Period of time when GDP rising rapidly</p> <p>Some understanding [1]: e.g. economy doing well [high GDP] or rise in level of economic activity or GDP rising</p> <p>OR identifies a relevant feature(s) MAX 1 mark, such as:</p> <ul style="list-style-type: none"> • Low OR falling unemployment OR shortage of skilled workers, • Rising inflation • Resource shortages • High levels of disposable income • Increased number of business start ups • High levels of consumer confidence OR demand • High levels of business confidence OR profits 	2	<p>Note: For two marks must recognize that GDP increasing and the speed of growth.</p> <p>Maximum of 1 mark for identifying features.</p> <p>Answers must refer to the whole economy not a single business or product.</p>
3(b)	<p>Identify two factors which might affect demand for Manisha’s products.</p> <p>Knowledge [2 × 1]: award one mark per factor</p> <p>Points may include changes in any of the following:</p> <ul style="list-style-type: none"> • Price charged by Manisha • Fashion and trends • Consumer tastes and preferences • Stage in economic cycle OR changes in economic factors e.g. interest rates, taxes • Level of consumer income • Actions of competitors e.g. new products or changes in prices • Complementary goods • Increase in population • Level OR effectiveness of advertising • Quality of product 	2	

Question	Answer	Marks	Guidance
3(c)	<p>Identify and explain two ways in which higher interest rates might affect Manisha’s business.</p> <p>Knowledge [2 × 1]: award 1 mark for each way identified</p> <p>Application [2 × 1]: award 1 mark for each explanation in context</p> <p>Points might include:</p> <ul style="list-style-type: none"> • Increase in cost (of borrowing) OR expenses OR cash outflows [k] if used loan to purchase shop [app] • Reduced demand for products OR consumers reduce spending [k] as can afford fewer cakes [app] • Look to sell assets for cash to reduce existing loans [k] • Workers may want a pay rise [k] • May have to increase prices (to remain profitable) [k] • Business less likely to expand OR reduce investment [k] so may struggle to meet the increase in demand [app] 	4	<p>Application marks may be awarded for appropriate use of the following: correct use of numbers e.g. 500%, celebration cakes or related words such as ingredients, shop or bakery, economic boom, 3 employees, increase in demand, sole trader, work every day, profitable (at last), friend (as business partner), product quality is important, started her business 5 years ago.</p>

Question	Answer	Marks	Guidance
3(d)	<p>Identify and explain two reasons why product quality might be important to Manisha’s business.</p> <p>Knowledge [2 × 1]: award one mark for each relevant reason identified [max 2]</p> <p>Application [2 × 1]: award 1 mark for each relevant reference made to this business</p> <p>Analysis [2 × 1]: award 1 mark for each relevant explanation</p> <p>Points might include:</p> <ul style="list-style-type: none"> • Helps maintain customer loyalty [k] which could lead to repeat purchases OR buy again and again OR keep buying [an] • Increase or ensure sales [k] as if cake does not taste right [app] people will find alternatives [an] • Poor quality damages reputation OR brand image [k] so sales may fall [an] • No need to replace faulty products [k] which will help reduce costs [an] of ingredients [app] • Charge/maintain high prices [k] for her cakes [app] which could improve her profit margin [an] • Way to add value [k] • To meet legal requirements OR poor quality could damage people’s health [k] as it’s a food product [app] • To gain competitive advantage [k] • To reduce complaints [k] 	6	<p>Application marks may be awarded for appropriate use of the following: correct use of numbers e.g. 500%, celebration cakes or related words such as ingredients, shop or bakery, economic boom, 3 employees, increase in demand, sole trader, work every day, profitable (at last), interest rates increased, friend (as business partner), started her business 5 years ago.</p> <p>Do not award the same analysis twice. For example persuade OR encourage OR attract are the same analysis points, as is create awareness OR inform. To be awarded development must be different in each point e.g. attract more existing customers or different types of customer.</p>

Question	Answer	Marks	Guidance
3(e)	<p>Do you think Manisha should have a business partner? Justify your answer.</p> <p>Knowledge [1]: award 1 mark for identification of relevant point(s)</p> <p>Application [1]: award 1 mark for a relevant reference to this business</p> <p>Analysis [2]: award up to 2 marks for relevant development of point(s)</p> <p>Evaluation [2]: award up to 2 marks for a justified decision made as to whether Manisha should have a business partner</p> <p>Points might include:</p> <ul style="list-style-type: none"> • Share workload OR responsibility [k] so does not have to work everyday [app] which could reduce her own stress OR allow her more free time [an] • More ideas OR skills [k] from her friend [app] which could make the business more competitive [an] • Extra source of finance [k] which is important as interest rates high [app] so less need to borrow money [an] • Still has unlimited liability status OR liability for debts [k] as being a sole trader [app] but possible losses can be shared [an] • Loss of some control [k] over type of cakes made [app] • Risk of disagreements OR slow decision making [k] so less responsive to changes in customer demand [an] • Have to share profits made [k] 	6	<p>Application marks may be awarded for appropriate use of the following: correct use of numbers e.g. 500%, celebration cakes or related words such as ingredients, shop or bakery, economic boom, 3 employees, increase in demand, sole trader, work every day, profitable (at last), interest rates increased, friend (as business partner), started her business 5 years ago, product quality is important.</p>

Question	Answer	Marks	Guidance
4(a)	<p>What is meant by a ‘stakeholder group’?</p> <p>Clear understanding [2]: any person or people with a (direct) interest in the (performance) and activities of a business</p> <p>An individual or group which has an interest in a business because they are affected by its activities (and decisions) [2]</p> <p>Some understanding [1]: someone affected by a business</p> <p>Anybody inside or outside the business who cares about its operations [1]</p>	2	<p>Do not award examples as this does not explain the term.</p> <p>Do not award answers that define individual stakeholders e.g. people interested in business and who want to invest in it (as this defines a shareholder).</p>
4(b)	<p>What is meant by ‘private sector’?</p> <p>Clear understanding [2]: e.g. when business activities are owned by individuals OR groups of individuals</p> <p>Some knowledge [1]: not government controlled or run by individuals/owned by shareholders</p>	2	<p>Do not award ‘privately owned’ as does not explain term OR ‘owned by the people’ as it is too vague.</p> <p>Note: for two marks, must have idea of ownership and by whom.</p>

Question	Answer	Marks	Guidance
4(c)	<p>Identify and explain two effects on Steppa of a high number of workers leaving the business each year.</p> <p>Knowledge [2 × 1]: award 1 mark for each effect</p> <p>Application [2 × 1]: award 1 mark for each explanation in context</p> <p>Points might include:</p> <ul style="list-style-type: none"> • Additional training costs [k] as new workers need to learn how to make shoes [app] • Additional recruitment costs [k] to maintain its 200 employees [app] • Time taken to recruit new employees [k] • Damage to reputation OR harder to recruit [k] • Reduction in output OR efficiency [k] • Impact on motivation of other workers OR increased workload for remaining workers [k] so not be able to maintain happy workers [app] • New employees can provide new ideas [k] • Hard to maintain quality [k] so revenue does not increase by 10% [app] 	4	<p>Application marks may be awarded for appropriate use of the following: correct use of numbers e.g. 200 employees, shoes or related words, revenue increased by 10%, happy workers good for business, high hourly wage, democratic leadership.</p> <p>Note: candidates can be awarded for identifying two separate costs such as training and recruitment. 'Increased costs' can only be awarded if there is no other reference to costs made in their answer.</p> <p>Points can refer to either a positive or negative effect</p> <p>Do not award expensive or time consuming unless explained.</p>

Question	Answer	Marks	Guidance
4(d)	<p>Identify and explain two possible advantages for Steppa of using a democratic leadership style.</p> <p>Knowledge [2 × 1]: award one mark for each relevant advantage identified</p> <p>Application [2 × 1]: award 1 mark for each relevant reference made to this business</p> <p>Analysis [2 × 1]: award 1 mark for each relevant explanation</p> <p>Points might include:</p> <ul style="list-style-type: none"> • Improves motivation OR sense of belonging [k] leading to increased output OR productivity [an] as they are happy workers [app] • Help keep worker loyalty [k] could help reduce high number of workers leaving [app] leading to lower recruitment costs [an] • Creates time to do other jobs [k] leading to fewer mistakes [an] • Better decision making possible [k] • More ideas [k] • Better communication OR better feedback [k] • Positive work environment OR better relations between managers and workers [k] • Workers have better understanding of business' objectives [k] 	6	<p>Application marks may be awarded for appropriate use of the following: correct use of numbers e.g. 200 employees, shoes or related words, revenue increased by 10%, happy workers good for business, high hourly wage, private sector.</p> <p>Do not award analysis marks for improved motivation OR workers feel important OR works harder as this does not explain the advantage to the business.</p> <p>Do not award definitions of democratic leadership</p>

Question	Answer	Marks	Guidance
4(e)	<p>Explain two methods of non-financial reward that Steppa might use to increase employee motivation. Recommend which method Steppa should use. Justify your answer.</p> <p>Knowledge [1]: award 1 mark for identification of relevant method(s)</p> <p>Application [1]: award 1 mark for a relevant reference to this business</p> <p>Analysis [2]: award up to 2 marks for relevant development of point(s)</p> <p>Evaluation [2]: award up to 2 marks for a justified decision made as to which of the two non-financial methods Steppa should use</p> <p>Points might include:</p> <ul style="list-style-type: none"> • Offer fringe benefits e.g. holidays or discounts [k] on shoes [app] • Job rotation [k] would be more interesting OR not as boring as doing the same thing [an] • Team working [k] could lead to increased output OR increased efficiency [an] • Training [k] so workers feel more valued as they gain more skills [an] • Praise [k] as feel their work has been recognised [an] • Opportunities for promotion [k] • Increased responsibility [k] • Award schemes such as employee of the month [k] • Job enrichment [k] • Job enlargement [k] 	6	<p>Application marks may be awarded for appropriate use of the following: correct use of numbers e.g. 200 employees, shoes or related words, revenue increased by 10%, happy workers good for business, high hourly wage, democratic leadership.</p> <p>Do not award answers referring to financial methods such as bonus, share options, pension or pay rises as question does not allow this.</p> <p>Do not award change leadership style e.g. democratic</p> <p>Do not award ‘makes them work harder’ as analysis on its own unless explained e.g. ‘makes them work harder to earn more money’.</p> <p>Note: Maximum of 4 marks if candidates only discuss 1 valid method. Award examples of fringe benefits only once.</p>



BUSINESS STUDIES

0450/13

Paper 1 Short Answer/Structured Response

May/June 2017

MARK SCHEME

Maximum Mark: 80

Published

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 should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

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This document consists of **14** printed pages.

Question	Answer	Marks	Guidance
1(a)	<p>What is meant by a ‘trade union’?</p> <p>Clear knowledge [2]: group of workers who join together to ensure their interests are protected OR organisation represents the workers and fight for improvements to pay and conditions [2].</p> <p>Some knowledge [1] – e.g. Group of workers who join together OR fight for workers’ rights.</p>	2	Do not award ‘it is a pressure group’ on its own as this does not explain the term.
1(b)	<p>Identify <u>two</u> possible reasons (other than reduced demand for steel) that could make it necessary to downsize the workforce.</p> <p>Knowledge [2×1]: award 1 mark for each reason identified</p> <p>Points might include:</p> <ul style="list-style-type: none"> • Economic crisis • Factory OR shop OR office closure • Merger or takeover, • Need to reduce costs • Changes in management OR strategy • Automation or replaced by machinery • Excess workforce • Relocation 	2	Do not award reduced demand as excluded by question.

