



BUSINESS STUDIES

0450/11

Paper 1 Short Answer/Structured Response

October/November 2016

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.

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Question	Answer	Marks	Guidance
1(a)	<p>What is meant by ‘globalisation’?</p> <p>Clear understanding [2]: e.g. – the growth in worldwide trade [2] Freer movement of people and capital between countries [2] The process of countries becoming more interconnected [2]</p> <p>Some understanding [1] or identification of one of these features: trade around the world rise of multinationals movement of capital around the world</p>	2	Note: Do not accept answers that clearly relate to a business/businesses
1(b)	<p>Identify <u>two</u> possible threats to C&C from globalisation.</p> <p>Application [2 × 1] award one mark per way Points might include:</p> <ul style="list-style-type: none"> • increased competition / increasing imports, • exchange rates, • skilled workers leave for jobs elsewhere • loss of individualised products • wages increased to match multinational wage rates • increasing investment from multinationals setting up in home market • unable to meet demand 	2	Note: Do not accept selling abroad

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1(c)	<p>Identify and explain <u>two</u> suitable ways in which C&C might advertise the job vacancies.</p> <p>Knowledge [2 × 1] – award 1 mark for each relevant way Application [2 × 1] – award 1 mark for each relevant explanation Relevant points might include:</p> <ul style="list-style-type: none"> • Job centre [k] as local shoemakers would look here for jobs [app] • advertising in newspaper [k] as skilled it is labour [app] • specialist (trade magazines) [k] as looking for people to hand make shoes [app] • recruitment agency [k] so C&C can focus on meeting the extra demand [app] • jobs website / own website / social media [k] • internal newsletter [k] • Radio / television [k] • Word of mouth [k] 	4	<p>Application: skilled, high quality, demand, factory, shoes or associated words as leather, sewing, global, production, good reputation</p> <p>Do not accept: 'in the street', internal / external, Internet or posters on its own.</p> <p>Award relevant examples of either two external or one example of each</p>
1(d)	<p>Identify and explain <u>two</u> benefits to C&C of having full-time employees.</p> <p>Knowledge [2 × 1] – award 1 mark for each advantage identified Application [2 × 1] – award 1 mark if relevant reference made to C&C Analysis [2 × 1] – award 1 mark for each relevant explanation Relevant points might include:</p> <ul style="list-style-type: none"> • Easy to communicate / update [k] on new styles [app] as employees always there [an] • Motivated / More committed to the business [k] so likely to produce enough shoes [an] to help meet the growing demand [app] • Fewer workers needed [k] therefore less administration needed [an] • No need to train regularly [k] as these are skilled workers [app] so able to maintain quality / output [an] • internal pool of candidates for promotion [k] which can help keep recruitment costs low [an] 	6	<p>Application: skilled, high quality, demand, factory, shoes or associated words such as leather, sewing, global, 120 (workers) 100 000 (shoes), 20 production employees)</p> <p>Note: must link advantage to C&C to be rewarded. E.g. 'Feel more secure' alone is too vague as this is about the employee and not the business.</p> <p>Do not accept: fast / quicker production, higher output / quality, increased efficiency or work harder as K points. Candidate must explain 'why' these occur.</p>

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1(e)	<p>Do you think C&C should introduce new technology into the production process? Justify your answer.</p> <p>Knowledge [1] – award 1 mark for identification of relevant issue(s). Positive or negative points allowed [max 1] Application [1] – award 1 mark if relevant reference made to C&C's business Analysis [2] – award up to 2 marks for relevant development of point(s) Evaluation [2] – justified decision made as to whether C&C should introduce technology into the production process Relevant points might include:</p> <ul style="list-style-type: none"> • Increased production [k] as need to produce 100 000 each year [app] so able to work all the time [an] • Consistent quality [k] as machinery likely to make fewer errors [an] which can help retain/enhance reputation [app] • Risk to reputation [k] as known for its hand-made shoes [app] so fewer people may demand its products [an] • Impact on employee motivation [k] as work could become less interesting [an] so quality of shoes falls [app] • Risk of job insecurity [k] as it replaces some/all the skilled workers [app] which could lower efficiency [an] • Cost of investment/retraining [k] 	6	<p>Application: 20 production employees, 120 staff, 100 000 pairs of shoes, exports 10% of output, skilled, high quality, demand, factory, shoes or associated words such as leather, sewing.</p> <p>Note: points can relate to employees or the business</p> <p>Accept: 'Faster/quicker/saves time,' as correct knowledge, given that current production is hand-made.</p> <p>For evaluation either viewpoint is acceptable.</p>

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2(a)	<p>What is meant by ‘Return on capital employed’?</p> <p>Clear understanding [2]: ROCE means the profit of the business expressed as % of capital invested in the business or correct formula. (Profit / Capital employed \times 100) Some understanding [1] – e.g. profit from capital invested or money made on investment</p>	2	Note: Must show the awareness of the relationship between profit and capital employed for 2 marks
2(b)	<p>What is meant by a ‘recession’?</p> <p>Clear understanding [2] – a sustained (over a period of time) reduction in GDP / national income / output Some understanding [1] – ‘fall in output’ or ‘fall in GDP’</p>	2	Note: Do not accept features, such as ‘high unemployment’
2(c)	<p>Identify and explain <u>two</u> ways in which the size of the business may benefit Dowson.</p> <p>Knowledge [2 \times 1] – award 1 mark for each relevant advantage Application [2 \times 1] – award 1 mark for each relevant explanation in context of Dowson Relevant points might include:</p> <ul style="list-style-type: none"> • Able to attract better employees [k] so have the expertise to survive the recession [app] • Access to finance [k] as seen as lower risk of failing [app] • Discounts for bulk buying [k] so able to charge lower prices for electrical goods [app] • Marketing economies or bigger marketing budget [k] as able to justify national advertising [app] • Spread risk [k] as can afford to stock a wide range of products [app] • Able to dominate the market / large market share [k] so difficult for small retailers to compete [app] 	4	<p>Application: recession, overdraft \$6 m, large / big, electrical goods, shops, larger range of goods. Use of figures from table 1.</p> <p>Accept: Economies of scale [K] if no specific examples given.</p>

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2(d)	<p>Identify and explain <u>two</u> problems for Dowson of having a high level of debt.</p> <p>Knowledge [2 × 1] – award 1 mark for each advantage identified Application [2 × 1] – award 1 mark if relevant reference made to Dowson Analysis [2 × 1] – award 1 mark for each relevant explanation Relevant points might include:</p> <ul style="list-style-type: none"> • High financial risk [k] so banks /suppliers might be reluctant to lend to them [an] so not able to stock a wide range of electrical products [app] • Higher expenses [k] which will reduce level of profit [an] • Problems if interest rates rise [k] as might not be able to meet repayments [an] increasing risk Dowson also fails [app] • Difficult to raise additional finance [k] if lenders fear Dowson not able to repay further loans [an] • Cash flow implications /liquidity [k] as acid test ratio is only 0.5: [app] could lead to insolvency [an] 	6	<p>Application: recession, overdraft \$6m, large / big, electrical goods, shops, liquidity, use of numbers from table 1.</p> <p>Note: Do not accept bankruptcy / closure of business as knowledge</p>

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2(e)	<p>Do you think the Finance Director is right to be pleased with the liquidity of the business? Justify your answer using the ratio results in Table 1.</p> <p>Knowledge [1] – award 1 mark for identification of relevant points Application [1] – award 1 mark if relevant reference made to Dowson’s business Analysis [2] – award up to 2 marks for relevant development of point(s) Evaluation [2] – justified decision made as to whether the Finance Director is right to be pleased about liquidity Relevant points might include:</p> <ul style="list-style-type: none"> • Current ratio increased [k] by 0.3 [app][an] so more liquid [an] • Acid test lower [k] from 0.8 to 0.5 [app] so not able to pay short-term debts [an] possibly due to high value of its inventory [an] • Expenses are high [k] as have a high level of debts, which includes \$6 m overdraft [app] • Risk that demand might fall [k] due to recession [app] therefore he would be left with excess stock [an] • High level of inventory [k] 66% of current assets [app] [an] • High level of trade receivables [k] danger that customers might not pay [an] due to recession [app] so business will lack the cash it needs [an] • Current ratio shows the business is able to pay its short-term debts [k] 	6	<p>Application: marks may be awarded for appropriate use of the following: current ratio 1.2:1, 1.5:1, or change by 0.3, acid test ratio 0.8:1, 0.5:1, Acid test fallen by 37.5%, Current ratio increased by 25%, stockholding has risen, recession, overdraft \$6m, large / big, electrical goods</p>

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3(a)	<p>Identify <u>two</u> reasons why a government might support business start-ups.</p> <p>Knowledge [2×1] award one mark per reason Points might include: reduce unemployment, increase competition, increase output, benefit society, small businesses can grow</p>	2	Note: Do not allow ‘improving the economy’ or ‘to receive tax’ or ‘increasing the economy’.
3(b)	<p>Identify <u>two</u> parts (other than marketing) of a business plan.</p> <p>Knowledge [2×1] award one mark per part Points might include: cash flow forecast, location, human resources plan, production details, business aims</p>	2	Note: Accept any piece of information that would be included in a business plan that is NOT marketing.
3(c)	<p>Identify and explain <u>two</u> possible pricing methods that Amelia might use.</p> <p>Knowledge [2] – award 1 mark for each role identified Application [2] – award 1 mark for each relevant reference to this business Relevant points might include:</p> <ul style="list-style-type: none"> • penetration pricing [k] as need to get people to try her sweets [app] • price skimming [k] as it’s a niche market [app] • cost plus pricing [k] as likely to have large set up costs [app] • promotional pricing [k] • competitive pricing [k] • psychological pricing [k] 	4	Application: sweets/candy, new business, business plan, money spent on packaging, secondary data, people like sweets, niche market, adult.

