



## Grade thresholds – November 2017

### Cambridge IGCSE Business Studies (0450)

Grade thresholds taken for Syllabus 0450 (Business Studies) in the November 2017 examination.

	maximum raw mark available	minimum raw mark required for grade:						
		A	B	C	D	E	F	G
Component 11	80	48	40	31	26	21	16	11
Component 12	80	43	36	29	24	19	15	11
Component 13	80	42	34	27	22	18	13	8
Component 21	80	47	38	30	25	20	15	10
Component 22	80	50	41	33	28	23	17	11
Component 23	80	46	38	30	25	20	14	8

Grade A\* does not exist at the level of an individual component.

The maximum total mark for this syllabus, after weighting has been applied, is **160**.

The overall thresholds for the different grades were set as follows.

Option	Combination of Components	A*	A	B	C	D	E	F	G
AX	11, 21	112	95	78	61	51	41	31	21
AY	12, 22	109	93	77	62	52	42	32	22
AZ	13, 23	104	88	72	57	47	38	27	16



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**BUSINESS STUDIES**

**0450/21**

Paper 2

**October/November 2017**

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This document consists of **3** printed pages and **1** blank page.

### Animal Hotel (AH)

AH was a business idea of Elsie's. She loves animals and wanted to provide services to support busy animal owners. Services offered include washing, brushing, exercising and caring for animals overnight. Elsie is a qualified animal nurse. She set up her own business 2 years ago with \$10 000 given by her grandfather and a bank loan for \$10 000. The business is located in the centre of New City.

Elsie employs 12 adults and 6 children to help look after the cats, dogs and other animals. The adult workers are low skilled and are paid the legal minimum wage. The children are all under the age of 12 and are paid very low wages, which are below the legal minimum wage. Materials such as shampoo and brushes are purchased from a local wholesaler.

Elsie has been very successful in the first two years of trading. If she wants to expand the business she will need to move to a bigger site and employ many more people. Elsie will need to recruit a manager for the new site.

She is considering the following three sites.

	Site X	Site Y	Site Z
Size of site	10 000 m <sup>2</sup>	5 000 m <sup>2</sup>	1 000 m <sup>2</sup>
Buildings	Small farm buildings in need of repair at a cost of \$10 000. There is space to expand.	All in good condition. They will need changing for use with animals, at a cost of \$5 000.	Ready for use with animals and in good condition. No spending required.
Distance from New City	10 miles and not near main road	Edge of New City near main road	Centre of New City on main road
Cost of site	\$10 000	\$20 000	\$60 000
Maximum number of animals that AH can care for overnight	20	40	120
Maximum number of animals that can be washed and brushed per day	20	30	50

## Appendix 1

### Advert for Animal Hotel (AH)



All animals washed and brushed and cared for overnight when you are away from home.

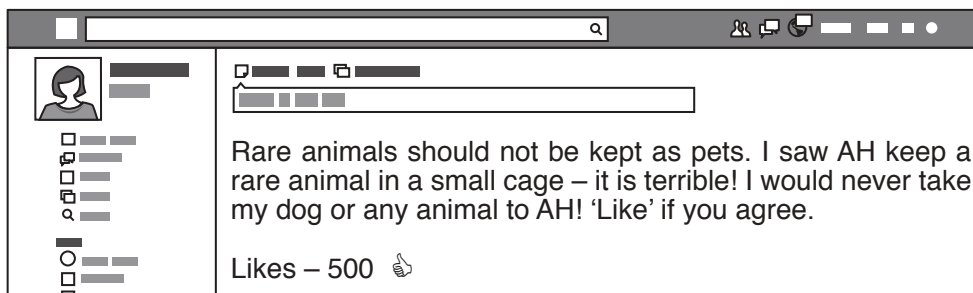


Animal training and advice given.

Need your animal looking after when you are at work? AH provides a happy place for your animal to spend the day! Your animal is worth it!!

## Appendix 2

### Social media message from customer of AH



## Appendix 3

### Selected financial information for AH

Average price per night per animal	\$5
Average number of animals cared for overnight	25
Average price for washing and brushing an animal	\$10
Average number of animals per day	25
Total costs of operating AH per day	\$325

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**BUSINESS STUDIES**

**0450/22**

Paper 2

**October/November 2017**

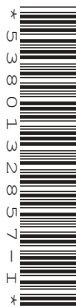
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## Garden Supplies (GS)

GS is a partnership. It was set up last year by two brothers. The business grows plants and trees on land owned by the brothers in New City. The brothers each invested \$5000 of their own money to buy this land. Customers buy plants and trees from GS for their gardens. GS also cares for the gardens of several luxury hotels in New City.

The business employs 2 gardeners. However, GS has just gained new business contracts with other hotels in New City. This expansion will require another 4 gardeners to be recruited. The brothers must ensure that the gardeners maintain the good reputation of GS or the business will lose customers. The behaviour of the gardeners is as important as their quality of work.

New gardening equipment is required to ensure their employees can be efficient, such as when cutting grass or plants. This new equipment will cost \$10 000.

GS has a high level of inventory. The brothers want to buy more land to expand the business. They are considering the following three sites.

Site X:

\$5000 for 10 000m<sup>2</sup> of good fertile land. It has been used for growing vegetables. It has no buildings on the land and no road leading to it. It is 30 miles from New City.

Site Y:

\$12 000 for 6000m<sup>2</sup> of land on the edge of New City. There are two large glasshouses for growing plants. However, they need repairing which will cost another \$4000. There is a road nearby but it is not near a main road. It is 5 miles from the hotels.

Site Z:

\$30 000 for 2000m<sup>2</sup> in New City. It has a glasshouse and also has a shop with a car park. It is next to a main road. There are houses all around it, so there is no room to expand the business.

## Appendix 1

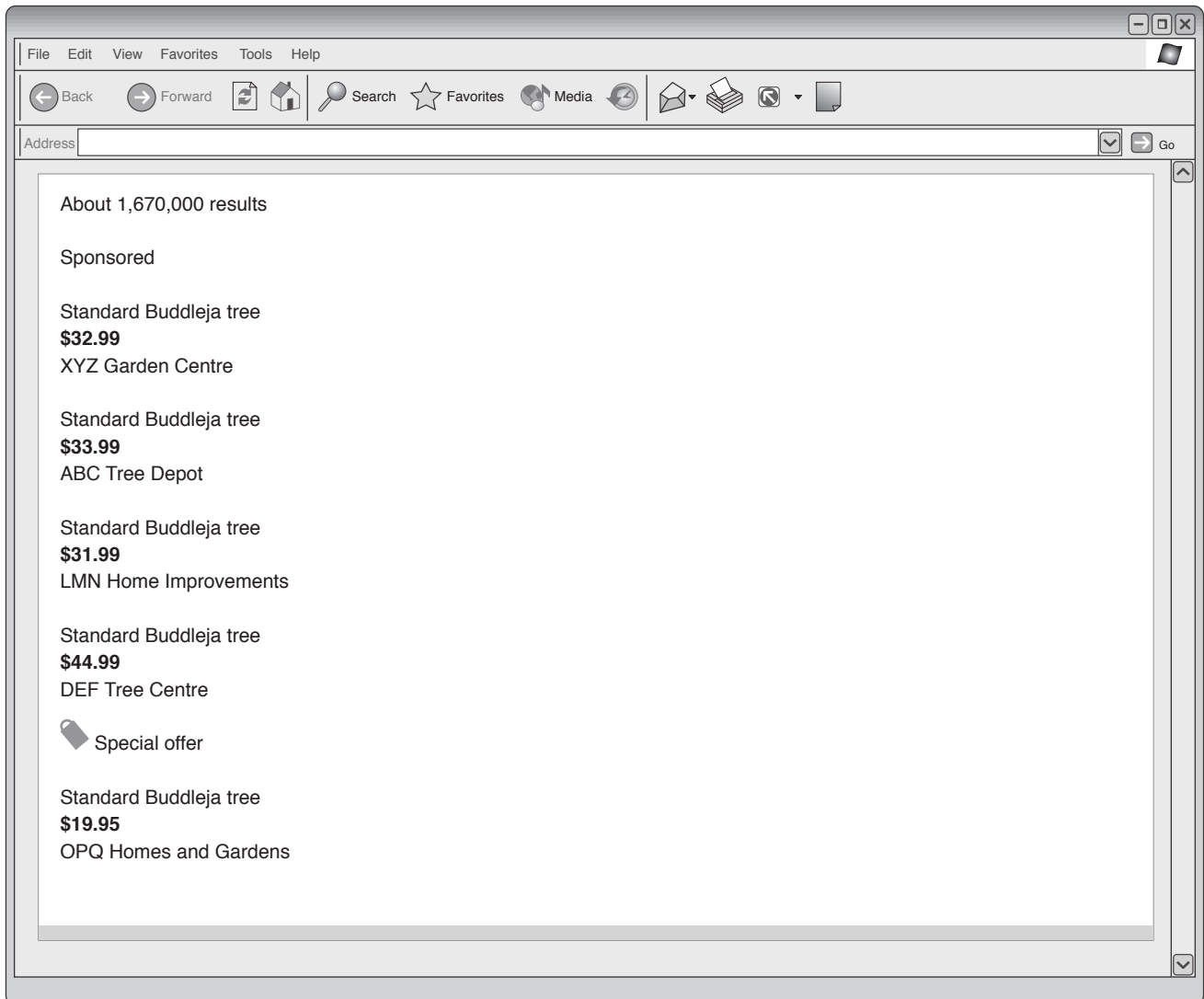
### Advert for GS



The finest quality plants money can buy anywhere in the world. We sell plants and trees at the lowest prices available. GS will deliver free of charge. We will also make containers of plants to your own orders with plants and colours of your choice.

## Appendix 2

### Internet search by the brothers on competitors' prices for one type of tree



## Appendix 3

### GS: financial information for the first year of trading (\$)

Revenue from selling plants and trees	40 000
Revenue from hotels	20 000
Cost of materials (e.g. seeds and pots)	10 000
Labour costs	35 000
Transport	8 000
Other expenses	2 000

### Financial information for similar garden businesses

Average gross profit margin	= 90%
Average profit margin	= 20%
Average profit per year	= \$30 000



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**BUSINESS STUDIES**

**0450/23**

Paper 2

**October/November 2017**

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**Belle's Babies (BB)**

BB is a children's nursery. It is owned by the Belle family as a private limited company. It was started 10 years ago and is managed by Stella Belle who is the nursery manager. BB provides care for babies and children up to school age during the day – 5 days a week. All of BB's customers are parents who work and need their children cared for in the daytime.

The manager is considering also offering an 'after school care' service. With this service, children will be collected from school and then cared for at BB until their parents get them after work.

Stella likes the nursery to operate efficiently. There are also 3 supervisors who are qualified in childcare. They plan the care and activities for the babies and children during the day. There are 15 young inexperienced care workers who have to be told what to do.

The Belle family wants the business to expand. There has been increasing economic growth in the last few years, with many new factories being set up in the city. There is a growing demand from parents to have their children cared for while they go to work. The Government is keen to support nursery start-ups. This means more parents are able to go out to work and this helps businesses recruit employees. Unemployment is low.

Stella is considering the following two options for expansion.

**Option 1:**

Take over an existing nursery business. It has a reputation for being badly managed. However, Stella thinks that if she invests \$5000 into providing better equipment and employs better trained managers then it can be improved. It is located in a low-income part of the city, so she would have to keep prices low.

**Option 2:**

Buy a building and change it to a nursery. The building would be paid for by further investment by the Belle family. This will take a lot of time to get the building to meet safe standards for children to use it. Stella forecasts the cost of the improvements and new equipment to be \$20000. This building is located in a high-income part of the city and Stella thinks she can increase prices at this nursery.

## Appendix 1

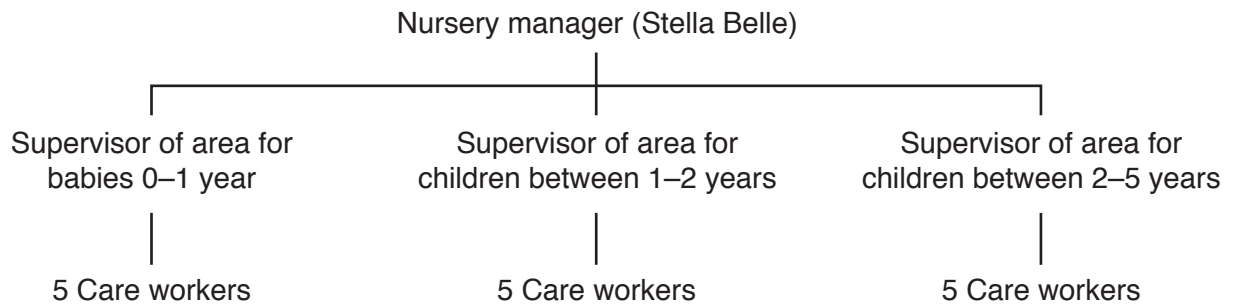
### Advert for BB



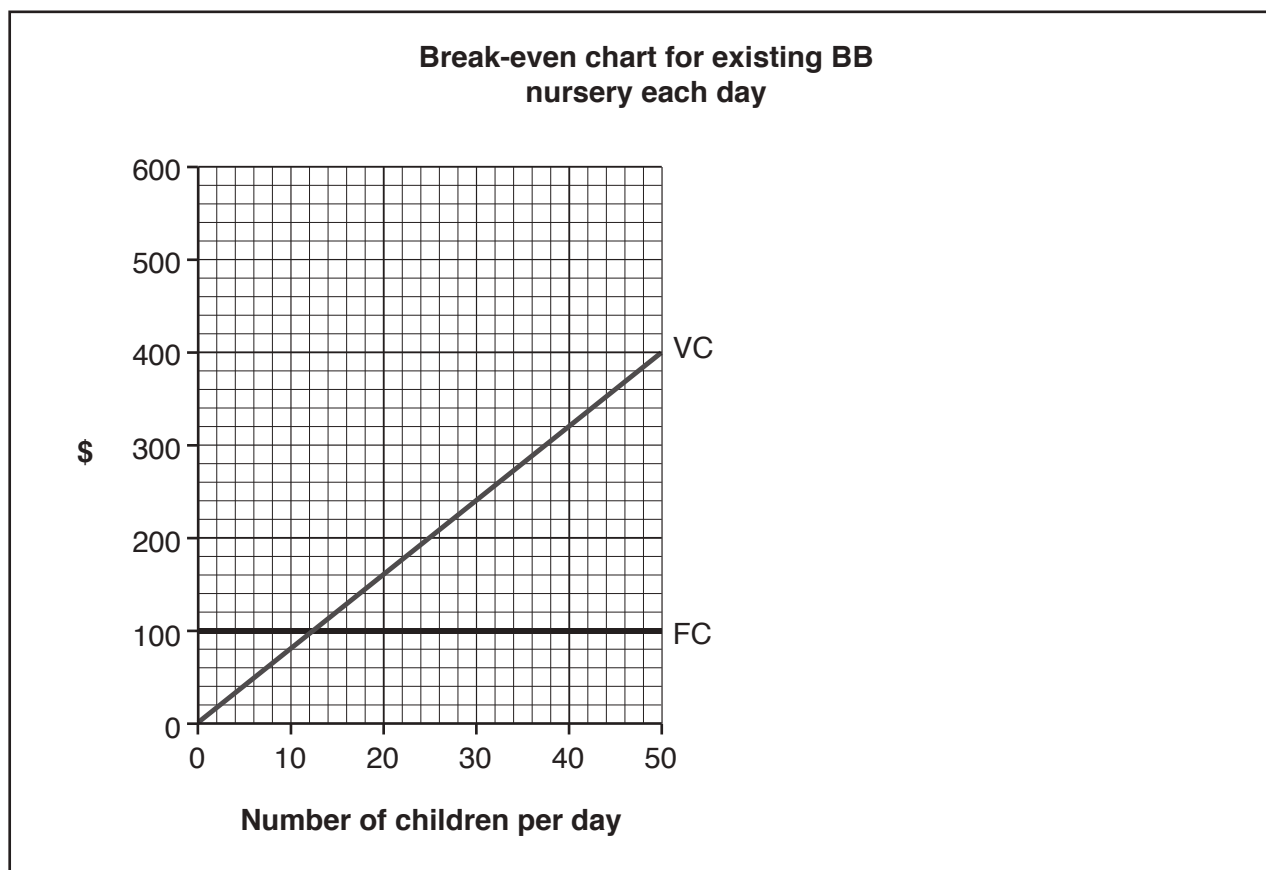
Care for babies from birth – low prices – children well cared for – lots of games played to keep them happy – lots of equipment/toys available – highly recommended by many happy parents

## Appendix 2

### Organisation chart for BB



## Appendix 3



Price = \$12 per child per day

FC = Fixed cost

VC = Variable cost

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**BUSINESS STUDIES**

**0450/11**

Paper 1 Short Answer/Structured Response

**October/November 2017**

MARK SCHEME

Maximum Mark: 80

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**Published**

This mark scheme is published as an aid to teachers and candidates, to indicate the requirements of the examination. It shows the basis on which Examiners were instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began, which would have considered the acceptability of alternative answers.

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

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

Question	Answer	Marks	Guidance
1(a)	<p><b>Identify two characteristics of a successful entrepreneur.</b></p> <p>Knowledge [2 × 1] – award 1 mark for each relevant characteristic</p> <p>Points could include: risk taker, innovator, creative, self-confident, optimistic, hardworking, independent, effective communicator, leadership, initiative, self-motivating/determined, results driven, good at networking, multi-skilled</p>	<b>2</b>	Award any reasonable answer.
1(b)	<p><b>Identify two possible reasons why Ella plans to produce the lights in another country</b></p> <p>Application: [2 × 1] award 1 mark for each relevant reason</p> <p>Points might include:</p> <ul style="list-style-type: none"> <li>• lower costs</li> <li>• no local factory or capacity to make it</li> <li>• access to materials</li> <li>• Fewer restrictions</li> </ul>	<b>2</b>	
1(c)	<p><b>Identify and explain two reasons why obtaining finance might be difficult for Ella's business.</b></p> <p>Knowledge [2 × 1] – award 1 mark for each relevant reason Application [2 × 1] – award 1 mark for each explanation in context</p> <p>Possible points might include:</p> <ul style="list-style-type: none"> <li>• No business experience [k] of making lights [app]</li> <li>• Seen as higher risk OR don't trust her OR can't repay [k] as just left college [app]</li> <li>• Can offer no security [k]</li> <li>• May not have a business plan OR documentation to support request for finance [k]</li> <li>• Unproven product [k]</li> </ul>	<b>4</b>	Application marks may be awarded for appropriate use of the following: just left college, bicycle light, new business or product or entrepreneur, produce in another country, correct use of numbers e.g. \$8, \$500, \$750 and \$300.

Question	Answer	Marks	Guidance
1(d)	<p><b>Identify and explain one advantage and one disadvantage to Ella of using price skimming.</b></p> <p>Knowledge [2 × 1] award one mark for one advantage and one disadvantage            Application [2 × 1] award one mark for each relevant reference to this business            Analysis [2 × 1] award one mark for each relevant explanation</p> <p>Points might include:</p> <p>Advantages:</p> <ul style="list-style-type: none"> <li>Recover costs quicker [k] as need to sell fewer than 300 [app] to pay for development [an]</li> <li>Gives the image of a quality product [k] which can attract wealthy customers [an] to try out the new light [app]</li> <li>Higher revenue <b>per item</b>[k]</li> <li>Break even at a lower output [k]</li> </ul> <p>Disadvantages:</p> <ul style="list-style-type: none"> <li>Put off some potential customers [k] leading to lower sales[an]</li> <li>Only work in short term [k] as competitors could produce cheaper alternatives [an]</li> </ul>	6	<p>Application marks may be awarded for appropriate use of the following:</p> <p>just left college, light, new business, new product, new entrepreneur, produce in another country, raising finance difficult, correct use of numbers, safety features</p> <p>Note: be wary of ‘higher sales’/ ‘higher revenue’ as a K point. It must be per unit</p>
1(e)	<p><b>Recommend which promotion option Ella should choose. Justify your answer using the information in Table 1.</b></p> <p>Knowledge [1] – award 1 mark for identification of relevant points (s)            Application [1] – award 1 mark for 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 method of promotion Ella should use</p> <p>Points might include:</p> <ul style="list-style-type: none"> <li>Option 2 is cheaper [k] as is \$200 less than option 1[app] + [an]</li> <li>Ella can’t afford much advertising [k] as a new business [app] she can’t afford a website [an]</li> <li>Specialist magazine reaches the target market [k] for bicycle lights [app] therefore likely to sell more [an]</li> <li>Website may not be required [k] already has an order for 300[app]</li> </ul>	6	<p>Application marks may be awarded for appropriate use of the following:</p> <p>just left college, light, new business, produce overseas, raising finance difficult, price skimming, correct use of numbers, magazine, website</p> <p>Either option is acceptable if justified.</p> <p><b>Note: \$250 is incorrect</b> as this is an incorrect calculation of the difference between the cost of a website with and without online ordering</p>



Question	Answer	Marks	Guidance
2(a)	<p><b>What is meant by ‘productivity’?</b></p> <p>Clear understanding [2] e.g. a measure of the output of a business in relation to its inputs [2] OR effective utilisation of resources in a time period [2] Equation: output divided by Input [2]</p> <p>Some understanding [1] e.g. output per worker OR measure of efficiency OR rate at which they produce goods</p>	2	
2(b)	<p><b>Identify two reasons why a business might need working capital.</b></p> <p>Knowledge [2 × 1] award one mark per reason</p> <ul style="list-style-type: none"> <li>• Paying invoices/bills</li> <li>• Day to day expenses</li> <li>• Buying raw materials</li> <li>• Paying wages</li> <li>• Paying salaries</li> <li>• Paying rent</li> <li>• Re-payment of short term debts</li> <li>• Paying utilities</li> <li>• Use in an emergency</li> <li>• Evidence to support requests for finance</li> </ul>	2	
2(c)	<p><b>Calculate the following values shown on the cash flow forecast.</b></p> <p>Application [4] award one mark per correct answer</p> <p><b>W:</b> 5 or 5000  <b>X:</b> 75 or 75 000  <b>Y:</b> 5 or 5000  <b>Z:</b> (10) or (10 000)            Note: <b>Z</b> must be shown as a negative number to be credited.</p>	4	<p>Note: answers can be written on the cash flow forecast or in the space provided</p> <p><b>Do not</b> use OFR as no wage calculation is required.</p>

Question	Answer	Marks	Guidance
2(d)	<p><b>Identify and explain one advantage and one disadvantage to NMBJ of having a low level of inventory.</b></p> <p>Knowledge [2 × 1] – award 1 mark for one advantage and one disadvantage identified  Application [2 × 1] – award 1 mark for each relevant reference made to this business  Analysis [2 × 1] – award 1 mark for each relevant explanation</p> <p>Possible points might include:</p> <p>Advantages:</p> <ul style="list-style-type: none"> <li>• Lower inventory holding costs [k] help reduce variable costs [an]</li> <li>• Lower security OR rent costs OR insurance [k] as less space needed [an] for ingredients [app]</li> <li>• More flexible [k] as adapt to each different batch [app] to keep customers returning [an]</li> <li>• Help cash flow [k]</li> <li>• Less risk of waste OR damage OR obsolescence [k] which could lower productivity [app]</li> </ul> <p>Disadvantages:</p> <ul style="list-style-type: none"> <li>• Possible delays in production [k] as batches delayed [app] leading to lower output [an]</li> <li>• Few OR no purchasing economies of scale [k] which could help reduce cash outflows [app]</li> <li>• Not able to meet orders [k] for cookies [app] so could damage reputation [an]</li> </ul>	<b>6</b>	<p>Application marks may be awarded for appropriate use of the following:</p> <p>cookies/biscuits, related words such as ingredients or examples, productivity, use of numbers, batch production, \$1.5 million.</p> <p>Note: Points can refer to raw materials or finished goods.</p>

Question	Answer	Marks	Guidance
2(e)	<p><b>Do you think paying higher wages is the best way for NMBJ to improve employee motivation? Justify your answer.</b></p> <p>Knowledge [1] – award 1 mark for identification of relevant points(s)            Application [1] – award 1 mark for relevant reference made to this business            Analysis [2] – award up to 2 marks for relevant development of point(s)            Evaluation [2] award up to 2 marks for justified decision as to whether paying higher wages is the best way for NMBJ to improve employee motivation</p> <p>Points might include</p> <ul style="list-style-type: none"> <li>• Only a short term incentive [k] have to pay, whatever the output [an]</li> <li>• Money is the main motivator [k]</li> <li>• Other ways to motivate e.g. job rotation, enrichment, fringe benefits [k]</li> <li>• Help retain workers [k] so not as many people leave [app] leading to lower recruitment costs [an]</li> <li>• This will increase costs for the business [k] by \$15 000 per month [app] so output per worker would need to rise [an]</li> </ul>	6	<p>Application marks may be awarded for appropriate use of the following:</p> <p>correct use of numbers, batch production, cookies or related words such as ingredients; workers leave, profits increased, 1.5 million, increased productivity</p> <p>Candidates could calculate value of wages per worker (to show increase i.e. \$200 to \$250) App and AN</p> <p>Note: The focus needs to be on the business for analysis to be awarded.            e.g. 'Job rotation is a better motivator[k] so workers are not bored' is only awarded as knowledge</p>

Question	Answer	Marks	Guidance
3(a)	<p><b>What is meant by 'economies of scale'?</b></p> <p>Clear understanding: [2] factors that lead to lower average costs as a business increases in size.</p> <p>Some understanding: [1] benefit of increasing in size</p>	2	Do not award answers such as 'benefit of being big' as this does not explain the term

Question	Answer	Marks	Guidance
3(b)	<p><b>What is meant by ‘autocratic leadership style’?</b></p> <p>Clear understanding: [2] managers expect to be in charge of business and expect their orders to be followed OR managers make decisions without consulting workers [2]</p> <p>Some understanding: [1] workers have no say in decisions OR decisions made by managers [1]</p>	2	
3(c)	<p><b>Identify and explain one advantage and one disadvantage of GDC’s organisational structure.</b></p> <p>Knowledge [2 × 1] award 1 mark for one advantage and one disadvantage identified Application [2 × 1] award 1 mark for each explanation in context</p> <p>Advantages</p> <ul style="list-style-type: none"> <li>• Employees have a clearly defined role [k] so know where they fit into delivery process [app]</li> <li>• Clear chain of command OR know their manager [k] so know who to ask for help if problem with a parcel [app]</li> <li>• Employees have a clear career structure [k] so can see how to progress from driver [app]</li> <li>• Specialists can be employed [k]</li> </ul> <p>Disadvantages</p> <ul style="list-style-type: none"> <li>• Slow communication [k] due to many number of levels [app]</li> <li>• Heavy workload for managers [k] so do they have time to focus on expansion [app]</li> <li>• Communication between departments can be difficult [k] which could damage its good reputation [app]</li> <li>• Can create rivalry between departments [k]</li> <li>• Workers can feel isolated [k]</li> </ul>	4	<p>Application marks may be awarded for appropriate use of the following:</p> <p>competitive market, expand to other countries, correct use of numbers, business customers, good reputation, delivery, parcels, many levels of hierarchy, long chain of command, 5000 employees, autocratic.</p>

Question	Answer	Marks	Guidance
3(d)	<p><b>Identify and explain two reasons why a good reputation might be important to GDC.</b></p> <p>Knowledge [2 × 1] award one mark for each reason  Application [2 × 1] award one mark for each relevant reference to this business  Analysis [2 × 1] award one mark for each relevant explanation</p> <p>Points might include:</p> <ul style="list-style-type: none"> <li>• Build trust OR loyalty [k] so customers want to use their delivery services [app] and keep purchasing from them [an]</li> <li>• Attract new customers [k] and therefore sales will increase [an]</li> <li>• Easier to raise finance [k] which could help growth plans [app]</li> <li>• Way to attract OR retain employees [k] so able to offer a good service [an]</li> <li>• Can charge higher prices [k] for each delivery [app] helping it increase revenue per unit [an]</li> <li>• Create brand awareness [k] so customers do not buy from competitors [an] in this competitive market [app]</li> <li>• Word of mouth promotion [k]</li> </ul>	6	Application marks may be awarded for appropriate use of the following: competitive market, expand to other countries, use of numbers, business customers, delivery, parcels, many levels of hierarchy, long chain of command
3(e)	<p><b>Recommend the most suitable way for GDC to expand its business to another country. Justify your answer.</b></p> <p>Knowledge [1] – award 1 mark for identification of relevant points (s)  Application [1] – award 1 mark for relevant reference made to this business  Analysis [2] – award up to 2 marks for relevant development of point(s)  Evaluation [2] award up to two marks for justified decision regards to the most suitable way for GDC to expand.</p> <p>Relevant points might include:</p> <ul style="list-style-type: none"> <li>• Joint venture [k] with a local delivery business [app] you share the risks of expansion [an]</li> <li>• Merger/takeover [k] they will benefit from local expertise [an]</li> <li>• Franchise [k] they will receive a license fee [an]</li> <li>• Set up own operations [k] they will keep control [an] however this is an expensive way [an]</li> </ul>	6	Application marks may be awarded for appropriate use of the following: competitive market, correct use of numbers, business customers, good reputation, delivery, parcels, many levels of hierarchy, long chain of command, delivery vehicles, economies of scale, logistics  Note: Do not award marketing methods e.g. e-commerce or hiring an agent.

Question	Answer	Marks	Guidance
4(a)	<p><b>What is meant by a ‘stakeholder group’?</b></p> <p>Clear understanding [2]: any person or people with a direct interest in the performance and activities of a business</p> <p>Some understanding [1]: someone affected by what a business does</p>	<b>2</b>	Do not award examples.
4(b)	<p><b>Identify two ways (other than legal controls) that a government might use to influence business decisions.</b></p> <p>Knowledge [2 × 1] award one mark per way</p> <p>Points might include:</p> <ul style="list-style-type: none"> <li>• cheaper rents</li> <li>• loans OR grants OR subsidies</li> <li>• training</li> <li>• interest rates</li> <li>• taxation</li> <li>• build infrastructure</li> </ul>	<b>2</b>	

Question	Answer	Marks	Guidance
4(c)	<p><b>Identify and explain one advantage and one disadvantage of CHONS being a public limited company.</b></p> <p>Knowledge [2 × 1] award one mark for each advantage and disadvantage Application [2 × 1] award one mark for each relevant reference to this business</p> <p>Advantages:</p> <ul style="list-style-type: none"> <li>• Able to sell shares on stock market [k] so no limit to potential number of shareholders [app]</li> <li>• Access to more sources of finance [k] so do not have to ask for support from Government [app]</li> <li>• Limited liability [k]</li> <li>• Separate legal identity [k] of mining business and owners [app]</li> <li>• Better status OR seen as lower risk [k] so suppliers more willing to offer credit [app]</li> </ul> <p>Disadvantages:</p> <ul style="list-style-type: none"> <li>• Have to disclose accounts [k] so less able to keep expansion plans secret [app]</li> <li>• Many legal requirements/regulations [k]</li> <li>• Selling shares expensive [k]</li> <li>• Risk of loss of control [k] for the original shareholders [app]</li> </ul>	<b>4</b>	Application marks may be awarded for appropriate use of the following: coal or mining related words, correct use of data from table, no government support, export, shareholders, suppliers, expansion plans.

Question	Answer	Marks	Guidance
4(d)	<p><b>Identify and explain two ways in which legal controls might affect CHONS.</b></p> <p>Knowledge [2 × 1] award one mark for each way identified  Application [2 × 1] award one mark for each relevant reference to this business  Analysis [2 × 1] award one mark for each relevant explanation</p> <p>Points might include:</p> <ul style="list-style-type: none"> <li>• Need to provide safety equipment [k] such as helmets for miners [app] increasing costs [an]</li> <li>• Limit working hours [k] so cannot obtain 50 m tonnes [app]</li> <li>• Minimum wages [k] so cannot afford to create 10 000 jobs [app]</li> <li>• Pollution restrictions/permits [k] as coal burning could damage environment [app] so stakeholders become unhappy [an]</li> <li>• Where business is located [k] as need Government to allow mine to be built [app] without it they cannot start operations [an]</li> <li>• Restrictions on what OR how much can be produced [k]</li> <li>• Increase costs [k]</li> <li>• Banning/restricting exports [k] CHONS would not be able to operate because they are planning to export [an] coal [app]</li> <li>• Banning/restricting imports [k]</li> </ul>	<b>6</b>	Application marks may be awarded for appropriate use of the following: coal or mining related words, no government support, correct use of data from table, export, government permission to open mine, environment, shareholders, creating jobs, 10 000



Question	Answer	Marks	Guidance
4(e)	<p><b>Do you think the Government should allow CHONS to open the coal mine? Justify your answer using the information in Table 3.</b></p> <p>Knowledge [1] – award 1 mark for identification of relevant issue(s)  Application [1] – award 1 mark for relevant reference made to this business  Analysis [2] – award up to 2 marks for relevant development of point(s)  Evaluation [2] award up to 2 marks for justified decision as to whether the Government should allow CHONS to open the coal mine</p> <p>Points might include:</p> <ul style="list-style-type: none"> <li>• Jobs created [k] for 10 000 people [app] so more money to spend in community [an]</li> <li>• Use up local coal [k] as plan to export it all [app]</li> <li>• Impact on environment [k]</li> <li>• Traffic problems created [k] which could discourage people OR other businesses setting up in area [an]</li> <li>• Other businesses will benefit [k] e.g. Suppliers [app]</li> </ul>	<b>6</b>	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>no government support,</li> <li>correct use of data from table,</li> <li>export, high unemployment,</li> <li>protect the environment, PLC,</li> <li>suppliers, shareholders, traffic</li> </ul> <p>Either viewpoint is acceptable</p> <p>Do not award reference to coal mine as application as stated in question.</p>



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**BUSINESS STUDIES**

**0450/12**

Paper 1 Short Answer/Structured Response

**October/November 2017**

MARK SCHEME

Maximum Mark: 80

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**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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This document consists of **17** printed pages.