Question	Answer	Marks	Guidance
1(c)	<p>Identify and explain <u>two</u> opportunities for CFE of globalization</p> <p>Knowledge [2×1]: award 1 mark for each opportunity identified Application [2×1]: award 1 mark for each explanation in context</p> <p>Points might include:</p> <ul style="list-style-type: none"> • Lower variable costs [k] as access to cheaper iron ore [app] • Access larger market [k] as 40% exported [app] • Build reputation [k] for its steel [app] • Easier to find suitable workers [k] as need to be skilled [app] • Access better or quicker distribution networks [k] to other ship yards [app] • Share ideas OR skills OR technologies between countries [k] • Benefit from reduced legal controls [k] • Quicker communications networks [k] • Able to spread risk [k] as recession in some economies [app] • Easier to import materials needed [k] 	4	<p>Application marks may be awarded for appropriate use of the following:</p> <p>Shipbuilding or related words such as shipyards, High quality, Steel or related words such as iron ore, Correct use of numbers e.g. 40% exported; 1200 or 2100 Skilled employees, Reduced demand, Recession in some economies, Reduce costs, Trade unions, Equipment old and often breaks down.</p>
1(d)	<p>Identify <u>two</u> external stakeholder groups. Explain how each group might be affected by CFE's decision to downsize the workforce.</p> <p>Knowledge [2×1]: award 1 mark for each relevant way identified Application [2×1]: award 1 mark for each relevant reference made to CFE Analysis [2×1]: award 1 mark for each relevant explanation</p> <p>Points might include:</p> <ul style="list-style-type: none"> • Government [k] as 1200 jobs lost [app] may receive less in taxes OR have to pay out more support payments [an] • Suppliers [k] lose steel orders [app] reducing their revenue [an] • Local community [k] as employs 2100 [app] could lower demand in shops if workers have less or no money [an] • Bank OR lenders [k] as business may not be able to meet any loan repayments or interest due [an] • Customers [k] as may not be able to buy all the product it needs [an] 	6	<p>Do not award internal stakeholders such as owners or shareholders, employees (workers or managers) as this does not answer the question.</p> <p>Application marks may be awarded for appropriate use of the following:</p> <p>Shipbuilding or related words such as shipyards, High quality, Steel or related words such as iron ore, Correct use of numbers e.g. 40% exported; 1200 or 2100 Skilled employees, Reduced demand, Recession in some economies, Reduce costs, Trade unions, Equipment old and often breaks down</p>

Question	Answer	Marks	Guidance
1(e)	<p>Do you think that reducing the number of employees is the best way for CFE to reduce costs? Justify your answer.</p> <p>Knowledge [1]: award 1 mark for identification of relevant point(s) Application [1]: award 1 mark for a relevant reference made to this business Analysis [2]: award up to 2 marks for relevant development of point(s) Evaluation [2]: justified decision made as to whether reducing the number of employees is the best way for CFE to reduce its costs</p> <p>Points might include:</p> <ul style="list-style-type: none"> • Less workers needed [k] as reduced demand [app] • Change may only be temporary [k] so if demand increase can they replace workers [an] as skilled [app] • Costs of redundancy [k] • Save labour costs [k] • Damage to reputation [k] caused by possible action by trade union [app] • Negative impact on motivation of other workers [k] leading to more mistakes [an] <p>Other options to reduce costs may include:</p> <ul style="list-style-type: none"> • Relocate [k] 40% exported [app] may lower rent [an] • Update equipment [k] so less likely to breakdown [app] reducing maintenance costs [an] • Buy cheaper raw materials [k] but this may reduce quality [an] 	6	<p>Application marks may be awarded for appropriate use of the following:</p> <p>Shipbuilding or related words such as shipyards, High quality, Steel or related words such as iron ore, Correct use of numbers e.g. 40% exported; 1200 or 2100 Skilled employees, Reduced demand, Recession in some economies, Reduce costs, Trade unions, Equipment old and often breaks down</p> <p>Note: candidates can discuss alternative ways to reduce costs. However evaluation must address whether reducing employees is the best way.</p>

Question	Answer	Marks	Guidance
2(a)	<p>What is meant by brand?</p> <p>Clear understanding [2]: (unique) name, feature or design / logo or image of a product or business [1] that distinguishes it from other products or businesses OR makes it unique [1] OR unique or special name by which a product or business is known</p> <p>Some understanding [1]: e.g. name by which a product or business is recognised OR known [1]</p>	2	Do not award examples as this does not explain the term
2(b)	<p>Identify <u>two</u> methods of pricing PCB could use for its mobile phones.</p> <p>Application [2×1] award 1 mark for each method</p> <p>Points might include:</p> <ul style="list-style-type: none"> • Competitive pricing • Cost plus pricing • Penetration pricing • Price skimming • Promotional pricing 	2	

Question	Answer	Marks	Guidance
2(c)	<p>Identify and explain <u>two</u> advantages to PCB of increasing the range of products it sells.</p> <p>Knowledge [2×1]: award 1 mark for each advantage identified Application [2×1]: award 1 mark for each explanation in context</p> <p>Points might include:</p> <ul style="list-style-type: none"> • Spread risk [k] as sales do not rely on its phone [app] • Increase customers OR widen customer base OR increase market share [k] as it is a fast growing market [app] • Able to increase prices [k] as it's a luxury product [app] • Increase brand loyalty OR increase attraction of business to existing customers [k] as may want headphones [app] • Improve PCB's brand image OR reputation [k] as offer more luxury products [app] • Need to replace products in decline (stage of life cycle) [k] as operate in a competitive market [app] 	4	<p>Application marks may be awarded for appropriate use of the following:</p> <p>Mobile phone, Headphones, Luxury, Competitive market, Fast-growing market, Correct use of data from table 1, (Well known) brand.</p>

Question	Answer	Marks	Guidance
2(d)	<p>Identify and explain <u>one</u> advantage and <u>one</u> disadvantage to PCB of issuing new shares as a source of finance.</p> <p>Knowledge [2 × 1]: award one mark for each relevant way identified Application [2 × 1]: award 1 mark for each relevant reference made to this business Analysis [2 × 1]: award 1 mark for each relevant explanation</p> <p>Points might include: Advantages:</p> <ul style="list-style-type: none"> • Access to greater amounts of capital [k] as no restriction on shareholder numbers [an] to help raise \$15m/ \$45m [app] • No interest OR finance costs to pay [k] so fixed costs do not increase [an] so can invest in headphones [app] • Permanent source of capital [k] so no need to repay [an] • Avoid increasing debt [k] <p>Disadvantages:</p> <ul style="list-style-type: none"> • Possible loss of control OR risk of takeover [k] as public limited company [app] making it difficult to manage or take decisions [an] • Shareholders might expect dividends [k] • Cost OR time to arrange [k] so not able to focus on other issues [an] such as the new headphones [app] • Dividend paid after tax whereas interest paid before tax deducted [k] 	6	<p>Application marks may be awarded for appropriate use of the following:</p> <p>Public limited company, References to stock exchange [app], Correct use of numbers e.g. \$15–20m, \$45m, Correct use of data from Table 1 Takeover, Headphones, Mobile phones (Well known) brand, Luxury, Want to increase product range.</p>

Question	Answer	Marks	Guidance
2(e)	<p>Recommend which option for increasing the product range the directors should choose. Justify your answer using the information in Table 1.</p> <p>Knowledge [1]: award 1 mark for identification of relevant point (s) Application [1]: award 1 mark for a relevant reference made to this business Analysis [2]: award up to 2 marks for relevant development of point(s) Evaluation [2]: justified decision made as to which option the directors should choose.</p> <p>Points might include:</p> <ul style="list-style-type: none"> • Cost of Option 1 is lower [k] by \$30m OR \$33m [app+an] so do not have to raise as much money [an] • Longer development time [k] • Need to recruit a suitable person [k] as experienced designer [app] which will increase recruitment costs [an] <p>Option 2</p> <ul style="list-style-type: none"> • Can reach market quicker [k] as demand is growing fast [app] so customers do not buy from other businesses OR before tastes change [an] • Brings in expertise OR ideas [k] • Possible clash of management styles [k] as have different leadership style [app] • Have access to its customers [k] who you may be able to sell phones [app] further increasing sales [an] 	6	<p>Application marks may be awarded for appropriate use of the following:</p> <p>Public limited company, References to stock exchange [app], Correct use of numbers e.g. \$15–20m, \$45m, Correct use of data from Table 1 Takeover, Headphones, Mobile phones (Well known) brand, Luxury, Want to increase product range.</p> <p>Note: For evaluation candidates can select either option is possible if supported by points made.</p>

Question	Answer	Marks	Guidance
3(a)	<p>What is meant by an ‘overdraft’?</p> <p>Clear understanding [2]: e.g. loan repayable within 12 months [2]</p> <p>Some understanding: [1] e.g. identifies a relevant feature such as short term source of finance</p>	2	Do not award explanation of bank loan as this is not a short term option
3(b)	<p>Calculate the following values: X and Y</p> <p>Application [2×1] award 1 mark for each correct answer.</p> <p>Closing balance: X: (20);</p> <p>Net cash flow: Y: 0 or zero</p>	2	
3(c)	<p>Identify and explain <u>two</u> ways in which legal controls on marketing might affect C&P.</p> <p>Knowledge [2×1]: award 1 mark for each way identified Application [2×1]: award 1 mark for each explanation in context</p> <p>Points might include:</p> <ul style="list-style-type: none"> • Cannot make false claims about what the product will do OR must avoid misleading adverts OR Advertising claims might have to change to ensure compliance [k] • Contents OR product must be described accurately [k] so would need to be handmade • Products must be safe to use OR must offer to repair or replace faulty goods [k] e.g. if bracelet broken [app] • May have to change how products made [k] • Mistakes could lead to fines OR damage reputation [k] 	4	<p>Application marks may be awarded for appropriate use of the following:</p> <p>Jewellery and related words such as necklaces and bracelets, Metals, Correct use of data from table 2, Pay for materials when ordered, Phoebe works from home, Cory manages the accounts and shop, Business partnership.</p>

Question	Answer	Marks	Guidance
3(d)	<p>Identify and explain <u>one</u> advantage and <u>one</u> disadvantage to Cory and Phoebe of being in a business partnership.</p> <p>Knowledge [2 × 1]: award one mark for a relevant advantage and disadvantage identified Application [2 × 1]: award 1 mark for each relevant reference made to this business Analysis [2 × 1]: award 1 mark for each relevant explanation</p> <p>Points might include: Advantage:</p> <ul style="list-style-type: none"> • More ideas [k] which could make business more competitive [an] • More capital (than sole trader) [k] which may help solve cash flow problems [app] so less need to borrow money [an] • Share responsibilities OR workload OR Specialisation OR more skills [k] so have time to focus on what they are good at [an] as Corey focuses on finance [app] • Share risk OR losses [k] <p>Disadvantage:</p> <ul style="list-style-type: none"> • Different objectives [k] such as Phoebe wants to keep current supplier [app] leading to disagreements [an] • Have unlimited liability [k] Phoebe could lose her home [app] as personal belongings at risk if business fails [an] • Have to share profits [k] so each person makes less than if it's a sole trader [an] • Do not have separate legal identify [k] • Slow decision making OR risk of disagreements [k] as takes times to resolve differences [an] 	6	<p>Application marks may be awarded for appropriate use of the following:</p> <p>Jewellery and related words such as necklaces and bracelets, Metals, Correct use of data from table 2, Pay for materials when ordered, Phoebe works from home, Cory manages the accounts and shop, Business partnership.</p>