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3(d)	<p>Identify and explain <u>two</u> reasons why packaging is important for YOGO's products.</p> <p>Knowledge [2 × 1] – award 1 mark for each relevant role Application [2 × 1] – award 1 mark if relevant reference made to this business Analysis [2 × 1] – award 1 mark for each relevant explanation Relevant points might include:</p> <ul style="list-style-type: none"> • List ingredients [k] as it's a food product [app] must state what it contains to avoid legal action [an] • Promotion / to attract customers [k] to buy[an] from the new business [app] • Inform [k] customers about its flavours [app] so people know what is in its products [an] • Protection / keep item fresh [k] so the sweets are not damaged [app] otherwise products might be wasted [an] • Boost brand image / impression of high quality [k] as it is a niche market [app] which can help increase sales / revenue [an] • Easier to store / transport [k] 	6	<p>Application: Sweets / candy, new business, business plan, secondary data, people like sweets, niche market, adult, food product. taste</p>

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3(e)	<p>Do you think Amelia’s business would benefit from primary market research? Justify your answer.</p> <p>Knowledge [1] – award 1 mark for identification of relevant point(s) Application [1] – award 1 mark if relevant reference made to Amelia’s business Analysis [2] – award up to 2 marks for relevant development of point (s) Evaluation [2] – justified decision made as to whether Amelia would have benefited from carrying out primary market research Relevant points might include:</p> <ul style="list-style-type: none"> • It is expensive [k] spends a lot on packaging [app] therefore may not be able to afford it [an] • It is time consuming [k] she has already done secondary research [app] so how much more can she find out [an] • Collect precise information[k] on sweets [app] so that she can produce the most appropriate products[an] • Secondary data may be outdated [k] [app]Needs might have changed [an] • Help better target promotion / in pricing decisions [k] especially as new business [app] 	6	<p>Application: sweets /candy, new business, business plan, secondary data, people like sweets, niche market, adult, food product, money spent on packaging</p> <p>Note: Do not reward identification of methods of primary research alone as the question is asking for the benefits</p> <p>For evaluation either viewpoint is acceptable</p>

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4(a)	<p>Identify <u>two</u> functions of management.</p> <p>Knowledge [2×1] award one mark per function Points might include: planning, organising, co-ordinate, command, control, motivate /supervise, decision making, problem solving, recruit</p>	2	
4(b)	<p>Calculate DCP's average cost per litre.</p> <p>Good application [2] 30 c or 0.3 (per litre) Some application [1] e.g. total cost divided by output OR 450 000 / 1 500 000</p>	2	
4(c)	<p>Identify and explain <u>two</u> ways in which DCP might communicate with its customers.</p> <p>Knowledge [2 × 1] – award 1 mark for each relevant reason Application [2 × 1] – award 1 mark for each relevant explanation Relevant points might include:</p> <ul style="list-style-type: none"> • Email /website/ social networks [k] as customers are in different countries [app] • Meetings [k] as only have 6 customers [app] • Phone /text [k] as able to quickly check information about paint orders [app] • Letter [k] • faxes [k] 	4	<p>Application: paint or use of associated words such as walls, litres, colour, 6 large, business customers, competitive market, high quality, different countries, operations manager</p> <p>Methods identified must be appropriate for a large business customer</p> <p>Do not accept: internal communication e.g. memos, noticeboard, categories such as written or verbal on their own, primary methods of research</p>

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Question	Answer	Marks	Guidance
4(d)	<p>Identify and explain <u>two</u> possible reasons why quality is important to DCP.</p> <p>Knowledge [2 × 1] – award 1 mark for each reason Application [2 × 1] – award 1 mark if relevant reference made to DCP Analysis [2 × 1] – award 1 mark for each relevant explanation Relevant points might include:</p> <ul style="list-style-type: none"> • Good reputation / brand image [k] so customers trust the paint [app] which could help increase sales [an] • Attract new customers [k] as products might be better than rivals [app] • Meet legal controls [k] as contains chemicals [app] must be safe to avoid being prosecuted / sued [an] • More competitive [k] as paint is very similar [app] this could give them a competitive advantage over its rivals [an] • Create brand / customer loyalty [k] so business [app] customers keep returning [an] • Can charge a higher price [k] than 35 c per litre [app] to increase revenue [an] • sales might fall [k] if quality is lowered [an] because it is a competitive market [app] 	6	<p>Application: paint, litres, colour, 6 business customers, competitive market, high quality, industrial, different countries, use of numbers</p> <p>Candidates may consider why reducing quality is a problem</p>

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Question	Answer	Marks	Guidance
4(e)	<p>Do you think charging a higher price is the best way for DCP to increase profit? Justify your answer.</p> <p>Knowledge [1] – award 1 mark for identification of relevant points Application [1] – award 1 mark if relevant reference made to DCP's business Analysis [2] – award up to 2 marks for relevant development of point Evaluation [2] – justified decision made as to whether charging a higher price is the best way to increase profits Relevant points might include:</p> <ul style="list-style-type: none"> • Revenue could increase[k] and if quantity and costs of the paint [app] remain the same profit could increase [an] • Demand may fall [k] as customers might choose rival products [an] in this competitive market [app] • if demand is price inelastic [k] higher price will see a lower fall in demand [an] therefore revenue will rise [an] • business may be able to lower costs [k] therefore increasing profit with current prices [an] • It would reinforce the image [k] of high quality [app] customers might be happy to pay it [an] • depends on actions of competitors [k] 	6	<p>Application: paint or use of associated words such as walls, litres, colour, cheaper materials, 6 business customers, competitive market, high quality, industrial, different countries, use of numbers</p> <p>Note: The answer should focus on price or cost changes</p> <p>Note: Do not award candidates who only discuss alternative ways to increase profit, for example, advertising.</p> <p>For evaluation either viewpoint is acceptable</p>



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1(a)	<p>What is meant by ‘opportunity cost’? Clear understanding [2], e.g. next best alternative forgone OR next best alternative given up (by choosing another item) [2]</p> <p>Some understanding [1], e.g. what had to give up OR option not chosen</p>	2
1(b)	<p>Identify <u>two</u> possible external benefits that might result from the new factory. Application [2 × 1] award one mark per benefit Points might include:</p> <ul style="list-style-type: none"> • Jobs created/lower unemployment • More choice of chemicals for farmers • higher amount of food possible • Infrastructure/more roads • Increase orders for suppliers • Help attract other (chemical) businesses to area • Taxes paid to government • Increase skills of local people/training • Reduce imports/could increase exports • Assist economic growth • Bring new technology into country 	2

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1(c)	<p>Identify and explain <u>two</u> advantages to APQ of being a multinational company.</p> <p>Knowledge [2 × 1] – award 1 mark for each relevant advantage Application [2 × 1] – award 1 mark for each explanation in context Relevant points might include:</p> <ul style="list-style-type: none"> • Access to new market/increase sales/market share [k] as people need food [app] • Reduce production costs, e.g. lower labour costs OR lower health and safety costs OR land costs [k] as X is a developing country [app]; • Spread risk [k] when selling chemicals [app] • Easier access to raw materials [k] for all its factories [app] • Avoid barriers to trade [k] • Remain competitive [k] • Reduce transport costs (as can produce goods nearer market) • Economies of scale, e.g. purchasing, finance [k] (only once) • Reduce tax liability/take advantage of favourable tax laws • Access government grants [k] 	4
1(d)	<p>Identify <u>two</u> stakeholder groups of APQ. Explain <u>how</u> APQ could act in an ethical way with each stakeholder group.</p> <p>Knowledge [2 × 1] – award 1 mark for each relevant stakeholder Application [2 × 1] – award 1 mark if relevant reference made to this business Analysis [2 × 1] – award 1 mark for each relevant explanation Relevant points might include:</p> <ul style="list-style-type: none"> • Employees/management [k] if set up in developing country [app] should pay fair wages [an] or offer good conditions [an] • Suppliers [k] pay fair price/pay on time [an] for the chemicals [app] • Community [k] • Pressure groups [k] by trying to prevent pollution/environmental damage [an] caused by factory [app] • Government [k] paying its taxes on time/not do tax avoidance [an] • Lenders/bank [k] if borrow \$100 m [app] • Owners/shareholders [k] as public limited company [app] • Customers [k] do not exploit them by charging high prices [an] to farmers [app] 	6

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1(e)	<p>Explain <u>two</u> possible sources of finance that APQ could use. Recommend which source of finance APQ should use for the new factory. Justify your answer.</p> <p>Knowledge [1] – award up to 1 mark for identification of relevant method(s) Application [1] – award 1 mark if 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 source of finance APQ should use Relevant points might include:</p> <ul style="list-style-type: none"> • Retained Profits [k] so no need to repay [an] so keeps costs lower [an] • Bank loan [k] as interest rates low [app] but it will increase level of debt [an] OR as multinational [app] banks more likely to lend at lower rates of interest [an] • Government grant/subsidy [k] as helping country develop [app] so may be willing to provide finance [an] • mortgage [k] as cost \$100m [app] so have time to make repayments [an] • Leasing [k] so no large payment at the start [an] • Share issue [k] as it is a public limited company [app] • Debentures [k] • Sale of unused non-current assets [k] 	6