Question	Answer	Marks	Guidance
1(a)	<p><b>What is meant by 'tertiary sector'?</b></p> <p>Clear understanding [2]: e.g. business or industry which provides OR sells services [1] to consumers OR other sectors of the economy</p> <p>Some understanding [1] e.g. provide services</p>	<b>2</b>	<p><b>Do not</b> award examples on own e.g. delivery business, accountant, shops as does not explain the term.</p> <p><b>Do not</b> award names of shops</p>
1(b)	<p><b>Calculate the revenue gained from an average flight on route 2.</b></p> <p>Good Application [2] Correct answer 6 600 (\$ not needed)</p> <p>Some application e.g. Method [1] Price × number of passengers</p> <p>OR <math>110 \times 60</math></p>	<b>2</b>	

Question	Answer	Marks	Guidance
1(c)	<p><b>Identify and explain two ways in which break-even information could help FlyAway.</b></p> <p>Knowledge [2 × 1] – award 1 mark for each relevant way</p> <p>Application [2 × 1] – award 1 mark for each explanation in context</p> <p>Possible points might include:</p> <ul style="list-style-type: none"> <li>• Shows the expected level of profit OR loss at different levels of output [k] to show which routes to expand or cut [app]</li> <li>• Shows the margin of safety [k] if sell over 70 OR 90 tickets [app]</li> <li>• Helps planning OR forecasting OR decision making [k] about passenger numbers [app]</li> <li>• Can see what will happen if costs OR prices change [k] to see if should close its (ticket) shops [app]</li> <li>• Help apply for finance [k]</li> </ul>	4	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>• passengers</li> <li>• (ticket) shops OR website OR e-commerce</li> <li>• routes</li> <li>• extra for luggage and food</li> <li>• airlines</li> <li>• flights OR trip</li> <li>• correct use of numbers</li> <li>• competitive market</li> <li>• bookings or tickets</li> <li>• low cost (airline)</li> </ul> <p><b>Do not</b> award points such as shows costs OR sales OR revenue OR profit on own as too vague.</p> <p><b>Do not</b> award show break even output or examples such as know how many tickets to sell as this information is already known. Question is asking why it is used.</p>

Question	Answer	Marks	Guidance
1(d)	<p><b>Identify and explain two ways in which FlyAway could improve customer service.</b></p> <p>Knowledge [2 × 1] – award 1 mark for each way identified</p> <p>Application [2 × 1] – award 1 mark for each relevant reference made to this business</p> <p>Analysis [2 × 1] – award 1 mark for each relevant explanation</p> <p>Possible points might include:</p> <ul style="list-style-type: none"> <li>• Training [k] so that employees know what to do [an] in case of any problems on route [app]</li> <li>• Seek feedback e.g. carrying out surveys [k] about the airline [app] to help improve customer loyalty [an]</li> <li>• Set OR enforce clear standards OR use Quality Assurance [k] to ensure that employees provide a consistent service [an]</li> <li>• Recruit suitable OR knowledgeable employees [k] to work in its shops [app] so can provide a quicker service to customers [an]</li> <li>• Treat employees well OR motivate employees [k] so want to help its passengers [app]</li> <li>• Handle complaints OR queries quickly [k]</li> <li>• Open more outlets in cities [k] to sell tickets [app] so more convenient to buy for customers [an]</li> <li>• better communication [k] e.g. text if flights are delayed [app]</li> </ul>	<b>6</b>	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>• passengers</li> <li>• (ticket) shops OR website OR e-commerce</li> <li>• routes</li> <li>• airlines</li> <li>• flights OR trip</li> <li>• correct use of numbers</li> <li>• competitive market</li> <li>• bookings or tickets</li> <li>• break-even</li> <li>• low cost (airline)</li> </ul> <p><b>Do not</b> award suggestions of better products/services e.g. free food, new routes, no charges for luggage, better planes as these relate to better service/product NOT customer service</p>

Question	Answer	Marks	Guidance
1(e)	<p><b>Do you think FlyAway should use only e-commerce? Justify your answer.</b></p> <p>Knowledge [1] – award 1 mark for identification of relevant points (s)</p> <p>Application [1] – award 1 mark for relevant reference made to this business</p> <p>Analysis [2] – award up to 2 marks for relevant development of point(s)</p> <p>Evaluation [2] – justified decision made as to whether FlyAway should use only e-commerce.</p> <p>Relevant points might include:</p> <ul style="list-style-type: none"> <li>• Less labour OR rent needed [k] so reduced costs [an] which lower break-even [app]</li> <li>• Will need <b>more</b> employees with technical skills [k] to run website [app] which will add to recruitment costs [an]</li> <li>• Security issues e.g. risk of fraud OR hacking OR problems if system does not work [k]</li> <li>• Not everyone has access to internet or is willing to use internet [k]</li> <li>• Cannot attract passing trade [k] without a shop [app]</li> <li>• Harder to stand out against competitors [k] as it is a competitive market [app] so less able to attract potential customers [an]</li> <li>• Most people prefer to buy via internet [k]</li> </ul>	<b>6</b>	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>• passengers</li> <li>• (ticket) shops OR website</li> <li>• routes</li> <li>• extra for luggage and food</li> <li>• airline</li> <li>• flights OR trip</li> <li>• correct use of numbers</li> <li>• competitive market</li> <li>• bookings or tickets</li> <li>• break-even</li> <li>• low cost (airline)</li> </ul> <p>Points must be from viewpoint of business <b>not</b> employees or customers e.g. customer convenience [TV] unless explain how this is a benefit (or not) to the business</p> <p><b>Do not</b> award answers such as wider target market OR high set up cost OR 24 hours OR can be used to advertise other services OR easy to update OR detailed information as already has a website</p>

Question	Answer	Marks	Guidance
2(a)	<p><b>Identify two advantages of specialisation.</b></p> <p>Knowledge [2 × 1] – award 1 mark for each relevant advantage</p> <p>Points might include:</p> <ul style="list-style-type: none"> <li>• Increased output OR quicker production OR increased productivity OR higher efficiency</li> <li>• lower <b>unit</b> cost OR economies of scale</li> <li>• Workers become expert OR more skilled OR focus on what they are good at</li> <li>• Improved accuracy OR better quality OR fewer mistakes OR reduced waste</li> <li>• Help improve competitiveness</li> </ul>	<b>2</b>	<p><b>Do not</b> award answers related to a niche market, e.g. able to charge higher price as this is not necessarily true of specialisation in general.</p> <p><b>Do not</b> award answers such as motivate, better reputation, specialised as too vague</p> <p><b>Do not</b> award reduced training costs on its own unless explained</p>
2(b)	<p><b>What is meant by ‘external cost’?</b></p> <p>Clear understanding [2] impact paid for by the rest of society [1] as a result of business actions [+1]</p> <p>OR Costs or disadvantages that fall on third parties that is one not directly involved in the production process [2]</p> <p>Some understanding [1] costs society has to pay</p>	<b>2</b>	<p><b>Do not</b> award examples on own as does not explain the term</p> <p>Some understanding plus example can be awarded two marks</p> <p><b>Do not</b> award ‘harms environment’ as this is too vague</p>

Question	Answer	Marks	Guidance
2(c)	<p><b>Identify and explain two ways in which CGM could try to protect the environment.</b></p> <p>Knowledge [2 × 1] – award 1 mark for each relevant way</p> <p>Application [2 × 1] – award 1 mark for each explanation in context</p> <p>Possible points might include:</p> <ul style="list-style-type: none"> <li>• Create less waste [k] by changing way make shoes [app]</li> <li>• Change materials used OR use sustainable resources [k] so reduce external costs [app]</li> <li>• Use less materials OR less packaging [k]</li> <li>• Use less energy OR renewable energy [k] by buying new technology [app]</li> <li>• Buy local [k] reducing distance travelled for raw materials [app]</li> <li>• Dispose of waste responsibly [k]</li> <li>• Recycle [k] any leftover leather [app]</li> <li>• Raise awareness of environmental issues [k]</li> <li>• Develop environmentally friendly products [k]</li> <li>• Use environmentally friendly machinery OR production methods OR examples e.g. fit filters or create less smoke or create less noise [k]</li> <li>• Reuse [k]</li> </ul>	<b>4</b>	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>• shoes</li> <li>• raw materials or examples such as leather or sewing or dye or laces</li> <li>• specialisation</li> <li>• external cost</li> <li>• job production</li> <li>• niche market</li> <li>• new technology</li> <li>• High quality (product)</li> </ul> <p>Buy new technology is [app] and cannot be awarded as [k]</p> <p><b>Do not</b> award 'reduce pollution' as this is too vague. Must explain a way that this could be achieved e.g. reduce noise</p>



Question	Answer	Marks	Guidance
2(d)	<p><b>Identify and explain one advantage and one disadvantage to CGM of using job production.</b></p> <p>Knowledge [2 × 1] – award 1 mark for one advantage and one disadvantage identified</p> <p>Application [2 × 1] – award 1 mark for each relevant reference made to this business</p> <p>Analysis [2 × 1] – award 1 mark for each relevant explanation</p> <p>Possible points might include:</p> <p>Advantages:</p> <ul style="list-style-type: none"> <li>• Meet exact customer demands OR unique [k] so able to charge higher price [an] in a niche market [app]</li> <li>• Flexible [k] which can help them remain competitive [an] in the shoe market [app]</li> <li>• More varied work leads to higher motivation [k] leading to fewer workers leaving OR less absenteeism [an]</li> <li>• Skilled workers are less likely to make mistakes [k]</li> </ul> <p>Disadvantage:</p> <ul style="list-style-type: none"> <li>• Skilled labour costs more [k] as employ 30 employees [app] which increases labour OR training costs [an]</li> <li>• Production can take longer [k] for a high quality product [app] which reduces (potential) output [an]</li> <li>• No economies of scale possible [k] when buying raw materials [app] leading to higher costs [an]</li> <li>• Costs are higher as it is often labour intensive [k]</li> <li>• Products are made to order so mistakes can be expensive to correct [k]</li> </ul>	<b>6</b>	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>• shoes</li> <li>• raw materials or examples such as leather or sewing or dye or laces</li> <li>• specialisation</li> <li>• external cost</li> <li>• niche market</li> <li>• new technology</li> <li>• want to increase profit</li> <li>• 30 or 26 employees</li> <li>• \$30 000</li> <li>• High quality (product)</li> </ul>

Question	Answer	Marks	Guidance
2(e)	<p><b>Do you think CGM should introduce new technology into the production process? Justify your answer.</b></p> <p>Knowledge [1] – award 1 mark for identification of relevant points (s)</p> <p>Application [1] – award 1 mark for relevant reference made to this business</p> <p>Analysis [2] – award up to 2 marks for relevant development of point(s)</p> <p>Evaluation [2] – justified decision made as to whether CGM should introduce new technology into the production process</p> <p>Relevant points might include:</p> <ul style="list-style-type: none"> <li>• High cost of equipment or retraining [k] at \$30 000 [app] which business might not be able to afford [an]</li> <li>• Ensure <b>consistent</b> quality [k] as machines do not need to rest [an]</li> <li>• Using cheaper raw materials puts quality at risk [K+APP]</li> <li>• Increased output OR quicker production OR increased productivity [k] reducing unit costs [an] so able to increase profit [app]</li> <li>• Impact on motivation of employees [k] e.g. as jobs will go from 30 to 26 [app] as work could become less interesting [an]</li> <li>• workers may struggle to adapt OR resist new training [k] slowing production OR decreasing productivity [an]</li> <li>• Risk to reputation [k] in this niche market [app] could lead to fewer sales [an]</li> <li>• Risk of job insecurity [k] could lead to other workers leaving as well [an]</li> <li>• Fewer employees needed [k] as 4 less [app + an] so lower labour costs [an]</li> </ul>	6	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>• shoes</li> <li>• <b>cheaper</b> raw materials or examples such as leather or sewing or dye or laces</li> <li>• specialisation</li> <li>• external cost</li> <li>• job production</li> <li>• niche market</li> <li>• <b>want to</b> increase profit</li> <li>• 30 or 26 employees</li> <li>• \$30 000</li> <li>• High quality (product)</li> </ul> <p>Note: Points can refer to business or employees</p> <p>Note productivity can be K or An, but do not award twice</p> <p><b>Do not</b> award answers which discuss different production methods</p>

Question	Answer	Marks	Guidance
3(a)	<p><b>Identify two <u>main</u> parts (other than finance) of a business plan</b></p> <p>Knowledge [2 × 1] award one mark per part</p> <p>Points might include:</p> <ul style="list-style-type: none"> <li>• Executive summary</li> <li>• Business aims OR targets OR vision statement</li> <li>• Marketing OR any element of mix e.g. pricing, product, place or promotion</li> <li>• Market research OR Competition</li> <li>• Human resources OR number of employees OR skills needed</li> <li>• Production details OR break even</li> <li>• Organisational and management details e.g. structure, type of business, name and location of business</li> </ul>	<b>2</b>	<p><b>Do not</b> award answers such as sales, wages, costs, number of resources as these are too vague</p>
3(b)	<p><b>What is meant by 'non-current assets'?</b></p> <p>Clear understanding [2]: e.g. resources owned by business to use for more than one year</p> <p>Some understanding [1]: e.g. things that are owned OR last for more than a year</p>	<b>2</b>	<p>Some understanding plus example e.g. buildings can gain 2 marks</p> <p><b>Do not</b> award 'fixed asset' as this is an alternative term for non-current assets</p> <p><b>Do not</b> award examples on own as does not explain the term</p> <p><b>Do not</b> award long time/long term as too vague</p>
3(c)(i)	<p><b>Calculate the current ratio as at 30 September 2017.</b></p> <p>Good application [2]:</p> <p>Correct answer 1.5 (times) OR 1.5:1 OR 3:2</p> <p>Some understanding [1] correct formula OR 60/40</p>	<b>2</b>	

Question	Answer	Marks	Guidance
3(c)(ii)	<p><b>Explain what the two current ratio results show about Yanis's business.</b></p> <p>Good application [2] improved OR increased [1] so better able to repay short term liabilities [1]</p> <p>Some understanding [1] improved OR has more current assets to repay debts</p> <p>Increased OR improved by 0.3 [1]</p>	<b>2</b>	<p><b>Do not</b> award statements such as 'good' liquidity as subjective comment</p> <p>For 2nd mark must explain what the result shows e.g. better able to repay current liabilities</p> <p>OFR rule does apply</p>

Question	Answer	Marks	Guidance
3(d)	<p><b>Identify two possible problems for Yanis if he expands his business. Explain what he might do to overcome each problem.</b></p> <p>Knowledge [2 × 1] – award 1 mark for each problem identified</p> <p>Application [2 × 1] – award 1 mark for each relevant reference made to this business</p> <p>Analysis [2 × 1] – award 1 mark for each relevant solution to the problem identified</p> <p>Possible points might include:</p> <ul style="list-style-type: none"> <li>• Access to finance [k] so could ask the bank for a loan to help purchase [an] his new restaurant [app]</li> <li>• Cash flow problems OR lack of working capital [k] as need to buy additional ingredients [app] so try to arrange higher credit limit [an]</li> <li>• Need to recruit more workers [k] so needs to decide on a suitable way to advertise vacancies [an] such as catering magazines [app]</li> <li>• Communication problems [k] could hold regular meetings to keep everyone informed OR involved [an] with his chefs or serving staff [app]</li> <li>• Competition or lack of demand [k] so could use promotions [an]</li> <li>• Government OR legal controls [k] so may ask for legal advice to check he is not breaking any laws [an] when selling food [app]</li> <li>• Ability to manage or control two locations [k] so could recruit a manager [an] to oversee the second restaurant [app]</li> <li>• Having a consistent quality [k]</li> </ul>	<b>6</b>	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>• kitchen</li> <li>• restaurant</li> <li>• correct use of numbers</li> <li>• 4 (chefs) or 6 workers or 10 in total</li> <li>• skilled</li> <li>• many workers leave</li> <li>• no bonuses</li> <li>• part time contract,</li> <li>• high hourly rate</li> <li>• business plan</li> <li>• city centre</li> </ul> <p><b>Do not</b> award solutions without an appropriate problem having been identified in the response</p> <p><b>Do not</b> award effects of the problem – answer must focus on how to overcome the problem</p> <p><b>Note:</b> Problems must refer to expansion not his current situation e.g. his current workers leave</p>

Question	Answer	Marks	Guidance
3(e)	<p><b>Do you think Yanis should change the way he motivates his chefs? Justify your answer.</b></p> <p>Knowledge [1] – award 1 mark for identification of relevant points (s)</p> <p>Application [1] – award 1 mark for relevant reference made to this business</p> <p>Analysis [2] – award up to 2 marks for relevant development of point(s)</p> <p>Evaluation [2] – justified decision made as to whether Yanis should change the way he motivates his chefs</p> <p>Relevant points might include:</p> <ul style="list-style-type: none"> <li>• Depends on reason why people are leaving [k] as only a part-time contract [app]</li> <li>• Little incentive with current method to work harder [k] as no bonuses [app]</li> <li>• May not be able to afford alternative methods [k] as planning to open another restaurant [app]</li> <li>• Workers may expect high wages [k] as skilled [app]</li> <li>• Current system offers flexibility to employees [k]</li> <li>• Could offer bonuses [k] which increases costs [an] so may not be able to afford to expand [an]</li> <li>• Increase hours [k]</li> <li>• Offer job rotation [k] so there is more variety [an]</li> </ul>	<b>6</b>	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>• kitchen</li> <li>• restaurant,</li> <li>• correct use of numbers</li> <li>• 4 (chefs)</li> <li>• skilled</li> <li>• many workers leave</li> <li>• <b>no</b> bonuses</li> <li>• part time (contract)</li> <li>• high <b>hourly</b> rate</li> </ul> <p><b>Do not</b> award <b>chefs</b> as application as stated in question.</p> <p>Can discuss other ways to motivate chefs e.g. performance related pay, training but evaluation must focus on whether he should change the way he motivates his chefs.</p> <p><b>Do not</b> award answers which discuss advantages of motivated workforce, e.g. increased productivity, work harder, better quality as this is not the question set.</p>

Question	Answer	Marks	Guidance
4(a)	<p><b>Identify two reasons why markets can become more competitive.</b></p> <p>Knowledge [2 × 1] award 1 mark for each reason identified</p> <p>Points might include:</p> <ul style="list-style-type: none"> <li>• globalisation</li> <li>• developments in technology such as internet, social media</li> <li>• improvements in transport links</li> <li>• lower barriers to entry e.g. government intervention or changes to legal controls OR free trade</li> <li>• more businesses enter the market OR more products</li> </ul>	<b>2</b>	<p><b>Do not</b> award answers which explain ways of competing e.g. more competitive prices, more advertising</p>
4(b)	<p><b>Identify two methods of training that a business might use.</b></p> <p>Knowledge [2 × 1] award 1 mark for each method identified</p> <p>Possible methods are:</p> <ul style="list-style-type: none"> <li>• on-the-job,</li> <li>• off-the-job</li> <li>• induction</li> </ul>	<b>2</b>	<p><b>Do not</b> award descriptions of methods e.g. watching someone do the work</p>

Question	Answer	Marks	Guidance
4(c)	<p><b>Identify and explain two ways in which higher taxation might affect VIS.</b></p> <p>Knowledge [2 × 1] – award 1 mark for each relevant way</p> <p>Application [2 × 1] – award 1 mark for each explanation in context</p> <p>Possible points might include:</p> <ul style="list-style-type: none"> <li>• Reduced demand OR lower sales [k] for insurance [app]</li> <li>• Increased costs OR lower profit [k] so less money for training [app]</li> <li>• May have to increase prices [k] leading to more customer complaints [app]</li> <li>• Might decide to relocate or stop selling some products [k] especially as some markets have become more competitive [app]</li> <li>• Delay plans to expand [k]</li> </ul>	<b>4</b>	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>• insurance</li> <li>• more competitive market,</li> <li>• retained profits decrease</li> <li>• customer complaints</li> <li>• need training</li> </ul> <p><b>Do not</b> award cars or electrical products as app as they do not sell these products</p>



Question	Answer	Marks	Guidance
4(d)	<p><b>Identify and explain two advantages to VIS of changing its organisational structure.</b></p> <p>Knowledge [2 × 1] – award 1 mark for each advantage identified</p> <p>Application [2 × 1] – award 1 mark for each relevant reference made to this business</p> <p>Analysis [2 × 1] – award 1 mark for each relevant explanation</p> <p>Possible points might include:</p> <ul style="list-style-type: none"> <li>• Improved communication [k] could reduce (customer) complaints [app] leading to better reputation OR as fewer levels in hierarchy [an]</li> <li>• Lower labour costs [k] as fewer regional managers [app] reducing its expenses [an]</li> <li>• Managing Director OR Senior managers are less remote [k] so more aware of issues [an] which may be helpful in competitive market [app]</li> <li>• Increased (opportunities for) delegation [k] can improve employee motivation leading to better productivity [an] OR managers have more time to focus on other things [an]</li> <li>• Quicker decision making [k]</li> </ul>	6	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>• insurance</li> <li>• retained profit decrease</li> <li>• customer complaints increased</li> <li>• regional managers or regional directors</li> <li>• shorter chains of command</li> </ul> <p><b>Do not</b> award cars or electrical products as app as they do not sell these products</p> <p>Note: efficiency can only be awarded as [an] if there is a clear explanation of what might happen to lead to an increase in efficiency</p>

Question	Answer	Marks	Guidance
4(e)	<p><b>Recommend the best method of communication VIS should use to inform employees about the changes to its organisational structure. Justify your answer.</b></p> <p>Knowledge [1] – award 1 mark for identification of relevant method(s)</p> <p>Application [1] – award 1 mark for relevant reference made to this business</p> <p>Analysis [2] – award up to 2 marks for relevant development of point(s)</p> <p>Evaluation [2] – justified decision made as to the best method of communication for VIS to use to inform employees about the changes to its organisational structure</p> <p>Relevant methods might include:</p> <ul style="list-style-type: none"> <li>• Letter [k] which can be kept for future reference [an]</li> <li>• Meeting [k] as able to ask questions [an] but some might not go [an]</li> <li>• Email [k] can be sent to everyone at the same time [an] but some people may not read it [an]</li> <li>• Phone call [k] as it allows feedback [an]</li> <li>• Text (SMS) [k] OR mobile phone [k]</li> <li>• Notice on office board [k]</li> <li>• Notice on website [k] OR social media [k]</li> </ul>	<b>6</b>	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>• insurance</li> <li>• retained profit decrease,</li> <li>• customer complaints increased</li> <li>• regional managers or regional directors</li> <li>• shorter chains of command</li> </ul> <p><b>Do not</b> award cars or electrical products as app as they do not sell these products</p> <p><b>Do not</b> award verbal or written or visual communication, or face to face as not classed as a method.</p> <p><b>Do not</b> award answers relating to cost or speed as [an] unless explained</p> <p>Candidates can discuss one method in detail or compare different methods</p>



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**BUSINESS STUDIES**

**0450/13**

Paper 1 Short Answer/Structured Response

**October/November 2017**

MARK SCHEME

Maximum Mark: 80

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**Published**

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This document consists of **13** printed pages.

Question	Answer	Marks	Guidance
1(a)	<p><b>What is meant by 'quality assurance'?</b></p> <p>Clear understanding [2] – checking for quality standards [1] throughout production process OR every stage [1] Some understanding [1] – e.g. checking work done</p>	<b>2</b>	<p><b>Do not</b> award answers such as 'check at end' OR 'check end product' as this defines quality control <b>Do not</b> award explanations of why it is done e.g. manufacturer wants product to be perfect</p>
1(b)	<p><b>Calculate the value of X from Table 1.</b></p> <p>Good application: [2] correct answer i.e. 9 (engines) Some application: e.g. total output/number of employees OR 1260 / 140</p>	<b>2</b>	
1(c)	<p><b>Identify and explain <u>two</u> ways the Government might help HGH become more competitive.</b></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</p> <p>Reasons might include:</p> <ul style="list-style-type: none"> <li>• Import quotas [k] to limit number of engines [app]</li> <li>• Import tariffs [k] as it is facing increased competition from imports [app]</li> <li>• Reduce rent OR rates [k] so easier to pay high energy costs [app]</li> <li>• Change legal controls OR examples such as lower minimum wage or quality standards [k] so rivals have to think about quality assurance [app]</li> <li>• Offer grants OR subsidies OR cheap finance OR loans [k] so can update machinery OR operations in its factories [app]</li> <li>• Offer advice [k]</li> <li>• Provide training [k]</li> <li>• Lower tax [k]</li> <li>• Provide infrastructure e.g. build more roads [k]</li> </ul>	<b>4</b>	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>• correct use of data from table 1,</li> <li>• trade union membership</li> <li>• labour productivity</li> <li>• rent</li> <li>• engines</li> <li>• quality assurance</li> <li>• (high) energy costs</li> <li>• 30% decrease in profit</li> <li>• factory</li> <li>• increased competition OR competition from imports</li> </ul>

Question	Answer	Marks	Guidance
1(d)	<p><b>Identify and explain <u>one</u> advantage and <u>one</u> disadvantage to HGH of using batch production.</b></p> <p>Knowledge [2 × 1] – award 1 mark for an advantage and disadvantage identified</p> <p>Application [2 × 1] – award 1 mark for each relevant reference made to this business</p> <p>Analysis [2 × 1] – award 1 mark for each relevant explanation</p> <p>Relevant points might include:</p> <p>Advantage:</p> <ul style="list-style-type: none"> <li>• Flexible [k] easier to change engines made [app] to better meet customer demands [an]</li> <li>• Some economies of scale [k] when buying parts for factory [app] which can help reduce average costs [an]</li> <li>• Less impact if machinery breaks down [k], so other stages can continue OR some output made [an]</li> <li>• Spread risk as can make more than one type of product [k]</li> <li>• Variety of products [k] could lead to more sales [an]</li> <li>• Some variety in work can motivate workers [k] leading to less absenteeism [an]</li> </ul> <p>Disadvantage:</p> <ul style="list-style-type: none"> <li>• Time lost switching OR resetting machines between batches [k] could lead to lost output [an]</li> <li>• Added cost of moving or storing semi-finished goods [k]</li> <li>• Inventory may be sitting around between stages [k] increasing costs [an] so profit may decrease by more than 30% [app]</li> <li>• One fault could affect entire batch [k] increasing waste [an]</li> </ul>	<b>6</b>	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>• correct use of data from Table 1</li> <li>• trade union membership</li> <li>• labour productivity</li> <li>• rent of site</li> <li>• engines</li> <li>• increased competition OR competition from imports</li> <li>• quality assurance (is important)</li> <li>• high energy costs</li> <li>• factory</li> </ul> <p>Note: business makes engines, not the whole truck</p> <p><b>Do not</b> award 'motivated' or 'demotivated' as knowledge, unless explained. The analysis must explain the impact on the business e.g. less workers leave.</p> <p><b>Do not</b> award answers such as variety of work or economies of scale, unless qualified OR compared to other method of production.</p> <p><b>Do not</b> award knowledge mark for reference to whole production as this implies flow.</p> <p>Answer must relate to idea of it being semi-finished or between stages to be awarded.</p>

Question	Answer	Marks	Guidance
1(e)	<p><b>Recommend which factory HGH should close. Justify your answer using the information in Table 1.</b></p> <p>Knowledge [1] – award 1 mark for identification of relevant point (s)            Application [1] – award 1 mark for relevant reference to this business            Analysis [2] – award up to 2 marks for relevant development of point(s)            Evaluation [2] – justified decision made as to which factory HGH should close.</p> <p>Relevant points might include:</p> <ul style="list-style-type: none"> <li>• Rent lower for factory 1[k] saving \$100 000 each month [app+an]</li> <li>• Productivity in factory 2 is higher [k] by 12.5% higher [app+an]</li> <li>• Trade union action could create negative publicity [k] as factory 1 has high number of members [app], damaging reputation [an]</li> <li>• Current level of output higher in factory 2 [k] by 60 units per month [app+an]</li> <li>• Fewer jobs lost if close factory 2 [k] as 10 fewer employees [app+an]</li> <li>• More jobs lost if close factory 1 [k] as has 150 employees [app] so saving more labour costs [an]</li> </ul>	<b>6</b>	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>• Correct use of data from Table 1</li> <li>• engines,</li> <li>• increased competition OR competition from imports</li> <li>• quality assurance (is important)</li> <li>• high energy costs,</li> <li>• profit decreased by 30%</li> <li>• batch production</li> </ul>

Question	Answer	Marks	Guidance
2(a)	<p><b>What is meant by 'marketing strategy'?</b></p> <p>Clear understanding [2]: for example            Plan to use the right combination of the marketing mix [1] to achieve a particular marketing objective [+1]            OR a plan of action designed to promote and sell a product or service [1] to achieve a set goal [+1]            OR a plan for promoting products [1] to enter a new market [+1]</p> <p>Some understanding [1]: how combine the 4 Ps            OR plan for marketing or how to increase sales            OR how to promote a product</p>	<b>2</b>	

Question	Answer	Marks	Guidance
2(b)	<p><b>Identify <u>two</u> reasons for a business to set objectives.</b></p> <p>Application [2 × 1] – award one mark for each relevant reason</p> <p>Points might include:</p> <ul style="list-style-type: none"> <li>• Measure of success (to judge performance)</li> <li>• Helps decision-making OR planning OR budgeting</li> <li>• Gives sense of purpose and direction OR know what you have to do</li> <li>• Aim or target</li> <li>• Motivate</li> </ul>	2	
2(c)	<p><b>Identify and explain two ways in which BBT could act in an ethical way.</b></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</p> <p>Points might include:</p> <ul style="list-style-type: none"> <li>• Pay fair wages [k] as employees is one of its stakeholders [app]</li> <li>• Provide better working conditions for workers [k]</li> <li>• Pay fair price to suppliers OR pay suppliers on time [k] for its ingredients [app]</li> <li>• Help growers to prevent damage to farmland OR source environmentally friendly materials [k] when growing wheat [app]</li> <li>• Not sell excess stock cheaply OR not fixing prices [k] as it's a popular brand [app]</li> <li>• Charging a fair price to customers [k]</li> <li>• Pay taxes in country in which sales are made [k]</li> <li>• Not employing child labour [k]</li> </ul>	4	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>• breakfast cereal</li> <li>• ingredients or examples such as wheat</li> <li>• popular (brand)</li> <li>• correct use of numbers such as number of years, change in revenue, 2016 revenue</li> <li>• decline stage</li> <li>• competitive pricing</li> <li>• stakeholders</li> <li>• marketing strategy</li> </ul>

Question	Answer	Marks	Guidance
2(d)	<p><b>Identify and explain <u>one</u> advantage and <u>one</u> disadvantage to BBT of using competitive pricing.</b></p> <p>Knowledge [2 × 1] – award 1 mark for each relevant advantage [max 1] or disadvantage identified [max 1]  Application [2 × 1] – award 1 mark for relevant reference made to this business  Analysis [2 × 1] – award 1 mark for each relevant explanation</p> <p>Relevant points might include:</p> <p>Advantage:</p> <ul style="list-style-type: none"> <li>• Price will not discourage customers from buying [k] its cereals [app] so will buy again [an]</li> <li>• Prevents business losing market share [k]</li> </ul> <p>Disadvantage:</p> <ul style="list-style-type: none"> <li>• Time OR money taken to find out competitor's prices [k] could increase costs [an]</li> <li>• Need another way to attract customers [k] e.g. free gift could increase costs [an]</li> <li>• Customer may be prepared to pay more [k] as it is a popular brand [app] so could lose potential revenue OR profit [an]</li> <li>• May not cover the costs (of production) [k] especially when entering decline stage [app] so may not be able to break even [an]</li> </ul>	6	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>• breakfast cereal</li> <li>• ingredients or examples such as wheat</li> <li>• popular (brand)</li> <li>• correct use of numbers such as number of years, change in revenue, 2016 revenue</li> <li>• decline stage</li> <li>• ethical</li> <li>• marketing strategy</li> </ul>



Question	Answer	Marks	Guidance
2(e)	<p><b>Do you think BBT should stop selling product A? Justify your answer.</b></p> <p>Knowledge [1] – award 1 mark for identification of relevant issue(s) [max 1]            Application [1] – award 1 mark for a relevant reference to this business            Analysis [2] – award up to 2 marks for relevant development of point(s)            Evaluation [2] – justified decision made as to whether BBT should stop selling product A</p> <p>Relevant points might include:</p> <ul style="list-style-type: none"> <li>• Sales of Product A fallen [k] by 40% [app]</li> <li>• Product A still the highest sales [k] by \$20 000 [app+an] which is more than B &amp; C combined [an]</li> <li>• Have other products that are increasing in demand [k]</li> <li>• Use extension strategies [k] such as changing the cereal packet [app] to remind customers OR attract people's attention [an] so start buying them (again) OR increase revenue [an]</li> <li>• Could use opportunity to introduce new brands [k] as product C has now been in the market for 2 years [app]</li> </ul>	6	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>• breakfast cereal</li> <li>• ingredients or examples such as wheat</li> <li>• popular (brand)</li> <li>• correct use of numbers such as number of years, change in revenue, 2016 revenue</li> <li>• decline stage,</li> <li>• competitive pricing</li> <li>• ethical</li> <li>• marketing strategy</li> </ul> <p><b>Do not</b> award general marketing methods such as lower prices or advertise, as these are not examples of extension strategies</p>

Question	Answer	Marks	Guidance
3(a)	<p><b>What is meant by 'business plan'?</b></p> <p>Clear understanding [2] e.g. a document containing the business aims/objectives <b>and</b> important details about the operations, finance and owners of a business            OR states aim and/or objectives <b>and</b> shows how business aims to achieve them</p> <p>Some understanding [1] states one element of plan e.g. shows marketing strategy OR production costs</p>	2	<p><b>Do not</b> award answers that explain why it is used e.g. support loan applications</p>

Question	Answer	Marks	Guidance
3(b)	<p><b>Identify <u>two</u> financial documents (other than a cash flow forecast) that a business might use.</b></p> <p>Knowledge [2 × 1] – award 1 mark for each relevant document</p> <p>Points might include:</p> <ul style="list-style-type: none"> <li>• Break-even chart</li> <li>• Balance sheet</li> <li>• Income statement</li> <li>• Budget OR specific example, such as Marketing budget OR Operations budget OR Human Resources budget</li> </ul>	<b>2</b>	
3(c)	<p><b>Calculate the values of W, X, Y and Z.</b></p> <p>Application [4 × 1] – award 1 mark for each correct value</p> <p><b>W</b> 28 000  <b>X</b> 2000  <b>Y</b> (4000) OR –4000  <b>Z</b> (2000) OR –2000</p>	<b>4</b>	<p>OFR <b>can apply</b> as error in W will have implications for value of X and Z (max 3). Subsequent answers must be consistent throughout.</p> <p>NO OFR for Y</p>

Question	Answer	Marks	Guidance
3(d)	<p><b>Identify and explain <u>one</u> advantage and <u>one</u> disadvantage of ZumGo being a business partnership.</b></p> <p>Knowledge [2 × 1] – award 1 mark for an advantage and a disadvantage identified [max 1]</p> <p>Application [2 × 1] – award 1 mark for relevant reference to this business</p> <p>Analysis [2 × 1] – award 1 mark for each relevant explanation</p> <p>Relevant points might include:</p> <p>Advantage:</p> <ul style="list-style-type: none"> <li>• More ideas [k] about what type of tours to offer [app] can help increase business sales [an]</li> <li>• Access to more capital (than sole trader) [k] can help solve cash flow problems [app] improving chance of survival [an]</li> <li>• Share workload OR decision making [k] so making business more efficient [an]</li> <li>• More skills OR expertise OR can specialise [k], Richie does the finance [app] allowing time for Justin to focus on his job [an]</li> <li>• Share loss OR risk [k] so do not have to carry all the financial burden [an] especially if buy new bus [app]</li> </ul> <p>Disadvantage:</p> <ul style="list-style-type: none"> <li>• Disagreements [k] about expansion [app] leading to lost sales OR low productivity [an]</li> <li>• Unlimited liability OR each responsible for debts of other [k] so if cannot repay the \$28 000 [app] their personal belongings are at risk as well [an]</li> <li>• Have to share profits [k] with each brother [app]</li> <li>• Slower decision-making [k] on whether to lease [app] so lose competitive advantage [an]</li> </ul>	<b>6</b>	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>• Correct use of cash flow numbers,</li> <li>• \$6000 (advertising)</li> <li>• \$28 000</li> <li>• bus tours</li> <li>• extra buses OR looking to expand</li> <li>• leasing</li> <li>• two successful years</li> <li>• all retained profit</li> <li>• business plan or cash flow forecast</li> <li>• brothers</li> </ul>

Question	Answer	Marks	Guidance
3(e)	<p><b>Which source of finance do you think ZumGo should use for the new bus? Justify your answer.</b></p> <p>Knowledge [1] – award 1 mark for each relevant issue(s) [max 1]            Application [1] – award 1 mark for relevant reference 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 ZumGo should use.</p> <p>Relevant points might include:</p> <p>Profits:</p> <ul style="list-style-type: none"> <li>• No need to repay [k]</li> <li>• No interest OR monthly outgoings from cash flow [k] so no additional cash outflows to pay [app]</li> <li>• Have sufficient money [k] as matches total retained profit [app]</li> <li>• Can keep profit for emergency [k] which could be important for partnership [app] as have fewer sources of finance to rely on [an]</li> <li>• No money left for emergencies [k] as uses all retained profits [app]</li> </ul> <p>Leasing</p> <ul style="list-style-type: none"> <li>• Not owned [k] so will not add to value of balance sheet [an]</li> <li>• Can return if necessary [k] as only 2 successful years [app] but may be penalty payment [an]</li> <li>• Able to spread cost [k] so don't need to find all the cash at start [an] which could be difficult with a cash deficit in March [app]</li> <li>• Negative impact on cash flow [k] as forecast (\$4000) [app]</li> <li>• Cheaper [k] as only \$24 000 [app + an] saving \$4000 [an]</li> <li>• Can update to new model [k] after 2 years [app]</li> </ul>	<b>6</b>	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>• correct use of cash flow numbers</li> <li>• bus tours</li> <li>• \$28 000 (cost of new bus)</li> <li>• \$1000 for 2 years (leasing)</li> <li>• all retained profits</li> <li>• partnership</li> <li>• two successful years</li> <li>• business plan or cash flow forecast</li> <li>• brothers</li> </ul> <p>Can award answers that discuss other suitable sources of finance such as loans.  <b>Do not</b> accept issue shares as not appropriate.</p>

Question	Answer	Marks	Guidance
4(a)	<p><b>What is meant by ‘multinational company’?</b></p> <p>Clear understanding [2] – a business with factories, production or service operations in more than one country OR a business with production or service operation in another country outside its normal area of operation.</p> <p>Some understanding [1] – e.g. has businesses everywhere OR works/operates in more than one country</p>	2	Do not award ‘sells in more than one country’ as could equally apply to exporter
4(b)	<p><b>What is meant by ‘economic boom’?</b></p> <p>Clear understanding [2] – strong rise in level of economic activity OR period of time when GDP rising rapidly Some understanding [1] – e.g. economy doing well (high GDP) OR rise in level of economic activity OR GDP rising OR identifies feature(s) of an economic boom: such as low unemployment, rising inflation, resource shortages, high levels of disposable income, high levels of consumer/business confidence</p>	2	<p>For two marks must have both idea that economy growing and the rate of growth</p> <p>Answers must refer to whole economy and not a single business or product</p>
4(c)	<p><b>Identify and explain <u>two</u> methods that CYB could use to communicate with its customers.</b></p> <p>Knowledge [2 × 1] – award 1 mark for each relevant method [max 2] Application [2 × 1] – award 1 mark for each explanation in context</p> <p>Reasons might include:</p> <ul style="list-style-type: none"> <li>Email [k] so that can include attachments such as balance sheets [app]</li> <li>Letter [k] explaining customer benefits of new system [app]</li> <li>Meeting [k] with representatives from multinational companies [app]</li> <li>Phone [k]</li> <li>FaceTime OR Skype [k] with someone from the small team [app]</li> <li>Text OR SMS OR messages on mobile phone [k]</li> <li>Social media e.g. Facebook [k]</li> </ul>	4	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>accountants</li> <li>examples of financial documents e.g. balance sheet</li> <li>multinational company</li> <li>small teams</li> <li>3 (new employees)</li> <li>new computerised system OR system (highly) skilled</li> </ul> <p>Note: method selected should be appropriate for use with customers, not internal communication</p>