Question	Answer	Marks	Guidance
3(e)	<p>Cory thinks asking customers to pay more quickly is the best way to improve cash flow. Do you agree? Justify your answer.</p> <p>Knowledge [1]: award 1 mark for identification of relevant point (s) Application [1]: award 1 mark for a relevant reference made to this business Analysis [2]: award up to 2 marks for relevant development of point(s) Evaluation [2]: justified decision made as to whether asking customers to pay more quickly is the best way to improve cash flow.</p> <p>Points might include:</p> <ul style="list-style-type: none"> • Asking to pay quicker would make cash available sooner or right away [k] • Could lead to reduced demand OR customers become dissatisfied [k] so cash inflows reduced [an] <p>Other options include:</p> <ul style="list-style-type: none"> • Buy cheaper materials [k] which would reduce cash outflow [an] buy may lower demand as customers think it is poorer quality [an] • Reduce level of inventory ordered [k] as represents half its outflows [app] • Could ask suppliers to change payment terms [k] as have to pay in full [app] allows more time to generate cash [an] • Change supplier [k] but might give same OR worse terms [an] so cannot get materials to make jewellery [app] • Sell unwanted non current assets [k] 	6	<p>Application marks may be awarded for appropriate use of the following:</p> <p>Jewellery and related words such as necklaces and bracelets, Metals, or related words such as gemstones, Correct use of data from table 2, Pay for materials when ordered, Phoebe works from home, Cory manages the accounts and shop, Business partnership, Legal controls on marketing, Advertising to increase sales</p> <p>Can award discussion of other ways to improve cash flow e.g. reduce fixed costs [k] such as shop rent [app].</p> <p>Do not award increase overdraft as this option is not available to them based on stem.</p> <p>Do not award methods such as increase sales, lower costs or raise prices as too vague.</p> <p>Note: For evaluation must focus on whether asking customer to pay quicker is the best way or not.</p>

Question	Answer	Marks	Guidance
4(a)	<p>What is meant by the ‘business cycle’?</p> <p>Clear understanding [2]: fluctuations in economic activity that an economy experiences [1] over a period of time OR changes in level of economic growth over time</p> <p>Some understanding [1]: shows changes in GDP</p>	2	Do not award answers which refer to an individual business or confuse the business cycle with the product life cycle.
4(b)	<p>Identify <u>two</u> advantages of flow production</p> <p>Knowledge [2 × 1] award 1 mark per advantage</p> <p>Points might include:</p> <ul style="list-style-type: none"> • Large volumes or increased output • Economies of scale • Low average costs • Quicker production • 24-hour OR continuous production • Allows greater use of unskilled labour • Allows for specialisation • Allows for capital intensive production 	2	

Question	Answer	Marks	Guidance
4(c)	<p>Identify and explain <u>two</u> advantages to TUKAN of introducing non-financial methods.</p> <p>Knowledge [2×1]: award 1 mark for each advantage identified Application [2×1]: award 1 mark for each explanation in context</p> <p>Points might include:</p> <ul style="list-style-type: none"> • Some options cost little OR no money [k] so less need to pay good wages [app] • Improve motivation [k] when using flow production [app] • Help retention [k] so lower percentage want to leave each year [app] • New ideas [k] as workers may suggest ways to improve efficiency [app] • Can lead to more flexible work force [k] 	4	<p>Do not award examples or methods of non-financial methods of reward, as this does not answer the question.</p> <p>Application marks may be awarded for appropriate use of the following:</p> <p>High percentage leave each year, Flow production, Good wages, Lean production, Plan to recruit new Operations manager, Economy at growth stage (of business cycle), Revenue increased by 25%, Profit did not increase, Looking for ideas as need to improve efficiency, No involvement in decision making, Soft drinks</p>
4(d)	<p>Identify and explain <u>two</u> possible lean production methods that TUKAN might use to improve efficiency</p> <p>Knowledge [2 × 1]: award one mark for each relevant method identified Application [2 × 1]: award 1 mark for each relevant reference made to this business Analysis [2 × 1]: award 1 mark for each relevant explanation</p> <p>Points might include:</p> <ul style="list-style-type: none"> • Kaizen or continuous improvement [k] as mistakes OR errors would be eliminated [an] • Just-in-time inventory control [k] which would reduce storage costs [an] • Reorganise the factory layout [k] so saving time moving between places [an] • Cell production/ team working [k] • Kanban [k] • Time based management [k] • Waste reduction [k] 	6	<p>Application marks may be awarded for appropriate use of the following:</p> <p>do not give non-financial methods, High percentage leave each year, Flow production, Good wages, Lean production, Plan to recruit new Operations manager, Economy at growth stage (of business cycle), Revenue increased by 25%, Profit did not increase, Looking for ideas as need to improve efficiency, No involvement in decision making, Soft drinks</p>

Question	Answer	Marks	Guidance
4(e)	<p>Do you think it is better for TUKAN to use internal or external recruitment for the new manager? Justify your answer.</p> <p>Knowledge [1]: award 1 mark for identification of relevant point (s) Application [1]: award 1 mark for a relevant reference made to this business Analysis [2]: award up to 2 marks for relevant development of point(s) Evaluation [2] – justified decision made as to whether TUKAN should use internal or external recruitment for the new manager.</p> <p>Points might include:</p> <ul style="list-style-type: none"> • Wider pool of candidates [k] can help attract right person [an] • Bring in new ideas [k] as need to improve efficiency [app] • Increased recruitment costs [k] which will increase expenses [an] when profit has not increased [app] • New person has no knowledge of business [k] so will need to spend time or money while get to know things [an] • Are suitable candidates available [k] if many people leave each year [app] <p>Internal</p> <ul style="list-style-type: none"> • Act as incentive OR motivation for employees [k] which could increase efficiency [app] • People know the business [k] so can start work quicker [an] • Company knows the people [k] • Generate stability and experience [k] so reducing labour turnover [app] 	6	<p>Application marks may be awarded for appropriate use of the following:</p> <p>High percentage leave each year, Flow production, Good wages, Lean production, Operations (manager), Economy at growth stage (of business cycle), Revenue increased by 25% Profit did not increase, Looking for ideas as need to improve efficiency, No involvement in decision making, Soft drinks</p>



BUSINESS STUDIES

0450/21

Paper 2 Case Study

May/June 2017

MARK SCHEME

Maximum Mark: 80

Published

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 should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

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This document consists of **12** printed pages.

Answer	Question	Marks
1(a)	<p>Identify and explain <u>two</u> ways in which TT might achieve quality production.</p> <p>Knowledge [2 × 1] – award one mark for each way. Analysis [2 × 1] – award one mark for a relevant explanation for each way. Application [2 × 2] – award two application marks for each way.</p> <p>Award one mark for each way (maximum of two), from this list:</p> <ul style="list-style-type: none"> • Quality control • Quality assurance • Quality labour – skilled/trained workers • Quality materials – consider producing own T shirts instead of buying in • Use new technology/new computer-controlled equipment/CAD,CAM or CIM • TQM/quality circles <p>Do not accept JIT or lean production.</p> <p>Award a maximum of three additional marks for each explanation – 2 of which must be applied to this context - of how the quality can be achieved.</p> <p>Indicative response:</p> <p>Quality control (k) means that each batch of children’s T-shirts are checked at the end of the production process (app) If there are any faults then the batch can be sewn up and repairs made to any gaps in the seams (app) so that products only leave the factory if they are correctly made and in perfect condition (an).</p> <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> <p>Possible application marks:</p> <p>Ready-made plain white T-shirts; high quality material; prints designs; T-shirts imported from country Q, a developing country; 50 different designs; batches production of various sizes; personalized T-shirts; buying new computer controlled equipment for \$500 000; retailers expect high quality products</p> <p>There may be other examples in context that have not been included here.</p> </div>	8

Answer	Question	Marks																	
1(b)	<p>Consider the advantages and the disadvantages of the <u>two</u> options for expansion. Recommend the best option to choose. Justify your answer.</p> <p>Relevant points might include:</p> <table border="1" data-bbox="261 376 1362 965"> <thead> <tr> <th></th> <th>Advantages</th> <th>Disadvantages</th> </tr> </thead> <tbody> <tr> <td>Option A – take over competing company</td> <td>Specialised in different product range – increase sales. Economies of scale possible – reduce management layers – reduce wage costs. Increase efficiency – share good practice - lower unit costs – more competitive – increase profit.</td> <td>High cost to buy out shareholders. No guarantee of success – no expertise in this market. Low staff morale – job insecurity – lack of coordination between the two management structures – diseconomies of scale.</td> </tr> <tr> <td>Option B – expand own production facilities</td> <td>Increased efficiency from new equipment – increased output – increased sales. Not using a wholesaler – absorb profit margin. Option B is cheaper than Option A.</td> <td>May need joint venture/use an agent – reduce profit margin – lower profit. Lack of knowledge of export market – culture/taste may be different – more difficult to have effective marketing.</td> </tr> </tbody> </table> <p>Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.</p> <table border="1" data-bbox="261 1066 1362 1503"> <thead> <tr> <th></th> <th>Knowledge / Analysis / Evaluation</th> </tr> </thead> <tbody> <tr> <td>Level 3</td> <td>At least 2 × Level 2 + 9–10 marks for well justified recommendation of which option to choose and why not choose the alternative option. 7–8 marks for limited recommendation of which option to choose.</td> </tr> <tr> <td>Level 2</td> <td>4–6 marks Detailed discussion of advantages and/or disadvantages of each option.</td> </tr> <tr> <td>Level 1</td> <td>1–3 marks Outline of advantages and/or disadvantages of each option.</td> </tr> </tbody> </table>		Advantages	Disadvantages	Option A – take over competing company	Specialised in different product range – increase sales. Economies of scale possible – reduce management layers – reduce wage costs. Increase efficiency – share good practice - lower unit costs – more competitive – increase profit.	High cost to buy out shareholders. No guarantee of success – no expertise in this market. Low staff morale – job insecurity – lack of coordination between the two management structures – diseconomies of scale.	Option B – expand own production facilities	Increased efficiency from new equipment – increased output – increased sales. Not using a wholesaler – absorb profit margin. Option B is cheaper than Option A.	May need joint venture/use an agent – reduce profit margin – lower profit. Lack of knowledge of export market – culture/taste may be different – more difficult to have effective marketing.		Knowledge / Analysis / Evaluation	Level 3	At least 2 × Level 2 + 9–10 marks for well justified recommendation of which option to choose and why not choose the alternative option. 7–8 marks for limited recommendation of which option to choose.	Level 2	4–6 marks Detailed discussion of advantages and/or disadvantages of each option.	Level 1	1–3 marks Outline of advantages and/or disadvantages of each option.	12
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1(b)	<p>Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Economies of scale are possible if they take over another company.</p> <p>Level 2 – 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. Economies of scale are possible if they take over another company as T-shirts could be purchased in bulk and a discount received. However, it will cost over \$10m to buy out the shareholders and they may not be able to finance it. (L2 plus 1 App mark for consideration of the costs of the takeover of a competitor).</p> <p>Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation of which option to choose.</p> <p>Award up to 2 additional marks for relevant application.</p> <div style="border: 1px solid black; padding: 5px;"> <p>Possible application marks:</p> <p>private limited company; set up 15 years ago; in country P; buys ready-made plain white T-shirts; prints designs; T-shirts imported from country Q, a developing country; 50 different designs; batches production of various sizes; sold to small retailers in country P; expect high quality; share capital \$2 m; increased to \$8 m by 2015; exporting T-shirts; take over DesOwn; personalized T-shirts; sells online; raise \$10 m to buy out the existing shareholders; buying new computer controlled equipment for \$500 000; sell directly to large retailers; use an agent or a joint venture; really unhappy factory workers; workers want to leave.</p> <p>There may be other examples in context that have not been included here.</p> </div>	