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2(a)	<p>What is meant by ‘marketing strategy’? Clear understanding [2]: plan to combine the right combination of the 4 elements of the marketing mix to achieve a particular market objective OR Put together the right mix of the 4Ps to increase sales [2] OR A plan for promoting goods to enter a new market [2] Some understanding [1], e.g. how to combine the 4P’s OR how to promote a product OR a plan for marketing OR how to increase sales</p>	2
2(b)	<p>What is meant by ‘penetration pricing’? Clear understanding [2]: price is set lower than competitor’s prices [1] in order to be able to enter a new market/launch a new product [+1] Some understanding [1], e.g. set low prices</p>	2
2(c)	<p>Identify and explain <u>two</u> possible advantages to \$LAND of advertising. Knowledge [2 × 1] – award 1 mark for each relevant advantage Application [2 × 1] – award 1 mark for each explanation in context Relevant points might include:</p> <ul style="list-style-type: none"> • Persuade/attract customers OR increase revenue/sales [k] to buy more food [app] • Build brand loyalty/good image [k] so keep buying from its shops [app] • Inform/raise awareness/become well known [k] for its toys [app] • Maintain market share/remain competitive [k] as in recession [app] • Remind existing customers [k] as sell such a wide range [app] • Able to target different customers/new market segment [k] 	4

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2(d)	<p>Identify and explain <u>one</u> advantage and <u>one</u> disadvantage to \$LAND of buying direct from manufacturers.</p> <p>Knowledge [2 × 1] – award 1 mark for a relevant advantage and 1 mark for relevant disadvantage Application [2 × 1] – award 1 mark if relevant reference made to this business Analysis [2 × 1] – award 1 mark for each relevant explanation Relevant points might include:</p> <p>Advantages:</p> <ul style="list-style-type: none"> • Purchasing economies of scale/discounts for bulk buying [k] as buy for all its shops [app] leading to lower average/unit costs [an] • Quicker access to products [k] so can offer new products before rivals [an] leading to higher sales of toys [app] OR which is important for food [app] to reduce wastage/increase shelf life [an] • Build relationship with supplier [k] may give preferential delivery times [an] • Offer technical support [k] • Develop products specifically for business [k] • Cut out wholesaler profit [k] • Manufacturer may pay for some of the advertising [k] <p>Disadvantages:</p> <ul style="list-style-type: none"> • More paperwork [k] as have a wide range of products [app] which takes more time to complete [an] • Have to recruit more people [k] • Extra storage space needed/must purchase minimum quantity [k] increasing storage costs [an] • Risk of wastage [k] 	6

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2(e)	<p>Do you think that \$LAND will be successful in other countries? Justify your answer.</p> <p>Knowledge [1] – award up to 1 mark for identification of relevant points Application [1] – award 1 mark if 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 \$Land will be successful in other countries Relevant points might include:</p> <ul style="list-style-type: none"> • Different countries have different tastes [k] so might not like the toys [app] leading to fewer sales [an] • High set up costs [k] as need to open shops [app] • Competition/need to attract customers [k] as customers might be loyal to other companies [an] • Legal/regulations [k] might not be able to sell some of its foods [app] • Strategy has worked in country B [k] as profits increased [app] • Different economic environment [k] as country B is in recession [app] so customers might not want cheaper products [an] • Communication/language problems [k] 	6

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3(a)	<p>What is meant by ‘job production’? Clear understanding [2]: where a single product is made at a time OR makes one product from start to finish (before starting the next one) OR produce a personalized product individually [2]</p> <p>Some understanding [1]: e.g. identifies one distinctive feature of job such as products are made to the specific customer design; often labour-intensive; highly skilled workers; high quality, single product, flexible</p>	2
3(b)	<p>What is meant by ‘quality control’? Clear understanding [2]: checking that a product meets the required standard OR checking of goods <u>at the end</u> of the production process [2] OR Checking the standard of goods through inspection [2] OR process of reviewing accuracy of work bought in or completed [2] Some understanding [1]: e.g. checking the work</p>	2
3(c)	<p>Identify and explain <u>two</u> possible communication barriers for TKF. Knowledge [2 × 1] – award 1 mark for each relevant barrier Application [2 × 1] – award 1 mark for each relevant explanation in context Relevant points might include:</p> <ul style="list-style-type: none"> • Problems with medium, e.g. inappropriate medium used [k] as workers might not always have access to emails [app] • Problems with sender, e.g. language problems/jargon [k] so workers don’t understand terms used by the manager [app] • Overload of information [k] which confuses production workers [app] • Problems with receiver, e.g. workers do not read messages [k] as three workers are part-time [app] OR customers do not read letters [k] so don’t know about its furniture [app] • Technical issues, e.g. no internet connection [k] without electricity cannot send emails [app] • No opportunity for feedback [k] • Wide span of control [k] as manager responsible for eight [app] • Wrong message sent [k] 	4

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Question	Answer	Marks
3(d)	<p>Identify and explain <u>two</u> ways in which good internal communication can help TKF be more efficient.</p> <p>Knowledge [2 × 1] – award 1 mark for each relevant way Application [2 × 1] – award 1 mark if relevant reference made to this business Analysis [2 × 1] – award 1 mark for each relevant explanation Relevant points might include:</p> <ul style="list-style-type: none"> • Clearer instruction/prevent misunderstandings/fewer mistakes [k] prevents need for rework/reduces waste [an] • Increase production/speed up work [k] for furniture orders [app] • Faster decision making/problem solving [k] • Employees aware of objectives [k] so its eight production workers [app] can/might work faster [an] • Better co-ordination between departments [k] if only order wood needed [app] reducing costs of storage [an] • Reduce barriers to communication [k] • Improve relations between employer and employees/better management/improve motivation [k] • More ideas [k] 	6
3(e)	<p>Do you think the manager is right to be worried about TKF’s cash flow position? Justify your answer.</p> <p>Knowledge [1] – award up to 1 mark for identification of relevant points Application [1] – award 1 mark if 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 TKF is right to be worried about its cash flow position Relevant points might include:</p> <ul style="list-style-type: none"> • Closing balance is positive for two of the three months [k] so can meet all expenditure/bills [an] • Cannot cover outflows in January [k] as net cash flow is (5)/opening balance only three [app] so might damage relationship with suppliers of not able to pay [an] • Inflows vary per month [k] so no guarantee have money to pay costs [an] so suppliers might be reluctant to supply wood [app] so cannot meet all its orders [an] • Cash inflow decreases in January [k] by 15 [app + an] • Cannot predict/rely on regular orders [k] using job production [app] • May be a temporary problem [k] as only have three months data 	6

Page 10	Mark Scheme	Syllabus	Paper
	Cambridge IGCSE – October/November 2016	0450	12

Question	Answer	Marks
4(a)	<p>Identify <u>two</u> ways to measure the size of a business. Knowledge [2 × 1] award one mark per way Points might include:</p> <ul style="list-style-type: none"> • Sales value OR value of output OR revenue, • Market share • Capital employed/value of balance sheet • Number of employees 	2
4(b)	<p>Calculate the percentage (%) of businesses in country R which are partnerships. Good application [2] 10% Some application [1], e.g. number of partnerships/total number of businesses OR 0.5m/5m</p>	2
4(c)	<p>Identify and explain <u>two</u> advantages to Moeen and Ali of forming a private limited company. Knowledge [2 × 1] – award 1 mark for each relevant advantage Application [2 × 1] – award 1 mark for each explanation in context Relevant points might include:</p> <ul style="list-style-type: none"> • Access to more capital [k] which could help increase their budget/so can afford to create luxury image [app] • Benefit from limited liability [k] if new business fails [app] • Continuity of existence [k] if anything happens to one of them will not have to close hotel [app] • Separate legal identity [k] • Control over who buys shares [k] 	4

Page 11	Mark Scheme	Syllabus	Paper
	Cambridge IGCSE – October/November 2016	0450	12

Question	Answer	Marks
4(d)	<p>Identify and explain <u>two</u> factors that might influence Ali's choice of location.</p> <p>Knowledge [2 × 1] – award 1 mark for each relevant factor Application [2 × 1] – award 1 mark if relevant reference made to this business Analysis [2 × 1] – award 1 mark for each relevant explanation Relevant points might include:</p> <ul style="list-style-type: none"> • Competition [k] from other hotels [app] so might not gain as many customers [an] • Cost of land [k] as has to be city centre [app] which is likely to be more expensive [an] • Availability of suitable land [k] as need a large space [an] OR available space for parking [k] for guests [app] • Close to customers/level of demand [k] • Infrastructure, e.g. water, electricity, internet OR transport links [k] so employees/customers can get there without any difficulty [an] • Image/environment [k] the wrong site might not suggest luxury [app] making it difficult to attract customers [an] • Government regulations [k] could stop them from opening in some locations [an] • Access to suitable employees [k] as need full/part-time [app] to provide customers the right level of service [an] • Close to suppliers [k] 	6

Page 12	Mark Scheme	Syllabus	Paper
	Cambridge IGCSE – October/November 2016	0450	12

Question	Answer	Marks
4(e)	<p>Do you think it would be better for the business to use full-time or part-time employees? Justify your answer.</p> <p>Knowledge [1] – award up to 1 mark for identification of relevant points Application [1] – award 1 mark if 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 it would be better for the business to use full-time or part-time employees.</p> <p>Relevant points might include: <u>Part-time:</u></p> <ul style="list-style-type: none"> • More flexible hours [k] as it is a hotel [app] need staff all the time [an] • Easier to ask workers to work at busy times [k] if more guests [app] more employees are needed [an] • When not working no need to pay wages [k] so is less expensive than full time [an] as which could help this new business [app] • Need to recruit/train more employees [k] so uses up more of budget [app] which will take time [an] • May leave for full time job elsewhere [k] <p><u>Full-time:</u></p> <ul style="list-style-type: none"> • Consistency of service [k] helps its luxury image [app] so could help boost reputation/ attract more customers [an] • Workers likely to be more committed to business [k] • Easy to communicate/update [k] as employees always there [an] • Internal pool of candidates for future promotion [k] • Fewer workers needed [k] 	6



BUSINESS STUDIES

0450/13

Paper 1 Short Answer/Structured Response

October/November 2016

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.

Cambridge will not enter into discussions about these mark schemes.