Question	Answer	Marks	Guidance
4(d)	<p><b>Explain <u>how</u> each of the following stages could help CYB in the recruitment process.</b></p> <p>Knowledge [2 × 1] – award 1 mark for each relevant point identified [max 2]            Application [2 × 1] – award 1 mark if relevant reference made to this business            Analysis [2 × 1] – award 1 mark for each relevant explanation</p> <p>Relevant points might include:</p> <p><b>Person (job) specification</b></p> <ul style="list-style-type: none"> <li>Sets out the qualifications needed [k] such as accountancy degree [an] so know whoever is chosen can do tasks required [an]</li> <li>Sets out the skills needed [k] such as team worker [app] so able to work effectively with the others in the group [an]</li> <li>Sets out experience necessary [k] such as working with multinationals [app] so able to be effective quickly [an]</li> </ul> <p><b>Advertising the job vacancies</b></p> <ul style="list-style-type: none"> <li>Make people aware [k] about the 3 jobs [app] increasing the number of potential applicants [an]</li> <li>Provide people with information about culture OR business [k] such as working in small teams [app] so more likely to join CYB than competitor [an]</li> <li>Can target suitable people [k] in accountancy magazines [app]</li> </ul>	<b>6</b>	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>accountants</li> <li>multinational company</li> <li>small teams</li> <li>3 (new employees)</li> <li>new computerised system OR system economic boom</li> <li>on the job training OR off the job training</li> <li>(highly) skilled</li> </ul> <p>The focus of the answer should focus on the business not employees</p>

Question	Answer	Marks	Guidance
4(e)	<p><b>Do you think it would be better for CYB to use on-the-job or off-the-job training? Justify your answer.</b></p> <p>Knowledge [1] – award 1 mark for identification of relevant issue(s)  Application [1] – award 1 mark for relevant reference to this business  Analysis [2] – award up to 2 marks for relevant development of point(s)  Evaluation [2] – justified decision made as to which method of training CYB should choose.</p> <p>Relevant points might include:</p> <p>Off-the-job training:</p> <ul style="list-style-type: none"> <li>• Not necessarily tailored to individual business [k] so not cost effective [an]</li> <li>• Have to pay more OR high cost for specialists [K] which increases costs [an]</li> <li>• Skills might not be available in the business [k] so benefit from new techniques [an]</li> <li>• Allows for mistakes [k] so can build employees confidence in new computer system [app] reducing waste [an]</li> <li>• Workers have access to skilled trainers [k] so know how to use the system [app]</li> <li>• Workers can focus 100% on training [k]</li> </ul> <p>On-the-job training:</p> <ul style="list-style-type: none"> <li>• Can reinforce errors OR bad practices [k] reducing sales OR damage reputation [an]</li> <li>• Fewer new ideas OR skills will be taught [k]</li> <li>• Control what is taught [k] so workers only learn skills needed [an]</li> <li>• Employees can carry on working [k] within their team [app] improving productivity [an]</li> <li>• Cheaper (than off-the-job) [k]</li> </ul>	<b>6</b>	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>• accountants</li> <li>• examples of financial documents e.g. balance sheet</li> <li>• multinational company</li> <li>• small teams</li> <li>• 3 (new employees)</li> <li>• new computerised system OR system</li> <li>• economic boom</li> <li>• (highly) skilled</li> </ul> <p>Either option is acceptable.</p>



**Cambridge Assessment International Education**  
Cambridge International General Certificate of Secondary Education

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**BUSINESS STUDIES**

**0450/21**

Paper 2 Case Study

**October/November 2017**

MARK SCHEME

Maximum Mark: 80

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**Published**

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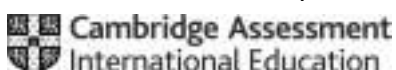
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Question	Answer	Marks
1(a)	<p><b>Identify <u>two</u> ways the size of AH can be measured. Explain the limitations of each of these measures.</b></p> <p>Knowledge [2 × 1] – award one mark for each way  Analysis [2 × 1] – award one mark for a relevant explanation for each way  Application [2 × 2] – award two application marks for each way</p> <p>Award one mark for each way (maximum of two), such as:</p> <ul style="list-style-type: none"> <li>• Capital employed</li> <li>• Number of employees</li> <li>• Sales revenue/revenue/income</li> <li>• Output/quantity of services/number of customers</li> </ul> <p>Do not accept profit</p> <p>Award a maximum of three additional marks for <b>each</b> explanation – <b>2 of which must be applied to this context</b> – of the way</p> <p>Indicative response:</p> <p>The number of employees (K) as the more employees a business has the larger the business. However, some businesses may use a lot of technology and therefore have fewer employees. (an) AH is a small business because it only has 18 employees (ap) and it is also a service sector business as it looks after animals for their owners and therefore they do not use much technology. (ap)</p> <p>Possible application marks: Animals; dogs; cats; pets; pet owners; washing and brushing animals; \$10 000 from grandfather; \$10 000 from bank loan; 12 adults and 6 children workers; information from Appendix 3 on the costs and revenue of AH.</p> <p>There may be other examples in context that have not been included here.</p>	<b>8</b>

Question	Answer	Marks																							
1(b)	<p><b>Consider <u>three</u> methods of market research Elsie could use to find out the number and types of customers for the proposed locations. Recommend the best method for Elsie to use. Justify your answer.</b></p> <p>Relevant points might include:</p> <table><tr><td></td><td>Advantages</td><td>Disadvantages</td></tr><tr><td>Questionnaires (L1)</td><td>Quantitative data – estimate size of market</td><td>Expensive to collect May not have expertise to collect accurate information</td></tr><tr><td>Interviews (L1)</td><td>Qualitative information– specific information on customer needs</td><td>Interviewer bias possible Expensive to collect</td></tr><tr><td>Focus groups (L1)</td><td>Qualitative information</td><td>Answers may be influenced by other group members. Time taken to set up</td></tr><tr><td>Business reports/government statistics (L1)</td><td>Cheap to collect Wide range of data available May not be able to collect this information themselves</td><td>May be out of date Gathered for another purpose May not be valid/accurate</td></tr></table> <p><b>Note: Also reward – Survey; Observation; Newspapers; Internet/online data; Government statistics.</b></p> <p>Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.</p> <table><tr><td></td><td>Knowledge/Analysis/Evaluation</td></tr><tr><td>Level 3</td><td>At least 2 × Level 2 + 9–10 marks for well justified recommendation of <b>which method to choose for the proposed location</b> and why not the alternative methods.  7–8 marks for limited recommendation of which method to choose.</td></tr><tr><td>Level 2</td><td>4–6 marks Discussion of the method used to find out the number and types of customers and/or Detailed discussion of advantages and/or disadvantages of each method.</td></tr><tr><td>Level 1</td><td>1–3 marks Name of a suitable method of research stated or outlined Advantage and/or disadvantage of the method of research stated</td></tr></table>		Advantages	Disadvantages	Questionnaires (L1)	Quantitative data – estimate size of market	Expensive to collect May not have expertise to collect accurate information	Interviews (L1)	Qualitative information– specific information on customer needs	Interviewer bias possible Expensive to collect	Focus groups (L1)	Qualitative information	Answers may be influenced by other group members. Time taken to set up	Business reports/government statistics (L1)	Cheap to collect Wide range of data available May not be able to collect this information themselves	May be out of date Gathered for another purpose May not be valid/accurate		Knowledge/Analysis/Evaluation	Level 3	At least 2 × Level 2 + 9–10 marks for well justified recommendation of <b>which method to choose for the proposed location</b> and why not the alternative methods.  7–8 marks for limited recommendation of which method to choose.	Level 2	4–6 marks Discussion of the method used to find out the number and types of customers and/or Detailed discussion of advantages and/or disadvantages of each method.	Level 1	1–3 marks Name of a suitable method of research stated or outlined Advantage and/or disadvantage of the method of research stated	12
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1(b)	<p>Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Government statistics are cheap to collect.</p> <p>Level 2 – 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. Government statistics are cheap to collect and can be obtained quickly. However, the information may have been gathered for another purpose and may be of little use when trying to predict the pet owner requirements at the different locations. Level 2 – 4 marks plus one application mark for referring to the pet owners at the new locations)</p> <p>Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation of which method to choose.</p> <p><b>Award up to 2 additional marks for relevant application.</b></p> <p>Possible application marks: Animals; dogs; cats; pets; pet owners; washing and brushing animals; New City; expand and move to larger site; information on the three sites; information from Appendix 1 on the AH advert; complaint on the social media message; information from Appendix 3 on the costs and revenue of AH.</p> <p>There may be other examples in context that have not been included here.</p>	

Question	Answer	Marks
2(a)(i)	<p><b>Calculate the profit per day for AH using the information in Appendix 3.</b></p> <p>Revenue per day = <math>(25 \times \\$5) + (25 \times \\$10)</math> (1) = \$375 (1) (Award 1 mark for method of calculating revenue but incorrect answer)</p> <p>\$375 – \$325 (1) (Award 1 mark for method of calculating profit but incorrect answer)</p> <p>Profit per day = \$50 (1)</p> <p><b>If \$50 with no working shown then award 4 marks.</b></p>	<b>4</b>

Question	Answer	Marks
2(a)(ii)	<p><b>Identify and explain <u>one</u> way AH could use to increase profit from the existing site.</b></p> <p>Knowledge – 1 mark for correctly identifying one way profit can be increased.</p> <p>Possible ways:</p> <ul style="list-style-type: none"> <li>• Increase revenue (1) e.g. by increasing prices/advertising more/introducing a new service (1)</li> <li>• Reduce costs/expenses (1) e.g. by finding cheaper suppliers/improving efficiency (1)</li> </ul> <p>Analysis award up to 3 marks – <b>2 of which must be applied to this context</b> – for a relevant explanation of <b>one</b> way AH could increase profit.</p> <p>Indicative response:</p> <p>Elsie could increase her revenue (1) by promoting her existing services to attract more customers.(1) This will lead to more pet owners using her services and paying for their animals to be washed and groomed. (1) If costs increase by less than the increase in revenue then profit will increase. (1)</p> <p>Possible application marks: Animals; dogs; cats; pets; pet owners; washing and brushing animals; qualified animal nurse; set up 2 years ago; \$10 000 from grandfather; \$10 000 from bank loan; 12 adults and 6 children workers; paid legal minimum wage; shampoo and brushes purchased from wholesaler; expand and move to larger site; needs to recruit a new manager; information on the three sites; information from Appendix 1 on the AH advert; complaint on the social media message; information from Appendix 3 on the costs and revenue of AH.</p> <p>There may be other examples in context that have not been included here</p>	<b>4</b>
2(b)	<p><b>Consider why a cash flow forecast, an income statement and a balance sheet are important to AH. Which one of these do you think is most important to Elsie’s decision about how to finance the new site? Justify your answer.</b></p> <p>Relevant points might include:</p> <p>Cash flow forecast – predicts cash in-flows and outflows – to avoid liquidity problem – is there sufficient working capital for the larger premises?</p> <p>Income statement – records revenue and costs or shows profit and loss – profit available to reinvest into the new premises – indicator of success of the business – will there be sufficient revenue from larger premises to make profit?</p> <p>Balance sheet – records assets and liabilities – liquidity ratios – stability of the business – amount of liabilities – value of the existing business – assets to sell if necessary</p>	<b>12</b>

Question	Answer	Marks								
2(b)	<p>Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.</p> <table><tr><td></td><td>Knowledge/Analysis/Evaluation</td></tr><tr><td>Level 3</td><td><p>At least 2 × Level 2 + 9–10 marks for well justified recommendation as to which is most important to the decision <b>about how to finance the new site</b>.</p><p>7–8 marks for some limited judgement shown in recommendation as to which is most important in its general usefulness to the business.</p></td></tr><tr><td>Level 2</td><td><p>4–6 marks Discussion of each financial statement, how it can be used and why it is important.</p></td></tr><tr><td>Level 1</td><td><p>1–3 marks Outline of what each financial statement shows.</p></td></tr></table> <p>Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. A balance sheet shows the value of the business.</p> <p>Level 2 – 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. A balance sheet shows the value of the business. If Elsie wants to take out a bank loan then she will need to take the balance sheet to show the bank manager the value of the assets of the business that can be used as security for the loan. (4 marks for level 2)</p> <p>Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation which is most important to the decision.</p> <p><b>Award up to 2 additional marks for relevant application.</b></p> <p>Possible application marks: Animals; dogs; cats; pets; pet owners; washing and brushing animals; set up 2 years ago; \$10 000 from grandfather; \$10 000 from bank loan; 12 adults and 6 children workers; paid legal minimum wage; shampoo and brushes purchased from wholesaler; expand and move to larger site; needs to recruit a new manager; information on the three sites; information from Appendix 1 on the AH advert; information from Appendix 3 on the costs and revenue of AH.</p> <p>There may be other examples in context that have not been included here.</p>		Knowledge/Analysis/Evaluation	Level 3	<p>At least 2 × Level 2 + 9–10 marks for well justified recommendation as to which is most important to the decision <b>about how to finance the new site</b>.</p> <p>7–8 marks for some limited judgement shown in recommendation as to which is most important in its general usefulness to the business.</p>	Level 2	<p>4–6 marks Discussion of each financial statement, how it can be used and why it is important.</p>	Level 1	<p>1–3 marks Outline of what each financial statement shows.</p>	
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Question	Answer	Marks
3(a)	<p><b>Identify and explain <u>two</u> possible ethical issues that AH should consider.</b></p> <p>Knowledge [2 × 1] – award one mark for each ethical issue ('Doing the right thing')</p> <p>Analysis [2 × 1] – award one mark for a relevant explanation for each ethical issue</p> <p>Application [2 × 2] – award two application marks for each ethical issue</p> <p>Award one mark for each ethical issue (maximum of two), such as:</p> <ul style="list-style-type: none"> <li>• Types of animals looked after – all legal?</li> <li>• Welfare of animals/danger to animals</li> <li>• Working conditions</li> <li>• Child labour employed</li> <li>• Fair pay/paying minimum wage</li> <li>• Disposal of waste in a responsible manner</li> </ul> <p>Award a maximum of three additional marks for <b>each</b> explanation – <b>2 of which must be applied to this context</b> – of the ethical issue</p> <p>Indicative response:</p> <p>AH employs children (K) and then pays them below the legal minimum wage. (ap) This keeps costs low but will give AH a bad reputation leading to a lower number of customers. (an) This will make it more difficult for Elsie to expand the business to a larger site as there may be insufficient number of customers to make this worthwhile. (ap)</p> <p>Possible application marks: Animals; dogs; cats; pets; pet owners; washing and brushing animals; 12 adults and 6 children workers; paid legal minimum wage; complaint on the social media message; cage; rare animal</p> <p>There may be other examples in context that have not been included here.</p>	<b>8</b>

Question	Answer	Marks																				
3(b)	<p><b>Consider the advantages and disadvantages of the three sites Elsie is considering. Recommend which site is the best one for AH to choose. Justify your answer.</b></p> <p>Relevant points might include:</p> <table><tr><td></td><td>Advantages</td><td>Disadvantages</td></tr><tr><td>Site X</td><td>Lowest cost Plenty of room for large kennels – owners will like this Room to expand in the future so will not need to relocate again soon</td><td>Small farm buildings = not big enough Needs converting and a long way from customers – would they travel that far? Additional costs of \$10 000 to repair. Serving fewer customers than they have already = 25 per day</td></tr><tr><td>Site Y</td><td>Larger area – more demand Buildings in good repair so less required to convert them Serve twice as many customers as Site X and more customers than existing site</td><td>Additional costs of \$5 000 to convert the building. A lot fewer customers served than Site Z</td></tr><tr><td>Site Z</td><td>Existing customers – large demand – serve the most customers Near to many potential customers as in centre of city – convenient for customers</td><td>High cost – most expensive of the three sites Busy area – hard to park Limited space – small cages – not able to expand in the future – may need to move again in the future Cramped space may lead to bad reputation – lower quality services</td></tr></table> <p>Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.</p> <table><tr><td></td><td>Knowledge/Analysis/Evaluation</td></tr><tr><td>Level 3</td><td>At least 2 × Level 2 + 9–10 marks for well justified recommendation as to best site to choose and why not the other sites. 7–8 marks for some limited judgement shown in recommendation as to best site to choose.</td></tr><tr><td>Level 2</td><td>4–6 marks Detailed advantages and/or disadvantages of each site or explanation of the impact of the site on the business</td></tr><tr><td>Level 1</td><td>1–3 marks Outline advantages and/or disadvantages of each site or simple comparative statement</td></tr></table>		Advantages	Disadvantages	Site X	Lowest cost Plenty of room for large kennels – owners will like this Room to expand in the future so will not need to relocate again soon	Small farm buildings = not big enough Needs converting and a long way from customers – would they travel that far? Additional costs of \$10 000 to repair. Serving fewer customers than they have already = 25 per day	Site Y	Larger area – more demand Buildings in good repair so less required to convert them Serve twice as many customers as Site X and more customers than existing site	Additional costs of \$5 000 to convert the building. A lot fewer customers served than Site Z	Site Z	Existing customers – large demand – serve the most customers Near to many potential customers as in centre of city – convenient for customers	High cost – most expensive of the three sites Busy area – hard to park Limited space – small cages – not able to expand in the future – may need to move again in the future Cramped space may lead to bad reputation – lower quality services		Knowledge/Analysis/Evaluation	Level 3	At least 2 × Level 2 + 9–10 marks for well justified recommendation as to best site to choose and why not the other sites. 7–8 marks for some limited judgement shown in recommendation as to best site to choose.	Level 2	4–6 marks Detailed advantages and/or disadvantages of each site or explanation of the impact of the site on the business	Level 1	1–3 marks Outline advantages and/or disadvantages of each site or simple comparative statement	12
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3(b)	<p>Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Site X is the cheapest of the three sites.</p> <p>Level 2 – 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. Site X is the cheapest of the three sites and this will reduce the amount of finance required to purchase the site. However, it is a long way from customers who are in the city centre and this may mean she has to reduce prices. (L2 = 4 marks plus one application mark for using the information in case)</p> <p>Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation which justifies the best site to choose.</p> <p><b>Award up to 2 additional marks for relevant application.</b></p> <p>Possible application marks: Animals; dogs; cats; pets; pet owners; ;washing and brushing animals; set up 2 years ago; \$10 000 from grandfather; \$10 000 from bank loan; 12 adults and 6 children workers; shampoo and brushes purchased from wholesaler; needs to recruit a new manager; information on the three sites; information from Appendix 1 on the AH advert; information from Appendix 3 on the costs and revenue of AH.</p>	



Question	Answer	Marks
4(a)	<p><b>Identify and explain <u>one</u> advantage and <u>one</u> disadvantage of using social media networks for the promotion of AH.</b></p> <p>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.</p> <p>Award one mark for each advantage/disadvantage (maximum of two), such as:</p> <p>Advantages</p> <ul style="list-style-type: none"> <li>• Cheap to advertise the business</li> <li>• Will be seen by many people</li> <li>• Covers a wide area</li> <li>• Easy to update</li> <li>• Target specific customers</li> <li>• Cheap way to gain customer feedback</li> </ul> <p>Disadvantages</p> <ul style="list-style-type: none"> <li>• One unhappy customer can give the business a bad reputation quickly</li> <li>• Message lost amongst many messages on social media</li> <li>• Quickly forgotten and no hard copy to remind customers of the services provided</li> <li>• Not all customers have access to internet/social media</li> </ul> <p>Award a maximum of three additional marks for <b>each</b> explanation – <b>2 of which must be applied to this context</b> – of the advantage/disadvantage.</p> <p>Indicative response:</p> <p>Using social media is very cheap (k) and will quickly get the message to a lot of people about the services provided by AH. (an) Many of these people may own animals and need help looking after them. (ap) The message will raise awareness of AH and make potential customers think about contacting them to have their animals washed and groomed therefore increasing sales. (ap)</p> <p>Possible application marks: Animals; dogs; cats; pets; rare animals; small cage; washing and brushing animals; animals cared for overnight; pet owners; business set up 2 years ago; shampoo and brushes; expand and move to larger site; complaint on the social media message</p> <p>There may be other examples in context that have not been included here.</p>	8

Question	Answer	Marks														
4(b)	<p><b>Consider the <u>advantages</u> of internal and external recruitment for the new manager. Recommend which method of recruitment is best for AH to use. Justify your answer.</b></p> <p><b>Relevant points might include:</b></p> <table><tr><td></td><td>Advantages</td></tr><tr><td>Internal recruitment</td><td>Lower recruitment costs Motivating for employees – increased chance of promotion – work hard Already know the business and processes – no induction training Suitability of applicants already known by the business</td></tr><tr><td>External recruitment</td><td>New ideas New skills/experience Less training needed</td></tr></table> <p>Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.</p> <table><tr><td></td><td>Knowledge/Analysis/Evaluation</td></tr><tr><td>Level 3</td><td>At least 2 × Level 2 + 9–10 marks for well justified recommendation as to whether to use internal or external recruitment and why not the alternative.  7–8 marks for some limited recommendation as to whether to use internal or external recruitment.</td></tr><tr><td>Level 2</td><td>4–6 marks Detailed discussion of the advantages of internal and/or external recruitment.</td></tr><tr><td>Level 1</td><td>1–3 marks Outline of the advantages of internal and/or external recruitment.</td></tr></table> <p>Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Internal recruitment is cheaper than external.</p> <p>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. Internal recruitment is cheaper than external as it is carried out by existing employees. They are used to the ways of working at AH and can tell the new manager how things are done with the animals. The existing employees can show the manager how the grooming and brushing is carried out so that customers do not see anything new and are happy with the way their animals are looked after. (4 marks for L2 explanation plus one application mark for referring to the grooming and brushing of animals)</p> <p>Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation whether to use internal or external recruitment..</p>		Advantages	Internal recruitment	Lower recruitment costs Motivating for employees – increased chance of promotion – work hard Already know the business and processes – no induction training Suitability of applicants already known by the business	External recruitment	New ideas New skills/experience Less training needed		Knowledge/Analysis/Evaluation	Level 3	At least 2 × Level 2 + 9–10 marks for well justified recommendation as to whether to use internal or external recruitment and why not the alternative.  7–8 marks for some limited recommendation as to whether to use internal or external recruitment.	Level 2	4–6 marks Detailed discussion of the advantages of internal and/or external recruitment.	Level 1	1–3 marks Outline of the advantages of internal and/or external recruitment.	12
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Question	Answer	Marks
4(b)	<p><b>Award up to 2 additional marks for relevant application.</b></p> <p>Possible application marks: Animals; unskilled workers; dogs; cats; pets; washing and brushing animals; qualified animal nurse; 12 adults and 6 children workers; information from Appendix 1 on the AH advert; complaint on the social media message;</p> <p>There may be other examples in context that have not been included here</p>	



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**BUSINESS STUDIES**

**0450/22**

Paper 2 Case Study

**October/November 2017**

MARK SCHEME

Maximum Mark: 80

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**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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This document consists of **13** printed pages.

Question	Answer	Marks
1(a)	<p><b>Identify and explain <u>one</u> advantage and <u>one</u> disadvantage of GS being a partnership.</b></p> <p>Knowledge [2 × 1] – award one mark for each advantage/disadvantage            Analysis [2 × 1] – award one mark for a relevant explanation of each advantage/disadvantage            Application [2 × 2] – award two application marks for each advantage/disadvantage</p> <p>Award one mark for each advantage/disadvantage (maximum of two), such as:</p> <p><b>Advantages</b></p> <ul style="list-style-type: none"> <li>• Increased capital investment</li> <li>• Share responsibilities/specialise/more skills/more ideas</li> <li>• Share risks/losses</li> </ul> <p><b>Disadvantages</b></p> <ul style="list-style-type: none"> <li>• Unlimited liability</li> <li>• No separate legal identity</li> <li>• Share profit</li> <li>• Lack of continuity</li> <li>• Arguments between partners</li> </ul> <p>Award a maximum of three additional marks for <b>each</b> explanation – <b>2 of which must be applied to this context</b> – of the advantage/disadvantage.</p> <p>Indicative response:</p> <p>More capital can be invested by each partner than if the business was a sole trader. (k) In this case the partners each invested \$5000. (ap) This meant that less capital was borrowed therefore reducing interest payments. (an) This will make it easier for GS to expand. (ap)</p> <p>Possible application marks: set-up last year; set up by 2 brothers; grows plants and trees; partners invested \$5000 each; looks after the gardens of luxury hotels; want to buy more land to expand; information from Appendix 1; information from Appendix 2.</p> <p>There may be other examples in context that have not been included here.</p>	8

Question	Answer	Marks																				
1(b)	<p><b>Consider the advantages and disadvantages of the following <u>three</u> sources of finance for the new equipment. Recommend the best source for GS to choose. Justify your answer.</b></p> <p>Relevant points might include:</p> <table><tr><td></td><td>Advantages</td><td>Disadvantages</td></tr><tr><td>Bank loan</td><td>Raise large amounts of capital Repay in instalments</td><td>Interest paid Adds to expenses Need for security/collateral</td></tr><tr><td>Lease</td><td>No capital to find Maintenance covered by leasing company</td><td>Not an asset of the business Expensive</td></tr><tr><td>Retained profit</td><td>No interest paid Not repaid</td><td>May not be enough as only been in business for one year Reserves not available for alternative uses</td></tr></table> <p>Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.</p> <table><tr><td></td><td>Knowledge/Analysis/ Evaluation</td></tr><tr><td>Level 3</td><td>At least 2 × Level 2 + 9–10 marks for well justified recommendation of which source of finance to choose and why not the alternative sources.  7–8 marks for limited recommendation of which source of finance to choose.</td></tr><tr><td>Level 2</td><td>4–6 marks Detailed discussion of advantages and/or disadvantages of each source of finance.</td></tr><tr><td>Level 1</td><td>1–3 marks Outline of each advantages and/or disadvantages of each source of finance.</td></tr></table>		Advantages	Disadvantages	Bank loan	Raise large amounts of capital Repay in instalments	Interest paid Adds to expenses Need for security/collateral	Lease	No capital to find Maintenance covered by leasing company	Not an asset of the business Expensive	Retained profit	No interest paid Not repaid	May not be enough as only been in business for one year Reserves not available for alternative uses		Knowledge/Analysis/ Evaluation	Level 3	At least 2 × Level 2 + 9–10 marks for well justified recommendation of which source of finance to choose and why not the alternative sources.  7–8 marks for limited recommendation of which source of finance to choose.	Level 2	4–6 marks Detailed discussion of advantages and/or disadvantages of each source of finance.	Level 1	1–3 marks Outline of each advantages and/or disadvantages of each source of finance.	12
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Question	Answer	Marks
1(b)	<p>Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Retained profit is readily available and does not have any interest payments to be made.</p> <p>Level 2 – 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. Retained profit is readily available and does not have any interest payments to be made. However, as the business is only small and a partnership it may not have enough profit in reserves to pay \$10 000 for the new equipment. (4 marks for one Level 2 answer plus one application mark for referring to the cost of the new equipment)</p> <p>Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation of which source of finance to choose.</p> <p><b>Award up to 2 additional marks for relevant application.</b></p> <p>Possible application marks: Partnership; set-up last year/new business; set up by 2 brothers; grows plants and trees; partners invested \$5000 each; \$5000 profit; looks after the gardens of luxury hotels; new gardening equipment; cost \$10 000 to purchase new equipment; information on the three sites in the case; information from Appendix 1; information from Appendix 3.</p> <p>There may be other examples in context that have not been included here.</p>	

Question	Answer	Marks
2(a)	<p><b>Identify and explain <u>two</u> ways GS can increase added value.</b></p> <p>Knowledge [2 × 1] – award one mark for each way            Analysis [2 × 1] – award one mark for a relevant explanation of each way            Application [2 × 2] – award two application marks for each way</p> <p>Award one mark for each way (maximum of two).</p> <ul style="list-style-type: none"> <li>• Increase price (1) – explained why/how prices can be increased (1) such as:               <ul style="list-style-type: none"> <li>– improve quality of products such as plant pot containers</li> <li>– improve reputation</li> <li>– establish brand image</li> <li>– improve product features such as excellent customer service</li> </ul> </li> <li>• Reduce raw material costs (1) explanation of how these can be reduced (1) such as:               <ul style="list-style-type: none"> <li>– buy cheaper sources of flowers/find cheaper suppliers</li> <li>– lower the quality of inputs such as cheaper seeds</li> <li>– reduce the amount of inputs needed, for example less fertiliser</li> </ul> </li> </ul> <p>Award a maximum of three additional marks for <b>each</b> explanation – <b>2 of which must be applied to this context</b> – of the way.</p> <p>Indicative response:</p> <p>Reduce raw material costs (k) such as buy cheaper seeds and fertilizer (ap). GS could change to a cheaper supplier of flowers, plants and trees. (ap) This will increase the gap between price and input costs and therefore increase added value. (an)</p> <p>Possible application marks: Partnership; set-up last year; set up by 2 brothers; grows plants and trees; partners invested \$5000 each; looks after the gardens of luxury hotels; holds high level of inventory; information on the three sites in the case; information from Appendix 1; information from Appendix 2; information from Appendix 3; gardeners maintaining a good reputation for the business.</p> <p>There may be other examples in context that have not been included here.</p>	<b>8</b>



Question	Answer	Marks																				
2(b)	<p><b>Consider the following <u>three</u> pricing strategies GS could use when selling plants and trees to customers. Recommend which is the best pricing strategy to choose to increase GS's profit. Justify your answer.</b></p> <p><b>Relevant points might include:</b></p> <table><tr><td></td><td>Advantages</td><td>Disadvantages</td></tr><tr><td>Cost-plus</td><td>Easy to apply Ensures costs covered</td><td>Lose sales if costs higher than competitors</td></tr><tr><td>Competitive</td><td>Sales high as price at realistic level</td><td>Research costs to compare prices Does not take account of different quality product Many competitors established in the market</td></tr><tr><td>Promotional</td><td>Useful for getting rid of old plants/not selling well Help to renew interest if sales falling Attracts more customers</td><td>Sales revenue will be lower as price of each item low</td></tr></table> <p>Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.</p> <table><tr><td></td><td>Knowledge/Analysis/ Evaluation</td></tr><tr><td>Level 3</td><td>At least 2 × Level 2 + 9–10 marks for well justified recommendation as to which pricing strategy to choose to increase profit and why not the other strategies.  7–8 marks for some limited judgement shown in recommendation as to which pricing strategy to choose.</td></tr><tr><td>Level 2</td><td>4–6 marks Discussion of advantages and/or disadvantages of each pricing strategy.</td></tr><tr><td>Level 1</td><td>1–3 marks Outline advantages and/or disadvantages of each pricing strategy.</td></tr></table>		Advantages	Disadvantages	Cost-plus	Easy to apply Ensures costs covered	Lose sales if costs higher than competitors	Competitive	Sales high as price at realistic level	Research costs to compare prices Does not take account of different quality product Many competitors established in the market	Promotional	Useful for getting rid of old plants/not selling well Help to renew interest if sales falling Attracts more customers	Sales revenue will be lower as price of each item low		Knowledge/Analysis/ Evaluation	Level 3	At least 2 × Level 2 + 9–10 marks for well justified recommendation as to which pricing strategy to choose to increase profit and why not the other strategies.  7–8 marks for some limited judgement shown in recommendation as to which pricing strategy to choose.	Level 2	4–6 marks Discussion of advantages and/or disadvantages of each pricing strategy.	Level 1	1–3 marks Outline advantages and/or disadvantages of each pricing strategy.	12
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Question	Answer	Marks
2(b)	<p>Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Competitive pricing will increase sales as prices are set at similar level to competitors.</p> <p>Level 2 – 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. Competitive pricing will increase sales as prices are set at a similar level to competitors and may attract customers from competitors. More people will buy their garden products from GS as they set high quality standards for all their plants and trees and their gardening services. (4 marks for one L2 answer plus one application mark for referring to high quality gardening services)</p> <p>Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation of which pricing strategy to choose.</p> <p><b>Award up to 2 additional marks for relevant application</b></p> <p>Possible application marks: GS sells plants at the lowest prices available; finest quality plants; partnership; set-up last year; set up by 2 brothers; new business; looks after the gardens of luxury hotels; similar gardening businesses; holds high level of inventory; information from Appendix 1; information from Appendix 2; information from Appendix 3.</p> <p>There may be other examples in context that have not been included here.</p>	

Question	Answer	Marks
3(a)	<p><b>Identify and explain <u>four</u> characteristics the partners should include in the person (job) specification when recruiting the new employees.</b></p> <p>Application [4 × 1] – award one mark for each suitable characteristic for this business</p> <p>Analysis [4 × 1] – award one mark for a relevant explanation of each characteristic</p> <p>Award one mark for each characteristic (maximum of four), such as:</p> <ul style="list-style-type: none"> <li>• Experience of gardening</li> <li>• Punctual</li> <li>• Polite</li> <li>• Honest/trustworthy</li> <li>• Qualifications in gardening</li> <li>• Reliable</li> <li>• Clean/neat appearance</li> <li>• Physically fit</li> <li>• Good communicator</li> <li>• Hard working</li> </ul> <p>There may be other possible answers.</p> <p>Award an additional mark for <b>each</b> explanation in context</p> <p>Indicative response:</p> <p>The applicants will need to have experience of gardening (1) this is to ensure that they can do the job that GS requires of them and maintains a high quality service to customers. (1)</p>	8

Question	Answer	Marks																				
3(b)	<p><b>Consider the advantages and disadvantages of the <u>three</u> sites the brothers are considering buying. Recommend which site is the best one for GS to buy. Justify your answer.</b></p> <p><b>Relevant points might include:</b></p> <table><tr><td></td><td>Advantages</td><td>Disadvantages</td></tr><tr><td>Site X:</td><td>Large site Lowest cost Fertile land</td><td>Far away from market – 30 miles – high travel costs Buildings need to be built – additional cost</td></tr><tr><td>Site Y:</td><td>Near to city at lower cost Nearer to hotels than site X Large glasshouses already there – less cost and quicker to get started trading from the site</td><td>Repair costs of \$4000 has to be paid Still have to travel to customers</td></tr><tr><td>Site Z:</td><td>Very close to market/customers Close to existing site Shop and car park on site attracting customers</td><td>Highest cost -\$30 000 Smallest area and little chance of expansion in the future</td></tr></table> <p>Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.</p> <table><tr><td></td><td>Knowledge/Analysis/ Evaluation</td></tr><tr><td>Level 3</td><td>At least 2 × Level 2 + 9–10 marks for well justified recommendation as to best site to choose and why not the other sites.  7–8 marks for some limited judgement shown in recommendation as to best site to choose.</td></tr><tr><td>Level 2</td><td>4–6 marks Explanation of advantages and/or disadvantages of each site.</td></tr><tr><td>Level 1</td><td>1–3 marks Statement of advantages and/or disadvantages of each site.</td></tr></table>		Advantages	Disadvantages	Site X:	Large site Lowest cost Fertile land	Far away from market – 30 miles – high travel costs Buildings need to be built – additional cost	Site Y:	Near to city at lower cost Nearer to hotels than site X Large glasshouses already there – less cost and quicker to get started trading from the site	Repair costs of \$4000 has to be paid Still have to travel to customers	Site Z:	Very close to market/customers Close to existing site Shop and car park on site attracting customers	Highest cost -\$30 000 Smallest area and little chance of expansion in the future		Knowledge/Analysis/ Evaluation	Level 3	At least 2 × Level 2 + 9–10 marks for well justified recommendation as to best site to choose and why not the other sites.  7–8 marks for some limited judgement shown in recommendation as to best site to choose.	Level 2	4–6 marks Explanation of advantages and/or disadvantages of each site.	Level 1	1–3 marks Statement of advantages and/or disadvantages of each site.	12
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Question	Answer	Marks
3(b)	<p>Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Site Z is the most expensive of the three sites.</p> <p>Level 2 – 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. Site Z is the most expensive of the three sites and this will make it more difficult to finance the purchase of the land. Also there is no room to expand and so GS may have to move again if it wants further expansion in the future. However, it is near to customers and this will reduce cost and time for the gardeners getting to and from the hotels. (4 marks for one L2 answer plus one application mark for referring to hotels, gardeners, the land being most expensive)</p> <p>Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation which justifies the best site to choose.</p> <p><b>Award up to 2 additional marks for relevant application.</b></p> <p>Possible application marks: Partnership; set up by 2 brothers; information about the three sites found in the case study.</p> <p>There may be other examples in context that have not been included here.</p>	

Question	Answer	Marks
4(a)	<p><b>Identify and explain <u>two</u> problems for GS of having a high level of inventory.</b></p> <p>Knowledge [2 × 1] – award one mark for each problem.            Analysis [2 × 1] – award one mark for a relevant explanation of each problem.            Application [2 × 2] – award two application marks for each problem.</p> <p>Award one mark for each problem (maximum of two), such as:</p> <ul style="list-style-type: none"> <li>• Capital tied up/ liquidity problem</li> <li>• High levels of working capital required</li> <li>• Inventory may deteriorate and be wasted – loss of profit</li> <li>• Inventory may go out of date/seasonal changes /fashion changes – cannot sell inventory unless at a discount – reduce profit</li> <li>• Costs of storage space</li> <li>• Maintenance costs such paying wages of workers to water plants</li> </ul> <p>Award a maximum of three additional marks for <b>each</b> explanation – <b>2 of which must be applied to this context</b> – of the problem.</p> <p>Indicative response:</p> <p>Capital is tied up in stock (k) and this will mean GS has large amounts of plants and trees taking up space. (ap) The plants and trees will need to have been paid for before the gardeners will need them for planting at the hotels (ap) and this will increase the cash outflow, which may cause a cash flow problem for GS, but will certainly reduce its liquidity. (an)</p> <p>Possible application marks: GS want to expand the business; wilting/dying plants; grows plants and trees; looks after the gardens of luxury hotels; want to buy more land to expand; information on the three sites in the case; ornamental trees; information from Appendix 1; information from Appendix 2; information from Appendix 3.</p> <p>There may be other examples in context that have not been included here.</p>	<b>8</b>

Question	Answer	Marks																				
4(b)	<p><b>Do you think GS will be as successful as other similar businesses? Justify your answer using the data in Appendix 3 and calculate appropriate ratios. Relevant points might include:</b></p> <table><tr><td>Profit</td><td>\$5 000 (L2)</td></tr><tr><td>GPM</td><td><math>50000/60000 \times 100 = 83\%</math> (L2)</td></tr><tr><td>NPM</td><td><math>5000/60000 \times 100 = 8\%</math> (L2)</td></tr><tr><td>ROCE</td><td><math>5000/10000 \times 100 = 50\%</math> (L2)</td></tr><tr><td>Total revenue</td><td>\$60 000 (L1)</td></tr><tr><td>Total cost</td><td>\$55 000 (L1)</td></tr></table> <p>Level 3 judgements may be based on:</p> <ul style="list-style-type: none"><li>– Survival in the first year – GS may build on this in the future</li><li>– GS ratios worse than competing businesses but only just started-up</li><li>– Comparison of the figures and suggestions made of why GS ratios might be worse than the ratios of other similar businesses</li><li>– Other information that may be useful to make a judgement</li></ul> <p>Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.</p> <table><tr><td></td><td>Knowledge/Analysis/Evaluation</td></tr><tr><td>Level 3</td><td>At least 2 × Level 2 + 9–10 marks for well justified conclusion as to whether or not GS will be as successful as other similar businesses.  7–8 marks for some limited conclusion as to whether or not GS will be as successful as other similar businesses.</td></tr><tr><td>Level 2</td><td>4–6 marks Correct calculation of profit &amp;/or profitability ratios.</td></tr><tr><td>Level 1</td><td>1–3 marks Outline of the significance of the financial information.</td></tr></table>	Profit	\$5 000 (L2)	GPM	$50000/60000 \times 100 = 83\%$ (L2)	NPM	$5000/60000 \times 100 = 8\%$ (L2)	ROCE	$5000/10000 \times 100 = 50\%$ (L2)	Total revenue	\$60 000 (L1)	Total cost	\$55 000 (L1)		Knowledge/Analysis/Evaluation	Level 3	At least 2 × Level 2 + 9–10 marks for well justified conclusion as to whether or not GS will be as successful as other similar businesses.  7–8 marks for some limited conclusion as to whether or not GS will be as successful as other similar businesses.	Level 2	4–6 marks Correct calculation of profit &/or profitability ratios.	Level 1	1–3 marks Outline of the significance of the financial information.	12
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Level 2	4–6 marks Correct calculation of profit &/or profitability ratios.																					
Level 1	1–3 marks Outline of the significance of the financial information.																					