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2(a)	<p>Identify <u>two</u> motivational theories and explain how TT could use these theories to help increase worker motivation</p> <p>Knowledge [2 × 1] – award one mark for each theory Analysis [2 × 1] – award one mark for a relevant explanation for each theory Application [2 × 2] – award two application marks for each theory</p> <p>Award one mark for each theory (maximum of two), from:</p> <ul style="list-style-type: none"> • Taylor – scientific management approach, money is the main motivator, pay according to tasks performed so speed is encouraged, specialisation would make best use of skills • Maslow – hierarchy of needs, satisfy physiological, safety, social, self-esteem, self-actualisation needs to increase motivation • Herzberg – two factor theory where hygiene factors relate to the working environment and motivating factors relate to improving the job itself so that work is meaningful and the worker is given responsibility <p>Note: There may be reference to other motivational theorists.</p> <p>Award a maximum of three additional marks for each explanation – 2 of which must be applied to this context – of the theory.</p> <p>Note: The explanation must focus on how TT can use each specific theory.</p> <p>Indicative response:</p> <p>Taylor (k) believed that money is a main motivator for workers (an) and so TT should increase the workers' wages especially to pay them for all the tasks they do (app) and then they may feel more motivated and less unhappy in their jobs and not want to leave (app).</p> <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> <p>Possible application marks:</p> <p>prints designs; 50 different designs; batch production of various sizes; expect high quality; personalized T-shirts; really unhappy factory workers; may be made redundant if taking over another business; Operations Manager just tells me what to do; she never asks what I think; shouted at if I do anything wrong; told to keep quiet; no training on selling; workers want to leave; information is only put on one noticeboard.</p> <p>There may be other examples in context that have not been included here.</p> </div>	8

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2(b)	<p>TT should consider the following <u>three</u> changes before making a final decision about whether to start exporting its products. Which change will be the most important for the decision? Justify your answer.</p> <p>Relevant points might include:</p> <table border="1" data-bbox="247 409 1375 696"> <tr> <td data-bbox="247 409 683 528">Appreciation in the exchange rate of country P's currency.</td> <td data-bbox="683 409 1375 528">Exports more expensive – harder to sell its products abroad – imports cheaper – T-shirts lower costs – could lower prices or increase profit.</td> </tr> <tr> <td data-bbox="247 528 683 611">Increased economic growth in many developed economies.</td> <td data-bbox="683 528 1375 611">Increased demand – increased sales of T-shirts – may demand alternative more expensive clothes.</td> </tr> <tr> <td data-bbox="247 611 683 696">Increase in the import tariffs in many developed economies.</td> <td data-bbox="683 611 1375 696">Higher import prices for T-shirts – increased costs – higher price of finished T-shirt – lower demand.</td> </tr> </table> <p>Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.</p> <table border="1" data-bbox="260 824 1362 1261"> <thead> <tr> <th data-bbox="260 824 432 875"></th> <th data-bbox="432 824 1362 875">Knowledge/Analysis/ Evaluation</th> </tr> </thead> <tbody> <tr> <td data-bbox="260 875 432 1093">Level 3</td> <td data-bbox="432 875 1362 1093"> At least 2 × Level 2 + 9–10 marks for well justified conclusion as to which change will be the most important compared to the other changes. 7–8 marks for some limited judgement shown in conclusion as to which change will be most important. </td> </tr> <tr> <td data-bbox="260 1093 432 1176">Level 2</td> <td data-bbox="432 1093 1362 1176">4–6 marks Discussion of advantages and/or disadvantages of each change.</td> </tr> <tr> <td data-bbox="260 1176 432 1261">Level 1</td> <td data-bbox="432 1176 1362 1261">1–3 marks Outline of advantages and/or disadvantages of each change.</td> </tr> </tbody> </table> <p>Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. appreciation of currency will lead to higher export prices, economic growth will lead to increased sales of T shirts, increased import tariffs will make T shirt prices higher.</p> <p>Level 2 – 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. Appreciation in the currency will lead to higher export prices which may lead to a fall in demand for the T-shirts. This will make it harder to sell in this market and consumers may switch to home produced goods that now appear cheaper. (L2)</p> <p>Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a conclusion of which change will be most important.</p> <p>Award up to 2 additional marks for relevant application.</p> <table border="1" data-bbox="240 1758 1382 2033"> <tr> <td data-bbox="240 1758 1382 2033"> Possible application marks: Buys ready-made plain white T-shirts; prints designs on T shirts; T-shirts imported from country Q, a developing country; sold to small retailers; expand the company; exporting T-shirts; sells online; sell directly to large retailers; use an agent or a joint venture. There may be other examples in context that have not been included here. </td> </tr> </table>	Appreciation in the exchange rate of country P's currency.	Exports more expensive – harder to sell its products abroad – imports cheaper – T-shirts lower costs – could lower prices or increase profit.	Increased economic growth in many developed economies.	Increased demand – increased sales of T-shirts – may demand alternative more expensive clothes.	Increase in the import tariffs in many developed economies.	Higher import prices for T-shirts – increased costs – higher price of finished T-shirt – lower demand.		Knowledge/Analysis/ Evaluation	Level 3	At least 2 × Level 2 + 9–10 marks for well justified conclusion as to which change will be the most important compared to the other changes. 7–8 marks for some limited judgement shown in conclusion as to which change will be most important.	Level 2	4–6 marks Discussion of advantages and/or disadvantages of each change.	Level 1	1–3 marks Outline of advantages and/or disadvantages of each change.	Possible application marks: Buys ready-made plain white T-shirts; prints designs on T shirts; T-shirts imported from country Q, a developing country; sold to small retailers; expand the company; exporting T-shirts; sells online; sell directly to large retailers; use an agent or a joint venture. There may be other examples in context that have not been included here.	12
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Answer	Question	Marks
3(a)	<p>Identify <u>two</u> communication barriers which might occur within TT and explain how each barrier might be reduced.</p> <p>Knowledge [2 × 1] – award one mark for each barrier Analysis [2 × 1] – award one mark for a relevant explanation for each barrier Application [2 × 2] – award two application marks for each barrier</p> <p>Award one mark for each barrier (maximum of two), such as:</p> <ul style="list-style-type: none"> • Problems with the sender – different languages in country P and country Q/ not made the message clear /speaks quickly/sends message to wrong person/too many workers to contact • Problems with the medium – message lost/no feedback given/wrong channel used/ message not picked up • Problems with the receiver – not listening/ may not trust the sender/not understanding the message • Problems with feedback – only one-way communication/there is no feedback/distortion of feedback as passed through too many people/ long chain of command • Problems with the physical environment – noise level/separate buildings/time difference <p>Award a maximum of three additional marks for each explanation – 2 of which must be applied to this context - of how the barrier might be reduced.</p> <p>Indicative response:</p> <p>Problems with the medium used (k) in the case of TT information is put on a factory noticeboard in another building where the workers do not see it (app). If the message is put on a noticeboard in the same building as the factory workers and also in a newsletter sent to every worker in the T-shirt factory (app) then this should ensure that all workers receive the information and the barrier will be overcome (an).</p> <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> <p>Possible application marks:</p> <p>Private limited company; in country P/Q; prints designs; T-shirts imported from country Q, a developing country; sold to small retailers in country P; expand the company; exporting T-shirts; take over DesOwn, a competing company; personalized T-shirts; sells online; use an agent or a joint venture; really unhappy factory workers; shouted at if I do anything wrong; workers want to leave; workers in the factory; Operations manager just tells me what to do; she never asks what I think; told to keep quiet; no training on selling; information is only put on one noticeboard.</p> <p>There may be other examples in context that have not been included here.</p> </div>	8

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3(b)	<p>Consider the following <u>three</u> channels of distribution TT could use for its products in country P. Recommend the best channel to gain the highest sales. Justify your answer.</p> <p>Relevant points might include:</p> <table border="1" data-bbox="245 461 1378 864"> <thead> <tr> <th></th> <th>Advantages</th> <th>Disadvantages</th> </tr> </thead> <tbody> <tr> <td>Sell to a wholesaler</td> <td>Bulk buy – gain advice on what sells well – lower administration costs.</td> <td>Lower profit margin.</td> </tr> <tr> <td>Sell directly to large retailers</td> <td>Good locations/high footfall – increase sales.</td> <td>Many competing brands also sold there.</td> </tr> <tr> <td>Open its own shops in shopping malls</td> <td>Control over presentation of T-shirts – independent decision making about selling to customers.</td> <td>High costs of operating own shop – insufficient designs for own shops.</td> </tr> </tbody> </table> <p>Note: Do not accept answers referring to exporting. The question only asks about country P.</p> <p>Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.</p> <table border="1" data-bbox="240 1066 1383 1503"> <thead> <tr> <th></th> <th>Knowledge/Analysis/ Evaluation</th> </tr> </thead> <tbody> <tr> <td>Level 3</td> <td>At least 2 × Level 2 + 9–10 marks for well justified recommendation as to best channel of distribution to choose and why not the other channels. 7–8 marks for some limited judgement shown in recommendation as to best channel of distribution to choose.</td> </tr> <tr> <td>Level 2</td> <td>4–6 marks Detailed discussion of each channel of distribution.</td> </tr> <tr> <td>Level 1</td> <td>1–3 marks Outline of each channel of distribution.</td> </tr> </tbody> </table>		Advantages	Disadvantages	Sell to a wholesaler	Bulk buy – gain advice on what sells well – lower administration costs.	Lower profit margin.	Sell directly to large retailers	Good locations/high footfall – increase sales.	Many competing brands also sold there.	Open its own shops in shopping malls	Control over presentation of T-shirts – independent decision making about selling to customers.	High costs of operating own shop – insufficient designs for own shops.		Knowledge/Analysis/ Evaluation	Level 3	At least 2 × Level 2 + 9–10 marks for well justified recommendation as to best channel of distribution to choose and why not the other channels. 7–8 marks for some limited judgement shown in recommendation as to best channel of distribution to choose.	Level 2	4–6 marks Detailed discussion of each channel of distribution.	Level 1	1–3 marks Outline of each channel of distribution.	12
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3(b)	<p>Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Wholesaler will buy in bulk.</p> <p>Level 2 – 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. Wholesaler will buy in bulk which will reduce administration and transport costs. However, the wholesaler will expect a reduced price and so the profit margin will be lower. (L2)</p> <p>Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation which justifies the best channel of distribution to choose.</p> <p>Award up to 2 additional marks for relevant application.</p> <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> <p>Possible application marks:</p> <p>Private limited company; prints designs; 50 different designs; batch production of various sizes; sold to small retailers; expect high quality; expand the company; personalized T-shirts; use an agent or a joint venture; no training on selling.</p> <p>There may be other examples in context that have not been included here.</p> </div>	

Answer	Question	Marks
4(a)	<p>Identify and explain <u>one</u> reason why TT will need short-term finance and <u>one</u> reason why TT will need long-term finance.</p> <p>Knowledge [2 × 1] – award one mark for each reason Analysis [2 × 1] – award one mark for a relevant explanation for each reason Application [2 × 2] – award two application marks for each reason</p> <p>Award one mark for each reason (maximum of two), such as:</p> <p>Short-term finance – needed on a day-to-day basis to keep the business running:</p> <ul style="list-style-type: none"> • Working capital /cover expenses/pay wages • Pay for materials/Inventories of T-shirts • Cash flow problems <p>Long-term finance – needed over a long period of time to support expensive business development. Will need to be repaid in many instalments:</p> <ul style="list-style-type: none"> • Investment in equipment/machinery/fixed assets • Take over another company/expand <p>Award a maximum of three additional marks for each explanation – 2 of which must be applied to this context – of each reason.</p> <p>Indicative response:</p> <p>Short-term finance will be needed to pay for inventory (k) in this case it will be the T-shirts that are to have prints on them (app). The T-shirts will need to be purchased from abroad and paid for long before they have designs printed on them (app) and sold so working capital will be needed to allow this to take place. (an)</p> <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> <p>Possible application marks:</p> <p>Private limited company; set up 15 years ago; in country P; buys ready-made plain white T-shirts; T-shirts imported from country Q, a developing country; 50 different designs; batches production of various sizes; sold to small retailers in country P; share capital \$2 m; increased to \$8 m by 2015; expand the company; exporting T-shirts; take over DesOwn, a competing company; sells online; raise \$10 m to buy out the existing shareholders; buying new computer controlled equipment for \$500 000; sell directly to large retailers; use an agent or a joint venture.</p> <p>There may be other examples in context that have not been included here.</p> </div>	8