Cambridge is publishing the mark schemes for the October/November 2016 series for most Cambridge IGCSE[®], Cambridge International A and AS Level components and some Cambridge O Level components.

Page 2	Mark Scheme	Syllabus	Paper
	Cambridge IGCSE – October/November 2016	0450	13

Question	Answer	Marks
1(a)	<p>What is meant by ‘private sector’?</p> <p>Clear understanding [2]: e.g. when <u>individuals own</u> business activities Some understanding [1] e.g. run by individuals OR not controlled directly by government [1] OR aim to make a profit [1] OR controlled by person/group of people [1]</p>	2
1(b)	<p>What is meant by ‘redundancy’?</p> <p>Clear understanding [2]: e.g. job position has gone and hence person is no longer required Some understanding [1] e.g. loses job [1] or job role has gone [1]</p>	2
1(c)	<p>Identify and explain <u>two</u> ways an appreciation of country B’s exchange rate might affect UDig.</p> <p>Knowledge [2] – award up to 2 marks for each relevant point Application [2 × 1] – award 1 mark for each explanation in context Points might include: If assume UDig based in country B,</p> <ul style="list-style-type: none"> • Imported products cheaper / have lower prices [k] so local businesses might go elsewhere for the 30% [app] • Not as competitive [k] so may have to close more mines [app] • UDig’s exports more expensive/ prices rise [k] • May have to reduce its profit margin [k] for its coal [app] <p>If assume UDig based outside B: (they will be an exporter so)</p> <ul style="list-style-type: none"> • UDig’s Products become cheaper / lower prices [k] • Increase in profit margin (if don’t lower prices) [k] 	4

Page 3	Mark Scheme	Syllabus	Paper
	Cambridge IGCSE – October/November 2016	0450	13

Question	Answer	Marks
1(d)	<p>Identify and explain <u>two</u> ways in which legal controls might affect UDig.</p> <p>Knowledge [2 × 1] – identification of relevant benefit Application [2 × 1] – award 1 mark if relevant reference made to this business Analysis [2 × 1] – award 1 mark for each relevant explanation Relevant points might include:</p> <ul style="list-style-type: none"> • Need to provide safety equipment [k] as work is highly dangerous [app] could lead to higher costs [an] • Reduction in number of working hours [k] in the mines [app] could lead to lower output [an] • Introduce / increase minimum wage [k] for its 1800 employees [app] leading to further redundancies [an] • Location restrictions [k] so cannot operate in some areas [an] leading to more closures [app] • Pollution restrictions [k] as coal burning could damage environment [app] so less demand from companies [an] 	6
1(e)	<p>The Managing Director thinks ‘the Government should help UDig keep the mines open’. Do you agree? Justify your answer.</p> <p>Knowledge [1] – award 1 mark for identification of relevant issue(s) Application [1] – award 1 mark if relevant reference made to this business Analysis [2] – award up to 2 marks for relevant development of point(s) Evaluation [2] – justified decision as to whether the Government should help UDig keep the mines open. Relevant points might include:</p> <ul style="list-style-type: none"> • Protect jobs [k] as 1800 at risk [app] so help Government meet its economic objectives [an] • Protect vital industry [k] as its produces 30% of its coal [app] if more mines shut – will need to find alternative supply [an] • Could conflict with other Government objectives [k] as this is a private sector business [app] • May only be a temporary problem [k] as currency appreciation might not last [app] so money which could be better spent elsewhere [an] 	6

Page 4	Mark Scheme	Syllabus	Paper
	Cambridge IGCSE – October/November 2016	0450	13

Question	Answer	Marks
2(a)	<p>What is meant by ‘mass market’?</p> <p>Clear understanding [2]: e.g. selling the same product to the whole market OR very large number of sales of a standard product Some understanding [1] e.g. large number of potential customers OR a market that has general wants and needs</p>	2
2(b)	<p>Calculate the percentage (%) of customers who buy goods on-line.</p> <p>Good Application [2] 35% Some application [1] method e.g. 700 of 2000</p>	2
2(c)	<p>Identify and explain <u>two</u> possible reasons why GBU’s market research might <u>not</u> be useful to the Marketing Director.</p> <p>Knowledge [2 × 1] – award 1 mark for identification of relevant problem Application [2 × 1] – award 1 mark for each explanation in context Relevant points might include:</p> <ul style="list-style-type: none"> • Wrong / leading questions asked [k] for a mass market product [app] • Wrong people asked / not representative [k] as may not buy beauty products [app] • Wrong sample size [k] as may need to speak to more than 2000 [app] 	4

Page 5	Mark Scheme	Syllabus	Paper
	Cambridge IGCSE – October/November 2016	0450	13

Question	Answer	Marks
2(d)	<p>Identify and explain <u>two</u> advantages to GBU of using shops as a channel of distribution.</p> <p>Knowledge [2 × 1] – award 1 mark for each relevant advantage Application [2 × 1] – award 1 mark for relevant reference made to this business Analysis [2 × 1] – award 1 mark for each relevant explanation Relevant points might include:</p> <ul style="list-style-type: none"> • Contact / feedback from customers [k] to build customer loyalty [app] so maintain market share / current customers [an] • Attract people passing shop [k] as people might run out of shampoo [app] and buy it straightaway [an] • Sales might increase [k] as not everyone has access to / wants to shop on the internet / as people want to see before they buy [an] • Lower storage costs [k] as do not need additional warehouse [an] • Research shows customers prefer to buy this way [k] as selected by 55% [app + an] so should increase sales [an] • Can act as promotion [k] 	6

Page 6	Mark Scheme	Syllabus	Paper
	Cambridge IGCSE – October/November 2016	0450	13

Question	Answer	Marks
2(e)	<p>Do you think maintaining customer loyalty should be more important to GBU than attracting new customers? Justify your answer.</p> <p>Knowledge [1] – award 1 mark for identification of relevant issue(s) Application [1] – award 1 mark if relevant reference made to this business Analysis [2] – award up to 2 marks for relevant development of point(s) Evaluation [2] – justified decision as to whether it is more important for GBU to maintain customer loyalty than attract new customers Relevant points might include: Customer loyalty:</p> <ul style="list-style-type: none"> • Maintain market share / sales [k] • Spread word / free advertising [k] as existing customers might recommend product to others [an] • Keep reputation [k] in a mass market [app] leading to a competitive advantage [an] • Able to match products to existing customer needs [k] for beauty products [app] so they know what to produce [an] <p>New customers:</p> <ul style="list-style-type: none"> • Widen target market [k] as 80% of people like their products [app + an] • Customer tastes change [k] so may be cheaper to find new customers rather than develop existing products [an] • Need to carry out advertising to attract customers [k] which will increase costs [an] <p>Other factors:</p> <ul style="list-style-type: none"> • May be other reasons why customers do not buy [k] if prices are higher this may be why revenue fell [app] 	6

Page 7	Mark Scheme	Syllabus	Paper
	Cambridge IGCSE – October/November 2016	0450	13

Question	Answer	Marks
3(a)	<p>What is meant by ‘added value’?</p> <p>Clear understanding [2]: e.g. difference between price of a finished product and the cost of the inputs involved in making it OR difference between the selling price of a product and the cost of bought in materials and components [2] OR improvement to the product that makes it worth more plus a relevant example [2] Some understanding [1] e.g. improvement to the product that makes it worth more</p>	2
3(b)	<p>What is meant by ‘cost of sales’?</p> <p>Clear understanding [2] cost of producing or buying in the goods sold OR variable cost of making the goods sold [2] OR cost per unit × number of output sold [2] Some understanding [1] e.g. money spent on materials</p>	2
3(c)	<p>Identify and explain <u>two</u> ways Izaak could increase revenue.</p> <p>Knowledge [2 × 1] – award 1 mark for each relevant way [max 2] Application [2 × 1] – award 1 mark for each explanation in context Relevant points might include:</p> <ul style="list-style-type: none"> • Increase advertising [k] • Widen target market [k] • Change prices e.g. offer discounts or increase prices [k] • Offer new / more products [k] e.g. different fish dishes [app] • Loyalty scheme [k] encourage customers to return to restaurant [app] • Improve quality [k] 	4

Page 8	Mark Scheme	Syllabus	Paper
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Question	Answer	Marks
3(d)	<p>Identify and explain <u>two</u> problems that low quality might cause for Izaak’s business.</p> <p>Knowledge [2 × 1] – identification of relevant point [max 2] Application [2 × 1] – award 1 mark for each way if relevant reference made to this business Analysis [2 × 1] – award 1 mark for each relevant explanation Relevant points might include:</p> <ul style="list-style-type: none"> • Loss of existing customers /loyalty [k] as food does not taste right [app] leading to lower revenue [an] • Loss of new customers [k] • Cost of replacement [k] as have to recook food [app] increasing his cost of sales [an] • Cost of fines [k] as poor quality may break laws [an] • Damage to reputation / image [k] of restaurant [app] so customers may go elsewhere [an] • Cannot supply on time [k] leading to more complaints [app] • Increase waste [k] • Cannot charge higher prices [k] on menu [app] 	6
3(e)	<p>Do you think Izaak should be pleased with the financial performance of his business? Justify your answer using appropriate ratios.</p> <p>Knowledge [1] – award 1 mark for identification of relevant issue(s) Application [1] – award 1 mark if relevant reference made to this business Analysis [2] – award up to 2 marks for relevant development of point(s) Evaluation [2] – justified decision as to whether Izaak should be pleased with the financial performance of his business Relevant methods might include:</p> <ul style="list-style-type: none"> • Gross profit increased [k] to 150 000 [app] • Gross profit margin improved [k] to 50% [app + an] so better control of variable costs [an] • Profit margin down [k] to 5% [app + an] so less control of overheads [an] • Profit has fallen [k] by 50% [app + an] • Expenses up [k] could reflect fact that fixed costs too high [app] • Revenue has not changed [k] • Cost of sales down [k] 	6