Question	Answer	Marks
4(b)	<p>Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. The average profit for other businesses is higher than GS.</p> <p>Level 2 – 1 × L2 calculation can gain 4 marks and a further mark can be awarded for each additional L2 calculation (max 6 marks) e.g. Gross profit margin is 83%. (4 marks for L2 calculation)</p> <p>Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded for correct calculation of profit and appropriate ratios and then a conclusion as to whether or not GS will be as successful as other similar businesses.</p> <p><b>Award up to 2 additional marks for relevant application.</b></p> <p>Possible application marks: Partnership; set-up last year; set up by 2 brothers; grows plants and trees; looks after the gardens of luxury hotels; partners invested \$5000 each; total investment of \$10 000; new gardening equipment required costing \$10 000; holds high level of inventory; want to buy more land to expand; information on the three sites in the case; information from Appendix 1; written information from Appendix 3 e.g. seeds but NOT the financial information itself.</p> <p>There may be other examples in context that have not been included here.</p>	





**Cambridge Assessment International Education**  
Cambridge International General Certificate of Secondary Education

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**BUSINESS STUDIES**

**0450/23**

Paper 2 Case Study

**October/November 2017**

MARK SCHEME

Maximum Mark: 80

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**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 International will not enter into discussions about these mark schemes.

Cambridge International is publishing the mark schemes for the October/November 2017 series for most Cambridge IGCSE<sup>®</sup>, Cambridge International A and AS Level components and some Cambridge O Level components.

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

Question	Answer	Marks
1(a)	<p><b>Identify and explain <u>one</u> advantage and <u>one</u> disadvantage of BB being a private limited company.</b></p> <p>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</p> <p>Award one mark for each advantage/disadvantage (maximum of two), such as:</p> <p><b>Advantages</b></p> <ul style="list-style-type: none"> <li>• Increased capital investment – from sale of shares</li> <li>• Limited liability</li> <li>• Continuity</li> </ul> <p><b>Disadvantages</b></p> <ul style="list-style-type: none"> <li>• Only sell shares to family and friends</li> <li>• Accounts have to be audited</li> <li>• Legal formalities to set up and run</li> </ul> <p>Award a maximum of three additional marks for <b>each</b> explanation – <b>2 of which must be applied to this context</b> – of the advantage/disadvantage.</p> <p>Indicative response:</p> <p>The Belle family have limited liability (k), which means that if there is a fall in demand for nursery care and BB goes bankrupt (ap) then the Belle family will not have to use their own personal possessions to pay company debts. (an) This makes it safer for the Belle family and their friends and they will feel the rest of their money is safe when buying shares in the nursery. (ap)</p> <p>Possible application marks: childcare; parents; children's nursery; started 10 years ago; care for babies and children under 5; children under school age looked after for parents at work; offer an 'after school care' service; details about Option 1 and 2.</p> <p>There may be other examples in context that have not been included here.</p>	8

Question	Answer	Marks																				
1(b)	<p><b>Consider the advantages and disadvantages of the following <u>three</u> ways of researching the size of the market for an ‘after school care’ service. Recommend the best way for BB to use. Justify your answer.</b></p> <p>Relevant points might include:</p> <table><tr><td></td><td>Advantages</td><td>Disadvantages</td></tr><tr><td>Government population statistics</td><td>Cheap to collect Accurate as official statistics</td><td>May be out of date</td></tr><tr><td>Internet research of competitors websites</td><td>Cheap to collect Quick to collect</td><td>May not be up to date Not all competitors have websites Search may miss some competitors</td></tr><tr><td>Interviews with parents at local schools</td><td>Gathers opinions – identify needs and wants of potential target market</td><td>Expensive to collect Only a sample surveyed Time consuming</td></tr></table> <p>Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.</p> <table><tr><td></td><td>Knowledge/Analysis/Evaluation</td></tr><tr><td>Level 3</td><td>At least 2 × Level 2 + 9–10 marks for well justified recommendation of which method of research to choose and why not the alternative methods.  7–8 marks for limited recommendation of which method of research to choose.</td></tr><tr><td>Level 2</td><td>4–6 marks Detailed discussion of advantages and/or disadvantages of each method of research.</td></tr><tr><td>Level 1</td><td>1–3 marks Outline of advantages and/or disadvantages of each method of research.</td></tr></table>		Advantages	Disadvantages	Government population statistics	Cheap to collect Accurate as official statistics	May be out of date	Internet research of competitors websites	Cheap to collect Quick to collect	May not be up to date Not all competitors have websites Search may miss some competitors	Interviews with parents at local schools	Gathers opinions – identify needs and wants of potential target market	Expensive to collect Only a sample surveyed Time consuming		Knowledge/Analysis/Evaluation	Level 3	At least 2 × Level 2 + 9–10 marks for well justified recommendation of which method of research to choose and why not the alternative methods.  7–8 marks for limited recommendation of which method of research to choose.	Level 2	4–6 marks Detailed discussion of advantages and/or disadvantages of each method of research.	Level 1	1–3 marks Outline of advantages and/or disadvantages of each method of research.	12
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Question	Answer	Marks
1(b)	<p>Level 1 – 1 mark for each L1 statement (max of 3 marks). e.g. Government population statistics might be out of date.</p> <p>Level 2 – 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks). e.g. Government population statistics might be out of date and may have been collected quite a long time ago. This will mean that the business will not know about the number of children who could possibly need to be looked after. However, these statistics will be easily obtained and will be cheap to gather. (4 marks for L2 plus one application mark for referring to children needing to be looked after)</p> <p>Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation of which method of research to choose.</p> <p><b>Award up to 2 additional marks for relevant application.</b></p> <p>Possible application marks: children/kids; children's nursery; private limited company; care for babies and children under 5; children under school age looked after for parents at work; growing demand from parents to have their children looked after; government to support nursery start-ups; details about Option 1 and 2.</p> <p>There may be other examples in context that have not been included here.</p>	

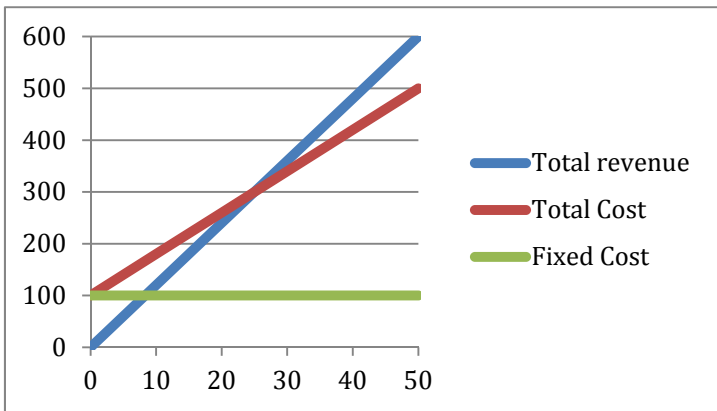
Question	Answer	Marks
2(a)	<p><b>Identify and explain <u>two</u> leadership styles Stella could use.</b></p> <p>Knowledge [2 × 1] – award one mark for each leadership style  Analysis [2 × 1] – award one mark for a relevant explanation for each leadership style  Application [2 × 2] – award two application marks for each leadership style</p> <p>Award one mark for each leadership style (maximum of two), such as:</p> <ul style="list-style-type: none"> <li>• Democratic</li> <li>• Autocratic</li> <li>• Laissez-faire</li> </ul> <p>Award a maximum of three additional marks for <b>each</b> explanation – <b>2 of which must be applied to this context</b> – of the leadership style.</p> <p>Indicative response:</p> <p>Stella could use an autocratic leadership style (k) as she only has 18 employees to manage (ap) which will make it easier to keep control of everyone and tell them what to do. (an) Stella will know what all employees should be doing and she may want to ensure that everyone looks after the children in the way she wants. (ap)</p> <p>Possible application marks: childcare; parents; children's nursery; started 10 years ago; care for babies and children under 5; children under school age looked after for parents at work; offer an 'after school care' service; details about Option 1 and 2.</p> <p>There may be other examples in context that have not been included here.</p>	8

Question	Answer	Marks																	
2(b)	<p><b>Consider the advantages and disadvantages of the <u>two</u> options for BB to expand. Recommend the best option to choose. Justify your answer.</b></p> <p>Relevant points might include:</p> <table><tr><td></td><td>Advantages</td><td>Disadvantages</td></tr><tr><td>Option 1</td><td><ul style="list-style-type: none"><li>• Poor area of city – high demand</li><li>• Lower operating costs</li><li>• Quickly open as already a nursery – already has children attending</li><li>• Less to invest in improvements \$5000 investment needed</li></ul></td><td><ul style="list-style-type: none"><li>• Lower prices – less revenue</li><li>• Overcome poor reputation – badly managed - may increase advertising costs</li><li>• Costs of training staff</li></ul></td></tr><tr><td>Option 2</td><td><ul style="list-style-type: none"><li>• Expensive part of town – raise prices – raise revenue</li><li>• Family paid for the building – no borrowing required</li></ul></td><td><ul style="list-style-type: none"><li>• High cost of conversion – \$20 000</li><li>• Time delay before it can open – lost revenue</li></ul></td></tr></table> <p>Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.</p> <table><tr><td></td><td>Knowledge/Analysis/Evaluation</td></tr><tr><td>Level 3</td><td><p>At least 2 × Level 2 + 9–10 marks for well justified recommendation of which option to choose and why not the alternative option.</p><p>7–8 marks for limited recommendation of which option to choose.</p></td></tr><tr><td>Level 2</td><td><p>4–6 marks Detailed discussion of advantages and/or disadvantages of each option.</p></td></tr><tr><td>Level 1</td><td><p>1–3 marks Outline of each advantages and/or disadvantages of each option.</p></td></tr></table>		Advantages	Disadvantages	Option 1	<ul style="list-style-type: none"><li>• Poor area of city – high demand</li><li>• Lower operating costs</li><li>• Quickly open as already a nursery – already has children attending</li><li>• Less to invest in improvements \$5000 investment needed</li></ul>	<ul style="list-style-type: none"><li>• Lower prices – less revenue</li><li>• Overcome poor reputation – badly managed - may increase advertising costs</li><li>• Costs of training staff</li></ul>	Option 2	<ul style="list-style-type: none"><li>• Expensive part of town – raise prices – raise revenue</li><li>• Family paid for the building – no borrowing required</li></ul>	<ul style="list-style-type: none"><li>• High cost of conversion – \$20 000</li><li>• Time delay before it can open – lost revenue</li></ul>		Knowledge/Analysis/Evaluation	Level 3	<p>At least 2 × Level 2 + 9–10 marks for well justified recommendation of which option to choose and why not the alternative option.</p> <p>7–8 marks for limited recommendation of which option to choose.</p>	Level 2	<p>4–6 marks Detailed discussion of advantages and/or disadvantages of each option.</p>	Level 1	<p>1–3 marks Outline of each advantages and/or disadvantages of each option.</p>	12
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Level 1	<p>1–3 marks Outline of each advantages and/or disadvantages of each option.</p>																		

Question	Answer	Marks
2(b)	<p>Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Option 1 is in a low income part of the city and so prices will have to be kept low.</p> <p>Level 2 – 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. Option 1 is in a low income part of the city and so prices will have to be kept low. However, costs will be lower in this part of the city and many families may need children looking after so they can go to work, leading to higher demand and higher profits. (4 marks for L2 plus one application mark for referring to families needing their children looked after while they go to work)</p> <p>Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation of which option to choose.</p> <p><b>Award up to 2 additional marks for relevant application.</b></p>	

Question	Answer	Marks
3(a)	<p><b>Refer to the organisation chart in Appendix 2. Identify and explain the chain of command for BB and the span of control for Stella.</b></p> <p>Knowledge [2 × 1] – award one mark each for chain of command and span of control.</p> <p>Analysis [2 × 1] – award one mark each for explanation of chain of command and span of control</p> <p>Application [2 × 2] – award two application marks each for chain of command and span of control</p> <p>Award one mark each for chain of command and span of control (maximum of two).</p> <p>Award a maximum of three additional marks for <b>each</b> explanation – <b>2 of which must be applied to the information in Appendix 2</b> – of the chain of command and span of control.</p> <p>Chain of command is the structure in an organisation which allows instructions to be passed down from senior management to lower levels of management. (k) In this case BB has 3 levels (ap) with Stella at the top and then the next layer are supervisors and finally there are the child care workers. (ap) So in BB any instructions from Stella pass through these three layers. (an)</p> <p>Span of control is the number of subordinates working directly under a Manager. (k) In this case Stella has a span of control of 3. (ap) She commands the three supervisors in their work each day and this is quite a narrow span of control as it is a small business, (ap) which ensures that there is good communication. (an)</p> <p>Possible application marks: children's nursery; parents; information from Appendix 2.</p> <p>There may be other examples in context that have not been included here.</p>	8



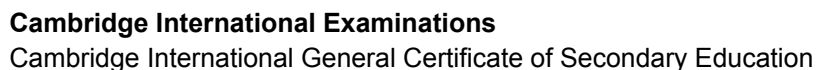
Question	Answer	Marks								
3(b)(i)	<p><b>Draw on the break-even chart below: Total Cost line, Total Revenue line and the Break-even point.</b></p> <div></div> <p>Break-even output = <b>25 children per day</b></p> <p>1 mark for Total Cost line 1 mark for Total Revenue line 1 mark for indicating Break-even output at 25</p>	3								
3(b)(ii)	<p><b>Consider <u>two</u> ways BB could use to reduce this break-even output. Recommend the best way to choose. Justify your answer.</b></p> <p>Relevant points might include: Increase prices – increases gradient of TR line – lowers B/E output but sales may fall as a result Lower variable costs – reduces gradient of VC/TC line – lowers B/E output but materials may be of poorer quality – may harm reputation of the business.</p> <p>Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.</p> <table><tr><td></td><td>Knowledge/Analysis/Evaluation</td></tr><tr><td>Level 3</td><td>At least 2 × Level 2 + 9 marks for well justified recommendation as to best way to lower B/E output and why not the other way.  7–8 marks for some limited judgement shown in recommendation as to best way to lower B/E output.</td></tr><tr><td>Level 2</td><td>4–6 marks Detailed discussion of ways to lower the B/E output.</td></tr><tr><td>Level 1</td><td>1–3 marks Outline of how to lower B/E output.</td></tr></table>		Knowledge/Analysis/Evaluation	Level 3	At least 2 × Level 2 + 9 marks for well justified recommendation as to best way to lower B/E output and why not the other way.  7–8 marks for some limited judgement shown in recommendation as to best way to lower B/E output.	Level 2	4–6 marks Detailed discussion of ways to lower the B/E output.	Level 1	1–3 marks Outline of how to lower B/E output.	9
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Level 1	1–3 marks Outline of how to lower B/E output.									

Question	Answer	Marks
3(b)(ii)	<p>Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Increase price of nursery care</p> <p>Level 2 – 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. Increase price of nursery care will increase the gradient of the total revenue line which will reduce the point at which total revenue and total costs are equal, lowering the break-even number of children required per day but sales may fall as a result. (4 marks for L2)</p> <p>Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation which justifies the best way to choose.</p>	

Question	Answer	Marks
4(a)	<p>Identify and explain <b>two</b> reasons why profit is important to BB.</p> <p>Knowledge [2 × 1] – award one mark for each reason. Analysis [2 × 1] – award one mark for a relevant explanation for each reason. Application [2 × 2] – award two application marks for each reason.</p> <p>Award one mark for each reason (maximum of two), such as:</p> <ul style="list-style-type: none"> <li>• Provide a source of funds for investment/improvement of the business</li> <li>• Provide a source of funds for expansion of the business</li> <li>• Reward for risk taking</li> <li>• Provides a return on shareholder investment</li> <li>• Pay for unexpected events</li> </ul> <p>Award a maximum of three additional marks for each explanation – <b>2 of which must be applied to this context</b> – of the reason.</p> <p>Indicative response:</p> <p>Profit can provide a source of funds for the business (k) and will reduce the need to take out a bank loan to pay for the expansion to another building. (ap) This will mean that the costs of the expansion will be lower as interest payments on loans will be less. (an) This may allow Stella to spend more money on the new building to ensure that the nursery has excellent facilities for children therefore maintaining a good reputation. (ap)</p> <p>Possible application marks: shareholders; dividends; parents; children's nursery; private limited company; started 10 years ago; care for babies and children under 5; children under school age looked after for parents at work; offer an 'after school care' service; growing demand from parents to have their children looked after; details about Option 1 and 2.</p> <p>There may be other examples in context that have not been included here.</p>	8

Question	Answer	Marks														
4(b)	<p><b>Consider how the following <u>three</u> changes might affect BB. Which change is likely to have the biggest effect on BB's profit? Justify your answer.</b></p> <p>Relevant points might include:</p> <table><tr><td>The economy enters recession</td><td>Less demand as workers lose jobs – no need for child care More women may be forced to take any jobs they can get – more demand</td></tr><tr><td>The Government lowers income tax</td><td>More disposable income – increases demand Women choose to stay at home with children and not work if more disposable income for the family – less demand</td></tr><tr><td>The Government opens nurseries offering free child places to low income families</td><td>Increased competition – less demand Encourages more women to work – increases demand</td></tr></table> <p>Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.</p> <table><tr><td></td><td>Knowledge/Analysis/Evaluation</td></tr><tr><td>Level 3</td><td>At least 2 × Level 2 + 9–10 marks for well justified conclusion as to which change will have the biggest effect on profit and why the others have less effect.  7–8 marks for some limited conclusion as to which change will have the biggest effect on profit.</td></tr><tr><td>Level 2</td><td>4–6 marks Discussion of the effects of the changes on BB</td></tr><tr><td>Level 1</td><td>1–3 marks Outline of the effects of the changes on BB.</td></tr></table>	The economy enters recession	Less demand as workers lose jobs – no need for child care More women may be forced to take any jobs they can get – more demand	The Government lowers income tax	More disposable income – increases demand Women choose to stay at home with children and not work if more disposable income for the family – less demand	The Government opens nurseries offering free child places to low income families	Increased competition – less demand Encourages more women to work – increases demand		Knowledge/Analysis/Evaluation	Level 3	At least 2 × Level 2 + 9–10 marks for well justified conclusion as to which change will have the biggest effect on profit and why the others have less effect.  7–8 marks for some limited conclusion as to which change will have the biggest effect on profit.	Level 2	4–6 marks Discussion of the effects of the changes on BB	Level 1	1–3 marks Outline of the effects of the changes on BB.	12
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Level 1	1–3 marks Outline of the effects of the changes on BB.															

Question	Answer	Marks
4(b)	<p>Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Less demand for workers and so there will be less demand for child care.</p> <p>Level 2 – 1 × L2 calculation can gain 4 marks and a further mark can be awarded for each additional L2 calculation (max 6 marks) e.g. Less demand for workers and so there will be less demand for child care. This may reduce the revenue for BB nursery. However, as family incomes are lower, more parents may have to go out to work to add to the family income and so there may be more demand for children to be looked after and so increase revenue and profit. (4 marks for L2 plus one application mark for referring to demand from parents for children to be looked after)</p> <p>Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a conclusion as to which change will have the biggest effect on BB's profit.</p> <p><b>Award up to 2 additional marks for relevant application.</b></p> <p>Possible application marks: childcare; children; parents; private limited company; started 10 years ago; care for babies and children under 5; children under school age looked after for parents at work; offer an 'after school care' service; 3 qualified supervisors in childcare; 15 young inexperienced care workers; many new factories set up; growing demand from parents to have their children looked after; government to support nursery start-ups.</p> <p>There may be other examples in context that have not been included here.</p>	



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## 0450/12

October/November 2017

**1 hour 30 minutes**

Candidates answer on the Question Paper.

No Additional Materials are required.

**READ THESE INSTRUCTIONS FIRST**

Write your Centre number, candidate number and name in the spaces at the top of this page.

Write in dark blue or black pen.

You may use an HB pencil for any diagrams, graphs or rough working.

Do not use staples, paper clips, glue or correction fluid.

DO **NOT** WRITE IN ANY BARCODES.

Answer **all** questions.

The businesses described in this question paper are entirely fictitious.

At the end of the examination, fasten all your work securely together.

The number of marks is given in brackets [ ] at the end of each question or part question.

The total number of marks for this paper is 80.

The syllabus is approved for use in England, Wales and Northern Ireland as a Cambridge International Level 1/Level 2 Certificate.

This document consists of **9** printed pages and **3** blank pages.



**CAMBRIDGE**  
International Examinations



- 1 FlyAway is an airline business. It is in the tertiary sector. It offers low-price flights for business customers in country J. Customers have to pay extra for luggage and food on the flight. It is a very competitive market. The Marketing manager knows that improving customer service is important. Bookings and advertising are done through FlyAway's ticket shops and its website. The Marketing manager cannot decide whether to close its ticket shops and use only e-commerce.

**Table 1: Selected information about two of FlyAway's routes**

Route	Average number of passengers per flight	Average price per ticket (\$)	Break-even number of passengers per flight
1	85	80	70
2	110	60	90

- (a) What is meant by 'tertiary sector'?

.....

.....

.....

..... [2]

- (b) Calculate the revenue gained from an average flight on route 2.

.....

.....

.....

..... [2]

- (c) Identify and explain **two** ways in which break-even information could help FlyAway.

Way 1:.....

.....

Explanation:.....

.....

Way 2:.....

.....

Explanation:.....

..... [4]

(d) Identify and explain **two** ways in which FlyAway could improve customer service.

Way 1:.....

.....

Explanation:.....

.....

.....

.....

Way 2:.....

.....

Explanation:.....

.....

.....

.....

[6]

(e) Do you think FlyAway should use **only** e-commerce? Justify your answer.

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[6]

- 2 CGM makes high quality shoes using job production. The production method makes use of specialisation. CGM operates in a niche market. CGM managers know that all business activity creates external costs, so they always try to act in ways that protect the environment. The Operations Director wants to increase profit. CGM could either buy cheaper raw materials or introduce new technology into the production process. The new technology would cost \$30 000 and could reduce the number of employees from 30 to 26.

(a) Identify **two** advantages of specialisation.

Advantage 1:.....

.....

Advantage 2:.....

.....

[2]

(b) What is meant by 'external cost'?

.....

.....

.....

.....

[2]

(c) Identify and explain **two** ways in which CGM could try to protect the environment.

Way 1:.....

.....

Explanation:.....

.....

Way 2:.....

.....

Explanation:.....

.....

[4]



- (d) Identify and explain **one** advantage and **one** disadvantage to CGM of using job production.

Advantage:.....

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Explanation:.....

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Disadvantage:.....

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Explanation:.....

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..... [6]

- (e) Do you think CGM should introduce new technology into the production process? Justify your answer.

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..... [6]

- 3 Yanis owns a busy restaurant in the city centre. He employs 4 skilled chefs and 6 workers to serve in the restaurant. All employees are on part-time contracts. The chefs are paid a high hourly wage rate, but receive no bonuses. Yanis is worried that too many chefs leave. He is thinking of other ways in which he could motivate the chefs. Yanis wants to open another restaurant but is worried about problems linked to growth. He has prepared a balance sheet as part of his business plan. An extract is shown in Table 2. The current ratio was 1.2:1 in 2016.

**Table 2: Extract from balance sheet as at 30 September 2017 (\$ 000)**

Non-current assets	160
Current assets	60
Current liabilities	40
Non-current liabilities	120

- (a) Identify **two** main parts (other than finance) of a business plan.

Part 1:.....

Part 2:..... [2]

- (b) What is meant by 'non-current assets'?

.....  
 .....  
 .....  
 ..... [2]

- (c) (i) Calculate the current ratio as at 30 September 2017.

.....  
 ..... [2]

- (ii) Explain what the two current ratio results show about Yanis's business.

.....  
 .....  
 ..... [2]

- (d) Identify **two** possible problems for Yanis if he expands his business. Explain what he might do to overcome each problem.

Problem 1:.....

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Explanation of how to overcome the problem:.....

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Problem 2:.....

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Explanation of how to overcome the problem:.....

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..... [6]

- (e) Do you think Yanis should change the way he motivates his chefs? Justify your answer.

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..... [6]

- 4 VIS provides a range of insurance services including insurance for cars and electrical products. Last year retained profit decreased. The Managing Director blames higher taxation and also thinks that some markets have become more competitive. Customer complaints have also increased. The Managing Director plans to change the business organisational structure by removing both the regional directors and regional managers. She said: 'Shorter chains of command may help. I know some employees may need training.' She cannot decide on a suitable method of communication to inform employees about the changes to the organisational structure.

(a) Identify **two** reasons why markets can become more competitive.

Reason 1:.....

.....

Reason 2:.....

.....

[2]

(b) Identify **two** methods of training that a business might use.

Method 1:.....

Method 2:.....

[2]

(c) Identify and explain **two** ways in which higher taxation might affect VIS.

Way 1:.....

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Explanation:.....

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Way 2:.....

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Explanation:.....

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[4]

- (d) Identify and explain **two** advantages to VIS of changing its organisational structure.

Advantage 1:.....

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Explanation:.....

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Advantage 2:.....

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Explanation:.....

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[6]

- (e) Recommend the best method of communication VIS should use to inform employees about the changes to its organisational structure. Justify your answer.

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[6]

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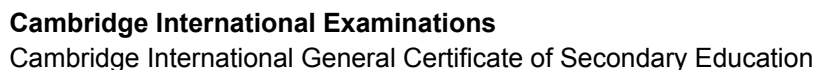
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**0450/13**

October/November 2017

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\*2156920051\*

- 1 HGH makes truck (lorry) engines using batch production. Quality assurance is important. Last year profit decreased by 30%. The Managing Director has decided to close one of its two factories based on the information in Table 1. He said: 'The problems are high energy costs and increased competition from imports. The Government should introduce measures such as import quotas to help protect businesses like us. If it does not then both factories may close'.

**Table 1: Cost and other information about the two factories**

	Factory 1	Factory 2
Output per month	1200	1260
Number of employees	150	140
Labour productivity per month	8	<b>X</b>
Level of trade union membership	High	Low
Rent of site per month	\$200 000	\$300 000

- (a) What is meant by 'quality assurance'?

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..... [2]

- (b) Calculate the value of **X** from Table 1.

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..... [2]

- (c) Identify and explain **two** ways the Government might help HGH become more competitive.

Way 1:.....

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Explanation:.....

.....

Way 2:.....

.....

Explanation:.....

..... [4]

- (d) Identify and explain **one** advantage and **one** disadvantage to HGH of using batch production.

Advantage:.....

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Explanation:.....

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Disadvantage:.....

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Explanation:.....

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[6]

- (e) Recommend which factory HGH should close. Justify your answer using the information in Table 1.

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[6]

- 2 BBT makes a range of breakfast cereals. One of BBT's objectives is to act in an ethical way with all of its stakeholders. The Marketing Director has been looking at BBT's marketing strategy for some of its products. BBT uses competitive pricing. She thinks that product A, one of its popular brands, is in the decline stage of the product life cycle. She cannot decide what to do with product A.

**Table 2: Information about BBT's products**

	Product A	Product B	Product C
Revenue 2016	\$500 000	\$360 000	\$120 000
% Change in revenue compared to 2015	-40%	+30%	+50%
Years in market	10	5	2

- (a) What is meant by 'marketing strategy'?

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.....

[2]

- (b) Identify **two** reasons for a business to set objectives.

Reason 1:.....

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Reason 2:.....

.....

[2]

- (c) Identify and explain **two** ways in which BBT could act in an ethical way.

Way 1:.....

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Explanation:.....

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Way 2:.....

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Explanation:.....

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[4]

- (d) Identify and explain **one** advantage and **one** disadvantage to BBT of using competitive pricing.

Advantage:.....

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Explanation:.....

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Disadvantage:.....

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Explanation:.....

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[6]

- (e) Do you think BBT should stop selling product A? Justify your answer.

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[6]

- 3 ZumGo is a business partnership between two brothers Richie and Justin. It provides bus tours for people wanting to go on holiday. After two successful years, Justin wants to expand the business by buying another bus. This will cost \$28 000. When Richie produced the cash flow forecast as part of ZumGo's business plan he forgot to include the \$6000 for advertising in March. They cannot decide whether to lease the bus or use all their retained profit to buy one. Leasing would cost \$1000 per month for 2 years.

**Table 3: Cash flow forecast for 3 months ending 31 March 2018 (\$)**

	January	February	March
Cash in	36 000	36 000	30 000
Cash out:			
Advertising	12 000	0	6000
Other costs	24 000	25 000	22 000
Total cash outflow:	36 000	25 000	<b>W</b>
Net cash flow	0	11 000	<b>X</b>
Opening balance	(15 000)	(15 000)	<b>Y</b>
Closing balance	(15 000)	(4000)	<b>Z</b>

- (a) What is meant by 'business plan'?

.....

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..... [2]

- (b) Identify **two** financial documents (other than a cash flow forecast) that a business might use.

Document 1:.....

Document 2:..... [2]

- (c) Calculate the values of **W**, **X**, **Y** and **Z**.

**W**:.....

**X**:.....

**Y**:.....

**Z**:..... [4]

- (d) Identify and explain **one** advantage and **one** disadvantage of ZumGo being a business partnership.

Advantage:.....

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Explanation:.....

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Disadvantage:.....

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Explanation:.....

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..... [6]

- (e) Which source of finance do you think ZumGo should use for the new bus? Justify your answer.

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..... [6]

- 4 CYB is an accountancy business. It has 30 highly skilled employees. They work in small teams to prepare customers' final accounts including those of many multinational companies. CYB believes effective communication is important to its success. The Human Resources Director needs to recruit 3 new accountants. She said: 'External recruitment is not easy particularly during an economic boom. The new recruits will also need either on-the-job or off-the-job training in our computerised accountancy system.'

(a) What is meant by 'multinational company'?

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[2]

(b) What is meant by 'economic boom'?

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[2]

(c) Identify and explain **two** methods that CYB could use to communicate with its customers.

Method 1:.....

Explanation:.....

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Method 2:.....

Explanation:.....

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.....

[4]



- (d) Explain **how** each of the following stages could help CYB in the recruitment process.

Person (job) specification:.....

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Advertising the job vacancies: .....

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[6]

- (e) Do you think it would be better for CYB to use on-the-job or off-the-job training? Justify your answer.

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[6]

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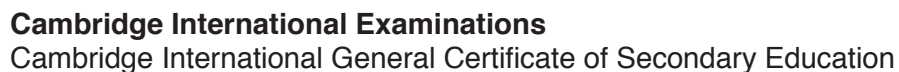
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October/November 2017

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- 1 (a) Identify **two** ways the size of AH can be measured. Explain the limitations of each of these measures.

Way 1: .....

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Explanation: .....

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Way 2: .....

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Explanation: .....

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..... [8]

- (b) Consider **three** methods of market research Elsie could use to find out the number and types of customers for the proposed locations. Recommend the best method for Elsie to use. Justify your answer.

Method 1: .....

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Method 2: .....

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Method 3: .....

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Recommendation: .....

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..... [12]

- 2 (a) (i) Calculate the profit per day for AH using the information in Appendix 3.

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..... [4]

- (ii) Identify and explain **one** way AH could increase profit from the existing site.

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..... [4]



- (b) Consider why a cash flow forecast, an income statement and a balance sheet are important to AH. Which one of these do you think is most important to Elsie's decision about how to finance the new site? Justify your answer.

Cash flow forecast: .....

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Income statement: .....

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Balance sheet: .....

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Conclusion: .....

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..... [12]

- 3 (a) Identify and explain **two** possible ethical issues that AH should consider.

Ethical issue 1: .....

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Explanation: .....

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Ethical issue 2: .....

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Explanation: .....

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..... [8]

- (b) Consider the advantages and disadvantages of the **three** sites Elsie is considering. Recommend which site is the best one for AH to choose. Justify your answer.

Site X: .....

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Site Y: .....

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Site Z: .....

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Recommendation: .....

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..... [12]

- 4 (a) Identify and explain **one** advantage and **one** disadvantage of using social media networks for the promotion of AH.

Advantage: .....

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Explanation: .....

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Disadvantage:.....

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Explanation: .....

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..... [8]

- (b)** Consider the **advantages** of internal and external recruitment for the new manager. Recommend which method of recruitment is best for AH to use. Justify your answer.

Internal recruitment: .....

[illegible]

External recruitment: .....

[illegible]

Recommendation: .....

..... [12]

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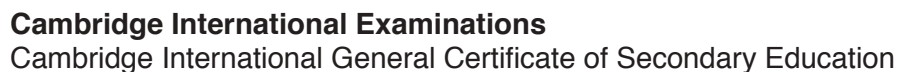
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0450/22

October/November 2017

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- 1 (a) Identify and explain **one** advantage and **one** disadvantage of GS being a partnership.

Advantage: .....

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Explanation: .....

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Disadvantage: .....

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Explanation: .....

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[8]

- (b) Consider the advantages and disadvantages of the following **three** sources of finance for the new equipment. Recommend the best source for GS to choose. Justify your answer.

Bank loan: .....

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Lease: .....

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Retained profit: .....

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Recommendation: .....

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[12]

- 2 (a) Identify and explain **two** ways GS can increase added value.

Way 1: .....

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Explanation: .....

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Way 2: .....

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Explanation: .....

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[8]

- (b) Consider the following **three** pricing strategies GS could use when selling plants and trees to customers. Recommend which is the best pricing strategy to choose to increase GS's profit. Justify your answer.

Cost-plus: .....

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Competitive: .....

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Promotional: .....

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Recommendation: .....

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- 3 (a) Identify and explain **four** characteristics the partners should include in the person (job) specification when recruiting the new employees.

Characteristic 1: .....

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Characteristic 2: .....

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Characteristic 3: .....

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Characteristic 4: .....

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[8]

- (b) Consider the advantages and disadvantages of the **three** sites the brothers are considering buying. Recommend which site is the best one for GS to buy. Justify your answer.

Site X: .....

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Site Y: .....

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Site Z: .....

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Recommendation: .....

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[12]

- 4 (a) Identify and explain **two** problems for GS of having a high level of inventory.