Answer	Question	Marks																						
4(b)	<p>Refer to Appendix 3 and other information in the case study. Consider the financial performance of TT. Do you think the directors should be pleased with the company's performance? Justify your answer using appropriate ratios.</p> <p>Relevant points might include:</p> <table border="1" data-bbox="411 412 1214 658"> <tbody> <tr> <td rowspan="3">2015</td> <td>GPM = 80% (L2)</td> <td>GP = \$8 m (L1)</td> </tr> <tr> <td>NPM = 10% (L2)</td> <td>NP = £1 m (L1)</td> </tr> <tr> <td>ROCE = 10% (L2)</td> <td></td> </tr> <tr> <td rowspan="3">2016</td> <td>GPM = 73% or 73.3% (L2)</td> <td>GP = \$11 m (L1)</td> </tr> <tr> <td>NPM = 13% or 13.3% (L2)</td> <td>NP = \$2 m (L1)</td> </tr> <tr> <td>ROCE = 14% or 14.2% (L2)</td> <td></td> </tr> </tbody> </table> <p>Between 2015 and 2016:</p> <ul style="list-style-type: none"> The revenue increased (by \$5 m) (L1) The gross profit increased (by \$3 m) (L1) The net profit increased (by \$1 m) (L1) <p>Note: Do not accept APP for use of data already provided in Appendix 3 (non-calculated figures).</p> <p>Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.</p> <table border="1" data-bbox="261 1066 1362 1503"> <thead> <tr> <th></th> <th>Knowledge/Analysis/ Evaluation</th> </tr> </thead> <tbody> <tr> <td>Level 3</td> <td>At least 2 × Level 2 + 9–10 marks for well justified conclusion as to whether the directors should be pleased with the company performance. 7–8 marks for some limited conclusion as to whether the directors should be pleased with the company performance/recommend action for improvement or future development of the business.</td> </tr> <tr> <td>Level 2</td> <td>4–6 marks Correct calculation of profitability ratios.</td> </tr> <tr> <td>Level 1</td> <td>1–3 marks Outline of the differences between the years.</td> </tr> </tbody> </table>	2015	GPM = 80% (L2)	GP = \$8 m (L1)	NPM = 10% (L2)	NP = £1 m (L1)	ROCE = 10% (L2)		2016	GPM = 73% or 73.3% (L2)	GP = \$11 m (L1)	NPM = 13% or 13.3% (L2)	NP = \$2 m (L1)	ROCE = 14% or 14.2% (L2)			Knowledge/Analysis/ Evaluation	Level 3	At least 2 × Level 2 + 9–10 marks for well justified conclusion as to whether the directors should be pleased with the company performance. 7–8 marks for some limited conclusion as to whether the directors should be pleased with the company performance/recommend action for improvement or future development of the business.	Level 2	4–6 marks Correct calculation of profitability ratios.	Level 1	1–3 marks Outline of the differences between the years.	12
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4(b)	<p>Level 1 – 1 mark for each L1 statement (max of 3 marks).</p> <p>Level 2 – 1 × L2 calculation can gain 4 marks and a further mark can be awarded for each additional L2 calculation (max 6 marks) e.g. The net profit margin for 2016 was 13%. (L2).</p> <p>Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a conclusion whether the directors should be pleased with the company performance.</p> <p>Award up to 2 additional marks for relevant application.</p> <div style="border: 1px solid black; padding: 5px;"> <p>Possible application marks:</p> <p>Private limited company; set up 15 years ago; in country P; share capital \$2 m; increased to \$8 m by 2015; expand the company; raise \$10 m to buy out the existing shareholders; buying new computer controlled equipment for \$500 000.</p> <p>There may be other examples in context that have not been included here.</p> </div>	



BUSINESS STUDIES

0450/22

Paper 2 Case Study

May/June 2017

MARK SCHEME

Maximum Mark: 80

Published

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 should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

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This document consists of **12** printed pages.

Question	Answer	Marks
1(a)	<p>Identify two financial statements the directors will need to see before expanding CC. Explain why they will want to see each of these statements.</p> <p>Knowledge [2 × 1] – award one mark for each financial statement Analysis [2 × 1] – award one mark for a relevant explanation for each financial statement Application [2 × 2] – award two application marks for each financial statement</p> <p>Award one mark for each relevant named financial statement (max 2) and one mark for explanation of why the directors will want to view these statements before expanding.</p> <p>Examples might include:</p> <ul style="list-style-type: none"> • income statement/Profit and loss account – to assess profitability/availability of retained profit/ need for loan/ability to repay loan • balance sheet/Statement of financial position – assess liquidity position/ assets for security against loan/assess value of assets that could be sold • cash flow forecast/statement – shows cash position/ability to cover expenses of expansion/liquidity position/ability to repay loans <p>Award a maximum of three additional marks for each explanation – 2 of which must be applied to this context – of the financial statement.</p> <p>Indicative response:</p> <p>Balance sheet (k) to see if the business will be able to borrow \$500 000 (app). The balance sheet will show the liabilities of the company and will show if the bank is likely to give CC a loan for the purchase of the new automated equipment (app). The directors will want to see if there are sufficient assets to be used as security for the loan (an).</p> <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> <p>Possible application marks:</p> <p>Already operating in a niche market; high quality ingredients; chocolates/high quality chocolates/luxury chocolates; hand-made chocolates; factory; private limited company; set up 15 years ago in country X; labour-intensive production techniques; 100 production workers; on-the-job training for new workers; developing a new brand of chocolate bar; targeted at the mass market; purchase a new automated production line; output is expected to be high; borrow \$500 000.</p> <p>There may be other examples in context that have not been included here.</p> </div>	8

Question	Answer	Marks														
1(b)	<p>Consider the following three factors that affect CC when importing all of its ingredients. Which is the most important factor when deciding whether to import ingredients? Justify your answer.</p> <p>Relevant points might include:</p> <table border="1" data-bbox="295 414 1340 1205"> <tr> <td data-bbox="295 414 566 701">Exchange rate</td> <td data-bbox="566 414 1340 701"> May fluctuate and this will affect the import prices of ingredients – affects costs – difficult to plan for – may result in having much higher costs than budget. Exchange rate is already low – higher cost of imported ingredients – raise prices – lower sales - reduce profit. If exchange rate increased/high – lower cost of imported ingredients – lower prices – increase sales – increase profit. </td> </tr> <tr> <td data-bbox="295 701 566 851">Import tariffs</td> <td data-bbox="566 701 1340 851"> Increased cost of imported materials – need to raise prices of finished chocolates or reduce profit. Note: Do not award fixed quantity i.e. quota </td> </tr> <tr> <td data-bbox="295 851 566 1205">Delivery time</td> <td data-bbox="566 851 1340 1205"> Perishable ingredients – need for quick delivery – urgent orders may need quick delivery. Delivery may be slow – may cause production delays – reduced sales/customer demand not fully met. If delays in delivery – may need to buy locally produced ingredients – lower quality – lose reputation/lose brand image. Note: Do not award if only about delivery time to the customer. </td> </tr> </table> <p>Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.</p> <table border="1" data-bbox="295 1305 1340 1713"> <thead> <tr> <th data-bbox="295 1305 467 1355"></th> <th data-bbox="467 1305 1340 1355">Knowledge/Analysis/ Evaluation</th> </tr> </thead> <tbody> <tr> <td data-bbox="295 1355 467 1541">Level 3</td> <td data-bbox="467 1355 1340 1541"> At least 2 × Level 2 + 9–10 marks for well justified conclusion of the most important factor and why it is more important than the other two factors. 7–8 marks for limited conclusion of the most important factor. </td> </tr> <tr> <td data-bbox="295 1541 467 1628">Level 2</td> <td data-bbox="467 1541 1340 1628"> 4–6 marks Detailed discussion of each factor. </td> </tr> <tr> <td data-bbox="295 1628 467 1713">Level 1</td> <td data-bbox="467 1628 1340 1713"> 1–3 marks Outline of each factor. </td> </tr> </tbody> </table> <p>Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. A tariff will increase the cost the company pays for imported raw materials.</p> <p>Level 2 – 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. Exchange rate fluctuations will affect the cost of imported ingredients. If the exchange rate appreciates then import prices will be lower and costs will be less or if the exchange rate depreciates then import costs will rise. (L2)</p>	Exchange rate	May fluctuate and this will affect the import prices of ingredients – affects costs – difficult to plan for – may result in having much higher costs than budget. Exchange rate is already low – higher cost of imported ingredients – raise prices – lower sales - reduce profit. If exchange rate increased/high – lower cost of imported ingredients – lower prices – increase sales – increase profit.	Import tariffs	Increased cost of imported materials – need to raise prices of finished chocolates or reduce profit. Note: Do not award fixed quantity i.e. quota	Delivery time	Perishable ingredients – need for quick delivery – urgent orders may need quick delivery. Delivery may be slow – may cause production delays – reduced sales/customer demand not fully met. If delays in delivery – may need to buy locally produced ingredients – lower quality – lose reputation/lose brand image. Note: Do not award if only about delivery time to the customer.		Knowledge/Analysis/ Evaluation	Level 3	At least 2 × Level 2 + 9–10 marks for well justified conclusion of the most important factor and why it is more important than the other two factors. 7–8 marks for limited conclusion of the most important factor.	Level 2	4–6 marks Detailed discussion of each factor.	Level 1	1–3 marks Outline of each factor.	12
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	<p>Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a conclusion which justifies which is the most important factor.</p> <p>Award up to 2 additional marks for relevant application.</p> <div style="border: 1px solid black; padding: 5px;"> <p>Possible application marks:</p> <p>chocolates/high quality chocolates/luxury chocolates; hand-made chocolates; country X already has a low exchange rate; located in country X; fillings made with luxury ingredients; batch production; 100 production workers; skilled workers in factory; employed at CC since it started; objective of expansion; developing a new brand of chocolate bar; targeted at the mass market; reduce variable costs by using lower quality ingredients; purchase a new automated production line; output is expected to be high; borrow \$500 000.</p> <p>There may be other examples in context that have not been included here.</p> </div>	

Question	Answer	Marks
2(a)	<p>Identify and explain two reasons why on-the-job training is important for new employees at CC.</p> <p>Knowledge [2 × 1] – award one mark for each relevant reason Analysis [2 × 1] – award one mark for a relevant explanation for each reason Application [2 × 2] – award two application marks for each reason</p> <p>Award one mark for each relevant reason (max 2), such as:</p> <ul style="list-style-type: none"> • ensure they are correctly trained for CC methods – less likely to make mistakes/ maintains high quality chocolates • efficient at their jobs – increase output/know how to do the job correctly • build relationships with existing employees – settle in quicker and happier in new job/easier to ask for help if unsure/more quickly effective in the new job • new employees are quickly able to contribute to production – can produce chocolates while training so output higher • easier and quicker to arrange - cheaper than off-the-job training • less likely to have accidents if correctly trained- employees less likely to be absent from work through injury <p>Note: Do not award induction training or just a simple definition of off-the-job training</p> <p>Award a maximum of three additional marks for each explanation – 2 of which must be applied to this context – of the reason</p> <p>Indicative response: On-the-job training will ensure the new employees are trained correctly (k) in how to make the hand-made chocolates (app). As the chocolates are luxury products using expensive fillings then they must not be wasted (app). If trained correctly then the new employees will carry out their jobs effectively and chocolates will not be faulty and thrown away (an).</p> <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> <p>Possible application marks:</p> <p>Chocolates/high quality chocolates/luxury chocolates; hand-made chocolates; private limited company; labour-intensive production techniques; batch production; 100 production workers; skilled workers in the factory; employed at CC since it started/for 15 years; objective of expansion; developing a new brand of chocolate bar; targeted at the mass market; purchase a new automated production line; output is expected to be high.</p> <p>There may be other examples in context that have not been included here.</p> </div>	8