Page 9	Mark Scheme	Syllabus	Paper
	Cambridge IGCSE – October/November 2016	0450	13

Question	Answer	Marks
4(a)	<p>What is meant by a ‘social enterprise’?</p> <p>Clear understanding [2]: e.g. business with both social objectives as well as aim to make a profit Some understanding [1] e.g. not all about profit</p>	2
4(b)	<p>Identify <u>two</u> functions of management (other than communication) that Asha performs.</p> <p>Application [2 × 1] award one mark per function Points might include: coordinate, control, organise, planning, command, delegate, motivate/supervise, decision making, problem solving, recruitment</p>	2
4(c)	<p>Identify <u>two</u> external stakeholder groups of ReBag. Explain <u>why</u> each stakeholder group might be interested in this business.</p> <p>Knowledge [2 × 1] award 1 mark per stakeholder Application [2 × 1] – award 1 mark for each explanation in context Relevant points might include:</p> <ul style="list-style-type: none"> • Government [k] as create jobs in more towns [app] • Suppliers [k] to obtain more fabric [app] • Local community [k] as employing 30 people [app] • Customers [k] who buy the bags [app] • Lenders/banks [k] to see if they should offer a bank loan [app] • Pressure groups [k] 	4

Page 10	Mark Scheme	Syllabus	Paper
	Cambridge IGCSE – October/November 2016	0450	13

Question	Answer	Marks
4(d)	<p>Identify and explain <u>two</u> possible reasons why it might be difficult for ReBag to get a bank loan.</p> <p>Knowledge [2 × 1] – identification of relevant point [max 2] Application [2 × 1] – award 1 mark for relevant reference made to this business Analysis [2 × 1] – award 1 mark for each relevant explanation Relevant points might include:</p> <ul style="list-style-type: none"> • Low revenue [k] only \$700 [app] so can they afford to repay [an] • No security [k] so increased risk for lenders [an] • Limited experience [k] only operated for 3 years [app] so no guarantee that business will last [an] • No business plan/poor planning [k] • Already has existing debt [k] as Asha used micro-finance [app] 	6
4(e)	<p>Explain <u>two</u> possible methods Asha could use to communicate with ReBag workers. Recommend which method she should choose. Justify your answer.</p> <p>Knowledge [1] – award 1 mark for identification of relevant issue or method(s) Application [1] – award 1 mark if relevant reference made to this business Analysis [2] – award up to 2 marks for relevant development of point(s) Evaluation [2] – justified decision as to which is the most appropriate method. Relevant points might include:</p> <p><u>Meeting</u> [k]</p> <ul style="list-style-type: none"> • so able to see reactions to ideas/comments [an]; • Difficult to arrange/ time issues [an] all based in remote towns [app] so not everyone might be able to attend [an]; • Will mean travel costs/making it expensive [an]; • Will take people away from work/lead to loss of production [an] of bags [app] so may not be able to meet demand [an] <p><u>Email</u> [k] allowing people to read information in own time [an]</p> <ul style="list-style-type: none"> • People might not have access to internet [an] as in remote locations [app] so are not able to respond [an]; • Must pay cost of computer [an] from \$70 [app] so can they afford it [an] <p><u>Phone</u> [k] so immediate feedback is possible [an]</p> <p><u>Videoconferencing</u> [k]</p> <p><u>Newsletter</u> [k] can contain a large amount of information [an]</p> <p><u>Letter</u> [k]</p>	6



BUSINESS STUDIES

0450/21

Paper 2 Case Study

October/November 2016

MARK SCHEME

Maximum Mark: 80

Published

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Page 2	Mark Scheme	Syllabus	Paper
	Cambridge IGCSE – October/November 2016	0450	21

- 1 (a) P & P needs to be efficient. Identify and explain four methods P & P could use to motivate production workers. [8]

Application [4 × 1] – award one mark for each relevant method for production workers

Analysis [4 × 1] – award one mark for explanation of how each method increases motivation

Award one mark for each relevant method (maximum of four), such as:

- increase wages
- training
- profit sharing
- praise
- piece rate
- employee of the month
- bonus
- change in leadership style
- fringe benefits
- better working conditions
- job rotation
- job enlargement
- setting targets
- promotion

Indicative response:

Introduce piece-rate [ap] because if the production workers produce more paint they will be paid more and so they will be motivated to work harder [an].

Page 3	Mark Scheme	Syllabus	Paper
	Cambridge IGCSE – October/November 2016	0450	21

- (b) P & P has developed a new type of paint. Consider the following three factors that will affect the channel of distribution the company will use. Which factor will be the most important when deciding the best channel of distribution? Justify your answer. [12]

Relevant points might include:

Where customers are located	<ul style="list-style-type: none"> do they deliver paint or do customers purchase from the shops are they close to the factory – may use direct selling – lower transport costs may require selling agents if exporting
How often the product is purchased	<ul style="list-style-type: none"> purchased regularly – may need to be sold in shops near to customers/less often then customers may be willing to travel to large shops to purchase paint may use wholesaler/middleman if bought less frequently
Where competitors sell their products	<ul style="list-style-type: none"> may need to sell paint in same retail outlets to competitors – outlet already attracts many customers don't sell at the same outlets as competitors – may need to reduce price/sales

Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.

	Knowledge/Analysis/ Evaluation
Level 3	<p>At least 2 × Level 2 + 9–10 marks for well justified conclusion as to which factor will be the most important when choosing a channel of distribution and why not the alternative channels.</p> <p>7–8 marks for some limited judgement shown in conclusion as to which factor will be the most important when choosing a channel of distribution.</p>
Level 2	<p>4–6 marks Detailed discussion of the factors affecting the choice of channel of distribution for the new type of paint.</p>
Level 1	<p>1–3 marks Outline the factors affecting the choice of channel of distribution.</p>

Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Where do competitors sell their paint.

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Level 2 – one L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. Where do competitors sell their paint. They may want to sell paint in large shops where many brands of paint are sold so that when customers are looking for paint they will see their brand of paint as well and be more likely to buy it than if they sell the paint in shops where no other paint is sold. 4 marks for L2 answer).

Level 3 – For L3 to be awarded there need to be at least two L2 marks awarded and then a recommendation which justifies which factor is the most important when selecting the channel of distribution to use.

Award up to 2 additional marks for relevant application.

Possible application marks: paint manufacturer; factory; large limited company; imports raw materials; capital city; country X; sells to large retailers; uses batch production; new waterproof paint; target market professional painters; new paint for outside of houses; start exporting paint in 2018.

There may be other examples in context which have not been included here.

Page 5	Mark Scheme	Syllabus	Paper
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- 2 (a) Identify and explain two reasons why P & P might respond to the pressure group and change what the company is doing. [8]

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

Award one mark for each reason (maximum of two), such as:

- Want to keep a good reputation for being environmentally friendly
- Wants to keep customers from switching to competitors
- Does not want to upset local residents
- Wants to avoid fines or legal action
- Wants to keep a favourable reputation for being a good employer

Award a maximum of three additional marks for **each** explanation – **2 of which must be applied to this context** – of why the business might respond to the pressure group and change what the company is doing.

Indicative response:

To not lose customers who may buy from competitors if they are against businesses polluting the environment (k). The pollution affects a lot of people such as fishermen (ap) and may mean there are a greater number of people lobbying the government for the company to reduce pollution put into the river (ap). The more people affected then the more effective the pressure group and the more likely they are to change to another company if P & P do not change the way they produce paint (an).

Possible application marks: the Government of country X; paint manufacturer; large limited company; large factory next to a river; pollution; waste; dumping in the river; makes tins (cans) of paint; sells to large retailers; 150 production workers; employees live near to the factory; details of two options outlined in Appendix 2; details of pollution caused by paint production outlined in Appendix 3.

There may be other examples in context which have not been included here.

Page 6	Mark Scheme	Syllabus	Paper
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- (b) P & P production results in external costs as outlined in Appendix 3. Consider the external costs and external benefits of the production of paint by P & P. Recommend whether the Government should take any action. Justify your answer. (12)

Relevant points might include:

External costs	Pollution – waste put into river makes children ill, kills fish, people can no longer catch their own fish, have to buy fish now – no clean water
External benefits	Provides jobs; increased sales for fish sellers; taxes paid to government

Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.

	Knowledge/Analysis/ Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified recommendation as to whether or not the government should take any action. 7–8 marks for some limited judgement shown in recommendation as to whether or not the government should take any action.
Level 2	4–6 mark Detailed discussion of external costs and benefits on third parties.
Level 1	1–3 marks Outline of external costs and benefits.

Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. The company puts waste products into the river,

Level 2 – one L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. The company puts waste products into the river and this kills the fish leading to local people have to increase their spending on food which leaves them less to spend on other products. (4 marks for L2 answer plus one application mark for mentioning catching fish from the river).

Level 3 – For L3 to be awarded there need to be at least two L2 marks awarded and then a recommendation whether the government should introduce regulations on the activities of this company.

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Award up to 2 additional marks for relevant application.

Possible application marks: paint manufacturer; large limited company; imports raw materials; large factory next to a river; makes tins (cans) of paint; pressure groups; sells to large retailers; uses batch production; 150 production workers; employees live near to the factory; details of two options outlined in Appendix 2; details of pollution caused by paint production outlined in Appendix 3. No credit for paint but ok for pollution.

There may be other examples in context which have not been included here.

- 3 (a) P & P has decided to use batch production to produce the new paint. Identify and explain two factors which may have influenced this decision. (8)**

Knowledge [2 × 1] – award one mark for each relevant factor

Analysis [2 × 1] – award one mark for a relevant explanation for each factor

Application [2 × 2] – award two application marks for each factor

Award one mark for each relevant factor (maximum of two), such as:

- Size of the output/ level of demand
- Various styles of product made
- Easier/quicker to respond to changes in demand
- Not enough capital to use capital-intensive methods

Award a maximum of three additional marks for **each** explanation – **2 of which must be applied to this context** – of the factor which may have influenced the decision to use batch production.