Problem 1: .....

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Explanation: .....

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Problem 2: .....

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Explanation: .....

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[8]



- (b)** Do you think GS will be as successful as other similar businesses? Justify your answer using the data in Appendix 3 and calculate appropriate ratios.

[12]





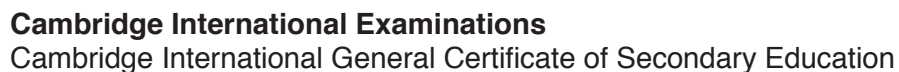
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- 1 (a) Identify and explain **one** advantage and **one** disadvantage of BB being a private limited company.

Advantage: .....

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Explanation: .....

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Disadvantage: .....

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Explanation: .....

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[8]

- (b) Consider the advantages and disadvantages of the following **three** ways of researching the size of the market for an 'after school care' service. Recommend the best way for BB to use. Justify your answer.

Government population statistics: .....

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Internet research of competitors' websites: .....

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Interviews with parents at local schools: .....

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Recommendation: .....

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- 2 (a) Identify and explain **two** leadership styles Stella could use.

Leadership style 1: .....

Explanation: .....

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Leadership style 2: .....

Explanation: .....

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[8]



- (b) Consider the advantages and disadvantages of the **two** options for BB to expand. Recommend the best option to choose. Justify your answer.

Option 1: .....

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Option 2: .....

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Recommendation: .....

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[12]

- 3 (a) Refer to the organisation chart in Appendix 2. Identify and explain the chain of command for BB and the span of control for Stella.

Chain of command for BB: .....

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Span of control for Stella: .....

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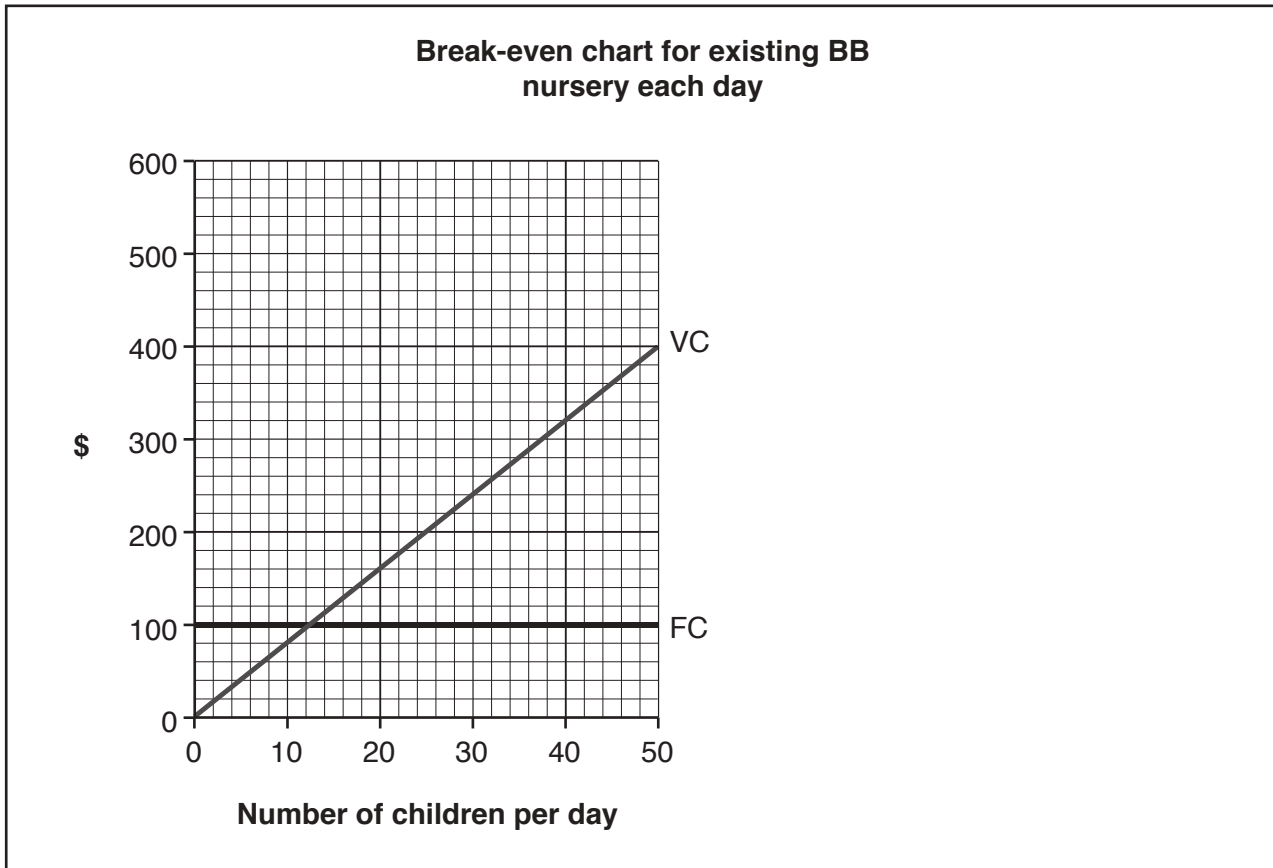
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[8]

**Please turn over.  
Question 3 continues on page 8.**

- (b) (i) Draw on the break-even chart below: Total Cost line, Total Revenue line and the Break-even point.



Price = \$12 per child per day

FC = Fixed cost

VC = Variable cost

[3]

- (ii) Consider **two** ways BB could use to reduce this break-even output. Recommend the best way to choose. Justify your answer.

Way 1: .....

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Way 2: .....

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Recommendation: .....

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[9]

- 4 (a) Identify and explain **two** reasons why profit is important to BB.

Reason 1: .....

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Explanation: .....

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Reason 2: .....

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Explanation: .....

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[8]

- (b) Consider how the following **three** changes might affect BB. Which change is likely to have the biggest effect on BB's profit? Justify your answer.

The economy enters recession: .....

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The Government lowers income tax: .....

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The Government opens nurseries offering free child places to low income families:

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Conclusion: .....

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**BUSINESS STUDIES**

**0450/12**

Paper 1 Short Answer/Structured Response

**March 2018**

MARK SCHEME

Maximum Mark: 80

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**Published**

This mark scheme is published as an aid to teachers and candidates, to indicate the requirements of the examination. It shows the basis on which Examiners were instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began, which would have considered the acceptability of alternative answers.

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

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This document consists of **17** printed pages.

**Generic Marking Principles**

These general marking principles must be applied by all examiners when marking candidate answers. They should be applied alongside the specific content of the mark scheme or generic level descriptors for a question. Each question paper and mark scheme will also comply with these marking principles.

**GENERIC MARKING PRINCIPLE 1:**

Marks must be awarded in line with:

- the specific content of the mark scheme or the generic level descriptors for the question
- the specific skills defined in the mark scheme or in the generic level descriptors for the question
- the standard of response required by a candidate as exemplified by the standardisation scripts.

**GENERIC MARKING PRINCIPLE 2:**

Marks awarded are always **whole marks** (not half marks, or other fractions).

**GENERIC MARKING PRINCIPLE 3:**

Marks must be awarded **positively**:

- marks are awarded for correct/valid answers, as defined in the mark scheme. However, credit is given for valid answers which go beyond the scope of the syllabus and mark scheme, referring to your Team Leader as appropriate
- marks are awarded when candidates clearly demonstrate what they know and can do
- marks are not deducted for errors
- marks are not deducted for omissions
- answers should only be judged on the quality of spelling, punctuation and grammar when these features are specifically assessed by the question as indicated by the mark scheme. The meaning, however, should be unambiguous.

**GENERIC MARKING PRINCIPLE 4:**

Rules must be applied consistently e.g. in situations where candidates have not followed instructions or in the application of generic level descriptors.

GENERIC MARKING PRINCIPLE 5:
Marks should be awarded using the full range of marks defined in the mark scheme for the question (however; the use of the full mark range may be limited according to the quality of the candidate responses seen).
GENERIC MARKING PRINCIPLE 6:
Marks awarded are based solely on the requirements as defined in the mark scheme. Marks should not be awarded with grade thresholds or grade descriptors in mind.

Question	Answer	Marks	Guidance
1(a)	<p><b>What is meant by 'motivation'?</b></p> <p>Clear understanding (2) is the reason OR drive OR factor why employees want to work hard <b>and</b> work effectively OR efficiently for the business</p> <p>Some understanding (1) why employees work hard</p>	2	<b>Do not</b> award examples as this does not answer the question
1(b)	<p><b>Identify two disadvantages to Ruby of using job production.</b></p> <p>Application (2 × 1) – award one mark for each relevant disadvantage</p> <p>Relevant answers could include:</p> <ul style="list-style-type: none"> <li>• Skilled labour costs more</li> <li>• Costs are higher <u>as</u> it is often labour intensive</li> <li>• Lower output OR production can take longer</li> <li>• No economies of scale (likely)</li> <li>• Products are made to order <u>so</u> mistakes can be expensive to correct</li> </ul>	2	<b>Do not</b> award higher costs on own as too vague <b>Do not</b> award points such as that can equally apply to any method of production

Question	Answer	Marks	Guidance
1(c)	<p><b>Identify and explain two advantages to Ruby of having part-time employees.</b></p> <p>Knowledge (<math>2 \times 1</math>) – award 1 mark for each relevant advantage (max 2)</p> <p>Application (<math>2 \times 1</math>) – award 1 mark for each relevant explanation in context</p> <p>Advantages may include:</p> <ul style="list-style-type: none"> <li>• Helps keep experienced staff [k] which is important as cards are handmade [app]</li> <li>• Flexible OR can call in workers when needed [k] such as during festivals and celebrations [ app]</li> <li>• Lower labour costs OR when not working no need to pay wages [k] which is important for a sole trader [app]</li> <li>• Help attract workers who need flexible working hours [k] to produce greetings cards [app]</li> <li>• Provide a wider range of skills / ideas [k] as products are individually designed [app]</li> </ul>	4	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>• festivals OR celebrations</li> <li>• sole trader</li> <li>• individually designed</li> <li>• greetings cards OR related words such as paper</li> <li>• hand made</li> <li>• quality cards are important</li> <li>• three (employees)</li> <li>• job production</li> <li>• hourly wage rate or piece rate</li> </ul>

Question	Answer	Marks	Guidance
1(d)	<p><b>Identify and explain two non-financial methods of motivation which Ruby could use.</b></p> <p>Knowledge (2 × 1) – award 1 mark for identification of each relevant issue (max 2)            Application (2 × 1) – award 1 mark for each relevant reference made to this business            Analysis (2 × 1) – award 1 mark for each relevant development</p> <p>Relevant points may include:</p> <ul style="list-style-type: none"> <li>• Job rotation [k] could help staff to become multi-skilled and more flexible [an] when producing hand made cards [app]</li> <li>• Job enlargement [k] as greater variety of work can help keep them satisfied [an] to help meet the higher orders during festivals [app]</li> <li>• Job enrichment [k] which may increase quality which is important to Ruby [app] as workers feel they have been given more responsibility [an]</li> <li>• Ruby could use fringe benefits (allow only once) [k] as she is a sole trader [app]</li> <li>• Praise [k]</li> <li>• Employee of the month awards [k]</li> <li>• Team working</li> <li>• Delegation OR empowerment OR decision making [k]</li> <li>• Opportunity for promotion [k]</li> </ul>	<b>6</b>	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>• festivals OR celebrations</li> <li>• sole trader</li> <li>• individually designed</li> <li>• greetings cards OR related words such as paper</li> <li>• hand made</li> <li>• quality cards are important</li> <li>• three (employees)</li> <li>• job production</li> <li>• part-time</li> <li>• piece rate</li> </ul> <p><b>Do not</b> accept financial methods such as pay rises, bonuses, shares, pension, commission as this does not answer question</p>

Question	Answer	Marks	Guidance
1(e)	<p><b>Do you think Ruby should change the payment method she uses for her employees? Justify your answer.</b></p> <p>Knowledge (1) – award 1 mark for identification of relevant issue(s) (Max 1)  Application (1) – award 1 mark for a relevant reference to this business  Analysis (2) – award up to 2 points for relevant development of point(s)  Evaluation (2) – justified decision made as to whether Ruby should change the payment method she uses for her employees.</p> <p>Relevant points might include:</p> <p>Piece rate</p> <ul style="list-style-type: none"> <li>• Will encourage her workers to produce more [k] which is important when there are festivals OR celebrations [app] otherwise customers may choose to buy from another business [an]</li> <li>• Workers may rush the production [k] leading to many mistakes [an] which is a problem as quality is important [app]</li> <li>• Can discourage team work as employees focus only on own work [k]</li> <li>• Difficult to calculate individual pay OR must have way to accurately record output [k] which may not be easy when work part-time [app]</li> </ul> <p>Hourly wage rate</p> <ul style="list-style-type: none"> <li>• Help budget effectively [k] which is important for a small sole trader business [app]</li> <li>• Workers are able to focus on quality [k] which can help maintain reputation [an] of its greeting cards [app]</li> <li>• Does not encourage employees to increase output [k] so may not be able to meet demand during festivals [app]</li> </ul>	<b>6</b>	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>• higher number of orders during festivals OR celebrations</li> <li>• sole trader</li> <li>• individually designed</li> <li>• greetings cards</li> <li>• hand made</li> <li>• impact on quality</li> <li>• three (employees)</li> <li>• part-time</li> <li>• job production</li> <li>• hourly wage rate or piece rate</li> </ul> <p>Note: candidate's final decision can be either for or against changing the payment method.</p>

Question	Answer	Marks	Guidance
2(a)	<p><b>Identify two features of an economic boom.</b></p> <p>Award one mark for each relevant characteristic (max 2)</p> <p>Relevant points may include:</p> <ul style="list-style-type: none"> <li>• <b>Rapid OR fast</b> increase in GDP</li> <li>• <b>Increase in OR Higher</b> inflation OR <b>higher</b> prices</li> <li>• Increase in business costs</li> <li>• Increase in business start-ups</li> <li>• <b>Increase OR high</b> business profits</li> <li>• <b>Low</b> unemployment OR <b>high</b> employment OR shortage of skilled workers OR few vacancies</li> <li>• High levels of <b>consumer</b> demand</li> <li>• <b>High</b> income OR <b>High</b> standard of living</li> <li>• High levels of investment</li> </ul>	2	
2(b)	<p><b>Calculate the current ratio in 2017.</b></p> <p>Clear application [2] <b>2</b> (times not needed)</p> <p>Some application [1] correct method incorrect answer e.g. current assets/current liabilities OR 30/15</p>	2	



Question	Answer	Marks	Guidance
2(c)	<p><b>Identify and explain two disadvantages to PShirts of being a private limited company.</b></p> <p>Knowledge [2 × 1] – award 1 mark for each relevant disadvantage (max 2)  Application (2 × 1) – award 1 mark for each relevant explanation in context.</p> <p>Relevant points may include:</p> <ul style="list-style-type: none"> <li>• Can only sell shares to friends and family [k] so may not raise sufficient funds to expand into other countries [app]</li> <li>• Shareholders may expect dividends (k) from selling shirts [app]</li> <li>• Have to publish (some) financial accounts [k]</li> <li>• Legal formalities to set up and run [k]</li> </ul>	<b>4</b>	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>• shirts</li> <li>• men and women</li> <li>• priced lower than competitors</li> <li>• sales have fallen</li> <li>• legal controls</li> <li>• relevant use of financial data in table</li> <li>• selling in other countries</li> </ul>
2(d)	<p><b>Identify and explain two benefits to PShirts of selling in other countries.</b></p> <p>Knowledge (2 × 1) – award 1 mark for each relevant benefit (Max 2)  Application (2 × 1) – award 1 mark for each relevant reference made to this business  Analysis – (2 × 1) – award 1 mark for each relevant explanation</p> <p>Relevant points may include:</p> <ul style="list-style-type: none"> <li>• Access to more markets [k] which can increase revenue OR market share [an] for its shirts [app]</li> <li>• Spread risk [k] as more men and women to sell to [app] so less reliant on sales for one country [an]</li> <li>• Lower demand in home market [k] where sales have fallen despite the economic boom [app]</li> <li>• Greater recognition OR brand awareness [k] leading to more (sales) revenue [an]</li> <li>• Possible economies of scale [k] so able to lower prices further [app] allowing business to remain competitive [an]</li> </ul>	<b>6</b>	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>• private limited company</li> <li>• shirts</li> <li>• men and women</li> <li>• priced lower than competitors</li> <li>• sales have fallen</li> <li>• legal controls</li> <li>• relevant use of financial data in table</li> <li>• economic boom</li> </ul> <p><b>Do not</b> accept fewer legal restrictions as stem states MD is worried about legal controls.</p>

Question	Answer	Marks	Guidance
2(e)	<p><b>Do you think Paul should be worried about the change in the profit margins between 2016 and 2017? Justify your answer.</b></p> <p>Knowledge [1] – award 1 mark for identification of relevant issue(s) (Max 1)  Application [1] – award 1 mark for a relevant reference made to this business  Analysis [2] – award up to 2 marks for each relevant explanation(s)  Evaluation [2] – justified decision as to whether Paul should be worried by the change in profit margins</p> <p>Relevant points may include:</p> <ul style="list-style-type: none"> <li>Gross profit margin <b>decreased</b> [k] from 42% to 34% [app + an] which is a decrease of 8% [an]</li> <li>Profit margin <b>decreased</b> [k] from 32% to 17% [app + an] a decrease of 15% [an]</li> <li>Revenue decreased [k] by \$150m OR to \$350m [app]</li> <li>Cost of sales <b>decreased</b> [k] by \$60m OR to \$230m [app]</li> <li>Expenses <b>increased</b> [k] by \$10m OR to \$60m [app]</li> <li>Profit <b>decreased</b> [k] to \$60m OR by \$100m [app]</li> </ul>	<b>6</b>	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>private limited company</li> <li>shirts</li> <li>men and women</li> <li>priced lower than competitors</li> <li>sales have fallen</li> <li>legal controls</li> <li>relevant use of financial data in table</li> <li>selling in other countries</li> <li>economic boom</li> </ul>

Question	Answer	Marks	Guidance
3(a)	<p><b>What is meant by 'mass market'?</b></p> <p>Clear understanding [2] e.g. selling the same product to the whole market (everyone)            Some understanding [1] e.g. Selling to the whole market            OR lots of customers OR lots of sales OR lots of buyers</p>	2	
3(b)	<p><b>What is meant by 'price elastic demand'?</b></p> <p>Clear understanding (2) e.g. demand responds more than proportionately to a change in price            OR change in demand is greater than change in price            Some understanding (1) e.g. demand changes with price            OR where PED has a value greater than 1            OR responsiveness of demand to a change in price</p>	2	
3(c)	<p><b>Identify and explain two disadvantages to STC of business growth.</b></p> <p>Knowledge (2 × 1) – award 1 mark for each relevant disadvantage            Application (2 × 1) – award 1 mark for each relevant explanation in context.</p> <p>Relevant points may include:</p> <ul style="list-style-type: none"> <li>• Larger business is difficult to control (k) as the factory is in another country (to head office) [app]</li> <li>• Communication problems [k] especially as already complaints (app)</li> <li>• Slower decision making [k] so less able to respond effectively to high level of competition [app]</li> <li>• Lower levels of employee motivation OR morale as employees are remote from managers [k]</li> </ul>	4	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>• laissez faire</li> <li>• toothpaste</li> <li>• factory in another country to head office</li> <li>• mass market</li> <li>• high level of competition (in market)</li> <li>• price elastic demand</li> <li>• complaints (about communication)</li> </ul> <p>Only award diseconomies of scale if separate diseconomies of scale have not been identified</p>

Question	Answer	Marks	Guidance
3(d)	<p><b>Identify and explain two ways STC could improve communication between managers and workers.</b></p> <p>Knowledge [2 × 1] – award 1 mark for each relevant way (Max 2)            Application [2 × 1] – award 1 mark for each relevant reference made to this business            Analysis [2 × 1] – award 1 mark for each relevant explanation (as to how it will improve communication)</p> <p>Relevant points may include:</p> <ul style="list-style-type: none"> <li>• Make sure the language used is appropriate [k] especially as the head office is in another country to the factory [app] so that everyone can understand the messages [an]</li> <li>• Keep the channel of communication short [k] to reduce the risk of the message being changed before it gets to the final receiver [an]</li> <li>• Barriers such as noise should be removed [k]</li> <li>• Change the leadership style [k] from laissez faire [app] so that both employees and managers are fully involved in the decisions [an]</li> <li>• Change organisation structure OR delayering [k]</li> <li>• Allow suitable methods of communication only once e.g. Use telephone OR hold meetings [k] which will allow for immediate feedback [an] when discussing toothpaste production [app]</li> </ul>	<b>6</b>	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>• laissez faire</li> <li>• toothpaste</li> <li>• factory in another country to head office</li> <li>• mass market</li> <li>• high level of competition in market</li> <li>• price elastic demand</li> <li>• complaints about communication</li> </ul>

Question	Answer	Marks	Guidance
3(e)	<p><b>Do you think STC should change its pricing strategy? Justify your answer.</b></p> <p>Knowledge [1] – award 1 mark for identification of relevant issue(s) (Max 1)  Application [1] – award 1 mark for relevant reference to this business  Analysis [2] – award up to 2 marks for relevant development of point(s)  Evaluation [2] – justified decision as to whether STC should change its pricing strategy</p> <p>Relevant points might include:  Competitive pricing:</p> <ul style="list-style-type: none"> <li>• Will not discourage customers from buying [k] its toothpaste [app] so will buy again [an]</li> <li>• Business does not lose market share [k] which is important when there is a high level of competition [app]</li> <li>• Time OR money to find out competitor's prices [k] increase costs [an]</li> <li>• Need another way to attract customers [k]</li> <li>• Customer may be prepared to pay more [k] could lose potential revenue [an]</li> <li>• May not cover the costs (of production) [k] so may not be able to break- even [an]</li> </ul> <p>Lower price:</p> <ul style="list-style-type: none"> <li>• Customers will be attracted to the lower prices [k] in a competitive market [app] which may increase sales [an] but competitors may also lower prices so do not gain as many additional sales [an]</li> <li>• Customers may think product is lower quality [k] decreasing sales OR revenue [an]</li> <li>• Revenue will increase [k] to \$225 000 [app + an]</li> <li>• No guarantee will gain forecast extra demand [k] of 50 000 [app + an]</li> </ul>	6	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>• laissez faire</li> <li>• toothpaste</li> <li>• factory in another country to head office</li> <li>• mass market</li> <li>• high level of competition in market</li> <li>• price elastic demand</li> <li>• complaints about communication</li> <li>• competitive pricing</li> <li>• correct use numerical data from table 2</li> </ul> <p>Note: candidate's final decision may be for or against changing its pricing strategy</p>

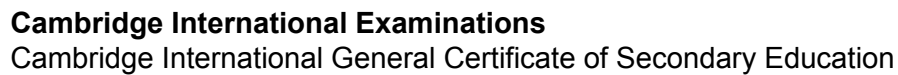
Question	Answer	Marks	Guidance
4(a)	<p><b>What is meant by ‘stakeholder group’?</b></p> <p>Clear understanding [2] Any individual or group which has a (direct) interest in a business because they are affected by its activities OR decisions</p> <p>Some understanding [1] e.g. An individual or group which has an interest in a business OR Someone affected by what a business does</p> <p>OR Anybody inside or outside the business who cares about its operations</p>	<b>2</b>	<b>Do not</b> award examples as this does not answer the question
4(b)	<p><b>What is meant by ‘on-the-job training’?</b></p> <p>Clear understanding [2] occurs by watching a more experienced worker doing the job OR at the work place</p> <p>Some understanding [1] get training while working OR learn from another employee</p>	<b>2</b>	

Question	Answer	Marks	Guidance
4(c)	<p><b>Identify and explain one advantage and one disadvantage to MSH of using on-the-job training.</b></p> <p>Knowledge [2 × 1] – award 1 mark for one relevant advantage and disadvantage  Application [2 × 1] – award 1 mark for each relevant reference made to this business</p> <p>Relevant points may include:</p> <p>Advantages:</p> <ul style="list-style-type: none"> <li>• Employees learn the way the business wants the job done [k] from loyal employees [app]</li> <li>• Employees are working while training [k] so still cleaning some floors [app]</li> <li>• Cheaper (than off the job training) [k] so have more funds to help pay for relocation [app]</li> </ul> <p>Disadvantages:</p> <p>Likely to make mistakes (as still learning) [k] so damage reputation with local businesses [app]</p> <ul style="list-style-type: none"> <li>• Slows down work of experienced employees [k] at a time of falling demand [app]</li> <li>• May pick up bad habits or practices from other employees [k]</li> <li>• Might not learn the most up to date methods OR fewer new skills and ideas taught [k]</li> </ul>	<b>4</b>	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>• floor cleaning</li> <li>• relocating</li> <li>• business customers</li> <li>• high levels of unemployment</li> <li>• falling demand</li> <li>• loyal employees</li> <li>• expanding industrial areas</li> <li>• stakeholder groups</li> <li>• increase promotion</li> <li>• 50 km away</li> </ul>

Question	Answer	Marks	Guidance
4(d)	<p><b>Identify and explain two ways MSH could promote its services.</b></p> <p>Knowledge [2 × 1] – award 1 mark for each relevant method            Application [2 × 1] – award 1 mark for each relevant reference made to this business            Analysis – [2 × 1] – award 1 mark for each relevant explanation</p> <p>Relevant points might include:</p> <ul style="list-style-type: none"> <li>• Advertise (allow only once) e.g. Use social media OR local radio OR website [k] to raise awareness or inform its potential target market [an]</li> <li>• Sponsorship [k] will help to increase their brand image [an] in Main city [app]</li> <li>• Demonstrations [k] so customers can see the high standard of cleaning [app]</li> <li>• After sales service [k] this can help assure business customers [app] so may be more willing to use MSH services again [an]</li> <li>• <b>Short term</b> price discounts OR special offers [k] to attract people to try its services initially [an] in the expanding industrial areas [app]</li> <li>• Loyalty schemes [k] which could be important if they relocate [app]</li> <li>• Competitions [k]</li> </ul>	<b>6</b>	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>• floor cleaning</li> <li>• relocate</li> <li>• business customers</li> <li>• high levels of unemployment</li> <li>• falling demand</li> <li>• loyal employees</li> <li>• on the job training</li> <li>• expanding industrial areas</li> <li>• stakeholder groups</li> <li>• 50 km away</li> </ul> <p>Answers can refer to customers in either current location or if MSH relocates</p>



Question	Answer	Marks	Guidance
4(e)	<p><b>Do you think MSH should relocate its business? Justify your answer.</b></p> <p>Knowledge [1] – award 1 mark for identification of relevant issue(s)  Application [1] – award 1 mark for a relevant reference made to this business  Analysis [2] – award up to 2 marks for each relevant explanation(s)  Evaluation [2] – justified decision as to whether MSH should relocate its business</p> <p>Relevant points might include:</p> <ul style="list-style-type: none"> <li>• Higher possible demand OR sales [k] due to expanding industrial areas [app] leading to increased revenue [an]</li> <li>• Demand will continue to be low in the current location [k] as unemployment levels are high [app]</li> <li>• Employees may not want to move [k] 50 km away [app] so may leave leading to additional recruitment costs [an]</li> <li>• Possible reaction OR high level of competition in new location [k] so may not be able to attract new customers [an]</li> <li>• Need to use promotion in new location [k]</li> <li>• Likely to pay low wage rates in current location [k]</li> </ul>	<b>6</b>	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>• floor cleaning</li> <li>• business customers</li> <li>• high levels of unemployment</li> <li>• falling demand</li> <li>• loyal employees</li> <li>• on-the-job training</li> <li>• expanding industrial areas</li> <li>• stakeholder groups</li> <li>• increase promotion</li> <li>• 50 km away</li> </ul> <p>Note: candidates final decision may be for or against the relocation</p>



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## 0450/12

February/March 2018

**1 hour 30 minutes**

No Additional Materials are required.

Write your Centre number, candidate number and name in the spaces at the top of this page.  
Write in dark blue or black pen.  
You may use an HB pencil for any diagrams, graphs or rough working.  
Do not use staples, paper clips, glue or correction fluid.  
**DO NOT WRITE IN ANY BARCODES.**

Answer **all** questions.  
The businesses described in this question paper are entirely fictitious.

At the end of the examination, fasten all your work securely together.  
The number of marks is given in brackets [ ] at the end of each question or part question.  
The total number of marks for this paper is 80.

This syllabus is approved for use in England, Wales and Northern Ireland as a Cambridge International Level 1/Level 2 Certificate.

This document consists of **9** printed pages and **3** blank pages.



- 1 Ruby is a sole trader. She produces handmade, individually designed greetings cards using job production. High quality cards are important to Ruby's customers. Ruby has 3 part-time employees who are paid an hourly wage rate. Ruby is thinking of changing from an hourly wage rate to a piece rate system, where the employees are paid depending on the quantity of products they make. Ruby thinks this will help to improve the motivation of her workforce. During festivals and celebrations she receives a higher number of orders.

(a) What is meant by 'motivation'?

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.....

.....

..... [2]

(b) Identify **two** disadvantages to Ruby of using job production.

Disadvantage 1:.....

.....

Disadvantage 2:.....

..... [2]

(c) Identify and explain **two** advantages to Ruby of having part-time employees.

Advantage 1:.....

.....

Explanation:.....

.....

Advantage 2:.....

.....

Explanation:.....

..... [4]

- (d) Identify and explain **two** non-financial methods of motivation which Ruby could use.

Method 1:.....

.....

Explanation:.....

.....

.....

.....

Method 2:.....

.....

Explanation:.....

.....

.....

..... [6]

- (e) Do you think Ruby should change the payment method she uses for her employees? Justify your answer.

.....

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..... [6]

- 2 Paul is the Managing Director of a private limited company called PShirts. It manufactures and sells men's and women's shirts in country Y. Its products are priced lower than most of its competitors. Sales have fallen recently even though there has been an economic boom. Paul is thinking about starting to sell shirts in other countries. One of the directors is worried about legal controls in other countries. A summary of the accounts is shown in Table 1.

**Table 1: Summary of financial statements**

	<b>2016 (\$m)</b>	<b>2017 (\$m)</b>
<b>Revenue</b>	500	350
<b>Gross profit</b>	210	120
<b>Profit</b>	160	60
<b>Current assets</b>	35	30
<b>Current liabilities</b>	15	15

- (a) Identify **two** features of an economic boom.

Feature 1:.....

Feature 2:..... [2]

- (b) Calculate the current ratio in 2017.

.....

.....

..... [2]

- (c) Identify and explain **two** disadvantages to PShirts of being a private limited company.

Disadvantage 1:.....

.....

Explanation:.....

.....

Disadvantage 2:.....

.....

Explanation:.....

..... [4]

- (d) Identify and explain **two** benefits to PShirts of selling in other countries.

Benefit 1:.....

.....

Explanation:.....

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Benefit 2:.....

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Explanation:.....

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[6]

- (e) Do you think Paul should be worried about the change in the profit margins between 2016 and 2017? Justify your answer.

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[6]

- 3 STC manufactures toothpaste for the mass market. STC's products have price elastic demand as there is a high level of competition in this market. STC uses a competitive pricing strategy (method). The marketing manager is thinking of changing this pricing strategy to increase sales (see Table 2). The head office of STC is located in country X, but the factory is in country Y. There have been complaints about communication issues between the managers and workers. STC has continued to grow but the managers still have a laissez-faire leadership style.

**Table 2: Forecast effect of changing price**

Current price	Quantity demanded	Planned new price	Forecast quantity demanded
\$2.00	100 000 per month	\$1.50	150 000 per month

- (a) What is meant by 'mass market'?

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..... [2]

- (b) What is meant by 'price elastic demand'?

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.....

.....

..... [2]

- (c) Identify and explain **two** disadvantages to STC of business growth.

Disadvantage 1:.....

.....

Explanation:.....

.....

Disadvantage 2:.....

.....

Explanation:.....

..... [4]

- (d) Identify and explain **two** ways STC could improve communication between managers and workers.

Way 1:.....

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Explanation:.....

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Way 2:.....

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Explanation:.....

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..... [6]

- (e) Do you think STC should change its pricing strategy? Justify your answer.

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..... [6]



- 4 MSH is a large business providing floor cleaning services to other businesses. It has many loyal employees. When a worker does leave, new recruits are trained using on-the-job training. MSH is located in an area with a high level of unemployment. MSH is experiencing falling demand and plans to increase promotion. The manager of MSH is thinking about relocating the business to Main city, which is 50 km away. Main city has many expanding industrial areas. The manager is worried about the effect of relocation on some stakeholder groups.

(a) What is meant by 'stakeholder group'?

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..... [2]

(b) What is meant by 'on-the-job training'?

.....

.....

.....

..... [2]

(c) Identify and explain **one** advantage and **one** disadvantage to MSH of using on-the-job training.

Advantage:.....

.....

Explanation:.....

.....

Disadvantage:.....

.....

Explanation:.....

..... [4]

(d) Identify and explain **two** ways MSH could promote its services.

Way 1:.....

.....

Explanation:.....

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Way 2:.....

.....

Explanation:.....

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[6]

(e) Do you think MSH should relocate its business? Justify your answer.

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[6]

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Cambridge International General Certificate of Secondary Education

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**BUSINESS STUDIES**

**0450/22**

Paper 2

**February/March 2018**

INSERT

**1 hour 30 minutes**

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**READ THESE INSTRUCTIONS FIRST**

This Insert contains the case study material. Anything the candidate writes on this Insert will not be marked.

\*4887090156-I\*



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This document consists of **4** printed pages.



### City Café (CC)

When George Brown left school he worked as a chef in several restaurants but he had always wanted to be his own boss. He set up City Café (CC) as a sole trader 15 years ago. He purchased a building with \$10 000 he received from his grandfather and made it into a café. It is located in the centre of Main City, in country X. George works very hard and is willing to take risks. He creates his own recipes for the café and his customers like the food.

CC has been successful every year and George has always paid himself a high salary. However, he now wants to increase the profit from CC by expanding the café. It is already open every day from 08:00 to 20:00 and in order to serve more customers he needs a larger café.

The café is located in a very busy shopping mall. George has undertaken some market research and found out that 50% of his customers visit the café every day. The other 50% of customers visit less frequently and are often attracted by the special menu items on the board outside the café.



George is considering two options for expansion.

#### *Option 1:*

Buy the building next door and make it into one larger café that can serve 50% more customers. The building became empty after a clothes shop closed. The cost of the shop is \$20 000 and it will cost \$10 000 for redecorating and building work.

#### *Option 2:*

Move to a new building 10 kilometres away in another part of the city. This building is twice as large as the existing café and will cost \$2 000 a year to rent as it is not for sale. George will be allowed to redecorate and he will need to buy equipment for the kitchen. The total cost for this will be \$5 000. It is in a busy part of the city with many shoppers visiting the area.

## Appendix 1

*Daily News*

*2 February 2018*

The Government has forecast that interest rates will be increased later this year. This is very worrying for many local businesses that require finance. Country X has a fast growing economy and the Government does not want this to lead to higher inflation.

A multinational coffee shop chain wants to open cafés in malls all over country X, attracted by the high rate of economic growth. Local businesses are worried about the competition from this business as it benefits from economies of scale. Some market researchers think that customers will prefer to stay with their local café and not use an international style of café.

## Appendix 2

### Three applicants for the vacancy of chef (cook)

	Jim	Sally	Vera
Experience	6 years as a chef in a small café with some responsibility for managing the café	10 years as a chef in a large city centre restaurant	18 years as a chef in a high quality café in an expensive shopping mall
Age	25	35	40
Interests	Holidays abroad	Taking part in cooking competitions	Baking cakes and cooking
Qualifications	Health and safety qualification 3 IGCSEs	Qualified chef 6 IGCSEs	12 IGCSEs 2 Cambridge A Levels
Wage per hour in previous job	\$5	\$7	\$10



### Appendix 3

#### Cash flow forecast for CC for the second half of 2018 (\$000)

	July	August	September	October	November	December
Cash from sales	10	15	10	5	5	4
Total cash inflows	10	15	10	5	5	4
Payment to suppliers	3	5	2	2	2	2
Fixed costs	4	4	4	4	4	4
Bank loan repayment	2	2	2	2	2	2
Total cash outflows	9	X	8	8	8	8
Net cash flow	1	4	2	(3)	(3)	(4)
Opening bank balance	1	2	6	8	5	2
Closing bank balance	2	6	Y	5	2	Z

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**BUSINESS STUDIES**

**0450/22**

Paper 2 Case Study

**March 2018**

MARK SCHEME

Maximum Mark: 80

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**Published**

This mark scheme is published as an aid to teachers and candidates, to indicate the requirements of the examination. It shows the basis on which Examiners were instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began, which would have considered the acceptability of alternative answers.

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

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This document consists of **13** printed pages.

**Generic Marking Principles**

These general marking principles must be applied by all examiners when marking candidate answers. They should be applied alongside the specific content of the mark scheme or generic level descriptors for a question. Each question paper and mark scheme will also comply with these marking principles.

**GENERIC MARKING PRINCIPLE 1:**

Marks must be awarded in line with:

- the specific content of the mark scheme or the generic level descriptors for the question
- the specific skills defined in the mark scheme or in the generic level descriptors for the question
- the standard of response required by a candidate as exemplified by the standardisation scripts.