Question	Answer	Marks																				
2(b)	<p>Consider how the following <u>three</u> stakeholders will be affected by the introduction of a new automated production line at CC. Which stakeholder will be most affected by this decision? Justify your answer.</p> <p>Relevant points might include:</p> <table border="1" data-bbox="296 416 1339 1240"> <thead> <tr> <th></th> <th>Positively affected</th> <th>Negatively affected</th> </tr> </thead> <tbody> <tr> <td>Employees</td> <td> <ul style="list-style-type: none"> Increased output – higher wages Training provided – increases skills of workers – increased job satisfaction New jobs – higher wages Easier/less strenuous job </td> <td> <ul style="list-style-type: none"> Some may lose their jobs Different job – may not like it If lose job then lower standard of living – cannot buy as many goods and services </td> </tr> <tr> <td>Shareholders</td> <td> <ul style="list-style-type: none"> Increased profit in long run Share price increased </td> <td> <ul style="list-style-type: none"> Reduced dividends in the short run </td> </tr> <tr> <td>Bank</td> <td> <ul style="list-style-type: none"> Expansion of business – more likely to repay loans/overdrafts May need additional loans Bank makes a profit from interest paid on the loan </td> <td> <ul style="list-style-type: none"> Investment may take time for increased revenue – delay in repaying loan If fails the bank loan may not be repaid – bank loses money </td> </tr> </tbody> </table> <p>Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.</p> <table border="1" data-bbox="296 1341 1339 1883"> <thead> <tr> <th></th> <th>Knowledge/Analysis/ Evaluation</th> </tr> </thead> <tbody> <tr> <td>Level 3</td> <td> At least 2 × Level 2 + 9–10 marks for well justified conclusion as to which stakeholder will be affected the most by the new automated production line and why the others will be less affected. 7–8 marks for some limited judgement shown in conclusion as to which stakeholder will be affected the most by the automated production line. </td> </tr> <tr> <td>Level 2</td> <td>4–6 marks Detailed discussion of the positive and/or negative effects on each stakeholder.</td> </tr> <tr> <td>Level 1</td> <td>1–3 marks Outline of the effects on each stakeholder.</td> </tr> </tbody> </table> <p>Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Workers may be made redundant.</p>		Positively affected	Negatively affected	Employees	<ul style="list-style-type: none"> Increased output – higher wages Training provided – increases skills of workers – increased job satisfaction New jobs – higher wages Easier/less strenuous job 	<ul style="list-style-type: none"> Some may lose their jobs Different job – may not like it If lose job then lower standard of living – cannot buy as many goods and services 	Shareholders	<ul style="list-style-type: none"> Increased profit in long run Share price increased 	<ul style="list-style-type: none"> Reduced dividends in the short run 	Bank	<ul style="list-style-type: none"> Expansion of business – more likely to repay loans/overdrafts May need additional loans Bank makes a profit from interest paid on the loan 	<ul style="list-style-type: none"> Investment may take time for increased revenue – delay in repaying loan If fails the bank loan may not be repaid – bank loses money 		Knowledge/Analysis/ Evaluation	Level 3	At least 2 × Level 2 + 9–10 marks for well justified conclusion as to which stakeholder will be affected the most by the new automated production line and why the others will be less affected. 7–8 marks for some limited judgement shown in conclusion as to which stakeholder will be affected the most by the automated production line.	Level 2	4–6 marks Detailed discussion of the positive and/or negative effects on each stakeholder.	Level 1	1–3 marks Outline of the effects on each stakeholder.	12
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	<p>Level 2 – 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. Workers may be made redundant as the production line may not require as many workers. Those workers who keep their jobs may benefit by receiving higher wages as they will now be more productive. (L2)</p> <p>Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a conclusion which justifies which stakeholder is affected the most.</p> <p>Award up to 2 additional marks for relevant application.</p> <div style="border: 1px solid black; padding: 5px;"> <p>Possible application marks:</p> <p>Chocolates/high quality chocolates/luxury chocolates; hand-made chocolates; most workers been with CC since it started/for 15 years; private limited company; set up 15 years ago in country X; on-the-job training for new workers; objective of expansion; developing a new brand of chocolate bar; targeted at the mass market; reduce variable costs by using lower quality ingredients; output is expected to be high; borrow \$500 000.</p> <p>There may be other examples in context that have not been included here.</p> </div>	

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3(a)	<p>Identify and explain <u>one</u> advantage and <u>one</u> disadvantage to CC if it changes to a public limited company.</p> <p>Knowledge [2 × 1] – award one mark for each relevant advantage /disadvantage Analysis [2 × 1] – award one mark for a relevant explanation for each advantage/disadvantage Application [2 × 2] – award two application marks for each advantage /disadvantage</p> <p>Award one mark for each relevant advantage/disadvantage (max 1 each) and one additional mark for explaining why it is an advantage/disadvantage.</p> <p>Answers are likely to include:</p> <table border="1" data-bbox="295 723 1340 1142"> <tbody> <tr> <td data-bbox="295 723 555 947">Advantage</td> <td data-bbox="555 723 1340 947"> <ul style="list-style-type: none"> No restriction on who can buy shares/shares sold to the public Increased share capital issued to purchase fixed assets/increased capital raised Easier to obtain bank loan/attract suppliers/perceived as less risky and higher status </td> </tr> <tr> <td data-bbox="295 947 555 1142">Disadvantage</td> <td data-bbox="555 947 1340 1142"> <ul style="list-style-type: none"> Accounts published/less privacy Easier to be taken over/original owners lose control More legal formalities/expensive and time consuming to convert to plc. and issue shares to the public More regulations and controls over plc. </td> </tr> </tbody> </table> <p>Award a maximum of three additional marks for each explanation – 2 of which must be applied to this context - of the advantage/disadvantage.</p> <p>Indicative response: A public limited company can issue new shares to the public (k) this will allow it to raise the additional \$500 000 needed for the expansion (app). This is a cheaper way to raise this necessary capital for the expansion as interest will not need to be paid on the finance (an). As the finance can be used for expansion of the automated production line then the higher profit from the increased output may not lead to reduced dividends for the shareholders (app).</p> <p>Award up to 4 additional marks for relevant application.</p> <table border="1" data-bbox="295 1612 1340 1915"> <tbody> <tr> <td data-bbox="295 1612 1340 1915"> <p>Possible application marks:</p> <p>Chocolates/high quality chocolates/luxury chocolates; hand-made chocolates; private limited company; set up 15 years ago in country X; batch production; objective of expansion; developing a new brand of chocolate bar; targeted at the mass market; purchase a new automated production line; output is expected to be high; borrow \$500 000.</p> <p>There may be other examples in context that have not been included here.</p> </td> </tr> </tbody> </table>	Advantage	<ul style="list-style-type: none"> No restriction on who can buy shares/shares sold to the public Increased share capital issued to purchase fixed assets/increased capital raised Easier to obtain bank loan/attract suppliers/perceived as less risky and higher status 	Disadvantage	<ul style="list-style-type: none"> Accounts published/less privacy Easier to be taken over/original owners lose control More legal formalities/expensive and time consuming to convert to plc. and issue shares to the public More regulations and controls over plc. 	<p>Possible application marks:</p> <p>Chocolates/high quality chocolates/luxury chocolates; hand-made chocolates; private limited company; set up 15 years ago in country X; batch production; objective of expansion; developing a new brand of chocolate bar; targeted at the mass market; purchase a new automated production line; output is expected to be high; borrow \$500 000.</p> <p>There may be other examples in context that have not been included here.</p>	8
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<p>Possible application marks:</p> <p>Chocolates/high quality chocolates/luxury chocolates; hand-made chocolates; private limited company; set up 15 years ago in country X; batch production; objective of expansion; developing a new brand of chocolate bar; targeted at the mass market; purchase a new automated production line; output is expected to be high; borrow \$500 000.</p> <p>There may be other examples in context that have not been included here.</p>							

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3(b)	<p>Refer to Appendix 2 and other information in the case. Draw on the graph below the break-even output of Fizz Bomm if the variable cost is reduced to \$0.60. Do you think this would be the best way for CC to gain the highest profit for Fizz Bomm? Justify your answer</p> <p>Relevant points might include:</p> <table border="1" data-bbox="296 483 1339 674"> <tr> <td data-bbox="296 483 517 674">Lower variable cost to \$0.60</td> <td data-bbox="517 483 1339 674"> <ul style="list-style-type: none"> • New TC line correctly drawn on the graph (L2) • B/E identified at 40 000 (L2) and 20 000 (L2) • Profit increases from \$12 000 (L2) to \$32 000 (L2) • Cheaper ingredients – may be poorer quality chocolates – fewer sales than predicted </td> </tr> </table> <p>Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.</p> <table border="1" data-bbox="296 775 1339 1480"> <thead> <tr> <th data-bbox="296 775 467 831"></th> <th data-bbox="467 775 1339 831">Knowledge/Analysis/ Evaluation</th> </tr> </thead> <tbody> <tr> <td data-bbox="296 831 467 1115">Level 3</td> <td data-bbox="467 831 1339 1115"> Must have 2 × L2 – correct TC line plotted onto the graph and/or break-even output(s) and/or profit(s) correctly. 9–10 marks for well justified conclusion as to the best way to increase profit to choose compared to other ways. 7–8 marks for some limited judgement shown in conclusion as to the best way to increase profit. </td> </tr> <tr> <td data-bbox="296 1115 467 1368">Level 2</td> <td data-bbox="467 1115 1339 1368"> 4–6 marks Correct new TC line drawn on the graph and/or correct break-even output(s) identified, and/or profit(s) correctly calculated and/or Explanation of the effects of lower variable cost and/or alternative way to increase profit even if no correct answer on break – even graph. </td> </tr> <tr> <td data-bbox="296 1368 467 1480">Level 1</td> <td data-bbox="467 1368 1339 1480"> 1–3 marks (No correct answer on break – even graph) Outline of effects of lowering variable cost and /or alternative way to increase profit such as increase price. </td> </tr> </tbody> </table> <p>Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Lowering the variable cost will lead to higher profit.</p> <p>Level 2 – 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. The new break-even output is 20 000. (L2)</p>	Lower variable cost to \$0.60	<ul style="list-style-type: none"> • New TC line correctly drawn on the graph (L2) • B/E identified at 40 000 (L2) and 20 000 (L2) • Profit increases from \$12 000 (L2) to \$32 000 (L2) • Cheaper ingredients – may be poorer quality chocolates – fewer sales than predicted 		Knowledge/Analysis/ Evaluation	Level 3	Must have 2 × L2 – correct TC line plotted onto the graph and/or break-even output(s) and/or profit(s) correctly. 9–10 marks for well justified conclusion as to the best way to increase profit to choose compared to other ways. 7–8 marks for some limited judgement shown in conclusion as to the best way to increase profit.	Level 2	4–6 marks Correct new TC line drawn on the graph and/or correct break-even output(s) identified, and/or profit(s) correctly calculated and/or Explanation of the effects of lower variable cost and/or alternative way to increase profit even if no correct answer on break – even graph.	Level 1	1–3 marks (No correct answer on break – even graph) Outline of effects of lowering variable cost and /or alternative way to increase profit such as increase price.	12
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	<p>Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation which justifies which is the best way to choose to increase profit.</p> <p>Award up to 2 additional marks for relevant application in the conclusion.</p> <p>Possible application marks:</p> <p>high quality chocolates/luxury chocolates; hand-made chocolates; fillings made with luxury ingredients; sold to specialist sweet shops; objective of expansion; developing a new brand of chocolate bar; targeted at the mass market; reduce variable costs by using lower quality ingredients; purchase a new automated production line; output is expected to be high; borrow \$500 000.</p> <p>There may be other examples in context that have not been included here.</p>	