Indicative response:

Size of the output [k] as if a large output is not required then flow production will not be used as too many products will be produced (an). Paint has many colours and types and so only a certain quantity of one type will be needed (ap). P & P will produce a certain amount of, for example bathroom paint and then a certain amount of kitchen paint because the demand will not be high for all types of paint (ap).

Possible application marks: different colours of paint; paint manufacturer; paint tins; large limited company; sells to large retailers; 150 production workers; employees live near to the factory; paid using time-rate and no fringe benefits; new waterproof paint; new machinery/equipment to make the paint; details of two options outlined in Appendix 2.

There may be other examples in context which have not been included here.

- (b) Consider the two options outlined in Appendix 2 for increasing the output of paint. Recommend which option the directors should choose. Use the cost data in Appendix 2 to help justify your answer. (12)

Relevant points might include:

Option A – $\$150\,000 \times 10\%$ = cost of \$15 000 interest per year.

Option B – $\$75\,000 \times 10\%$ = cost of \$7 500 interest/yr plus \$10 000 = \$17 500/year.

Option A land cost + factory + machinery = \$150 000 (L1)

Option B land cost + lease = \$85 000 (L1)

Option B will be \$72 500 cheaper in the first year (L2)

	Option A	Option B
Output	200 000 (appendix 2)	102 500 (appendix 2)
Cost	\$100 000 (appendix 2)	\$75 000 (appendix 2)
Factory + machinery	\$50 000 (appendix 2)	
Lease		\$10 000 (appendix 2)
Interest paid	\$15 000 (L2)	\$7 500 (L2)
Total cost in the first year	\$165 000 (L2)	\$92 500 (L2)
Cost per tin	\$0.83 (L2)	\$0.90 (L2)

Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.

	Knowledge/Analysis/ Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified recommendation as to the best option to choose compared to the alternative option. 7–8 marks for some limited judgement shown in recommendation as to the best option to choose.
Level 2	4–6 marks Option A and B discussed including calculation of costs.
Level 1	1–3 marks Option A and B outlined including comparison of costs/use of cost information.

Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Option A is more expensive than Option B

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Level 2 – 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (Max 6 marks). Option A is more expensive than Option B but when calculating the costs per tin then Option A is cheaper at \$0.83 per tin compared to Option B of \$0.90 per tin. (5 marks)

Level 3 – For L3 to be awarded there need to be at least two L2 marks awarded and then a recommendation which justifies which is the best option to choose.

Award up to 2 additional marks for relevant application.

Possible application marks: paint manufacturer; large limited company; imports raw materials; large factory next to a river; uses batch production; 150 production workers; start exporting paint in 2018; details of option 1 – 200 000 tins of paint, \$100 000 land cost, \$50 000 factory and machinery, interest rate of 10% ; details of option 2 – 102 500 tins of paint, \$75 000 extension cost, \$10 000 lease, interest rate of 10%

There may be other examples in context which have not been included here.

4 (a) Identify and explain two reasons why added value is important to P & P. (8)

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

Relevant points might include:

Award one mark for each reason (maximum of two), such as:

- Allows costs to be paid
- Ensures a profit is made
- Prices could be increased

Award a maximum of three additional marks for **each** explanation – **2 of which must be applied to this context** – of the reason why added value is important.

Indicative response:

Allows costs to be paid (k) as wages and other factory costs are paid out of the revenue from sales of paint (ap) and the price of paint is higher than the total costs of producing it (ap). This means that P & P will make a profit (an).

Possible application marks: paint manufacturer; large limited company; imports raw materials; makes tins (cans) of paint; sells to large retailers; uses batch production; 150 production workers; new waterproof paint; target market professional painters; new paint for outside of houses; start exporting paint in 2018; increase in imports of paint.

There may be other examples in context which have not been included here.

- (b) P & P is planning to start selling its products in other countries by 2018. Consider each of the three following changes the company could make. Which one of these changes will be most helpful in selling products to other countries? Justify your answer. (12)

Relevant points might include:

	Advantages	Disadvantages
Take over a retail business in one of the other countries	Will own many outlets to sell their paint	Expensive to buy shares in the other business
Change to a public limited company to raise additional capital	So they can sell shares to the public Pay additional costs of exporting/expanding	Accounts are public and may be able to be taken over
Form joint ventures in the other countries	Local knowledge of the overseas market.	Have to share information and profit.

Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.

	Knowledge/Analysis/ Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified conclusion as to which change will be most helpful when selling products abroad. 7–8 marks for some limited judgement shown in conclusion as to which change will be most helpful when selling products abroad.
Level 2	4–6 marks Detailed discussion of advantages and/or disadvantages of each possible change.
Level 1	1–3 marks Outline of advantages and/or disadvantages of each possible change.

Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Remaining a private limited company means the business will keep its accounts private.

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. Changing to a public limited company means the business will not keep its accounts private and so it will be easier for competitors to obtain information about the company. However, it will be able to obtain capital from selling shares as it can now sell shares to more than family and friends and this will enable it to cover the increase in costs from starting to export. (4 marks for L2 answer).

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Level 3 – for L3 to be awarded there need to be at least two L2 marks awarded and then a justified conclusion as to which change will be most helpful when selling products abroad.

Award up to 2 additional marks for relevant application.

Possible application marks: paint; country X; paint manufacturer; large limited company; imports raw materials; makes tins (cans) of paint; sells to large retailers; new waterproof paint; new paint for outside of houses; start exporting paint in 2018; wants to increase output; increase in imports of paint.

There may be other examples in context which have not been included here.



BUSINESS STUDIES

0450/22

Paper 2 Case Study

October/November 2016

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.

Cambridge will not enter into discussions about these mark schemes.

Cambridge is publishing the mark schemes for the October/November 2016 series for most Cambridge IGCSE[®], Cambridge International A and AS Level components and some Cambridge O Level components.

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- 1 (a) Identify and explain one advantage and one disadvantage to Ghaziz and Jasmin of being in a business partnership. [8]

Knowledge [2 × 1] – award one mark for each 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

Award one mark for each relevant advantage/disadvantage (maximum of two), such as:

Advantage

- More capital than sole trader
- Share decision making
- Someone to share running the business/cover when holidays
- More ideas/specialisation

Disadvantage

- Unlimited liability
- No continuity
- Share profits
- Conflicts between partners

Award a maximum of three additional marks for **each** explanation of the advantage/disadvantage – **2 of which must be applied to this context.**

Indicative response:

Unlimited liability (k) so if the demand for the cleaning or gardening services drops and they make a loss (ap) Ghaziz and Jasmin could lose their personal possessions to pay the bills(an). If customers do not pay them Ghaziz and Jasmin will have to pay the wages to the cleaners and gardeners out of their own money (ap).

Possible application marks: gardening services; house cleaning services; partnership set up 5 years ago; partners have different ideas about reasons for success of the business; income in country X is increasing; employment is increasing; expand by offering new service; elderly people; old people; adults children; financial information from Appendix 1; information from the graph in Appendix 3.

There may be other examples in context which have not been included here.

Page 3	Mark Scheme	Syllabus	Paper
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- (b) Consider the effects of each of the following changes on the success of GJ. Which change do you think will have the biggest effect on the profit of the business? Justify your answer.

[12]

Relevant points might include:

Increasing employment in country X	<ul style="list-style-type: none"> higher incomes leads to increased demand for services harder to find new employees increased wage rates to attract/retain employees
Increase in tax on all services in country X	<ul style="list-style-type: none"> increased price leads to falling demand increased spending on other more essential services – decreased demand for house cleaning/gardening all services taxed so little/no effect on GJ
Increase in the number of people buying large houses with gardens in country X	<ul style="list-style-type: none"> increased demand as more people require cleaning and gardening services increased incomes meaning larger houses can be purchased – increased demand for cleaning/gardening increased competition increased prices as increased demand – increased profit

Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.

	Knowledge/Analysis/ Evaluation
Level 3	<p>At least 2 × Level 2 + 9–10 marks for well justified conclusion of which change will have the biggest effect on profit rather than the other changes.</p> <p>7–8 marks for some limited judgement shown in the conclusion of which change will have the biggest effect on profit</p>
Level 2	<p>4–6 marks Detailed discussion of the effects of each change.</p>
Level 1	<p>1–3 marks Outline of the effects of each change.</p>

Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Higher incomes from more people having jobs leads to increased demand.

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. Higher incomes from more people having jobs leads to increased demand for gardening and cleaning services. People are working and do not have time to clean their own houses and have higher income so can afford to pay GJ for house cleaning and gardening. This will increase revenue and profit for GJ. (4 marks for L2 answer + 1 application mark for mentioning house cleaning and gardening).

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 have the biggest effect on profit.

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Award up to 2 additional marks for relevant application.

Possible application marks: gardening services; house cleaning services; 50 part-time workers; competitive pricing; old people; expand by offering new service of looking after elderly people; information from the graph in Appendix 3.

There may be other examples in context which have not been included here.

- 2 (a) (i) Calculate the break-even level of output for the house cleaning service using the information in Appendix 1. [4]**

Application [4 × 1] – award four marks for correct calculation.

Cleaning

$$\frac{\$150(1)}{(\$30(1) - \$15(1))}$$

= 10 houses per week (4)

(If just correct answer given with no working shown award 4 marks)

1 mark for correct formula if the rest of the answer is incorrect

= Fixed costs/Contribution

- (ii) Calculate the weekly profit for the house cleaning service using the information in Appendix 1. [4]**

Application [4 × 1] – award four marks for correct calculation.