**GENERIC MARKING PRINCIPLE 2:**

Marks awarded are always **whole marks** (not half marks, or other fractions).

**GENERIC MARKING PRINCIPLE 3:**

Marks must be awarded **positively**:

- marks are awarded for correct/valid answers, as defined in the mark scheme. However, credit is given for valid answers which go beyond the scope of the syllabus and mark scheme, referring to your Team Leader as appropriate
- marks are awarded when candidates clearly demonstrate what they know and can do
- marks are not deducted for errors
- marks are not deducted for omissions
- answers should only be judged on the quality of spelling, punctuation and grammar when these features are specifically assessed by the question as indicated by the mark scheme. The meaning, however, should be unambiguous.

**GENERIC MARKING PRINCIPLE 4:**

Rules must be applied consistently e.g. in situations where candidates have not followed instructions or in the application of generic level descriptors.

**GENERIC MARKING PRINCIPLE 5:**

Marks should be awarded using the full range of marks defined in the mark scheme for the question (however; the use of the full mark range may be limited according to the quality of the candidate responses seen).

**GENERIC MARKING PRINCIPLE 6:**

Marks awarded are based solely on the requirements as defined in the mark scheme. Marks should not be awarded with grade thresholds or grade descriptors in mind.

Question	Answer	Marks
1(a)	<p><b>Explain two characteristics that makes George a successful entrepreneur.</b></p> <p>Knowledge [2 × 1] – award one mark for each characteristic.            Analysis [2 × 1] – award one mark for a relevant explanation of each characteristic of why this makes him a successful entrepreneur            Application [2 × 2] – award two application marks for each characteristic</p> <p>Award one mark for each relevant characteristic (maximum of two), such as:</p> <ul style="list-style-type: none"> <li>• Self-confident – decision to leave full-time job</li> <li>• Creative – created new menu to attract additional customers</li> <li>• Independent – willing to go with own ideas</li> <li>• Hard worker – prepared to work a lot of hours/prepared to make all the decisions and take on all responsibilities of running the business</li> <li>• Risk taker – possibility of losing own capital –sole trader so may lose personal assets</li> <li>• Effective communicator – persuades others</li> <li>• Optimistic – think positively about new ventures</li> <li>• Innovative – creating new recipes to retain customers</li> </ul> <p>Award a maximum of three additional marks for <b>each</b> explanation of the characteristic – <b>2 of which must be applied to this context.</b></p> <p>Indicative response:            George works very hard in his business (k) and this is needed as the café is open many hours a week. (ap) If he was not there most of the time then employees may not work as hard and the café may not maintain the high quality. (ap) If George did not work so hard, the reputation of the café could fall and the business would be less successful. (an)</p> <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> <p>Possible application marks:              Set up as his own boss – sole trader; set up café 15 years ago; bought a building for \$10 000; cafe is located in shopping mall in Main City; creates his own recipes for the café; menu; apply for further bank loan; café/restaurant; wants to be his own boss; business has been successful every year since it started. There may be other examples in context that have not been included here.</p> </div>	8
1(b)(i)	<p><i>Calculate values for X, Y and Z</i>            1 mark for each correct answer.            X = \$ 11 000            Y = \$8 000            Z = -\$2 000</p>	3

Question	Answer	Marks
1(b)(ii)	<p><b>Consider whether CC is in a good financial position to expand the business. Justify your answer.</b></p> <p>Relevant points might include:</p> <ul style="list-style-type: none"> <li>• Cash inflows not stable – 3 times as much in August than October – difficult to plan – may lead to lack of working capital – harder to pay suppliers</li> <li>• Cash outflows – fairly stable for most months – needs to be able to finance regular payments each month – otherwise will have problems obtaining supplies – or repaying bank loan</li> <li>• Net cash flow – negative for 3 out of the 6 months on the cash flow forecast – need for finance – may need overdraft facility – possible liquidity problem</li> <li>• Closing balance negative by the end of the 6 months – may be difficult to expand if lack of working capital – may need to finance expansion for external sources of finance – bank manager may not be happy with the cash flow forecast – but depends on what it looks like for the rest of the year</li> </ul> <p>Knowledge/Analysis/Evaluation – award up to 9 marks using the levels-based mark scheme below.</p> <p><b>Level 1 [1–3 marks]</b> 1 mark for each L1 statement (max of 3 marks) e.g. Cash inflows are not stable and there is 3 times as much paid in August than October.</p> <p><b>Level 2 [4–6 marks]</b> Detailed discussion of the cash flow position of the business. L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. The closing balance is reducing over the remaining six months of the year, which means the business is running out of working capital.</p> <p><b>Level 3 [7–9 marks]</b> For L3 to be awarded there needs to be at least two L2 marks awarded and then a conclusion which justifies whether or not the business is in a good financial position to expand. 9 marks for well justified conclusion of whether the business is in a good financial position to expand. 7–8 marks for limited conclusion of whether the business is in a good financial position to expand.</p>	<b>9</b>

Question	Answer	Marks
2(a)	<p><b>Identify two stakeholder groups for CC. Explain an objective of each stakeholder group you have identified.</b></p> <p>Knowledge [2 × 1] – award one mark for each relevant stakeholder group  Analysis [2 × 1] – award one mark for an explanation of each stakeholder group  Application [2 × 2] – award two application marks for each stakeholder group</p> <p>Award one mark for each stakeholder group (maximum of two), such as:</p> <ul style="list-style-type: none"> <li>• Employees/managers – paid higher wages/job security</li> <li>• George/owner – profit/return on investment</li> <li>• Supplier – ensure payment/continued orders</li> <li>• Bank/other lenders – repayment of loans</li> <li>• Local community – doesn't damage the local environment</li> <li>• Customers – good quality service and good value</li> <li>• Government – tax revenue/provides jobs</li> </ul> <p>Award a maximum of three additional marks for <b>each</b> explanation of the stakeholder group – <b>2 of which must be applied to this context.</b></p> <p>Indicative response:  Employees (k) will be interested in the success of the café (ap) as they will want to be sure of their job security and their jobs will be at risk if the business is not successful. (an) As the café is expanding they may gain a pay increase or a promotion in the newly expanded café. (ap)</p> <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> <p>Possible application marks: Set up as his own boss – sole trader; set up café 15 years ago; bought a building for \$10 000; cafe is located in shopping mall in Main City; wants to expand the café and increase profit; cafe is open 6 days a week; information from Appendix 1 such as interest rates are increasing and multinational coffee shop chain wants to open cafes in country X; loan of \$20 000; 50% regular customers; ingredients; café/restaurant; open 12 hours.</p> <p>There may be other examples in context that have not been included here.</p> </div>	8

Question	Answer	Marks												
2(b)	<p><b>George needs to recruit an additional chef. Consider the advantages and disadvantages of each of the three applicants outlined in Appendix 2. Recommend which applicant George should recruit. Justify your choice.</b></p> <p>Relevant points might include:</p> <table border="1"> <thead> <tr> <th>Applicant</th><th>Advantages</th><th>Disadvantages</th></tr> </thead> <tbody> <tr> <td>Jim</td><td> <ul style="list-style-type: none"> <li>Already has experience of managing a café</li> <li>less training costs</li> <li>easier to delegate responsibility for running the café</li> <li>may have suggestions to improve the café</li> <li>probably expects low wages as previous job only paid \$5 per hour</li> </ul> </td><td> <ul style="list-style-type: none"> <li>Few qualifications – only 3 IGCSE's</li> <li>Less experience than the other two applicants</li> <li>Not as interested in cooking as other applicants</li> </ul> </td></tr> <tr> <td>Sally</td><td> <ul style="list-style-type: none"> <li>Experience of working in a large busy restaurant means new working practices could be introduced to café</li> <li>Highest qualified of the three, so skilled and may cook high quality meals</li> <li>Middle wage in previous job of the three applicants</li> </ul> </td><td> <ul style="list-style-type: none"> <li>No experience of working in a café</li> <li>May not be interesting enough as less range of meals cooked in café than restaurant</li> </ul> </td></tr> <tr> <td>Vera</td><td> <ul style="list-style-type: none"> <li>Enjoys baking and cooking so maybe can cook new menu items</li> <li>A lot of experience means no training required</li> <li>Highest experience and in a high quality café so may bring new ideas to CC</li> </ul> </td><td> <ul style="list-style-type: none"> <li>Highest wages of the 3 applicants</li> <li>No formal cooking qualifications</li> <li>Lack of experience in a basic café so may have unrealistic expectations of the cafe</li> </ul> </td></tr> </tbody> </table> <p>Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.</p> <p><b>Level 1 [1–3 marks]</b> Outline of advantages and/or disadvantages of each applicant. 1 mark for each L1 statement (max of 3 marks) e.g. Sally has many years of experience as a chef which will be useful to CC to cook different meals.</p>	Applicant	Advantages	Disadvantages	Jim	<ul style="list-style-type: none"> <li>Already has experience of managing a café</li> <li>less training costs</li> <li>easier to delegate responsibility for running the café</li> <li>may have suggestions to improve the café</li> <li>probably expects low wages as previous job only paid \$5 per hour</li> </ul>	<ul style="list-style-type: none"> <li>Few qualifications – only 3 IGCSE's</li> <li>Less experience than the other two applicants</li> <li>Not as interested in cooking as other applicants</li> </ul>	Sally	<ul style="list-style-type: none"> <li>Experience of working in a large busy restaurant means new working practices could be introduced to café</li> <li>Highest qualified of the three, so skilled and may cook high quality meals</li> <li>Middle wage in previous job of the three applicants</li> </ul>	<ul style="list-style-type: none"> <li>No experience of working in a café</li> <li>May not be interesting enough as less range of meals cooked in café than restaurant</li> </ul>	Vera	<ul style="list-style-type: none"> <li>Enjoys baking and cooking so maybe can cook new menu items</li> <li>A lot of experience means no training required</li> <li>Highest experience and in a high quality café so may bring new ideas to CC</li> </ul>	<ul style="list-style-type: none"> <li>Highest wages of the 3 applicants</li> <li>No formal cooking qualifications</li> <li>Lack of experience in a basic café so may have unrealistic expectations of the cafe</li> </ul>	12
Applicant	Advantages	Disadvantages												
Jim	<ul style="list-style-type: none"> <li>Already has experience of managing a café</li> <li>less training costs</li> <li>easier to delegate responsibility for running the café</li> <li>may have suggestions to improve the café</li> <li>probably expects low wages as previous job only paid \$5 per hour</li> </ul>	<ul style="list-style-type: none"> <li>Few qualifications – only 3 IGCSE's</li> <li>Less experience than the other two applicants</li> <li>Not as interested in cooking as other applicants</li> </ul>												
Sally	<ul style="list-style-type: none"> <li>Experience of working in a large busy restaurant means new working practices could be introduced to café</li> <li>Highest qualified of the three, so skilled and may cook high quality meals</li> <li>Middle wage in previous job of the three applicants</li> </ul>	<ul style="list-style-type: none"> <li>No experience of working in a café</li> <li>May not be interesting enough as less range of meals cooked in café than restaurant</li> </ul>												
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Question	Answer	Marks
2(b)	<p><b>Level 2 [4–6 marks]</b> Discussion of advantages and/or disadvantages of each applicant. One L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. Sally has many years of experience as a chef which will be useful to CC to cook different meals. She is also well qualified as a chef, which should mean she could develop new recipes for the café menu. This will keep customers loyal to the café as well as attracting new passing trade. However, she is over qualified for a café and may not stay there long. (Level 2 plus one application mark for answering in the context of the café and its menu)</p> <p><b>Level 3 [7–10 marks]</b> For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation as to which applicant to appoint.            9–10 marks for well justified recommendation as to which applicant to appoint rather than the other applicants.            7–8 marks for some limited judgement shown as to which applicant to appoint.</p> <p><b>Award up to 2 additional marks for relevant application.</b></p> <div style="border: 1px solid black; padding: 10px; margin-top: 10px;"> <p>Possible application marks:              Set up as his own boss – sole trader; set up café 15 years ago; bought a building for \$10 000; cafe is located in shopping mall in Main City; creates his own recipes for the café; wants to expand the café and increase profit; cafe is open 6 days a week; advertises using menu board outside the café; details of the two options for expansion; café/restaurant.</p> <p>There may be other examples in context that have not been included here.</p> </div>	



Question	Answer	Marks
3(a)	<p><b>Identify and explain two roles of marketing for City Café.</b></p> <p>Knowledge [2 × 1] – award one mark for each role            Analysis [2 × 1] – award one mark for a relevant explanation of each role            Application [2 × 2] – award two application marks for each role</p> <p>Award one mark for each role (maximum of two):</p> <ul style="list-style-type: none"> <li>• Identify customer needs</li> <li>• Satisfy customer needs</li> <li>• Maintain customer loyalty</li> <li>• Gain information about customers</li> <li>• Anticipate changes in customer needs</li> </ul> <p>Award a maximum of three additional marks for <b>each</b> explanation of the role – <b>2 of which must be applied to this context.</b></p> <p>Indicative response:            It is important to identify customer needs (k) so that the café provides drinks and food that customers want to buy. (ap) This will ensure that customers keep coming back and become repeat business (an) so that George can increase his profit and expand the café. (ap)</p> <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> <p>Possible application marks:              Set up as his own boss – café/restaurant; menu; cafe is located in shopping mall in Main City; creates his own recipes for the café; wants to expand the café and increase profit; cafe is open 6 days a week; 50% of customers visit every day/ 50% visit less frequently; advertises using menu board outside the café; details of the two options for expansion.</p> <p>There may be other examples in context that have not been included here.</p> </div>	<b>8</b>

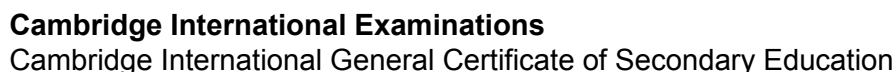
Question	Answer	Marks									
3(b)	<p><b>Consider the advantages and disadvantages of each of the two options for expanding the business. Recommend which option George should choose. Justify your answer.</b></p> <p>Relevant points might include:</p> <p>Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.</p> <table border="1"> <thead> <tr> <th></th><th>Advantages</th><th>Disadvantages</th></tr> </thead> <tbody> <tr> <td>Option 1</td><td> <ul style="list-style-type: none"> <li>Existing customers can still visit</li> <li>Keep existing employees – less recruitment costs</li> <li>– less training costs</li> <li>Can buy the building so more certainty for future development as cannot be moved out of the building</li> </ul> </td><td> <ul style="list-style-type: none"> <li>Not as large as the alternative café</li> <li>High costs to buy the building and redecorating = \$30 000</li> </ul> </td></tr> <tr> <td>Option 2</td><td> <ul style="list-style-type: none"> <li>Twice as large as existing café</li> <li>New part of city so many potential new customers</li> <li>Busy part of Main City so opportunity for significant increase of customers and revenue</li> <li>Capital from sale of existing building may fund the expansion costs or new equipment and redecoration</li> </ul> </td><td> <ul style="list-style-type: none"> <li>Need to find new customers</li> <li>Increased marketing costs</li> <li>Lose regular customers and employees</li> <li>Only rent building as not available to buy so may not be able to keep it in the future</li> </ul> </td></tr> </tbody> </table> <p><b>Level 1 [1–3 marks]</b></p> <p>Outline of advantages and disadvantages of each option. 1 mark for each L1 statement (max of 3 marks) e.g. The cost of building next door to the cafe is high.</p> <p><b>Level 2 [4–6 marks]</b></p> <p>Detailed discussion of advantages and disadvantages of each option. 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 cost of building next door to the cafe is high which will require George to borrow a large amount of money. This will increase the costs of the cafe and may reduce profit in the short run. (Level 2 plus one application mark for answering in the context of the café)</p>		Advantages	Disadvantages	Option 1	<ul style="list-style-type: none"> <li>Existing customers can still visit</li> <li>Keep existing employees – less recruitment costs</li> <li>– less training costs</li> <li>Can buy the building so more certainty for future development as cannot be moved out of the building</li> </ul>	<ul style="list-style-type: none"> <li>Not as large as the alternative café</li> <li>High costs to buy the building and redecorating = \$30 000</li> </ul>	Option 2	<ul style="list-style-type: none"> <li>Twice as large as existing café</li> <li>New part of city so many potential new customers</li> <li>Busy part of Main City so opportunity for significant increase of customers and revenue</li> <li>Capital from sale of existing building may fund the expansion costs or new equipment and redecoration</li> </ul>	<ul style="list-style-type: none"> <li>Need to find new customers</li> <li>Increased marketing costs</li> <li>Lose regular customers and employees</li> <li>Only rent building as not available to buy so may not be able to keep it in the future</li> </ul>	12
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Question	Answer	Marks
3(b)	<p><b>Level 3 [7–10 marks]</b></p> <p>For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation which justifies which option to choose.</p> <p>9–10 marks for well justified recommendation as to which option to choose and why not the other option.</p> <p>7–8 marks for some limited judgement shown in recommendation as to which option to use.</p> <p><b>Award up to 2 additional marks for relevant application.</b></p> <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> <p>Possible application marks:</p> <p>Set up as his own boss – café/restaurant; sole trader; set up café 15 years ago; bought a building for \$10 000; cafe is located in shopping mall in Main City; cafe is open 6 days a week; 50% of customers visit every day/ 50% visit less frequently; advertises using menu board outside the café; details of the two options for expansion</p> <p>Option 1</p> <p>Serve 50% more customers – larger cafe – \$10 000 redecorate + building work – \$20 000 cost to buy</p> <p>Option 2</p> <p>10 km away – twice as large – rent \$2 000 – not for sale – redecoration and kitchen equipment \$5 000 – busy part of the city with many shoppers</p> <p>There may be other examples in context that have not been included here.</p> </div>	

Question	Answer	Marks
4(a)	<p><b>Identify and explain two reasons why quality is important for CC.</b></p> <p>Knowledge [2 × 1] – award one mark for each relevant reason  Analysis [2 × 1] – award one mark for an explanation of each reason  Application [2 × 2] – award two application marks for each reason</p> <p>Award one mark for each relevant reason (maximum of one each), such as:</p> <ul style="list-style-type: none"> <li>• Establishes a brand image</li> <li>• Builds brand loyalty</li> <li>• Maintains a good reputation</li> <li>• Helps to increase sales</li> <li>• Attracts new customers</li> <li>• Can charge a higher price</li> <li>• Ensure food safety regulations are met</li> <li>• Avoids cost of dealing with defects/waste</li> <li>• Maintain or increase market share</li> </ul> <p>Award a maximum of three additional marks for <b>each</b> explanation of the reason – <b>2 of which must be applied to this context.</b></p> <p>Indicative response:  Maintains a good reputation (k) so that customers of the café will tell their friends how good it is. (ap) A good reputation should help ensure that the café maintains its existing customers and also increases sales. (an) The café already has 50% of its trade from regular customers so it is important to maintain the quality of the food and drinks to ensure this is maintained. (ap)</p> <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> <p>Possible application marks:  Set up as his own boss – café/restaurant; menu; 50% are repeat customers; cafe is located in shopping mall in Main City; creates his own recipes for the café; wants to expand the café and increase profit; cafe is open 6 days a week; advertises using menu board outside the café; details of the two options for expansion; multinational coffee shop chain wants to open cafes in country X.</p> <p>There may be other examples in context that have not been included here.</p> </div>	<b>8</b>

Question	Answer	Marks												
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**0450/22**

February/March 2018

**1 hour 30 minutes**

Candidates answer on the Question Paper.

No Additional Materials are required.

**READ THESE INSTRUCTIONS FIRST**

Write your Centre number, candidate number and name in the spaces at the top of this page.

Write in dark blue or black pen.

You may use an HB pencil for any diagrams, graphs or rough working.

Do not use staples, paper clips, glue or correction fluid.

DO **NOT** WRITE IN ANY BARCODES.

Answer **all** questions.

The Insert contains the case study.

The business described in this question paper is entirely fictitious.

At the end of the examination, fasten all your work securely together.

The number of marks is given in brackets [ ] at the end of each question or part question.

The total number of marks for this paper is 80.

This syllabus is approved for use in England, Wales and Northern Ireland as a Cambridge International Level 1/Level 2 Certificate.

This document consists of **10** printed pages and **2** blank pages.



**CAMBRIDGE**  
International Examinations

- 1 (a) Explain **two** characteristics that make George a successful entrepreneur.

Characteristic 1:.....

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.....

.....

Characteristic 2:.....

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.....

[8]



(b) Refer to Appendix 3.

(i) Calculate values for:

**X:**.....

**Y:**.....

**Z:**..... [3]

- (ii) Consider whether CC is in a good financial position to expand the business. Justify your answer.

[illegible]

[9]

2

- (a) Identify **two** stakeholder groups for CC. Explain an objective of each stakeholder group you have identified.

Stakeholder group 1:.....

Explanation:.....

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Stakeholder group 2:.....

Explanation:.....

.....

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[8]

- (b) George needs to recruit an additional chef.

Consider the advantages and disadvantages of each of the **three** applicants outlined in Appendix 2. Recommend which applicant George should recruit. Justify your choice.

Jim:.....

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.....

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Sally:.....

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Vera:.....

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Recommendation:.....

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[12]

3

(a) Identify and explain **two** roles of marketing for City Café.

Role 1:.....

Explanation:.....

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Role 2:.....

Explanation:.....

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[8]

- (b) Consider the advantages and disadvantages of each of the **two** options for expanding the business. Recommend which option George should choose. Justify your answer.

Option 1:.....

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Option 2:.....

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Recommendation:.....

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[12]

4

(a) Identify and explain **two** reasons why quality is important for CC.

Reason 1:.....

Explanation:.....

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.....

.....

Reason 2:.....

Explanation:.....

.....

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.....

.....

.....

.....

[8]

- (b) Consider the following **three** sources of finance that CC could use for expansion. Recommend which source of finance CC should choose. Justify your answer.

Take out a bank loan: .....

.....

.....

.....

.....

.....

Form a partnership with a family friend:.....

.....

.....

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Sell some business assets from the old café :.....

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Recommendation:.....

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[12]



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**Cambridge Assessment International Education**  
Cambridge International General Certificate of Secondary Education

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**ACCOUNTING**

**0452/22**

Paper 2

**March 2018**

MARK SCHEME

Maximum Mark: 120

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**Published**

This mark scheme is published as an aid to teachers and candidates, to indicate the requirements of the examination. It shows the basis on which Examiners were instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began, which would have considered the acceptability of alternative answers.

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

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This document consists of **11** printed pages.



**Generic Marking Principles**

These general marking principles must be applied by all examiners when marking candidate answers. They should be applied alongside the specific content of the mark scheme or generic level descriptors for a question. Each question paper and mark scheme will also comply with these marking principles.

**GENERIC MARKING PRINCIPLE 1:**

Marks must be awarded in line with:

- the specific content of the mark scheme or the generic level descriptors for the question
- the specific skills defined in the mark scheme or in the generic level descriptors for the question
- the standard of response required by a candidate as exemplified by the standardisation scripts.

**GENERIC MARKING PRINCIPLE 2:**

Marks awarded are always **whole marks** (not half marks, or other fractions).

**GENERIC MARKING PRINCIPLE 3:**

Marks must be awarded **positively**:

- marks are awarded for correct/valid answers, as defined in the mark scheme. However, credit is given for valid answers which go beyond the scope of the syllabus and mark scheme, referring to your Team Leader as appropriate
- marks are awarded when candidates clearly demonstrate what they know and can do
- marks are not deducted for errors
- marks are not deducted for omissions
- answers should only be judged on the quality of spelling, punctuation and grammar when these features are specifically assessed by the question as indicated by the mark scheme. The meaning, however, should be unambiguous.

**GENERIC MARKING PRINCIPLE 4:**

Rules must be applied consistently e.g. in situations where candidates have not followed instructions or in the application of generic level descriptors.

**GENERIC MARKING PRINCIPLE 5:**

Marks should be awarded using the full range of marks defined in the mark scheme for the question (however; the use of the full mark range may be limited according to the quality of the candidate responses seen).

**GENERIC MARKING PRINCIPLE 6:**

Marks awarded are based solely on the requirements as defined in the mark scheme. Marks should not be awarded with grade thresholds or grade descriptors in mind.

Question	Answer	Marks																																								
1(a)	Assist in the location of errors Provide an instant total of trade receivables Prove the arithmetical accuracy of the sales ledger Enable a statement of financial position to be prepared quickly Provide a summary of transactions relating to trade receivables Help reduce fraud <b>Any 2 advantages (1) each</b>	2																																								
1(b)	Overpayment by a credit customer of the amount owing Credit customer failing to deduct available cash discount Credit customer returning goods after settling account Credit customer making payment in advance <b>Any 2 reasons (1) each</b>	2																																								
1(c)	<table><tr><td></td><td>debit</td><td>credit</td><td>no entry</td></tr><tr><td>opening balance owed to credit suppliers</td><td></td><td>✓ (1)</td><td></td></tr><tr><td>credit purchases</td><td></td><td>✓(1)</td><td></td></tr><tr><td>cash purchases</td><td></td><td></td><td>✓(1)</td></tr><tr><td>cash discount received</td><td>✓(1)</td><td></td><td></td></tr><tr><td>trade discount received</td><td></td><td></td><td>✓(1)</td></tr><tr><td>cheques paid to credit suppliers</td><td>✓(1)</td><td></td><td></td></tr><tr><td>interest charged by credit suppliers</td><td></td><td>✓(1)</td><td></td></tr><tr><td>returns to credit suppliers</td><td>✓(1)</td><td></td><td></td></tr><tr><td>contra between sales and purchases ledgers</td><td>✓(1)</td><td></td><td></td></tr></table>		debit	credit	no entry	opening balance owed to credit suppliers		✓ (1)		credit purchases		✓(1)		cash purchases			✓(1)	cash discount received	✓(1)			trade discount received			✓(1)	cheques paid to credit suppliers	✓(1)			interest charged by credit suppliers		✓(1)		returns to credit suppliers	✓(1)			contra between sales and purchases ledgers	✓(1)			9
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1(e)	<p style="text-align: center;">Kamika Fuel2go account</p> <table><tr><td>Date 2017 Mar 31</td><td>Details Bank (1) Discount received (1)</td><td>\$ 780 20</td><td>Date 2017 Feb 1 Dec 10</td><td>Details Balance b/d Fuel expenses (1)</td><td>\$ 800 3200</td></tr><tr><td>2018 Jan 31</td><td>Balance c/d</td><td>3200 4000</td><td></td><td></td><td>4000</td></tr><tr><td></td><td></td><td></td><td>2018 Feb 1</td><td>Balance b/d (1)OF</td><td>3200</td></tr></table> <p style="text-align: center;">Fuel expenses account</p> <table><tr><td>Date 2017 Feb 1</td><td>Details Balance (inventory) b/d</td><td>\$ 950</td><td>Date 2018 Jan 31</td><td>Details Income statement(1)OF Balance (inventory) c/d</td><td>\$ 3260 1100</td></tr><tr><td>Jun 4 Dec 10</td><td>Bank (1) Fuel2go (1)</td><td>210 3200 4 360</td><td></td><td></td><td>4360</td></tr><tr><td>2018 Feb 1</td><td>Balance (inventory) b/d (1)</td><td>1100</td><td></td><td></td><td></td></tr></table>	Date 2017 Mar 31	Details Bank (1) Discount received (1)	\$ 780 20	Date 2017 Feb 1 Dec 10	Details Balance b/d Fuel expenses (1)	\$ 800 3200	2018 Jan 31	Balance c/d	3200 4000			4000				2018 Feb 1	Balance b/d (1)OF	3200	Date 2017 Feb 1	Details Balance (inventory) b/d	\$ 950	Date 2018 Jan 31	Details Income statement(1)OF Balance (inventory) c/d	\$ 3260 1100	Jun 4 Dec 10	Bank (1) Fuel2go (1)	210 3200 4 360			4360	2018 Feb 1	Balance (inventory) b/d (1)	1100				9
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+ (1) Dates																																						

Question	Answer	Marks																					
2(a)	Ensures that the profit for the year is not overstated in the income statement <b>(1)</b> Ensures that the non-current assets are not overstated in the statement of financial position <b>(1)</b>	<b>2</b>																					
2(b)	<div>Dipak Journal</div> <table><tr><td></td><td>Debit \$</td><td>Credit \$</td><td></td></tr><tr><td>Motor vehicles</td><td>50 000</td><td></td><td><b>(1)</b></td></tr><tr><td>ZY Motors</td><td></td><td>50 000</td><td><b>(1)</b></td></tr></table>		Debit \$	Credit \$		Motor vehicles	50 000		<b>(1)</b>	ZY Motors		50 000	<b>(1)</b>	<b>2</b>									
	Debit \$	Credit \$																					
Motor vehicles	50 000		<b>(1)</b>																				
ZY Motors		50 000	<b>(1)</b>																				
2(c)	<table><tr><td></td><td>\$</td><td></td></tr><tr><td>Cost</td><td>40 000</td><td></td></tr><tr><td>Depreciation to 30 November 2015</td><td>14 400</td><td></td></tr><tr><td>Book value at 30 November 2015</td><td><u>25 600</u></td><td></td></tr><tr><td>Depreciation for the year ended 30 November 2016</td><td>5 120</td><td><b>(1)</b></td></tr><tr><td>Book value at 30 November 2016</td><td><u>20 480</u></td><td></td></tr><tr><td>Depreciation for the year ended 30 November 2017</td><td>4 096</td><td><b>(1)</b></td></tr></table>		\$		Cost	40 000		Depreciation to 30 November 2015	14 400		Book value at 30 November 2015	<u>25 600</u>		Depreciation for the year ended 30 November 2016	5 120	<b>(1)</b>	Book value at 30 November 2016	<u>20 480</u>		Depreciation for the year ended 30 November 2017	4 096	<b>(1)</b>	<b>2</b>
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2(e)	<div>Dipak Journal</div> <table><tr><td></td><td>Debit \$</td><td>Credit \$</td><td></td></tr><tr><td>Income statement (4096 + 8000)</td><td>12 096</td><td></td><td><b>(1) OF</b></td></tr><tr><td>Provision for depreciation of motor vehicles</td><td></td><td>12 096</td><td><b>(1) OF</b></td></tr></table>		Debit \$	Credit \$		Income statement (4096 + 8000)	12 096		<b>(1) OF</b>	Provision for depreciation of motor vehicles		12 096	<b>(1) OF</b>	<b>2</b>									
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	<u>23 616</u>	<b>(1)OF</b>																					

Question	Answer					Marks
2(g)	Dipak Journal					6
			Debit	Credit		
			\$	\$		
	1	Disposal of motor vehicle	40 000		(1)	
		Motor vehicles		40 000	(1)	
		Transferring cost of motor vehicle to disposal account			(1)	
	2	Provision for depreciation of motor vehicles	23 616		(1) OF	
		Disposal of motor vehicle		23 616	(1) OF	
		Transferring the accumulated depreciation on motor vehicle sold to the disposal account			(1)	

Question	Answer	Marks																														
3(a)	<p style="text-align: center;">ND Sports Club Café Income Statement for the year ended 31 December 2017</p> <table> <thead> <tr> <th></th><th>\$</th><th>\$</th></tr> </thead> <tbody> <tr> <td>Revenue (sales)</td><td></td><td>9 520</td></tr> <tr> <td>Purchases (5760 (1) + 130 (1))</td><td>5 890</td><td></td></tr> <tr> <td>Closing inventory</td><td><u>970</u></td><td></td></tr> <tr> <td></td><td>4 920</td><td></td></tr> <tr> <td>Wages of assistant (4000 + 160 (1))</td><td>4 160</td><td></td></tr> <tr> <td>Rent and insurance (3700 – 1200/12 (1) x ¼ (1))</td><td>900</td><td></td></tr> <tr> <td>Depreciation – fixtures and fittings (20% × 3500)</td><td><u>700 (1)</u></td><td><u>10 680</u></td></tr> <tr> <td>Loss for the year</td><td></td><td><u>1 160 (1) OF</u></td></tr> </tbody> </table>		\$	\$	Revenue (sales)		9 520	Purchases (5760 (1) + 130 (1))	5 890		Closing inventory	<u>970</u>			4 920		Wages of assistant (4000 + 160 (1))	4 160		Rent and insurance (3700 – 1200/12 (1) x ¼ (1))	900		Depreciation – fixtures and fittings (20% × 3500)	<u>700 (1)</u>	<u>10 680</u>	Loss for the year		<u>1 160 (1) OF</u>	7			
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3(b)	<p style="text-align: center;">ND Sports Club Income and Expenditure Account for the year ended 31 December 2017</p> <table> <thead> <tr> <th></th><th>\$</th><th>\$</th></tr> </thead> <tbody> <tr> <td>Subscriptions ((14 850 + 500(1)) – 350 (1)) (Or 300 (1) × 50 (1))</td><td></td><td>15 000</td></tr> <tr> <td>Net income from competition</td><td></td><td><u>710 (1)</u></td></tr> <tr> <td></td><td></td><td>15 710</td></tr> <tr> <td>Loss on café</td><td>1 160 (1) OF</td><td></td></tr> <tr> <td>Wages of sports coach</td><td>6 000 }</td><td></td></tr> <tr> <td>General club expenses</td><td>540 }(1)</td><td></td></tr> <tr> <td>Rent and insurance (3700 – 1200/12 (1) x ¾(1))</td><td>2 700</td><td></td></tr> <tr> <td>Depreciation – sports equipment (20% × 6200)</td><td><u>1 240 (1)</u></td><td><u>11 640</u></td></tr> <tr> <td>Surplus for the year</td><td></td><td><u>4 070 (1) OF</u></td></tr> </tbody> </table>		\$	\$	Subscriptions ((14 850 + 500(1)) – 350 (1)) (Or 300 (1) × 50 (1))		15 000	Net income from competition		<u>710 (1)</u>			15 710	Loss on café	1 160 (1) OF		Wages of sports coach	6 000 }		General club expenses	540 }(1)		Rent and insurance (3700 – 1200/12 (1) x ¾(1))	2 700		Depreciation – sports equipment (20% × 6200)	<u>1 240 (1)</u>	<u>11 640</u>	Surplus for the year		<u>4 070 (1) OF</u>	9
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Surplus for the year		<u>4 070 (1) OF</u>																														



Question	Answer	Marks
3(c)	<p>Receipts from café sales Café suppliers Wages of café assistant Interest-free loan Sports equipment Café fixtures and fittings <b>Any 1 item (1)</b></p> <p>Reason: For any of first three items – It relates to the café and appears in the café income statement <b>(1)</b></p> <p>Reason: For any of the last three items – It is an asset/liability and appears in the statement of financial position <b>(1)</b></p>	<b>2</b>
3(d)	<p>Depreciation of sports equipment Subscriptions accrued Loss on café Surplus/deficit <b>Any 1 item (1)</b></p> <p>Reason – The depreciation is a non-monetary expense No money was received in respect of the subscriptions accrued The loss on the café was calculated in the income statement The surplus/deficit was calculated in the income and expenditure account <b>Any 1 suitable reason for the item selected (1)</b></p>	<b>2</b>
3(e)	The members of the club have not invested any capital/are not owners/are not shareholders <b>(1)</b> so there can be no dividends/profit share which represent a return on the amount invested <b>(1)</b>	<b>2</b>
3(f)	<p>These would not raise the required amount within the time limit <b>Or other suitable reason</b> <b>Any suitable reason (1)</b></p>	<b>1</b>
3(g)	<p>Long-term loan Mortgage Sponsorship Grants Donations <b>Or other suitable source of long term funds</b> <b>Any 1 source (1)</b></p>	<b>1</b>

Question	Answer					Marks	
4(a)	Amaira					15	
	Corrected Statement of Financial Position at 31 January 2018						
	Assets	\$		\$	\$		
	Non-current assets	Cost		Depreciation to date	Book value		
	Premises	85 000			85 000		
	Fixtures and fittings	40 000		19 520	20 480		(1)
	Motor vehicle	11 000		1 375	9 625		(1)OF
		<u>136 000</u>		<u>20 895</u>	<u>115 105</u>		
	Current assets						
	Inventory (18 000 + 2 000)				20 000		(1)
	Trade receivables			14 000			
	Less Provision for doubtful debts (3% × 14 000)			<u>420</u>	13 580		(1)OF
	Petty cash				<u>90</u>		(1)
					<u>33 670</u>		
	Total assets				<u>148 775</u>		
	Capital and liabilities						
	Capital						
	Opening balance				100 000		
	Plus Profit for the year (14 735 (1) – 1375 (1) – 150(1) + (450 – 420) (1))				<u>13 240</u>		*
					113 240		
	Less Drawings				<u>7 000</u>		(1)
					<u>106 240</u>		(1)OF
	Current liabilities						
Trade payables				15 144			
Bank overdraft (7 241 + 150)				7 391	(1)		
Loan – EasyLoans				<u>20 000</u>	(1)		
				<u>42 535</u>			
Total capital and liabilities				148 775			
* Accept calculation outside Statement							