Question	Answer	Marks
4(a)	<p>Fizz Bomm is in the development stage of the product life cycle. Identify and explain four other stages of Fizz Bomm’s product life cycle</p> <p>Award one mark for each correctly named stage (max 4) plus one additional mark for development indicating the characteristics of the stage:</p> <ul style="list-style-type: none"> • Introduction – low sales because the chocolate bar is new/loss made due to high development costs/ new into the market • Growth – sales start to rise rapidly/profits start to be made after development costs covered • Maturity – sales increase more slowly/ increasing competition/profits at their highest as sales growth is high • Saturation – sales remain high but stable/profits fall as sales are static and prices have been reduced • Decline – sales fall as new chocolate bars become available/profits fall as sales fall <p>Note: Do not reward ‘Extension of the product life cycle’ as a stage.</p> <p>Indicative response: Introduction (1) as the new chocolate bar is to be launched onto the market and will have low sales to start with. (1)</p>	8

Question	Answer	Marks														
4(b)	<p>Consider the suitability of the three elements of the marketing mix outlined for Fizz Bomm in Appendix 3. Recommend whether any of these elements should be changed. Justify your answer.</p> <p>Relevant points might include:</p> <table border="1" data-bbox="296 416 1339 987"> <tbody> <tr> <td data-bbox="296 416 501 640">Price</td> <td data-bbox="501 416 1339 640"> <ul style="list-style-type: none"> • competitive market so penetration pricing will allow new chocolate bar to enter the market • will get established in the market – build up customer loyalty • longer term use competitive pricing as might be better in a competitive market </td> </tr> <tr> <td data-bbox="296 640 501 831">Promotion</td> <td data-bbox="501 640 1339 831"> <ul style="list-style-type: none"> • if aimed at children – should be seen by target in children’s magazines • but coupon unlikely to be effective for children • competitors advertise on TV • TV more suitable for the mass market </td> </tr> <tr> <td data-bbox="296 831 501 987">Place</td> <td data-bbox="501 831 1339 987"> <ul style="list-style-type: none"> • keep selling in specialist sweet shops but less appropriate for mass market so may not be successful • competitors ‘place’ more suitable for mass market – CC less successful/fewer sales if do not change ‘place’ </td> </tr> </tbody> </table> <p>Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.</p> <table border="1" data-bbox="296 1088 1339 1563"> <thead> <tr> <th data-bbox="296 1088 469 1137"></th> <th data-bbox="469 1088 1339 1137">Knowledge/Analysis/ Evaluation</th> </tr> </thead> <tbody> <tr> <td data-bbox="296 1137 469 1361">Level 3</td> <td data-bbox="469 1137 1339 1361"> At least 2 × Level 2 + 9–10 marks for well justified recommendation as to whether to change the elements of the marketing mix. 7–8 marks for some limited judgement shown in recommendation as to whether to change the elements of the marketing mix. </td> </tr> <tr> <td data-bbox="296 1361 469 1480">Level 2</td> <td data-bbox="469 1361 1339 1480"> 4–6 marks Detailed discussion of relevance of each element of the marketing mix. </td> </tr> <tr> <td data-bbox="296 1480 469 1563">Level 1</td> <td data-bbox="469 1480 1339 1563"> 1–3 marks Outline of each element of the marketing mix </td> </tr> </tbody> </table> <p>Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. As it is in a competitive market the pricing strategy should be penetration pricing when the new chocolate bar is launched.</p>	Price	<ul style="list-style-type: none"> • competitive market so penetration pricing will allow new chocolate bar to enter the market • will get established in the market – build up customer loyalty • longer term use competitive pricing as might be better in a competitive market 	Promotion	<ul style="list-style-type: none"> • if aimed at children – should be seen by target in children’s magazines • but coupon unlikely to be effective for children • competitors advertise on TV • TV more suitable for the mass market 	Place	<ul style="list-style-type: none"> • keep selling in specialist sweet shops but less appropriate for mass market so may not be successful • competitors ‘place’ more suitable for mass market – CC less successful/fewer sales if do not change ‘place’ 		Knowledge/Analysis/ Evaluation	Level 3	At least 2 × Level 2 + 9–10 marks for well justified recommendation as to whether to change the elements of the marketing mix. 7–8 marks for some limited judgement shown in recommendation as to whether to change the elements of the marketing mix.	Level 2	4–6 marks Detailed discussion of relevance of each element of the marketing mix.	Level 1	1–3 marks Outline of each element of the marketing mix	12
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	<p>Level 2 – 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. As it is in a competitive market the pricing strategy should be penetration pricing when the new chocolate bar is launched. However, when the product moves to the growth stage of the life cycle then competitive pricing should be used to maintain brand loyalty and to stay competitive with all the other brands of chocolate bar. (L2 plus application for referring to the new chocolate bar)</p> <p>Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a conclusion which justifies whether to change the elements of the marketing mix.</p> <p>Award up to 2 additional marks for relevant application.</p> <div style="border: 1px solid black; padding: 5px;"> <p>Possible application marks:</p> <p>penetration pricing; advertising in children’s magazines; discount coupons in the magazines; competitors only advertise on TV; distribute through speciality sweet (candy) shops; competitors distribute through wholesalers and supermarkets; chocolates/high quality chocolates/luxury chocolates; hand-made chocolates; developing a new brand of chocolate bar; lots of competitors in the mass market; output is expected to be high. There may be other examples in context that have not been included here.</p> </div>	



BUSINESS STUDIES

0450/23

Paper 2 Case Study

May/June 2017

MARK SCHEME

Maximum Mark: 80

Published

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 should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

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This document consists of **10** printed pages.

Question	Answer	Marks
1(a)	<p>Identify and explain <u>two</u> types of tertiary businesses which provide services that SC is likely to use.</p> <p>Knowledge [2 × 1] – award one mark for each relevant type of tertiary business</p> <p>Analysis [2 × 1] – award one mark for a relevant explanation for each type of tertiary business</p> <p>Application [2 × 2] – award two application marks for each type of tertiary business</p> <p>Award one mark for each relevant example of a tertiary business (maximum of two), such as:</p> <ul style="list-style-type: none"> • Bank • Telephone company • Insurance company • Car showrooms/garage • Railway • Advertising agency <p>Award a maximum of three additional marks for each explanation – 2 of which must be applied to this context – of each type of tertiary business.</p> <p>Indicative response: An advertising agency (k) might be used to produce an advert for the cars (app). The agency will employ experts in advertising and they will be able to produce a much more effective advert than if SC tried to do this themselves (an). This will help SC to expand the business and increase the sales of its cars abroad (app).</p> <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> <p>Possible application marks:</p> <p>Public limited company; producing cars; 25 years in country M; uses flow production; modern technology such as robots; good reputation important; technology keeps business efficient and competitive; 300 workers on production line; want to expand; starting to export cars to nearby countries.</p> <p>There may be other examples in context that have not been included here.</p> </div>	8

Question	Answer	Marks														
1(b)	<p>Consider how each of the <u>three</u> following changes might affect sales of SC's products. Which change is likely to have the biggest effect on sales? Justify your answer.</p> <p>Relevant points might include:</p> <table border="1" data-bbox="304 416 1331 902"> <tr> <td data-bbox="304 416 628 600">Decrease in interest rates</td> <td data-bbox="628 416 1331 600">Bank loans cheaper for business – cheaper to invest in capital – increase efficiency – lower costs so increase sales. Consumers more likely to borrow bank loan to buy new car – increase sales.</td> </tr> <tr> <td data-bbox="304 600 628 719">Increase in petrol prices</td> <td data-bbox="628 600 1331 719">Increase cost of driving – lower sales – consumers buy more economical cars instead of SC cars – lower demand.</td> </tr> <tr> <td data-bbox="304 719 628 902">New legal control to reduce pollution by limiting use of private cars for several days each week</td> <td data-bbox="628 719 1331 902">Cars used less – lower mileage – replaced less often – reduced sales of SC cars.</td> </tr> </table> <p>Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.</p> <table border="1" data-bbox="304 1003 1331 1473"> <thead> <tr> <th data-bbox="304 1003 475 1055"></th> <th data-bbox="475 1003 1331 1055">Knowledge/Analysis/ Evaluation</th> </tr> </thead> <tbody> <tr> <td data-bbox="304 1055 475 1308">Level 3</td> <td data-bbox="475 1055 1331 1308">At least 2 × Level 2 + 9–10 marks for well justified conclusion of the most important change and why it might affect sales more than the other two changes. 7–8 marks for limited conclusion of most important change and why it might affect sales.</td> </tr> <tr> <td data-bbox="304 1308 475 1391">Level 2</td> <td data-bbox="475 1308 1331 1391">4–6 marks Detailed discussion of the effects of each change.</td> </tr> <tr> <td data-bbox="304 1391 475 1473">Level 1</td> <td data-bbox="475 1391 1331 1473">1–3 marks Outline of the effects of each change.</td> </tr> </tbody> </table> <p>Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Increased petrol prices leads to higher motoring costs.</p> <p>Level 2 – 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. Increased petrol prices leads to higher motoring costs and so people use cars less so that may lead to lower sales of new cars and lower demand for SC cars. However, it depends on whether the cars are more efficient in their use of petrol – if so then customers may increase demand for SC cars. (L2 plus app for considering cars.)</p> <p>Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a conclusion which justifies which is the most important change and why it might affect sales more than the other two changes.</p>	Decrease in interest rates	Bank loans cheaper for business – cheaper to invest in capital – increase efficiency – lower costs so increase sales. Consumers more likely to borrow bank loan to buy new car – increase sales.	Increase in petrol prices	Increase cost of driving – lower sales – consumers buy more economical cars instead of SC cars – lower demand.	New legal control to reduce pollution by limiting use of private cars for several days each week	Cars used less – lower mileage – replaced less often – reduced sales of SC cars.		Knowledge/Analysis/ Evaluation	Level 3	At least 2 × Level 2 + 9–10 marks for well justified conclusion of the most important change and why it might affect sales more than the other two changes. 7–8 marks for limited conclusion of most important change and why it might affect sales.	Level 2	4–6 marks Detailed discussion of the effects of each change.	Level 1	1–3 marks Outline of the effects of each change.	12
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	<p>Award up to 2 additional marks for relevant application.</p> <p>Possible application marks:</p> <p>Public limited company; producing cars; modern technology such as robots; each car has exact requirements of the customer; good reputation important; technology keeps business efficient and competitive; want to expand; starting to export cars to nearby countries.</p> <p>There may be other examples in context that have not been included here.</p>	

Question	Answer	Marks
2(a)	<p>Identify and explain <u>two</u> reasons why SC employees might want to join a trade union</p> <p>Knowledge [2 × 1] – award one mark for each relevant reason Analysis [2 × 1] – award one mark for a relevant explanation for each reason Application [2 × 2] – award two application marks for each reason</p> <p>Award one mark for each relevant reason (maximum of two), such as:</p> <ul style="list-style-type: none"> • Strength in numbers • To gain protection from unfair work practices • To gain a wage increase <p>Award a maximum of three additional marks for each explanation – 2 of which must be applied to this context – of the reason.</p> <p>Indicative response: The workers at SC have complained about poor working conditions (app) and therefore want to join a trade union to give them strength in numbers (k). If they all get together and are represented by a trade union to urge the directors to improve their workplace then they are likely to be more successful than if they are on their own (an). 300 production workers are a lot of people to stand together and are more likely to get what they want (app).</p> <p>Possible application marks:</p> <p>Producing cars; uses flow production; modern technology such as robots; good reputation important; technology keeps business efficient and competitive; 300 workers on production line; two shifts each day; early/late shift of 8 hours; 6-day week; few holidays; workers complain working conditions not good; want to expand; starting to export cars to nearby countries.</p> <p>There may be other examples in context that have not been included here.</p>	8