Cleaning

30 cleaners × 20 hours a week × \$10 price per hour = \$6 000 TR (1)

30 cleaners × 20 hours a week × \$5 wages per hour = \$3 000 TVC (1)

\$6 000 – (\$150 (1) + \$3 000)

= \$2 850 per week (4)

(If just correct answer with no calculations shown given award 4 marks)

1 mark for correct formula if rest of the answer is incorrect

TR – TC (FC + VC) = profit

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- (b) Consider why the following financial information is important to a bank manager when deciding whether to give Ghaziz and Jasmin a loan to launch the new service. Which do you think is the most important information to the bank manager? Justify your answer. [12]

Relevant points might include:

Break-even level of output	<ul style="list-style-type: none"> knowing how many customers are needed to cover all costs how high is the margin of safety
Profitability of the business	<ul style="list-style-type: none"> the surplus left over after all the costs have been paid and provides a return on the investment of the partners ability to repay the loan
Liquidity of the business	<ul style="list-style-type: none"> Ensures there is sufficient cash available to pay short-term debts otherwise the business might have to close/not able to repay the loan.

Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.

	Knowledge/Analysis/ Evaluation
Level 3	<p>At least 2 × Level 2 + 9–10 marks for well justified conclusion as to which piece of financial information is most important and why it is more important than the other information.</p> <p>7–8 marks for some limited judgement shown in the conclusion as to which piece of financial information is most important.</p>
Level 2	<p>4–6 marks Detailed discussion of why each piece of financial information is important to the bank manager.</p>
Level 1	<p>1–3 marks Outline of why each piece of financial information is important to the bank manager.</p>

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Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Knowing how many customers are needed to cover all the costs to break-even.

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. Knowing how many customers are needed to cover all the costs to break-even. This will allow the bank manager to look at the margin of safety and assess how much profit the business is likely to make. They can see if the business will be able to repay the loan. (L2) However, break-even is only an estimate and the sales might not take place at the price they are planning to charge. (L2) (5 marks for good L2 answer)

Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a conclusion as to which piece of financial information is most important.

Award up to 2 additional marks for relevant application.

Possible application marks: gardening services; house cleaning services; partnership set up 5 years ago; their cash flow is positive and finances managed well; 50 part-time workers; income in country X is increasing; employment in country X is increasing; elderly people; old people; adult children; cleaners wages; gardeners wages; information from the graph in Appendix 3. There may be other examples in context which have not been included here.

3 (a) Ghaziz and Jasmin plan to expand their business. Identify and explain one economy of scale and one diseconomy of scale for the business as it expands. [8]

Knowledge [2 × 1] – award one mark for each economy/diseconomy stated

Analysis [2 × 1] – award one mark for a relevant explanation for each economy/diseconomy

Application [2 × 2] – award two application marks for each economy/diseconomy

Award one mark for each relevant economy/diseconomy (maximum of two), such as:

Economy of scale

- Purchasing/bulk buying – discount on cost of materials/equipment
- Technical – use better equipment
- Financial – cheaper interest on bank loans
- Marketing – advertising costs per customer is less
- Managerial – employ specialist managers/more skilled
- Risk bearing – produces a variety of services so if demand for one service falls it is counter balanced by increase in demand of the other services

Diseconomy of scale

- poor communication – more levels of hierarchy to pass through so distorted message/errors in instructions
- lower morale/motivation – more employees and feel less important
- harder to control/coordinate departments – may have too many employees in one area relative to another area so less efficient

Award a maximum of three additional marks for **each** explanation of the economy/diseconomy – **2 of which must be applied to this context.**

Indicative response:

Bulk buying (k) so as the business grows it can bulk buy its cleaning materials for a cheaper price (ap). Bulk buying will lead to reduced costs per unit (an) and this increase the profits of the partners (ap).

Possible application marks: gardening services; house cleaning services; cleaning liquids/equipment; gardening materials/equipment; already advertising in newspapers; 50 part-time workers; 2 office workers; elderly people/parents; old people; adult children; country X; financial information from Appendix 1; information from the graph in Appendix 3.

There may be other examples in context which have not been included here.

- (b) GJ is introducing a new service. Jasmin wants to recruit a manager. Consider the advantages and disadvantages of internal and external recruitment. Recommend which recruitment method Jasmin should use. Justify your answer. [12]**

Relevant points might include:

	Advantages	Disadvantages
Internal	<ul style="list-style-type: none"> saves time and money can be motivating person is already known 	<ul style="list-style-type: none"> may be jealousy may need training – increases costs
External	<ul style="list-style-type: none"> new ideas already skilled/trained to correct level reduces costs 	<ul style="list-style-type: none"> person does not know the organisation and how it works person not known

Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.

	Knowledge/Analysis/ Evaluation
Level 3	<p>At least 2 × Level 2 + 9–10 marks for well justified recommendation as to the whether internal or external recruitment is the best method to choose and why not the other method.</p> <p>7–8 marks for some limited judgement shown in recommendation as to the whether internal or external recruitment is the best method to choose.</p>
Level 2	<p>4–6 marks</p> <p>Detailed discussion of advantages and/or disadvantages of internal and/or external recruitment.</p>
Level 1	<p>1–3 marks</p> <p>Outline of advantages and/or disadvantages of internal and external recruitment.</p>

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Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. New ideas.

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. New ideas can be used from managers who have worked for other businesses and therefore will be experienced in other ways of working. This should make GJ more efficient and improve the productivity of the cleaning staff. (4 marks for L2 answer + 1 application mark for mentioning cleaning staff).

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.

Award up to 2 additional marks for relevant application.

Possible application marks: gardening services; house cleaning services; country X; 50 part-time workers; 2 office workers; honest, reliable and hard-working employees; elderly people; old people; adult children; financial information from Appendix 1; information from the graph in Appendix 3.

There may be other examples in context which have not been included here.

4 (a) Identify and explain two reasons why market research is important to GJ before starting the new service.

[8]

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

Relevant points might include:

- To find out customer wants
- To find out about competitors
- To find out the price customers are willing to pay
- To find out if there is a market/demand for the new service
- To find if there have been any changes in customer preferences

Award a maximum of three additional marks for **each** explanation – **2 of which must be applied to this context** – of the reason why market research is important before starting the new service.

To find out what the customer wants (k) so that GJ can provide the kind of service for elderly people that the adult children want (ap). If needs are met then there should be an increase in demand thus increasing sales revenue and profit (an) so then Ghaziz and Jasmin will be able to either reinvest this back into the partnership or take out the money to pay themselves (ap).

Possible application marks: gardening services; house cleaning services; workers punctual with appointments; 50 part-time workers; 2 office workers; honest, reliable and hard-working employees; elderly people; old people; adult children; financial information from Appendix 1; information from the graph in Appendix 3.

There may be other examples in context which have not been included here.

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- (b) Explain the following two elements of the marketing mix for the new service Jasmin is introducing. Which element do you think is more important when the service is in the introduction phase of the product life cycle? Justify your answer. (12)

Relevant points might include:

Price	<ul style="list-style-type: none"> Promotional pricing as in introduction phase Penetration pricing as trying to enter a new market Competitive pricing as need to price at a similar level to other businesses to increase sales of new service
Promotion	<ul style="list-style-type: none"> Advertise in local newspapers or leaflets through doors or posters in local shops Important to increase awareness of the service as it is new

Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.

	Knowledge/Analysis/ Evaluation
Level 3	<p>At least 2 × Level 2 + 9–10 marks for well justified conclusion as to which element is the most important in the introduction phase of the product life cycle.</p> <p>7–8 marks for some limited judgement shown in the conclusion as to which element is the most important in the introduction phase of the product life cycle.</p>
Level 2	<p>4–6 marks Detailed discussion of price and/or promotion for the new service. Pricing strategies should be discussed. Method of promotion identified and explained how it should be used to attract new customers.</p>
Level 1	<p>1–3 marks Outline of price and/or promotion for the new service.</p>

Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Promotional pricing

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. Promotional pricing as the new service needs to become more well known in the market and let customers know about the service that is being introduced to look after elderly parents while the adult children are at work. It encourages the growth of sales in the market with the lower price of this new service. (4 marks for L2 answer plus 1 application mark for making reference to elderly parents and their adult children being customers).

Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a conclusion as to which element is the most important in the introduction phase of the product life cycle.

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Award up to 2 additional marks for relevant application.

Possible application marks: gardening services; house cleaning services; country X; advertising in local newspaper; income in country X is increasing; elderly people; adult children; old people; financial information from Appendix 1; information from the graph in Appendix 3 e.g. number of people aged 61 and over is increasing.

There may be other examples in context which have not been included here.



Cambridge International Examinations
Cambridge International General Certificate of Secondary Education

BUSINESS STUDIES

0450/23

Paper 2 Case Study

October/November 2016

MARK SCHEME

Maximum Mark: 80

Published

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This document consists of **9** printed pages.

Page 2	Mark Scheme	Syllabus	Paper
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- 1 (a) Identify and explain two possible reasons why Bethany wants the business to remain small. [8]

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

Relevant points might include:

Award one mark for each relevant reason (maximum of two), such as:

- To stay as her own boss
- To make all the decisions
- No one to fall out with
- No one to share the profits with
- Size of the market – not able to expand
- Better communication with customers and employees
- Easier to control
- Lack of capital to expand
- Satisficing/happy with level of profit

Award a maximum of three additional marks for **each** explanation – **2 of which must be applied to this context** – of the reasons why the owner wants the business to remain small.

Indicative response:

To stay as her own boss (k) as Bethany has run the business successfully for 10 years (ap) and she does not want anyone telling her what to do or disagreeing with her decisions (an). The business idea is all her own and so she does not want to have anyone else influencing her decisions about which treatments to offer clients (ap).

Possible application marks: beauty salon in main city; expanding and taking on a partner as additional manager; sole trader for 10 years; women customers of all ages; 2 qualified workers; administration tasks carried out when salon closed; appointments booked by telephone; unlimited liability; not a lot of free time; beauty; manicure/pedicure/ massage.