Question	Answer	Marks																								
4(b)	<div>Amaira Capital account</div> <table><tr><th>Date 2018</th><th>Details</th><th>\$</th><th>Date 2017</th><th>Details</th><th>\$</th></tr><tr><td>Jan 31</td><td>Drawings (1) Balance c/d</td><td>7 000 106 240</td><td>Feb 1 2018 Jan 31</td><td>Balance b/d (1)  Profit for year (1)OF</td><td>100 000  13 240</td></tr><tr><td></td><td></td><td>113 240</td><td></td><td></td><td>113 240</td></tr><tr><td></td><td></td><td></td><td>2018 Feb 1</td><td>Balance b/d (1)OF</td><td>106 240</td></tr></table> <div>+ (1) Dates</div>	Date 2018	Details	\$	Date 2017	Details	\$	Jan 31	Drawings (1) Balance c/d	7 000 106 240	Feb 1 2018 Jan 31	Balance b/d (1)  Profit for year (1)OF	100 000  13 240			113 240			113 240				2018 Feb 1	Balance b/d (1)OF	106 240	5
Date 2018	Details	\$	Date 2017	Details	\$																					
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		113 240			113 240																					
			2018 Feb 1	Balance b/d (1)OF	106 240																					
4(c)	<div>To see if the business is likely to continue operating To assess job security To assess likelihood of wage increases Or other suitable reason Any 2 reasons (1) each</div>	2																								
4(d)	<div>Any points listed in (c) above provided not awarded in that section To compare results with previous years To compare results with other businesses To assess past performance To see where improvements can be made/take remedial action To compare with budgets and forecasts Or other suitable reason Any 2 reasons (1) each</div>	2																								

Question	Answer	Marks																																																						
5(a)	<div>ABC Limited</div> <div>Statement of Changes in Equity for the year ended 31 December 2017</div> <table><tr><td></td><td>Ordinary share capital \$</td><td>General reserve \$</td><td>Retained earnings \$</td><td>Total \$</td><td></td></tr><tr><td>On 1 January 2017</td><td>180 000</td><td>25 000</td><td>9 500</td><td>214 500</td><td></td></tr><tr><td>Share issue</td><td>20 000</td><td>.....</td><td>.....</td><td><b>20 000</b></td><td><b>1</b></td></tr><tr><td>Profit for the year</td><td>.....</td><td>.....</td><td><b>21 000</b></td><td><b>21 000</b></td><td><b>1</b></td></tr><tr><td>Final dividend paid for year ended 31 December 2016</td><td>.....</td><td>.....</td><td><b>(7 200)</b></td><td>(7 200)</td><td><b>1</b></td></tr><tr><td>Interim dividend for the year ended 31 December 2017</td><td>.....</td><td>.....</td><td><b>(6 000)</b></td><td>(6 000)</td><td><b>1</b></td></tr><tr><td>Transfer to general reserve</td><td>.....</td><td>2 000</td><td><b>(2 000)</b></td><td>.....</td><td><b>1</b></td></tr><tr><td>At 31 December 2017</td><td><b>200 000</b></td><td><b>27 000</b></td><td><b>15 300</b></td><td><b>242 300</b></td><td><b>1</b></td></tr><tr><td></td><td></td><td></td><td></td><td></td><td></td></tr></table>		Ordinary share capital \$	General reserve \$	Retained earnings \$	Total \$		On 1 January 2017	180 000	25 000	9 500	214 500		Share issue	20 000	.....	.....	<b>20 000</b>	<b>1</b>	Profit for the year	.....	.....	<b>21 000</b>	<b>21 000</b>	<b>1</b>	Final dividend paid for year ended 31 December 2016	.....	.....	<b>(7 200)</b>	(7 200)	<b>1</b>	Interim dividend for the year ended 31 December 2017	.....	.....	<b>(6 000)</b>	(6 000)	<b>1</b>	Transfer to general reserve	.....	2 000	<b>(2 000)</b>	.....	<b>1</b>	At 31 December 2017	<b>200 000</b>	<b>27 000</b>	<b>15 300</b>	<b>242 300</b>	<b>1</b>							6
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5(b)	<div>Increase in gross profit</div> <div>Decrease in expenses/better control of expenses</div> <div>Increase in other income</div> <div>Different type of expenses</div> <div>Or other suitable reason</div> <div>Any 2 reasons (1) each</div>	2																																																						
5(c)	<div>2017 (1)</div> <div>In 2016 the percentage of expenses to revenue was 20%: in 2017 the percentage of expenses to revenue was 16% (1)s</div>	2																																																						
5(d)	<table><tr><td rowspan="2">proposal</td><td colspan="3">effect on percentage of profit for the year to revenue</td></tr><tr><td>increase</td><td>decrease</td><td>no effect</td></tr><tr><td>reduce number of employees to reduce the wages bill</td><td>✓ (1)</td><td></td><td></td></tr><tr><td>purchase supplies in bulk to get trade discount</td><td>✓ (1)</td><td></td><td></td></tr><tr><td>purchase supplies on a cash basis only</td><td></td><td></td><td>✓ (1)</td></tr><tr><td>delay payment of rent of premises</td><td></td><td></td><td>✓ (1)</td></tr></table>	proposal	effect on percentage of profit for the year to revenue			increase	decrease	no effect	reduce number of employees to reduce the wages bill	✓ (1)			purchase supplies in bulk to get trade discount	✓ (1)			purchase supplies on a cash basis only			✓ (1)	delay payment of rent of premises			✓ (1)	4																															
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Question	Answer	Marks																			
5(e)	<p>The company had to wait longer to receive the money from the trade receivables. Delay in receiving the money may be the reason why company took longer to pay trade payables. Company would not qualify for cash discount in 2017. Company would not have to allow cash discount in 2017. Company may be charged interest on late payments in 2017. Company may charge interest on late receipts in 2017. In both years the company was paying the trade payables before receiving money from the trade receivables <b>Or other suitable comment</b> <b>Any 2 comments (1) each</b></p>	2																			
5(f)	<p>Offer cash discount for prompt payment Charge interest on overdue accounts Improve credit control Issue invoices and monthly statements promptly Refuse further supplies until outstanding balance is paid Invoice discounting and debt factoring <b>Any 2 points (1) each</b></p>	2																			
5(g)	<p>Reduce credit sales/sell for cash only Obtain references from new credit customers Fix a credit limit for each customer Improve credit control Issue invoices and monthly statements promptly Refuse further supplies until outstanding balance is paid Offer cash discount for prompt payment Charge interest on overdue accounts <b>Any 2 points (1) each</b></p>	2																			
5(h)	<p>Have to wait longer for the money Increased risk of bad debts <b>Or other suitable disadvantage</b> <b>Any 1 disadvantage (1)</b></p>	1																			
5(i)	<p>Do not have to allow cash discount May charge interest on overdue accounts <b>Or other suitable advantage</b> <b>Any 1 advantage (1)</b></p>	1																			
5(j)	The profit earned for every \$100 used in the business	1																			
5(k)	<table><tr><th rowspan="2"></th><th colspan="3">effect on return on capital employed (ROCE)</th></tr><tr><th>increase</th><th>decrease</th><th>no effect</th></tr><tr><td>reduce cost of insuring motor vehicles</td><td>✓ (1)</td><td></td><td></td></tr><tr><td>issue more ordinary shares</td><td></td><td>✓ (1)</td><td></td></tr><tr><td>obtain a short-term interest-free loan from a director</td><td></td><td></td><td>✓ (1)</td></tr></table>		effect on return on capital employed (ROCE)			increase	decrease	no effect	reduce cost of insuring motor vehicles	✓ (1)			issue more ordinary shares		✓ (1)		obtain a short-term interest-free loan from a director			✓ (1)	3
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## Grade thresholds – June 2018

### Cambridge IGCSE™ Business Studies (0450)

Grade thresholds taken for Syllabus 0450 (Business Studies) in the June 2018 examination.

		minimum raw mark required for grade:						
	maximum raw mark available	A	B	C	D	E	F	G
Component 11	80	47	38	29	24	19	14	9
Component 12	80	49	42	36	30	24	18	12
Component 13	80	43	36	30	25	21	16	11
Component 21	80	46	37	29	25	21	17	13
Component 22	80	47	38	29	25	21	17	13
Component 23	80	48	40	32	28	23	18	13

Grade A\* does not exist at the level of an individual component.

The maximum total mark for this syllabus, after weighting has been applied, is **160**.

The overall thresholds for the different grades were set as follows.

Option	Combination of Components	A*	A	B	C	D	E	F	G
AX	11, 21	111	93	75	58	49	40	31	22
AY	12, 22	112	96	80	65	55	45	35	25
AZ	13, 23	106	91	76	62	53	44	34	24



**Cambridge International Examinations**  
Cambridge International General Certificate of Secondary Education

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**BUSINESS STUDIES**

**0450/21**

Paper 2

**May/June 2018**

INSERT

**1 hour 30 minutes**

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**READ THESE INSTRUCTIONS FIRST**

This Insert contains the case study material.

Anything the candidate writes on this Insert will not be marked.

\*2730532716-I\*



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This syllabus is approved for use in England, Wales and Northern Ireland as a Cambridge International Level 1/Level 2 Certificate.

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This document consists of **3** printed pages and **1** blank page.



## Value Gym (VG)

Peter is a qualified fitness instructor. He used to work at a luxury gym in country X. Customers of this luxury gym pay a high monthly membership fee no matter how many times they visit. There are no additional fees.

Peter enjoys helping people get fit and lose weight and he enjoys teaching exercise classes. Peter wanted to help more people to get fit or build up their muscles so he decided to set up his own gym. Peter thought there was a demand for low priced gyms that allowed people to pay each time they used it rather than pay a high monthly fee. So he left his job and set up his own gym in a low income part of the city. Peter named his business Value Gym (VG) and opened it three months ago. Peter needed a large bank loan to help him set up his gym as he only had \$5 000 of his own money. He is a sole trader. He prepared a business plan to show the bank manager.

VG has been very successful and Peter is expecting to make a profit by the end of his first year as an entrepreneur. However, he still wants to attract more customers to the gym. He knows that marketing will be very important if his business is to expand.

Peter has estimated that VG will soon need 4 personal trainers to work in the gym. Peter has not decided whether to employ these personal trainers or to allow personal trainers who work for themselves to use VG's facilities for a fee. The gym is open from 0600 until 2200, 7 days a week. Customers pay for each day they use the gym. In addition customers can pay for a personal trainer if they want individual tuition.

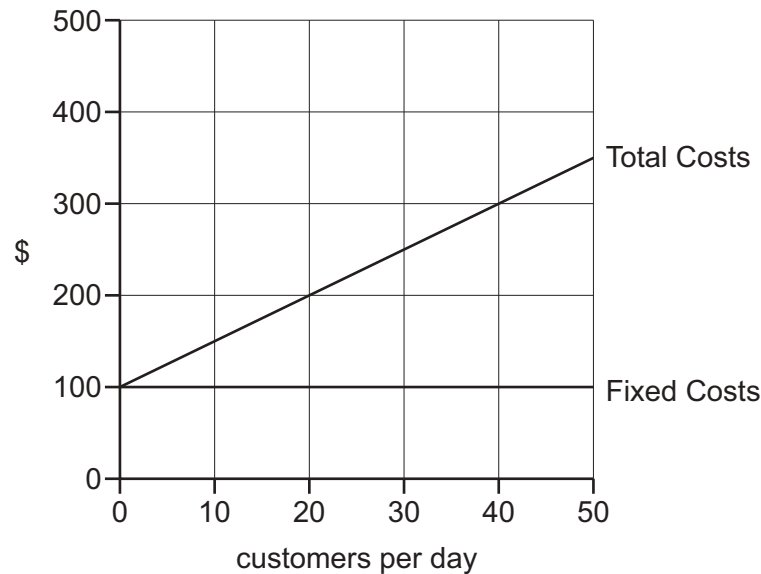
## Appendix 1





## Appendix 2

**Break-even chart for VG**



Variable costs per customer = \$5

Price per day to use the gym = \$10

Maximum capacity of the gym = 50 customers per day

## Appendix 3

City News

April 2018

### **Demand for gyms is expected to increase**

The government of country X is worried about the increasing health problems of the population. It wants more people to lose weight and get fit. This could make employees more productive and increase output for the businesses where they work.

A government grant is being given to anyone who owns a gym and has more than 20 customers a day. It is planned that the grants will be used to encourage more people to use a gym and get fit.

There is expected to be an increase in demand for personal trainers, especially to work in the evening. They will need to have qualifications in personal training to meet the health and safety regulations for working in a gym. Most personal trainers are paid the minimum wage. However it is expected that their wages will have to increase, as there will be a shortage of personal trainers until more people can gain qualifications in personal training.

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**BUSINESS STUDIES**

**0450/22**

Paper 2

**May/June 2018**

INSERT

**1 hour 30 minutes**

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**CAMBRIDGE**  
International Examinations

## Downtown Hotel (DH)

Downtown Hotel (DH) is small hotel with 39 employees. It is a private limited company set up by Hilda 9 years ago in country X. Hilda owns 80% of the shares and the capital employed in the business is \$100 000. It has been very successful with profit increasing each year. The demand for hotel accommodation in country X is also growing.

DH is located next to the beach in Downtown. Half of the hotel rooms are booked for 6 months of the year and all the rooms are booked for 4 months of the year. DH is empty for the remaining 2 months as the weather is very bad. Most of the guests that stay at the hotel are tourists from country X on coach (bus) tours. Hilda thinks she needs to attract hotel guests all year round.

A lot of litter is left on the beach next to the hotel and Hilda does not think she should pay to keep it clean. Local people also use the beach and it can be very busy, leading to hotel guests complaining about overcrowding and the amount of litter such as empty drinks bottles.

Hilda wants to expand the company by taking over another hotel. There are two hotels nearby that are for sale: ABC Hotel and XYZ Hotel.

### ABC Hotel

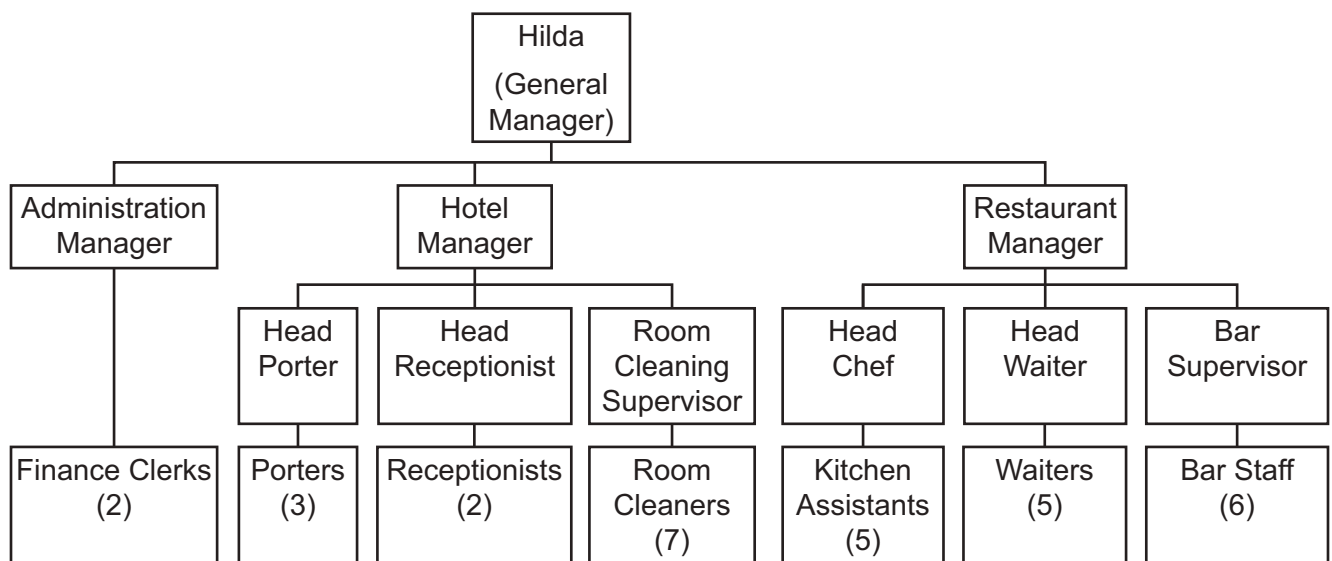
This has been owned by a local family for over 30 years. It has not been redecorated for many years and needs updating if it is to attract tourists from other countries. The estimated cost of updating the hotel is \$50 000. The hotel is for sale at a price of \$100 000 as it is in a good location on the beach.

### XYZ Hotel

This is a modern hotel and has recently been redecorated to a high standard. The hotel is located in the centre of Main City which is 50 km from Downtown. It is near to restaurants, a train station and the airport. It is for sale at a price of \$200 000. Technology is widely used in the hotel such as a computer based booking system and electronic key cards to access rooms and elevators.

## Appendix 1

### Organisation chart for Downtown Hotel



## Appendix 2

### Summary of financial information on the two hotels

	ABC Hotel	XYZ Hotel
Non-current assets	\$80 000	\$150 000
Current ratio	3	1
Acid test ratio	2	0.5

## Appendix 3

From: Hilda  
To: Hotel Manager

I want to attract customers from abroad but none of our employees speak foreign languages. We should set up our own hotel website so that customers from country X and other countries can easily make bookings at the hotel. This would help to increase demand for our hotel rooms at a time when fewer people are demanding coach (bus) holidays.

Guests from other countries expect additional facilities such as a gym and swimming pool but these are expensive. We could encourage local people to use the hotel by adding a café with access to the hotel facilities and encourage weekend breaks at discount prices during quieter times of the year.

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**BUSINESS STUDIES**

**0450/23**

Paper 2

**May/June 2018**

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**1 hour 30 minutes**

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### Archibold Heating (AH)

AH is a business which installs and repairs heating systems in factories, offices and homes in country X. It was set up 2 years ago as a partnership by Archi and Boris. They each invested \$10 000 and they both work hard in the business to make it a success. Revenue has increased steadily since the business was set up. Both partners are qualified to install and repair heating systems such as boilers.

The partners are planning to expand by offering a new service of installing and repairing air conditioning equipment. They want to offer this service to home owners as well as business customers.

AH is currently located in a small warehouse with no office space. The partners want to move to larger premises. There are two locations to choose between.

#### *Location A*

This is in the city centre and is twice as big as the existing premises. The rent is \$50 000 per year. It is near to all AH's main customers and is on a main road. There is no office space but part of the building could be changed into an office for an additional cost.

#### *Location B*

This is on the edge of the city and is for sale at \$200 000. AH's main customers are 10 km away. The building is three times bigger than the existing premises and it has a fully equipped office.

AH has 2 employees who are fully qualified in heating and air conditioning systems. It also has 4 part-qualified employees and one office worker who looks after the accounts and sales records. All employees have worked for AH since it was set up. There are competing heating and air conditioning businesses in the city centre that offer higher wage rates and better fringe benefits.

### Appendix 1

#### Summary of AH accounting information

	2016	2017
Revenue	\$400 000	\$500 000
Cost of sales	\$100 000	\$100 000
Profit	\$100 000	\$125 000
Gross profit margin	75%	
Profit margin	25%	



## Appendix 2

### Email message from AH employee to another AH employee

Did you see the high wage rates paid by BB Heating? 20% higher than ours! But we are already paid well above the minimum wage. They have fewer days holiday but they get free use of a company vehicle at weekends when they are not working.

It's much bigger than AH with over 50 employees. They have to work late most nights. We do get involved in decision making and have a chance to talk through problems with either Archi or Boris. It is never a problem if you need time off work for family reasons.

I am not sure whether to apply to work for BB Heating – what do you think?

## Appendix 3

*Daily news*

*April 2018*

Our currency is depreciating against the currency of country Y.

Heating and air conditioning businesses such as AH import components and equipment from country Y. This change in the exchange rate will affect these businesses and also consumers in country X.

Many of the clothes and food products bought by consumers in country X are imported. What will this do to inflation and wage rates?

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**BUSINESS STUDIES**

**0450/11**

Paper 1 Short Answer / Structured Response

**May/June 2018**

MARK SCHEME

Maximum Mark: 80

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**Published**

This mark scheme is published as an aid to teachers and candidates, to indicate the requirements of the examination. It shows the basis on which Examiners were instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began, which would have considered the acceptability of alternative answers.

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

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**Generic Marking Principles**

These general marking principles must be applied by all examiners when marking candidate answers. They should be applied alongside the specific content of the mark scheme or generic level descriptors for a question. Each question paper and mark scheme will also comply with these marking principles.

**GENERIC MARKING PRINCIPLE 1:**

Marks must be awarded in line with:

- the specific content of the mark scheme or the generic level descriptors for the question
- the specific skills defined in the mark scheme or in the generic level descriptors for the question
- the standard of response required by a candidate as exemplified by the standardisation scripts.

**GENERIC MARKING PRINCIPLE 2:**

Marks awarded are always **whole marks** (not half marks, or other fractions).

**GENERIC MARKING PRINCIPLE 3:**

Marks must be awarded **positively**:

- marks are awarded for correct/valid answers, as defined in the mark scheme. However, credit is given for valid answers which go beyond the scope of the syllabus and mark scheme, referring to your Team Leader as appropriate
- marks are awarded when candidates clearly demonstrate what they know and can do
- marks are not deducted for errors
- marks are not deducted for omissions
- answers should only be judged on the quality of spelling, punctuation and grammar when these features are specifically assessed by the question as indicated by the mark scheme. The meaning, however, should be unambiguous.

**GENERIC MARKING PRINCIPLE 4:**

Rules must be applied consistently e.g. in situations where candidates have not followed instructions or in the application of generic level descriptors.

GENERIC MARKING PRINCIPLE 5:
Marks should be awarded using the full range of marks defined in the mark scheme for the question (however; the use of the full mark range may be limited according to the quality of the candidate responses seen).
GENERIC MARKING PRINCIPLE 6:
Marks awarded are based solely on the requirements as defined in the mark scheme. Marks should not be awarded with grade thresholds or grade descriptors in mind.

Question	Answer	Marks	Notes
1(a)	<p><b>What is meant by 'market share'?</b></p> <p>Clear understanding: e.g. percentage or proportion of the total market sales [1] held by one brand or business [+1]</p> <p><b>OR</b> business sales/total market sales <math>\times 100</math></p> <p>Some understanding [1] e.g. share of sales made / percentage of customers a business has</p>	<b>2</b>	
1(b)	<p><b>Identify <u>two</u> aims of promotion.</b></p> <p>Award 1 mark per aim.</p> <p>Points might include:</p> <ul style="list-style-type: none"> <li>• inform / raise awareness / introduce new products</li> <li>• create brand image / improve image</li> <li>• compete with competitors</li> <li>• persuade / increase sales / attract customers</li> <li>• customer loyalty</li> </ul>	<b>2</b>	Question must relate to Marketing Mix. <b>Do not award</b> answers related to staff promotion.

Question	Answer	Marks	Notes
1(c)	<p><b>Identify and explain <u>two</u> methods of market research that GKA could use.</b></p> <p>Award 1 mark for each method identified Award 1 mark for each explanation in context</p> <p>Points might include:</p> <ul style="list-style-type: none"> <li>• observation / visiting competition [k] other food retailers [app]</li> <li>• questionnaires [k] about the low prices [app]</li> <li>• surveys [k] about the own-label products [app]</li> <li>• interviews [k] about the new shops [app]</li> <li>• experiments / free samples / test marketing [k] the cereal [app]</li> <li>• access government statistics [k]</li> <li>• focus groups / consumer panels [k]</li> <li>• use market research agencies [k]</li> <li>• loyalty card data [k]</li> <li>• articles / newspapers / magazines[k]</li> </ul>	4	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>• use of numbers such as 300 or 100 (shops)</li> <li>• food retailer</li> <li>• food / breakfast cereal</li> <li>• toothpaste</li> <li>• high income / low income areas</li> <li>• change its pricing strategy</li> <li>• low prices</li> <li>• quality products</li> <li>• limited range (of products)</li> <li>• no promotion</li> <li>• own-label products</li> </ul> <p>(TV) Internet / online on own (NAQ) Primary / Secondary / Field / Desk</p>

Question	Answer	Marks	Notes
1(d)	<p><b>Identify and explain <u>two</u> ways in which GKA could keep costs low.</b></p> <p>Award 1 mark for each relevant way Award 1 mark for each relevant reference made to this business Award 1 mark for each relevant explanation</p> <p>Relevant points might include:</p> <ul style="list-style-type: none"> <li>• choose low cost locations [k] for all 100 sites [app] leading to lower fixed costs [an]</li> <li>• pay minimum wage [k] to shop workers [app] keep variable costs low [an]</li> <li>• economies of scale [k] (only once) for its limited range of products [app] leading to lower average costs [an]</li> <li>• set lower marketing budget [k] as no money spent on market research [app]</li> <li>• replace workers with machinery / automation / reduce workforce [k]</li> <li>• cheaper supplier [k]</li> <li>• close some locations [k] which would reduce electricity cost [an]</li> <li>• set up online [k]</li> <li>• reduce waste [k]</li> <li>• Buy direct from manufacturer [k] so lower cost than buying from wholesaler [an]</li> </ul>	<b>6</b>	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>• use of numbers such as 300 or 100 (shops)</li> <li>• food retailer</li> <li>• food / breakfast cereal</li> <li>• toothpaste</li> <li>• high income / low income areas</li> <li>• limited range (of products)</li> <li>• no promotion</li> <li>• low prices</li> <li>• quality products</li> <li>• own-label</li> <li>• market share increased 5%</li> <li>• profit increased by 40%</li> </ul> <p><b>Do not award</b> analysis for answers that clearly refer to manufacturing such as Lean production.</p>



Question	Answer	Marks	Notes
1(e)	<p><b>Do you think GKA should change its pricing strategy as the business expands? Justify your answer.</b></p> <p>Award 1 mark for identification of relevant point (s)  Award 1 mark for a relevant reference made to this business  Award up to 2 marks for relevant development of point(s)  Award up to 2 marks for a justified decision made as to whether GKA should change its pricing strategy as the business expands.</p> <p>Relevant points might include:</p> <ul style="list-style-type: none"> <li>• identification of a pricing strategy [k]</li> <li>• actions of competitors [k]</li> <li>• cost of new locations [k] in high income areas [app] may make it hard to control costs [an]</li> <li>• diseconomies of scale [k] from extra 100 shops [app] leading to a rise in average costs [an]</li> <li>• economies of scale[k] may allow them to charge lower prices[an]</li> <li>• current prices give the image of poor quality [k] because they are low prices [app] so may not attract new customers [an]</li> <li>• they would lose their USP if they change price [k] leading to a loss of the current customer base [an] in areas where average incomes are low [app]</li> </ul>	<b>6</b>	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>• use of numbers such as 300 or 100 (shops)</li> <li>• food retailer</li> <li>• food / breakfast cereal</li> <li>• toothpaste</li> <li>• high income or low income areas</li> <li>• limited range (of products)</li> <li>• no promotion</li> <li>• quality products</li> <li>• low prices</li> <li>• try to keep costs low</li> <li>• market share increased 5%</li> <li>• profit increased by 40%</li> </ul> <p>Note: question should focus on whether business should change its pricing strategy not just increase or decrease price.</p>

Question	Answer	Marks	Notes
2(a)	<p><b>Identify <u>two</u> situations in which downsizing the workforce might be necessary.</b></p> <p>Award one mark per situation</p> <p>Points might include:</p> <ul style="list-style-type: none"> <li>• introduction of automation / new technology</li> <li>• redesign work space / layout</li> <li>• demand factors e.g. falling demand, changing tastes, end of product life cycle, recession / economic slump, more competition, less revenue</li> <li>• factory closure</li> <li>• relocation to another country</li> <li>• business taken over / merger</li> <li>• excess workforce / unnecessary workers</li> <li>• financial problems e.g. lack of income, increase in costs, cash flow issues, cannot afford the workers,</li> <li>• changes in law</li> <li>• delayering / restructuring</li> </ul>	2	<b>Do not award</b> answers discussing who should be removed from the workforce e.g. poor attendance
2(b)	<p><b>Identify <u>two</u> possible ethical issues that SJD might have to respond to.</b></p> <p>Award 1 mark per ethical issue.</p> <p>Points might include:</p> <ul style="list-style-type: none"> <li>• protecting the environment</li> <li>• fair wages to workers / pay <b>above</b> minimum wage</li> <li>• pay fair prices to suppliers</li> <li>• charge fair prices to consumers</li> <li>• not employing child labour.</li> </ul>	2	Ethical issues raised must relate to SJD Do not reward aspects covered by law

Question	Answer	Marks	Notes
2(c)	<p><b>Identify and explain <u>two</u> possible problems for SJD if it decides to relocate its business.</b></p> <p>Award 1 mark for each problem identified Award 1 mark for each explanation in context</p> <p>Points might include:</p> <ul style="list-style-type: none"> <li>• access to / cost of available space [k] for steel production [app]</li> <li>• legal controls / level of government support [k] in other countries [app]</li> <li>• access to suitable / cost of workers [k] for private sector business [app]</li> <li>• availability / cost of raw materials [k] such as iron [app]</li> <li>• access to / cost of infrastructure e.g. transport and energy [k]</li> <li>• level of competition [k]</li> <li>• exchange rates / currency issues [k]</li> <li>• cultural issues e.g. different working hours [k]</li> <li>• language / communication difficulties [k]</li> <li>• trade restrictions / obtaining permits [k]</li> </ul>	<b>4</b>	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>• cheap imports</li> <li>• steel</li> <li>• iron</li> <li>• high tax rates</li> <li>• ethical issues</li> <li>• 3500 or 9000</li> <li>• competitors plan to close factories</li> <li>• construction businesses</li> <li>• (other) countries</li> <li>• private sector</li> <li>• factory</li> </ul>

Question	Answer	Marks	Notes
2(d)	<p><b>Explain how each of the following factors might affect SJD's business.</b></p> <p>Award 1 mark for each relevant point  Award 1 mark for each relevant reference made to this business  Award 1 mark for each relevant explanation</p> <p>Relevant points might include:</p> <p><b>High business tax rates:</b></p> <ul style="list-style-type: none"> <li>• reduces profit [k] so may need to make more workers redundant [app]</li> <li>• increase prices [k] so may lead to lower demand [an] from construction businesses [app]</li> <li>• increases costs [k] leading to less profit [an] for this private sector business [app]</li> </ul> <p><b>Cheap imports:</b></p> <ul style="list-style-type: none"> <li>• reduced demand [k] for steel [app] as its customers are able to buy from rivals [an]</li> <li>• may reduce prices [k] so revenue is reduced [an]</li> <li>• lower costs of production [k] as this is a producer [app] as raw materials may be cheaper [an]</li> <li>• reduce market share [k]</li> </ul>	<b>6</b>	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>• steel</li> <li>• iron</li> <li>• ethical issues</li> <li>• 3500 or 9000</li> <li>• competitors plan to close factories</li> <li>• construction businesses</li> <li>• private sector</li> <li>• producer</li> <li>• (other) countries</li> <li>• government support</li> <li>• employees redundant</li> <li>• relocation</li> </ul> <p><b>Do not award</b> reference to cheap imports / high business tax rates, as application. This is in the question.</p>

Question	Answer	Marks	Notes
2(e)	<p><b>Do you think the Government should help businesses like SJD? Justify your answer.</b></p> <p>Award 1 mark for identification of relevant point (s) [max 1]  Award 1 mark for a relevant reference made to this business  Award up to 2 marks for relevant development of point(s)  Award up to 2 marks for a justified decision made as to whether the Government should help businesses like SJD</p> <p>Points for might include:</p> <ul style="list-style-type: none"> <li>• protect jobs [k] as they plan to make 3500 redundant [app] which would increase unemployment [an] and the cost of paying unemployment benefits [an]</li> <li>• protect the vital industry [k] of steel [app] to ensure supply in their own country [an]</li> <li>• impact on other businesses [k] who need the material for construction [app]</li> <li>• government could lose tax revenue if they fail [k]</li> </ul> <p>Points against might include:</p> <ul style="list-style-type: none"> <li>• there is an opportunity cost / helping businesses would require money from the government [k] money spent on helping SJD will reduce the money available for other projects [an]</li> <li>• can obtain materials from other countries [k] as have access to cheap imports [app]</li> <li>• environmental impact of business [k] as industry creates pollution [an]</li> <li>• it is not the role of government [k] to help private sector business [app]</li> <li>• disincentive for businesses to be successful [k] this could lead to them being inefficient [an]</li> </ul>	<b>6</b>	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>• cheap imports</li> <li>• steel</li> <li>• iron</li> <li>• high tax rates</li> <li>• ethical issues</li> <li>• 3500 or 9000</li> <li>• competitors plan to close factories</li> <li>• construction</li> <li>• private sector</li> <li>• producer</li> <li>• (other) countries</li> <li>• relocate</li> </ul> <p><b>Do not award</b> government support as application as referred to in the question.</p> <p><b>Do not award</b> answers which focus on how governments will help businesses</p>

Question	Answer	Marks	Notes
3(a)	<p><b>What is meant by ‘non-current liabilities’?</b></p> <p>Clear understanding [2]: debts / loans repayable in more than 12 months [2]  <b>Or</b> Money owed for more than a year [2]</p> <p>Some understanding [1]: e.g. debts or money owed [1]  <b>Or</b> repayable in more than 12 months [1]</p>	2	<p><b>Do not award</b> ‘long term liabilities’ as this is the alternative name for the term</p> <p><b>Do not</b> credit ‘liability’ as stated in question</p> <p>Some understanding plus a relevant example can gain 2 marks. i.e. money owed for example bank loan</p>
3(b)	<p><b>Identify <u>two</u> reasons why a business might need finance.</b></p> <p>Award 1 mark per reason.</p> <p>Points might include:</p> <ul style="list-style-type: none"> <li>• start-up / start a business venture</li> <li>• cash flow problems / survive (BOD)</li> <li>• pay creditors</li> <li>• offer credit to customers</li> <li>• fund expansion</li> <li>• replace machinery / investment</li> <li>• working capital/ day-to-day</li> <li>• pay for advertising (promotion)</li> </ul>	2	

Question	Answer	Marks	Notes
3(c)	<p><b>Identify and explain <u>two</u> possible advantages to IBH of being a private limited company.</b></p> <p>Award 1 mark for each advantage identified Award 1 mark for each explanation in context</p> <p>Points might include:</p> <ul style="list-style-type: none"> <li>• can control who buys shares [k] so can keep control in this competitive market [app]</li> <li>• easier to raise finance / able to sell shares [k] as they want to expand [app]</li> <li>• seen as more creditworthy to suppliers [k] so could be more willing to supply leather [app]</li> <li>• limited liability [k] this keeps personal assets of family safe [app]</li> <li>• incorporation / separate legal identity [k]</li> <li>• no need to publish accounts [k]</li> <li>• continuity [k]</li> </ul>	<b>4</b>	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>• family (owned)</li> <li>• want to expand</li> <li>• shoes or related words such as leather, children, women</li> <li>• competitive market</li> <li>• needs finance</li> <li>• directors</li> </ul> <p><b>Do not award</b> private limited company as application, as this is stated in the question.</p>

Question	Answer	Marks	Notes
3(d)	<p><b>Identify and explain <u>two</u> advantages to IBH of using batch production</b></p> <p>Award 1 mark for each relevant advantage Award 1 mark for each relevant reference made to this business Award 1 mark for each relevant explanation</p> <p>Points might include:</p> <ul style="list-style-type: none"> <li>economies of scale [k] to reduce average costs [an] to increase the profit above \$120 000 [app]</li> <li>allows variety of products [k] so easier to meet demand for different styles [an] of shoes [app]</li> <li>flexibility / easy to switch production [k]</li> <li>limited quantity [k] so if children's tastes change [app] so not left with unwanted stock [an]</li> <li>variety of tasks for workers [k] which increase worker motivation and output [an]</li> <li>production may not be affected if machinery breaks down [k]</li> <li>spread risk [k] as they are not reliant on one product for all sales [an]</li> </ul>	<b>6</b>	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>want to expand</li> <li>shoes or related words such as leather, children, women</li> <li>competitive market</li> <li>correct references to data in Table 1</li> <li>needs finance</li> <li>directors</li> <li>private limited company</li> </ul> <p>The advantage needs to clearly relate to the business not the worker</p>



Question	Answer	Marks	Notes
3(e)	<p><b>Do you think IBH's performance has improved in 2017? Justify your answer using profit margins.</b></p> <p>Award 1 mark for identification of relevant point  Award 1 mark for relevant reference made to this business  Award up to 2 marks for relevant development of point(s)  Award up to 2 marks for a justified decision made as to whether IBH's performance has improved or not</p> <p>Points might include:</p> <ul style="list-style-type: none"> <li>• revenue increased [k] by 80 000 [app]</li> <li>• non-current liabilities have increased [k] by 100 000 [app]</li> <li>• gross profit increased [k] by 80 000 [app]</li> <li>• profit has remained the same [k]</li> <li>• gross profit margin increased [k] from 60% [app + an] to 67% [an]</li> <li>• gross profit margin increased [k] by 6–7% [app + an + an]</li> <li>• (net) profit margin has fallen [k] from 30% [app + an] 25% [an]</li> <li>• (net) profit margin fallen [k] by 5% [app + an + an]</li> </ul>	<b>6</b>	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>• want to expand</li> <li>• shoes or related words</li> <li>• correct use of data from Table 1 (use of \$000 not required)</li> <li>• competitive market</li> <li>• directors</li> <li>• private limited company</li> </ul> <p>To gain analysis mark at least one profit margin must be calculated. % sign is not required.</p> <p>Accept 66% or 67% for gross profit margin.</p>

Question	Answer	Marks	Notes
4(a)	<p><b>What is meant by ‘stakeholder group’?</b></p> <p>Clear understanding [2]: any group or person with a (direct) interest in the performance / activities of a business</p> <p>Some understanding [1]: someone affected by a business [1] or anybody inside or outside the business who cares about its operations [1]</p>	<b>2</b>	<p><b>Do not award</b> examples as this does not answer the question.</p> <p><b>Do not award</b> affects/influences the decisions</p>
4(b)	<p><b>Identify <u>two</u> possible reasons why Ben’s business has remained small.</b></p> <p>Award 1 mark per possible reason</p> <p>Points might include:</p> <ul style="list-style-type: none"> <li>• personal wishes / owners objectives</li> <li>• size of market / niche</li> <li>• lack of finance</li> <li>• avoid diseconomies of scale / communication issues / co-ordination issues</li> </ul>	<b>2</b>	(TV) State of economy
4(c)	<p><b>Identify and explain <u>two</u> reasons why quality might be important for Ben’s business.</b></p> <p>Award 1 mark for each reason identified Award 1 mark for each explanation in context</p> <p>Points might include:</p> <ul style="list-style-type: none"> <li>• help establish loyalty [k] which can help improve his business success [app]</li> <li>• increase sales / revenue / attract new customers [k] through more recommendations [app]</li> <li>• improve reputation / brand image [k] for his gardening business [app]</li> <li>• no need for rework [k]</li> <li>• able to charge high prices [k]</li> <li>• maybe his USP[k]</li> </ul>	<b>4</b>	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>• small (business)</li> <li>• gardening or related words such as cutting grass</li> <li>• (business) success</li> <li>• bonus</li> <li>• recommendation</li> <li>• 15 years ago</li> </ul>

Question	Answer	Marks	Notes
4(d)	<p><b>Identify and explain <u>two</u> advantages to Ben's business of having part-time workers.</b></p> <p>Award 1 mark for each relevant advantage  Award 1 mark for each relevant reference made to this business  Award 1 mark for each relevant explanation</p> <p>Points might include:</p> <ul style="list-style-type: none"> <li>• more flexible / help meet demand during busy times [k] can cover when full-time workers not available [app] so work is completed on time [an]</li> <li>• help retain experienced employees [k] who have worked there for a number of years [app] so reducing his recruitment costs [an]</li> <li>• can add more skills / experience to business [k] to increase demand [an]</li> <li>• help attract / easier to find workers [k]</li> <li>• do not have to pay holiday / sick pay [k]</li> <li>• may be more motivated [k] so productivity would rise [an]</li> <li>• part-time workers don't work as many hours [k] Ben pays an hourly wage rate [app] therefore the total wage bill would be lower [an]</li> </ul>	<b>6</b>	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>• small (business)</li> <li>• gardening or gardening related words allowed once</li> <li>• (business) success</li> <li>• bonus</li> <li>• hourly wage rate</li> <li>• recommendation</li> <li>• 15 years ago</li> <li>• 4 (part-time), 2 (full-time)</li> </ul> <p><b>Do not award</b> answers which clearly confuse part-time with seasonal workers.</p> <p><b>Do not award</b> answers that suggest that part-time are easier to dismiss</p> <p><b>Do not award</b> answers such as cheaper unless explained as all paid an hourly wage rate.</p>

Question	Answer	Marks	Notes
4(e)	<p><b>Explain <u>two</u> ways Ben could improve employee motivation. Recommend which way Ben should choose. Justify your answer.</b></p> <p>Award 1 mark for identification of relevant point (s)  Award 1 mark for relevant reference made to this business  Award up to 2 marks for relevant development of point(s)  Award up to 2 marks for a justified decision made as to which way Ben should use to improve employee motivation.</p> <p>Points might include:</p> <ul style="list-style-type: none"> <li>• change method of payment / increased rate of pay [k]</li> <li>• training [k] so feel more valued [an]</li> <li>• involve workers in decision making [k] so workers feel more important [an] to the gardening business [app]</li> <li>• change leadership style [k] Ben orders workers to do jobs [app]</li> <li>• chance for promotion / become full time [k]</li> <li>• job rotation [k] for the 6 employees [app] so employees are not bored doing the same thing [an]</li> <li>• job enlargement [k]</li> <li>• job enrichment [k]</li> <li>• employee of the month [k] therefore workers feel like their hard work is being recognised [an]</li> <li>• praise [k] meeting employees esteem needs [an]</li> <li>• team working / communication [k]</li> <li>• fringe benefits [k]</li> </ul>	<b>6</b>	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>• small (business)</li> <li>• gardening or related words such as cutting grass</li> <li>• (business) success</li> <li>• service</li> <li>• customer recommendation</li> <li>• seasonal (as gardening may not be needed all year)</li> <li>• ordered to do jobs</li> <li>• 15 years ago</li> <li>• 4 (part-time), 2 (full-time)</li> <li>• hourly wage rate</li> <li>• employed for a number of years</li> </ul> <p><b>Do not award</b> bonus as knowledge (currently does offer this)</p> <p>For evaluation marks to be awarded two relevant ways must have been explained</p>



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**BUSINESS STUDIES**

**0450/12**

Paper 1 Short Answer / Structured Response

**May/June 2018**

MARK SCHEME

Maximum Mark: 80

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**Published**

This mark scheme is published as an aid to teachers and candidates, to indicate the requirements of the examination. It shows the basis on which Examiners were instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began, which would have considered the acceptability of alternative answers.