Question	Answer	Marks																
2(b)	<p>Explain the following <u>three</u> factors SC will have to consider when marketing its products in foreign markets. Which factor do you think is the most important to achieve high export sales? Justify your answer.</p> <p>Relevant points might include:</p> <table border="1" data-bbox="304 416 1334 819"> <thead> <tr> <th data-bbox="304 416 624 465">Factor</th> <th data-bbox="624 416 1334 465"></th> </tr> </thead> <tbody> <tr> <td data-bbox="304 465 624 584">Competition</td> <td data-bbox="624 465 1334 584">Number of other businesses selling cars in the overseas market – how price competitive these businesses are- is the target market the same.</td> </tr> <tr> <td data-bbox="304 584 624 736">Consumer needs</td> <td data-bbox="624 584 1334 736">Need to ensure the product meets the taste for local customers – sales may fail. Expensive if need to change the product to meet local needs May need a joint venture – share profit.</td> </tr> <tr> <td data-bbox="304 736 624 819">Channel of distribution</td> <td data-bbox="624 736 1334 819">May need to sell through different outlets than home country – less familiar with culture/buying habits.</td> </tr> </tbody> </table> <p>Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.</p> <table border="1" data-bbox="304 920 1334 1424"> <thead> <tr> <th data-bbox="304 920 440 969"></th> <th data-bbox="440 920 1334 969">Knowledge/Analysis/ Evaluation</th> </tr> </thead> <tbody> <tr> <td data-bbox="304 969 440 1227">Level 3</td> <td data-bbox="440 969 1334 1227">At least 2 × Level 2 + 9–10 marks for well justified conclusion as to most important factor to achieve high export sales and why the other factors are less important. 7–8 marks for some limited judgement shown in conclusion as to most important factor to achieve high export sales.</td> </tr> <tr> <td data-bbox="304 1227 440 1346">Level 2</td> <td data-bbox="440 1227 1334 1346">4–6 marks Detailed discussion of each factor affecting sales in the export market.</td> </tr> <tr> <td data-bbox="304 1346 440 1424">Level 1</td> <td data-bbox="440 1346 1334 1424">1–3 marks Outline of each factor affecting sales in the export market.</td> </tr> </tbody> </table> <p>Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. If there are a large number of other businesses selling cars then the market will be competitive.</p> <p>Level 2 – 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. If there are a large number of other businesses selling cars then the market will be competitive. This might make it more difficult for SC to get established in this new market. Sales may be lower and prices and profit margins may have to be reduced for SC to get established in the new market. (L2)</p>	Factor		Competition	Number of other businesses selling cars in the overseas market – how price competitive these businesses are- is the target market the same.	Consumer needs	Need to ensure the product meets the taste for local customers – sales may fail. Expensive if need to change the product to meet local needs May need a joint venture – share profit.	Channel of distribution	May need to sell through different outlets than home country – less familiar with culture/buying habits.		Knowledge/Analysis/ Evaluation	Level 3	At least 2 × Level 2 + 9–10 marks for well justified conclusion as to most important factor to achieve high export sales and why the other factors are less important. 7–8 marks for some limited judgement shown in conclusion as to most important factor to achieve high export sales.	Level 2	4–6 marks Detailed discussion of each factor affecting sales in the export market.	Level 1	1–3 marks Outline of each factor affecting sales in the export market.	12
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Question	Answer	Marks
3(a)	<p>Identify and explain <u>one</u> advantage and <u>one</u> disadvantage of making each product to the exact requirements of the customer.</p> <p>Knowledge [2 × 1] – award one mark for each relevant advantage /disadvantage</p> <p>Analysis [2 × 1] – award one mark for a relevant explanation for each advantage/disadvantage</p> <p>Application [2 × 2] – award two application marks for each advantage /disadvantage</p> <p>Award one mark for each relevant advantage/disadvantage (maximum of one each), such as:</p> <p>Advantage:</p> <ul style="list-style-type: none"> • Meets specific needs of customers – more likely to make purchase • Increased reputation – improved brand image <p>Disadvantage:</p> <ul style="list-style-type: none"> • Expensive to set up – purchase relevant equipment • Needs tracking system to ensure correct order – more difficult to read if the order is correct as the details are on the bar code <p>Award a maximum of three additional marks for each explanation – 2 of which must be applied to this context – of the advantage/disadvantage.</p> <p>Indicative response: If the car meets the specific requirements of the customer (app) they are more likely to buy it (k). This should lead to increased sales (an) and SC will be able to expand and export to more markets abroad (app).</p> <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> <p>Possible application marks:</p> <p>Public limited company; producing cars; uses flow production; modern technology such as robots; bar code cars; one car: black paint/2 doors - next car: red paint/4 doors; quality control; good reputation important; technology keeps business efficient and competitive; 300 workers on production line; want to expand; starting to export cars to nearby countries.</p> <p>There may be other examples in context that have not been included here.</p> </div>	8

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3(b)	<p>Consider the advantages and disadvantages of two methods SC could use to ensure the quality of its products. Recommend the best method for SC to use. Justify your answer.</p> <p>Relevant points might include:</p> <table border="1" data-bbox="304 416 1331 902"> <thead> <tr> <th>Method</th> <th>Advantages</th> <th>Disadvantages</th> </tr> </thead> <tbody> <tr> <td>Quality control</td> <td>Tries to eliminate faults and errors before the customer receives it. Less training required.</td> <td>Expensive as pay employees to check products. Identifies fault but not cause of fault so difficult to remove increased costs if products scrapped/repaired.</td> </tr> <tr> <td>Quality assurance</td> <td>Tries to eliminate faults and errors before the customer receives it. Fewer customer complaints Reduced costs as products not faulty or scrapped.</td> <td>Expensive to train employees to check the product. Relies on employees following instructions of standards set.</td> </tr> </tbody> </table> <p>Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.</p> <table border="1" data-bbox="304 1003 1331 1473"> <thead> <tr> <th></th> <th>Knowledge/Analysis/ Evaluation</th> </tr> </thead> <tbody> <tr> <td>Level 3</td> <td>At least 2 × Level 2 + 9–10 marks for well justified recommendation as to the best method to choose compared to the other method. 7–8 marks for some limited judgement shown in recommendation as to the best method.</td> </tr> <tr> <td>Level 2</td> <td>4–6 marks Discussion of advantages and/or disadvantages of each method.</td> </tr> <tr> <td>Level 1</td> <td>1–3 marks Outline of advantages and/or disadvantages of each method.</td> </tr> </tbody> </table> <p>Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Quality control tries to eliminate faults before the customer receives the product.</p> <p>Level 2 – 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. Quality control tries to eliminate faults before the customer receives the product. This is at the end of the production line for cars where checks are made on each car to ensure that it has no faults, or this can be on a sample of the cars coming off the production line. However, this can be expensive if faults are not found straight away and several cars need to be repaired or scrapped if the fault is severe. (L2)</p>	Method	Advantages	Disadvantages	Quality control	Tries to eliminate faults and errors before the customer receives it. Less training required.	Expensive as pay employees to check products. Identifies fault but not cause of fault so difficult to remove increased costs if products scrapped/repaired.	Quality assurance	Tries to eliminate faults and errors before the customer receives it. Fewer customer complaints Reduced costs as products not faulty or scrapped.	Expensive to train employees to check the product. Relies on employees following instructions of standards set.		Knowledge/Analysis/ Evaluation	Level 3	At least 2 × Level 2 + 9–10 marks for well justified recommendation as to the best method to choose compared to the other method. 7–8 marks for some limited judgement shown in recommendation as to the best method.	Level 2	4–6 marks Discussion of advantages and/or disadvantages of each method.	Level 1	1–3 marks Outline of advantages and/or disadvantages of each method.	12
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Question	Answer	Marks
	<p>Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation which justifies which is the best method to choose.</p> <p>Award up to 2 additional marks for relevant application.</p> <div style="border: 1px solid black; padding: 5px;"> <p>Possible application marks:</p> <p>Public limited company; uses flow production; modern technology such as robots; each car has exact requirements of the customer; already uses quality control; good reputation important; technology keeps business efficient and competitive; 300 workers on production line; want to expand; starting to export cars to nearby countries.</p> <p>There may be other examples in context that have not been included here.</p> </div>	

Question	Answer	Marks
4(a)	<p>Identify four methods SC could use to communicate with its stakeholders. Explain an example of when it could be used for each method.</p> <p>Knowledge [4 × 1] – award one mark for each method Application [4 × 1] – award one application mark for each example of when each method could be used</p> <p>Award one mark for each method (maximum of four):</p> <ul style="list-style-type: none"> • Letter • Email • Text message/SMS • Advertisement/poster • Memo • Telephone • Noticeboard <p>Award one application mark for each method in context of when it could be used.</p> <p>Indicative response: Noticeboard (k) could be used when managers want to communicate with the production workers about new health and safety procedures (app).</p> <div style="border: 1px solid black; padding: 5px;"> <p>Possible application marks:</p> <p>Public limited company; producing cars; uses flow production; quality control; good reputation important; technology keeps business efficient and competitive; 300 workers on production line; two shifts each day; early/late shift of 8 hours; workers complain working conditions not good; want to expand; starting to export cars to nearby countries.</p> <p>There may be other examples in context that have not been included here.</p> </div>	8

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4(b)	<p>Refer to Appendix 2. Calculate the profitability of SC for both years. Would you recommend a potential shareholder to buy shares in SC? Justify your answer.</p> <p>Relevant points might include:</p> <table border="1" data-bbox="293 416 1342 613"> <thead> <tr> <th></th> <th colspan="2">2015</th> <th colspan="2">2016</th> </tr> </thead> <tbody> <tr> <td>GPM</td> <td>GP = \$40m (L1)</td> <td>20%(L2)</td> <td>GP= \$40m(L1)</td> <td>16% (L2)</td> </tr> <tr> <td>NPM</td> <td>NP= \$10m (L1)</td> <td>5%(L2)</td> <td>NP = \$10m (L1)</td> <td>4% (L2)</td> </tr> <tr> <td>ROCE</td> <td colspan="2">25% (L2)</td> <td colspan="2">20% (L2)</td> </tr> </tbody> </table> <p>Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.</p> <table border="1" data-bbox="293 719 1342 1223"> <thead> <tr> <th></th> <th>Knowledge/Analysis/ Evaluation</th> </tr> </thead> <tbody> <tr> <td>Level 3</td> <td>At least 2 × Level 2 + 9–10 marks for well justified recommendation as to whether or not to buy shares in SC. 7–8 marks for some limited judgement shown in recommendation as to whether to buy shares in SC.</td> </tr> <tr> <td>Level 2</td> <td>4–6 marks Profitability ratios correctly calculated.</td> </tr> <tr> <td>Level 1</td> <td>1–3 marks Outline of the information in Appendix 2.</td> </tr> </tbody> </table> <p>Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Net profit has stayed the same at \$10m.</p> <p>Level 2 – 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. Net profit margin has fallen to 4% in 2016. (L2)</p> <p>Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation which justifies whether or not to buy shares in SC.</p> <p>Award up to 2 additional marks for relevant application.</p> <table border="1" data-bbox="293 1697 1342 1980"> <tr> <td> <p>Possible application marks:</p> <p>Public limited company; producing cars; 25 years in country M; modern technology such as robots; good reputation important; technology keeps business efficient and competitive; 300 workers on production line; want to expand; starting to export cars to nearby countries.</p> <p>There may be other examples in context that have not been included here.</p> </td> </tr> </table>		2015		2016		GPM	GP = \$40m (L1)	20%(L2)	GP= \$40m(L1)	16% (L2)	NPM	NP= \$10m (L1)	5%(L2)	NP = \$10m (L1)	4% (L2)	ROCE	25% (L2)		20% (L2)			Knowledge/Analysis/ Evaluation	Level 3	At least 2 × Level 2 + 9–10 marks for well justified recommendation as to whether or not to buy shares in SC. 7–8 marks for some limited judgement shown in recommendation as to whether to buy shares in SC.	Level 2	4–6 marks Profitability ratios correctly calculated.	Level 1	1–3 marks Outline of the information in Appendix 2.	<p>Possible application marks:</p> <p>Public limited company; producing cars; 25 years in country M; modern technology such as robots; good reputation important; technology keeps business efficient and competitive; 300 workers on production line; want to expand; starting to export cars to nearby countries.</p> <p>There may be other examples in context that have not been included here.</p>	12
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