There may be other examples in context which have not been included here.

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- (b) Bethany is thinking of forming a business partnership. Explain the following three factors Bethany should consider when choosing a partner. Which factor do you think is most important? Justify your answer. (12)

Relevant points might include:

Knowledge of new technology	Know how to use new machines – can operate new machines – less training – less costs – train other staff – more knowledge than Bethany – may feel like partner is more important than Bethany – she started the business and may want to feel in control
Experience in managing a beauty salon	More efficient – knows what to do frees up time for Bethany – each specialise in different parts of the business – may make decisions Bethany does not like
Capital to invest	Provides capital to buy new machines – no need for loans – less interest to pay – but will expect to share profit – have a say in how the business is run

Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.

	Knowledge/Analysis/ Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified conclusion of which factor is most important and why others are less important. 7–8 marks for some limited judgement shown in conclusion of which factor is most important.
Level 2	4–6 marks Detailed discussion of each factor.
Level 1	1–3 marks Outline of each factor.

Level 1 – 1 mark for each L1 statement (max of 3 marks), e.g. If new partner knows how to use machines they can show others what to do.

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 new partner knows how to use machines they can show others what to do. This will save time and costs on training the other 2 beauticians when the new machines are purchased. It will also mean the other beauticians can carry out these treatments for clients allowing more clients to be served using the new machines and increasing revenue. (4 marks for L2 answer + 1 application mark for mentioning 2 beauticians).

Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a conclusion of which factor is most important.

Award up to 2 additional marks for relevant application.

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Possible application marks: sole trader for 10 years; beauty reputation is good; higher prices for treatments; new equipment; small business; women customers of all ages; 2 qualified workers; administration tasks carried out when salon closed; old equipment purchased 10 years ago; new machines dry nails quickly; appointments booked by telephone; details of new technology from Appendix 3.

There may be other examples in context which have not been included here.

2 (a) Identify and explain two reasons why it is important to Bethany to identify changes in customer preferences. (8)

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

Relevant points might include:

Award one mark for each relevant reason (maximum of two), such as:

- To meet customer needs
- To remain competitive
- Keep a good reputation
- Keep customer loyalty/maintain demand

Award a maximum of three additional marks for **each** explanation – **2 of which must be applied to this context** – of the reasons why it is important to identify changes in customer preferences.

Indicative response:

To meet customer needs (k) as Bethany wants to run the business successfully to make a profit (an) and she needs to offer the services to her clients that they want otherwise she will lose customers to other beauty salons (ap). She will need to know if certain treatments are wanted and if she doesn't offer them at the moment then she will need to learn how to do them (ap).

Possible application marks: beauty salon in main city; small business; beauty workers; sole trader for 10 years; women customers of all ages; 2 qualified workers; old equipment purchased 10 years ago; new machines dry nails quickly; higher prices for new treatments; appointments booked by telephone; financial information from Appendix 2; details of new technology from Appendix 3.

There may be other examples in context which have not been included here.

- (b) Bethany wants to offer a quality service. Consider the following three ways she could use to achieve good quality service at the salon. Which do you think is the most important way? Justify your answer. (12)

Relevant points might include:

	Advantages	Disadvantages
Only employ highly trained staff	Ensures customer satisfaction	Expect higher wages
Record all customer complaints	Identify problems and try to correct them	Takes time to do this and not all customers will tell you when they are not happy
Only buy the best quality materials to use in the salon	Helps establish an image of high quality	High price may put off potential customers

Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.

	Knowledge/Analysis/ Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified conclusion of the best way to achieve good quality service rather than the other ways. 7–8 marks for some limited judgement shown in the conclusion of the best way to achieve good quality service.
Level 2	4–6 marks Detailed discussion of advantages and disadvantages of each way.
Level 1	1–3 marks Outline of advantages and disadvantages of each way.

Level 1 – 1 mark for each L1 statement (max of 3 marks), e.g. Helps to establish an image of high quality.

Level 2 – 1 x L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks), e.g. Helps to establish an image of high quality as only the highest quality materials are used in the nail treatment of clients. This should help to ensure that the nail treatment itself will be effective and make the customer happy with their service. (4 marks for L2 answer + 1 application mark for mentioning nails treatments).

Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a conclusion of the best way to achieve good quality service

Award up to 2 additional marks for relevant application.

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Possible application marks: sole trader for 10 years; clients; treatments; small business; women customers of all ages; 2 qualified workers; administration tasks carried out when salon closed; old equipment purchased 10 years ago; new machines dry nails quickly; appointments booked by telephone; details of new technology from Appendix 3.

There may be other examples in context which have not been included here.

3 (a) Identify two fixed costs and two variable costs of BB and explain why the costs are fixed or variable. (8)

Knowledge [4 × 1] – award up to two marks for each explanation of fixed/variable cost

Application [4 × 1] – award one application mark for each fixed/variable cost

Award one mark for each example of fixed/variable costs (maximum of two for fixed and two for variable costs), such as:

Fixed – rent of the salon; insurance for the salon; bank fees; Bethany's salary; lease of equipment.

Variable – beautician wages; salon materials such as nail varnish.

Award a maximum of two additional marks for **each** explanation of why the costs are fixed/variable

Indicative response:

Fixed cost: rent of salon (1)

The rent of the salon is fixed because it has to be paid no matter how many clients Bethany has (1) is does not vary with output (1)

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- (b) Consider the weekly forecasts in Appendix 2 for the possible additional services. Recommend which service Bethany should choose. Justify your answer using profit calculations for the two services. [12]

Relevant points might include:

Sun tan beds	\$1000 (L1) – \$500 (L1) = Profit = \$500 (L2) Gross profit = \$960 (L2)	NPM = 50% (L2) GPM = 96% (L2)
Hairdressing	\$1250 (L1) – \$700 (L1) = Profit = \$550 (L2) Gross profit \$1125 (L2)	NPM = 44% (L2) GPM = 90% (L2)

Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.

	Analysis/ Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified recommendation as which service to choose and why not the alternative service. 7–8 marks for some limited judgement shown in recommendation as which service to choose.
Level 2	4–6 marks Calculation of profit/profitability for the two services.
Level 1	1–3 marks Outline of the two services.

Level 1 – 1 mark for each L1 statement (max of 3 marks), e.g. sun tan beds has 150 more customers than hairdressing.

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 profit made for hairdressing is \$550. (4 marks for L2 answer).

Level 3 – For L3 to be awarded there needs to be at least two L2 calculations awarded and then a recommendation as which service to choose and why not the alternative service.

Award up to 2 additional marks for relevant application.

Possible application marks: beauty salon in Main city; beauty products; women customers of all ages; 2 qualified workers; old equipment purchased 10 years ago; new machines dry nails quickly; details of new technology from Appendix 3.

There may be other examples in context which have not been included here.

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- 4 (a) Identify and explain two reasons why effective communication between Bethany and her employees is important. [8]

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

Award one mark for each relevant reason (maximum of two), such as:

- To ensure instructions are understood
- To ensure employees carry out the instructions correctly
- To ensure mistakes are not made
- To make sure the business works efficiently
- To ensure customers are given correct information
- Find customer preferences from employees
- Inaccuracy causes poor reputation
- Collaboration better between worker and owner
- Motivation is better between worker and owner

Award a maximum of three additional marks for **each** explanation – **2 of which must be applied to this context** – of the reasons why effective communication between the owner and employees is important.

Indicative response:

To ensure mistakes are not made by employees [k] as the beauticians may not have much experience in managing a salon only in how to carry out treatments (ap). They may make decisions which are not good for the business and cause it to lose money if Bethany does not communicate effectively with employees what to do (an). This might be to do with checking client appointments have been made correctly and the two beauticians know when to expect clients and what treatment they want (ap).

Possible application marks: beauty salon in main city; expanding and taking on a partner as additional manager; sole trader for 10 years; women customers of all ages; 2 qualified workers; administration tasks carried out when salon closed; old equipment purchased 10 years ago; new machines dry nails quickly; appointments booked by telephone; financial information from Appendix 2; salon; clients; details of new technology from Appendix 3.

There may be other examples in context which have not been included here.

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- (b) Consider three ways new technology could help Bethany improve her business. Recommend which way is likely to have the most effect on profit. Justify your answer. [12]

Relevant points might include:

- Mobile devices App – improve marketing
- Website – cheaper advertising
- Accounting software – improves efficiency
- New equipment used in the salon – improve treatments

Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.

	Knowledge/Analysis/ Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified recommendation justifying which new technology has the greatest effect on profit. 7–8 marks for some limited judgement shown in recommendation justifying which new technology has the greatest effect on profit.
Level 2	4–6 marks Detailed discussion of how the ways of using new technology can help to improve the business.
Level 1	1–3 marks Outline of ways new technology can help to improve the business.

Level 1 – 1 mark for each L1 statement (max of 3 marks), e.g. App for mobile devices to increase advertising.

Level 2 – 1x L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks), e.g. app for mobile devices to increase advertising and make the salon services more well known amongst younger phone users attached to other apps so that when a person looks at a particular site then the advertising of the salon will also appear. This is an efficient way to get the message of the salon across to many people at a low cost. 4 marks for L2 answer + 1 application mark for mentioning the salon).

Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation justifying which new technology has the greatest effect on profit.

Award up to 2 additional marks for relevant application.

Possible application marks: beauty salon in main city; younger skin; treatments; expanding and taking on a partner as additional manager; sole trader for 10 years; women customers of all ages; 2 qualified workers; administration tasks carried out when salon closed; old equipment purchased 10 years ago; new machines dry nails quickly; appointments booked by telephone; financial information from Appendix 2; details of new technology from Appendix 3.

There may be other examples in context which have not been included here.