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

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This document consists of **20** printed pages.

**Generic Marking Principles**

These general marking principles must be applied by all examiners when marking candidate answers. They should be applied alongside the specific content of the mark scheme or generic level descriptors for a question. Each question paper and mark scheme will also comply with these marking principles.

**GENERIC MARKING PRINCIPLE 1:**

Marks must be awarded in line with:

- the specific content of the mark scheme or the generic level descriptors for the question
- the specific skills defined in the mark scheme or in the generic level descriptors for the question
- the standard of response required by a candidate as exemplified by the standardisation scripts.

**GENERIC MARKING PRINCIPLE 2:**

Marks awarded are always **whole marks** (not half marks, or other fractions).

**GENERIC MARKING PRINCIPLE 3:**

Marks must be awarded **positively**:

- marks are awarded for correct/valid answers, as defined in the mark scheme. However, credit is given for valid answers which go beyond the scope of the syllabus and mark scheme, referring to your Team Leader as appropriate
- marks are awarded when candidates clearly demonstrate what they know and can do
- marks are not deducted for errors
- marks are not deducted for omissions
- answers should only be judged on the quality of spelling, punctuation and grammar when these features are specifically assessed by the question as indicated by the mark scheme. The meaning, however, should be unambiguous.

**GENERIC MARKING PRINCIPLE 4:**

Rules must be applied consistently e.g. in situations where candidates have not followed instructions or in the application of generic level descriptors.

**GENERIC MARKING PRINCIPLE 5:**

Marks should be awarded using the full range of marks defined in the mark scheme for the question (however; the use of the full mark range may be limited according to the quality of the candidate responses seen).

**GENERIC MARKING PRINCIPLE 6:**

Marks awarded are based solely on the requirements as defined in the mark scheme. Marks should not be awarded with grade thresholds or grade descriptors in mind.

Question	Answer	Marks	Notes
1(a)	<p>Identify <b>two</b> features of a sole trader.</p> <p>Knowledge [2 × 1] Award 1 mark per feature</p> <p>Points might include:</p> <ul style="list-style-type: none"> <li>• Keeps all profits</li> <li>• Unlimited liability</li> <li>• Unincorporated OR no separate legal identity</li> <li>• Takes all decisions OR own boss/ works for himself/herself</li> <li>• Has total ownership of business OR full control</li> <li>• Few legal requirements</li> </ul>	2	<p><b>Do not accept</b> in private sector as this applies to all types of organisation in the sector.</p> <p><b>Do not award</b> features of an entrepreneur</p> <p><b>Do not award</b> answers such as:</p> <ul style="list-style-type: none"> <li>• Independent [tv]</li> <li>• fast decision making [tv]</li> <li>• no one to help run / manage business</li> </ul> <p>OR help make decisions [tv]</p>
1(b)	<p>Identify <b>two</b> of the main sections of a business plan.</p> <p>Knowledge [2 × 1]: Award 1 mark per element.</p> <p>Points might include:</p> <ul style="list-style-type: none"> <li>• Executive summary</li> <li>• Business aims OR targets OR vision statement OR objectives</li> <li>• Marketing OR any element of mix, e.g. pricing, product, place or promotion</li> <li>• Market research OR Competition OR market analysis</li> <li>• Financial, e.g. cash flow forecast OR budgets</li> <li>• Human resources OR number of employees OR skills needed</li> <li>• Production details</li> <li>• Organisational OR management details, e.g. structure, type of business, name and location of business</li> </ul>	2	<p>Note only award one point from each section</p> <p><b>Do not award</b> examples of objectives, e.g. <b>increase</b> in profit OR expand</p>



Question	Answer	Marks	Notes
1(c)	<p>Identify and explain <b>two</b> reasons why using the right pricing method is important for Adele's business.</p> <p>Knowledge [2 × 1]: Award 1 mark for each reason identified</p> <p>Application [2 × 1]: Award 1 mark for each explanation in context</p> <p>Points might include:</p> <ul style="list-style-type: none"> <li>• Help attract customers [k] to go to her school [app]</li> <li>• Help retain customers [k] in the dance classes [app]</li> <li>• Maintain OR create business image [k] so that children want to attend [app]</li> <li>• Remain competitive OR don't lose customers to competitors [k]</li> <li>• Ensure cover costs OR survival [k] especially if she takes out a bank loan [app]</li> <li>• Ensure business makes a profit [k] to pay herself a salary [app]</li> </ul>	<b>4</b>	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>• Children OR parents</li> <li>• Exercise classes OR dance</li> <li>• School</li> <li>• Sole trader</li> <li>• \$8000</li> <li>• \$1000</li> <li>• Pays herself a salary</li> <li>• Expand OR second (school)</li> <li>• Business plan</li> <li>• 5 years</li> </ul> <p><b>Do not award</b> students as [app] as it is too vague</p> <p><b>Do not award</b> 'money for expansion' as knowledge</p> <p><b>Do not award</b> answers which identify possible pricing methods as this does not answer the question</p>

Question	Answer	Marks	Notes
1(d)	<p>Identify and explain <b>two</b> location factors that Adele should consider when deciding on a second school.</p> <p>Knowledge [2 × 1] Award 1 mark for each relevant factor</p> <p>Application [2 × 1] Award 1 mark for each relevant reference to this business</p> <p>Analysis [2 × 1] Award 1 mark for each relevant explanation</p> <p>Relevant points might include:</p> <ul style="list-style-type: none"> <li>• Customers OR level of demand [k] for dance classes [app] to increase OR ensure revenue [an]</li> <li>• Cost OR availability of suitable premises [k] as might not be able to afford location [an] as only set aside \$8000 [app]</li> <li>• Government regulations OR availability of grants [k] which could stop her from opening in certain locations [an]</li> <li>• Competitors OR loyalty to other businesses [k] by children [app] making it difficult to compete [an]</li> <li>• Access to employees [k] as will need trained people to help or advise customers [an]</li> <li>• Infrastructure OR transport links OR utilities OR internet access [k] as without electricity may be difficult to operate the site [an]</li> <li>• Reputation / image OR security OR crime level OR pollution in area [k]</li> <li>• Close to suppliers [k] to reduce transport costs [an]</li> <li>• Personal preference [k]</li> </ul>	6	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>• Children OR parents</li> <li>• Exercise or dance classes or related words such as instructors</li> <li>• sole trader</li> <li>• \$8000</li> <li>• \$1000</li> <li>• Pays herself a salary</li> <li>• Business plan</li> <li>• 5 years</li> <li>• Bank loan</li> </ul> <p><b>Do not accept</b> school as application as stated in question.</p> <p>Note: For analysis only award impact on revenue once e.g. increase in sales / revenue OR decrease in sales / revenue</p> <p>Do not award points such as climate OR location is good as these are [TV]</p>

Question	Answer	Marks	Notes
1(e)	<p>Do you think that a bank loan is the best source of finance for Adele to use to expand the business? Justify your answer.</p> <p>Knowledge [1] Award 1 mark for identification of relevant issue(s)</p> <p>Application [1] Award 1 mark for a relevant reference to this business</p> <p>Analysis [2] Award up to 2 marks for relevant development of point(s)</p> <p>Evaluation [2] Award up to 2 marks for a justified decision on whether a bank loan is the best source of finance for Adele to use</p> <p>Relevant points might include:</p> <p>Loan</p> <ul style="list-style-type: none"> <li>• Needs to be repaid [k]</li> <li>• Have to pay interest [k] which will increase her costs [an]</li> <li>• Have long time to repay [k] so has time to gain extra revenue to meet repayments [an]</li> <li>• Can keep profits for future OR emergency [k]</li> <li>• Has unlimited liability [k] as sole trader [app] so could lose personal assets if unable to repay [an]</li> <li>• May need to offer security [k]</li> <li>• Can borrow large amount or all the money [k]</li> </ul> <p>Profits</p> <ul style="list-style-type: none"> <li>• Using retained profits [k] but only has \$5000 [app + an] so would still need \$3000 [an]</li> <li>• Using retained profits [k] as no need to repay [an]</li> <li>• Using profit [k] could reduce the amount needed to borrow [an] which could reduce the amount of interest paid [an]</li> </ul> <p>Additional options could include:</p> <p>Take a partner [k] but must share profits [an]  Borrow from family and friends [k]  Use personal savings OR sell her assets [k]  Become a private limited company [k]</p>	6	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>• Children OR parents</li> <li>• Exercise classes or dance</li> <li>• School</li> <li>• sole trader</li> <li>• \$8000</li> <li>• \$1000</li> <li>• pays herself a salary</li> <li>• business plan</li> <li>• 5 years</li> </ul> <p>Note: Other <b>suitable long term</b> sources of finance can be discussed as alternatives but evaluation must focus on whether a bank loan is the best source of finance for Adele to use or not.</p> <p><b>Do not award</b> sell shares OR short term methods of finance, e.g. overdraft</p> <p>Note: The answer must focus on whether a loan is the best option NOT whether the bank is willing to lend her a loan / the risk to the bank. As such, <b>do not award</b> points such as bank see her as high risk</p>

Question	Answer	Marks	Notes
2(a)	<p>What is meant by a 'cash flow forecast'?</p> <p>Clear understanding [2]: an estimate of cash inflows and outflows of a business, (usually on a month by month basis)  OR Estimate of timings and amount of cash inflows and outflows over a given period of time or over months to come</p> <p>Some understanding [1]: shows cash / money inflows <b>and</b> outflows</p>	2	<p>For both marks must have idea of cash in and outflows [1] plus future / estimated / predicted [+1]</p> <p><b>Do not award</b> forecast as this is part of the question</p>
2(b)	<p>Calculate the values for <b>X</b> and <b>Y</b>.</p> <p>Application [2 × 1] award 1 mark per value</p> <p>X = (30) or (30 000)  Y = (20) or (20 000)</p>	2	<p>Note: must clearly indicate that the numbers are <b>negative values</b> to award the marks.</p>

Question	Answer	Marks	Notes
2(c)	<p>Identify and explain <b>two</b> benefits to JSF of market research.</p> <p>Knowledge [2 × 1] – award 1 mark per way identified</p> <p>Application [2 × 1] – award 1 mark for each explanation in context.</p> <p>Points might include:</p> <ul style="list-style-type: none"> <li>• Greater awareness of (current) consumer needs / preferences (only once) [k] for towels and sheets [app]</li> <li>• Help identify gaps in the market OR future trends [k]</li> <li>• Find out about competitors OR size of the market [k] as in private sector [app]</li> <li>• Helps set price [k] which could help increase cash inflow above \$9000 [app]</li> <li>• Produce the correct <b>amount</b> of products [k] that could help reduce cash outflows which are too high [app]</li> <li>• Reduces risks OR products launched with more confidence [k]</li> <li>• Help decide how best to promote its products [k] to retailers [app]</li> <li>• Help gain competitive advantage [k]</li> </ul>	4	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>• Correct use of appropriate numbers from Table 1</li> <li>• Household goods or examples such as bed sheets, towels</li> <li>• (Sold to) retailers</li> <li>• Cash outflows <b>too high</b></li> <li>• 50 (production workers)</li> <li>• Private sector</li> <li>• \$1000 (training per month)</li> </ul> <p>Note: Answers should focus on the benefit to JSF of the market research</p> <p>Note: Only award answers relating to finding out customer needs once, e.g. find out what prices consumers want to pay [k] but if second answer refers find out what type of towels customers prefer [REP] as both are about what consumers want.</p>

Question	Answer	Marks	Notes
2(d)	<p>Identify and explain <b>two</b> reasons why training is important to JSF.</p> <p>Knowledge [2 × 1] Award 1 mark for each relevant reason identified</p> <p>Application [2 × 1] Award 1 mark for each relevant reference to this business</p> <p>Analysis [2 × 1] Award 1 mark for each relevant explanation</p> <p>Relevant points might include:</p> <ul style="list-style-type: none"> <li>• Increased motivation [k] so could lead to increased efficiency OR output OR faster [an] when making towels [app]</li> <li>• Fewer customer complaints [k] from retailers [app] increasing customer loyalty OR sales OR revenue [an]</li> <li>• Fewer mistakes OR less wastage OR better / maintain quality [k] of 50 production workers [app] lower costs of rework [an]</li> <li>• Fewer accidents OR ensure safe working conditions [k] when operating machines [app]</li> <li>• More skilled OR flexible employees OR workers know what to do [k] so able to cover absences of others [an]</li> <li>• Less supervision needed [k]</li> <li>• Help reduce number of employees leaving OR encourage employee loyalty OR retention [k] lowering recruitment costs [an]</li> <li>• Help attract employees [k]</li> <li>• Able to train others [k] so reducing training costs [an] below \$1000 per month [app]</li> </ul>	<b>6</b>	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>• Household goods or examples such as bed sheets, towels</li> <li>• Cash outflows too high</li> <li>• 50 (production workers)</li> <li>• \$1000 (per month)</li> <li>• Machines OR machinery</li> <li>• Retail businesses</li> <li>• Correct use of numbers from Table 1</li> </ul>

Question	Answer	Marks	Notes
2(e)	<p>Explain <b>two</b> ways (other than lower training costs) that JSF could improve its cash flow position. Which way do you think JSF should use? Justify your answer.</p> <p>Knowledge [1] Award 1 mark for identification of relevant point(s)</p> <p>Application [1] Award 1 mark for a relevant reference to this business</p> <p>Analysis [2] Award up to 2 marks for relevant development of point(s)</p> <p>Evaluation [2] Award up to 2 marks for a justified decision on which method JSF should use to improve its cash flow position</p> <p>Relevant points might include:</p> <p>Practical examples such as:</p> <ul style="list-style-type: none"> <li>Find cheaper supplier [k] as this would reduce cash outflow [an] but cheaper could mean lower quality leading to lower cash inflows/ sales [an]</li> <li>Increase number of customers [k] which could increase cash inflows [an]</li> </ul> <p>OR</p> <ul style="list-style-type: none"> <li>Arrange a <b>short term loan</b> OR overdraft [k] giving them quick access to cash [an] especially at time when cash outflows are high [app]</li> <li>Reduce level of trade receivables (debtors) or ask trade receivables (debtors) to pay quicker [k] than 2 months [app]</li> <li>Delay purchases [k] so keeping cash in the business [an]</li> <li>Reduce level of inventory [k]</li> <li>Sell unwanted non-current assets [k] as workers use machines [app] so releasing cash tied up in the business [an]</li> <li>Ask for more time to pay suppliers [k]</li> </ul>	6	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>Correct use of numbers from Table 1</li> <li>Fabrics and associated words such as bed sheets, towels</li> <li>Market research budget cut to zero</li> <li>Cash outflows too high</li> <li>50 (production workers)</li> <li>2 months OR retailers</li> <li>2 weeks (to pay suppliers)</li> </ul> <p><b>Do not accept</b> answers such as 'increase cash inflow' OR 'reduce cash outflow' as knowledge as does not identify a way</p> <p><b>Do not accept</b> training as knowledge or application as stated in question or market research as has zero budget.</p> <p>Note: evaluation marks can <b>only</b> be awarded if two relevant ways of improving cash flow have been identified <b>and</b> at least 1 analysis mark given for reference to effect on cash flow.</p> <p>Note: a decision alone is not evaluation. Must give a supported reason for choice. For second evaluation mark, must <b>clearly</b> explain why chosen method is better than other option discussed.</p>

Question	Answer	Marks	Notes
3(a)	<p>Identify <b>two</b> ways to measure business success.</p> <p>Knowledge [2 × 1]: Award 1 mark for each measure of success. Relevant points might include:</p> <ul style="list-style-type: none"> <li>• Growth OR number of shops</li> <li>• Market share</li> <li>• Revenue OR sales value OR sales volume</li> <li>• Survival (in short run)</li> <li>• Profit OR financial ratios such as ROCE OR profit margin OR capital invested</li> <li>• Customer satisfaction OR number of repeat customers</li> <li>• Good reputation</li> <li>• Share price OR dividends</li> <li>• Efficiency OR productivity OR number of output</li> <li>• Number of employees OR employee loyalty</li> <li>• Achieving environmental OR ethical targets</li> </ul>	<b>2</b>	<p>Accept any reasonable answer</p> <p><b>Do not award</b> size OR compare performance to competitors or over time [tv] on own. Answer must state what they are measuring / comparing</p> <p><b>Do not award</b> value of output as too vague</p> <p>Only accept meeting their objectives if no other valid answer</p>



Question	Answer	Marks	Notes
3(b)	<p>Identify <b>two</b> features of a growing economy.</p> <p>Knowledge [2 × 1] Award 1 mark per feature.</p> <p>Points might include:</p> <ul style="list-style-type: none"> <li>• <b>Lower</b> unemployment OR <b>more</b> jobs created</li> <li>• <b>More</b> businesses opening OR <b>improved</b> business confidence OR <b>increased</b> capital investment</li> <li>• <b>Higher</b> living standards OR <b>more</b> disposable income OR <b>rising</b> incomes OR <b>increase</b> in demand / sales</li> <li>• <b>Higher</b> rates of economic growth OR <b>increase</b> in GDP OR Level of output <b>increases</b></li> <li>• <b>Increased</b> tax revenue</li> <li>• <b>Higher</b> business profits</li> <li>• <b>Higher</b> inflation OR higher prices</li> </ul>	2	<p><b>Do not award</b> answers which refer to an individual business.</p> <p><b>Do not award</b> change in exchange rates OR interest rates</p> <p>Note: Answer must state the direction of change to be awarded</p>

Question	Answer	Marks	Notes
3(c)	<p>Identify and explain <b>two</b> ways in which an increase in the minimum wage could affect DPC.</p> <p>Knowledge [2 × 1] Award 1 mark for each way identified</p> <p>Application [2 × 1] Award 1 mark for each explanation in context</p> <p>Points might include:</p> <ul style="list-style-type: none"> <li>Increased cost (of labour) OR increase cash outflows [k] as have to pay \$5 per hour [app]</li> <li>May hire fewer workers OR reduce hours OR make workers redundant [k] so not able to sustain level of success [app]</li> <li>Might increase prices [k] of pizzas [app]</li> <li>Increase sales as people might have more money to spend [k] in its 200 shops [app]</li> <li>Other employees may ask for higher wages [k]</li> <li>Increased motivation OR increased productivity [k]</li> </ul>	<b>4</b>	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>Pizzas</li> <li>Successful year</li> <li>\$5 per hour</li> <li>Environmental pressures OR complaints about food waste OR litter (empty boxes)</li> <li>200 OR shops / stores OR takeaways OR delivery</li> <li>Economy is growing</li> </ul> <p><b>Do not award</b> lower profit OR cannot expand as knowledge</p> <p><b>Do not award</b> increased sales on own</p> <p><b>Do not award</b> have to pay them more money OR increased salary as this does not explain the effect on DPC</p>

Question	Answer	Marks	Notes
3(d)	<p>Identify and explain <b>two</b> advantages to DPC of using e-commerce.</p> <p>Knowledge [2 × 1] Award 1 mark for each advantage identified</p> <p>Application [2 × 1] Award 1 mark for each relevant reference to this business</p> <p>Analysis [2 × 1] Award 1 mark for each relevant explanation</p> <p>Relevant points might include:</p> <ul style="list-style-type: none"> <li>• Increase potential number of customers OR larger target market [k] for its 200 shops [app] leading to higher revenue [an]</li> <li>• Easy to update communication OR information [k] about food waste [app]</li> <li>• Cheaper method of advertising [k] as don't need to pay to reprint leaflets [an] about pizzas [app]</li> <li>• Fewer employees needed [k] so lower labour costs [an] could help reduce impact of increase in minimum wage [app]</li> <li>• Need fewer shops [k] so less rent [an]</li> <li>• Good reviews can enhance reputation [k]</li> <li>• Helps to compete [k] to maintain market share OR ensure customer loyalty [an]</li> </ul>	<b>6</b>	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>• Pizzas or associated words such as toppings</li> <li>• Successful year</li> <li>• \$5 per hour</li> <li>• Increase in minimum wage</li> <li>• Environmental pressures OR complaints about food waste OR litter (empty boxes)</li> <li>• 75% (orders from e-commerce)</li> <li>• 200 OR shops / stores OR takeaways OR delivery</li> <li>• Economy is growing</li> </ul> <p><b>Do not award</b> advantages for customers, e.g. easy access or convenient or easier to purchase unless answer explains how it is a benefit to the business.</p> <p><b>Do not award lower costs</b> on own unless explained</p>

Question	Answer	Marks	Notes
3(e)	<p>Explain <b>two</b> ways in which DPC could respond to environmental pressures. Recommend which of the two options it should choose. Justify your answer.</p> <p>Knowledge [1] Award 1 mark for identification of relevant ways(s)</p> <p>Application [1] Award 1 mark for a relevant reference to this business</p> <p>Analysis [2]: Award up to 2 marks for relevant development of point(s)</p> <p>Evaluation [2] Award up to 2 marks for a justified decision on which of the two options DPC should choose.</p> <p>Relevant points might include:</p> <ul style="list-style-type: none"> <li>• Reduce the amount of paper OR cardboard used [k] so there is less litter created [an]</li> <li>• Provide recycling facilities [k] for litter [app] so less is left around the streets [an] but it might be expensive to provide bins [an]</li> <li>• Use recycled materials [k] for the boxes [app] but this could increase production cost [an]</li> <li>• Buy supplies in smaller amounts [k] when making pizzas [app]</li> <li>• Offer smaller portions OR only make to order [k]</li> <li>• Organise patrols [k] to collect litter [app] to reduce the amount of complaints [an]</li> <li>• Hire someone to collect rubbish [k] but would have to pay them [an]</li> <li>• Ask customers to bring own containers [k]</li> </ul>	<b>6</b>	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>• Pizzas or associated words such as toppings</li> <li>• Successful year</li> <li>• \$5 per hour</li> <li>• Increase in minimum wage</li> <li>• Complaints about food waste and litter (empty pizza boxes)</li> <li>• 75% orders from e-commerce</li> <li>• 200 or shops / store OR takeaways OR delivery</li> </ul> <p>Note a decision alone is not evaluation. Must give a supported reason for choice. For second evaluation mark, must <b>clearly</b> explain why chosen method is better than other option discussed.</p> <p>Note: Evaluation marks can only be awarded if <b>two</b> relevant ways have been identified <b>and</b> at least 1 analysis mark given for reference to effect on environment, e.g. less litter</p> <p><b>Do not award</b> reuse pizza boxes as [K] as not appropriate as unhygienic</p>

Question	Answer	Marks	Notes
4(a)	<p>Identify <b>two</b> reasons for a business having objectives.</p> <p>Knowledge [2 × 1] Award 1 mark for each reason identified</p> <p>Points might include:</p> <ul style="list-style-type: none"> <li>• Act as measure of success</li> <li>• Provides an aim or target</li> <li>• Motivate OR teamwork OR unite the business</li> <li>• Gives a sense of direction OR know what to do</li> <li>• Help decision making / planning / budgeting / manage business better</li> </ul>	2	<b>Do not award</b> examples of objectives
4(b)	<p>Identify <b>two</b> fixed costs for JKL.</p> <p>Application [2 × 1] Award 1 mark for each relevant cost identified</p> <p>Points might include:</p> <ul style="list-style-type: none"> <li>• Rent OR rates</li> <li>• Utilities, e.g. electricity OR gas OR water</li> <li>• Insurance</li> <li>• Salaries OR cost of office employees</li> <li>• Loan repayments OR interest charges</li> <li>• Storage costs</li> </ul>	2	<b>Do not award</b> taxes OR dividends OR examples of variable costs such as wages OR transport OR postage

Question	Answer	Marks	Notes
4(c)	<p>Identify and explain <b>one</b> advantage and <b>one</b> disadvantage to JKL of using job production.</p> <p>Knowledge [2 × 1] Award 1 mark for an advantage <u>and</u> 1 mark for a disadvantage identified</p> <p>Application [2 × 1] Award 1 mark for each explanation in context</p> <p>Points might include:</p> <p>Advantages:</p> <ul style="list-style-type: none"> <li>• Unique OR meet exact customer needs [k] for its clocks [app]</li> <li>• Workers less likely to make mistakes [k] as employees are skilled [app]</li> <li>• More varied work (leads to higher motivation) [k] helping retain existing workers [app]</li> <li>• Can charge a higher price [k]</li> <li>• Flexible [k]</li> </ul> <p>Disadvantages:</p> <ul style="list-style-type: none"> <li>• No economies of scale [k] when buying raw materials <b>locally</b> [app]</li> <li>• Production can take longer OR slow OR low output [k] leading to problems when exporting [app]</li> <li>• Skilled labour can cost more [k] so can lead to high fixed costs [app]</li> <li>• Costs are higher as it is often labour intensive [k] so may not be able to find 30 employees [app]</li> <li>• Mistakes can be expensive to correct as each job is different [k]</li> </ul>	4	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>• Clocks</li> <li>• Buys raw materials <b>locally</b></li> <li>• 60% exported</li> <li>• 30 (employees)</li> <li>• Skilled</li> <li>• Part-time</li> <li>• Delegation</li> <li>• Barriers to communication</li> <li>• High fixed costs</li> </ul> <p><b>Do not accept</b> high quality or hand made as unknown assumptions</p> <p><b>Do not accept</b> definition of job, e.g. one item at a time</p> <p><b>Do not accept</b> more motivated on own unless explained.</p> <p><b>Do not accept</b> expensive on own as too vague.</p>

Question	Answer	Marks	Notes
4(d)	<p>Identify <b>two</b> possible barriers to communication for JKL. For each barrier, explain how JKL could reduce or remove it.</p> <p>Knowledge [2 × 1] Award 1 mark for each relevant barrier identified</p> <p>Application [2 × 1] Award 1 mark for each relevant reference to this business</p> <p>Analysis [2 × 1] Award 1 mark for each relevant solution as to how the barrier identified could be reduced or removed</p> <p>Relevant points might include:</p> <ul style="list-style-type: none"> <li>• Problems with medium [k] OR examples such as wrong medium, language, too much information, technical problems, e.g. technical language [k] so could simplify or avoid jargon [an] so can understand what is written in the email [app]</li> <li>• Problems with sender [k] OR examples such as send wrong information, message too detailed [k]</li> <li>• Problems with receiver [k] OR examples such as not listening, too busy to pay attention or read material [k]</li> <li>• Problems with feedback [k] OR examples such as no immediate OR opportunities for feedback [k]</li> </ul>	<b>6</b>	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>• Clocks</li> <li>• Buys raw materials <b>locally</b></li> <li>• 60% exported</li> <li>• 30 (employees)</li> <li>• Skilled</li> <li>• Part-time</li> <li>• Delegation</li> <li>• High fixed costs</li> <li>• Email</li> <li>• Job production</li> </ul> <p><b>Do not award</b> answers which refer to barriers to trade</p> <p>Note: can accept answers from same category (but development points must be clearly different to award analysis mark)</p> <p>To award the marks for solution candidates must identify a specific problem rather than category, e.g. cannot simply offer general solution to problem with medium.</p>

Question	Answer	Marks	Notes
4(e)	<p>Do you agree that it is better for JKL to try to retain existing workers rather than recruit new employees? Justify your answer.</p> <p>Knowledge [1]: Award 1 mark for identification of relevant issue(s)</p> <p>Application [1]: Award 1 mark for relevant reference to this business</p> <p>Analysis [2]: Award up to 2 marks for relevant development of point(s)</p> <p>Evaluation [2]: Award up to 2 marks for a justified decision as whether it is better for JKL to try to retain existing workers rather than recruit new employees</p> <p>Relevant points might include:</p> <p>Retain</p> <ul style="list-style-type: none"> <li>• Cheaper recruitment costs OR no recruitment cost [k]</li> <li>• Current workers know how things are done [k] so easier to maintain quality OR standards [an] of its clocks [app]</li> <li>• Improve employee motivation OR loyalty [k] so easier to use delegation [app]</li> <li>• Can help improve business image [k]</li> </ul> <p>New:</p> <ul style="list-style-type: none"> <li>• Access to new ideas OR skills [k] to overcome barriers to communication [app] helping them to produce / develop new products [an]</li> <li>• New employees may need training [k] which will increase costs [an] at time when has high fixed costs [app]</li> <li>• Can be difficult to find suitable employee OR time taken to train new employees [k] could lead to lower output OR productivity [an] can lead to problems as 60% exported [app]</li> <li>• New employees may bring bad habits with them [k]</li> </ul>	6	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>• Clocks</li> <li>• Buys raw materials <b>locally</b>,</li> <li>• 60% exported</li> <li>• 30 (employees)</li> <li>• Skilled</li> <li>• Part-time</li> <li>• Delegation</li> <li>• Barriers to communication</li> <li>• High fixed costs</li> <li>• Job production</li> </ul> <p>For evaluation a decision alone is not evaluation. Candidates must give a supported reason for choice. For second evaluation mark, must <b>clearly</b> explain why chosen option is better than alternative.</p> <p><b>Do not award</b> more expensive or cheaper on own unless explained in relation to specific cost, e.g. lower / higher recruitment cost</p> <p>Note: question is not about whether JKL should recruit <b>more</b> employees or benefits of internal / external recruitment</p>





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**BUSINESS STUDIES**

**0450/13**

Paper 1 Short Answer/Structured Response

**May/June 2018**

MARK SCHEME

Maximum Mark: 80

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**Published**

This mark scheme is published as an aid to teachers and candidates, to indicate the requirements of the examination. It shows the basis on which Examiners were instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began, which would have considered the acceptability of alternative answers.

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

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

**Generic Marking Principles**

These general marking principles must be applied by all examiners when marking candidate answers. They should be applied alongside the specific content of the mark scheme or generic level descriptors for a question. Each question paper and mark scheme will also comply with these marking principles.

**GENERIC MARKING PRINCIPLE 1:**

Marks must be awarded in line with:

- the specific content of the mark scheme or the generic level descriptors for the question
- the specific skills defined in the mark scheme or in the generic level descriptors for the question
- the standard of response required by a candidate as exemplified by the standardisation scripts.

**GENERIC MARKING PRINCIPLE 2:**

Marks awarded are always **whole marks** (not half marks, or other fractions).

**GENERIC MARKING PRINCIPLE 3:**

Marks must be awarded **positively**:

- marks are awarded for correct/valid answers, as defined in the mark scheme. However, credit is given for valid answers which go beyond the scope of the syllabus and mark scheme, referring to your Team Leader as appropriate
- marks are awarded when candidates clearly demonstrate what they know and can do
- marks are not deducted for errors
- marks are not deducted for omissions
- answers should only be judged on the quality of spelling, punctuation and grammar when these features are specifically assessed by the question as indicated by the mark scheme. The meaning, however, should be unambiguous.

**GENERIC MARKING PRINCIPLE 4:**

Rules must be applied consistently e.g. in situations where candidates have not followed instructions or in the application of generic level descriptors.

**GENERIC MARKING PRINCIPLE 5:**

Marks should be awarded using the full range of marks defined in the mark scheme for the question (however; the use of the full mark range may be limited according to the quality of the candidate responses seen).

**GENERIC MARKING PRINCIPLE 6:**

Marks awarded are based solely on the requirements as defined in the mark scheme. Marks should not be awarded with grade thresholds or grade descriptors in mind.

Question	Answer	Marks	Guidance
1(a)	<b>What is meant by ‘import quota’?</b> Clear understanding [2]: limit on the number of goods allowed into a country Some understanding [1]: limit on number of imports	<b>2</b>	Do not award answers which confuse term with tariff.
1(b)	<b>Rosa’s revenue was \$5000 in 2017. Calculate her expected increase in revenue in 2018.</b> Application [2] 15 000 Some application: [1] correct method, e.g. $5000 \times 300\%$	<b>2</b>	
1(c)	<b>Identify and explain <u>two</u> ways Rosa could increase added value.</b> Knowledge [2 × 1] Award 1 mark for each way identified Application [2 × 1] Award 1 mark for each explanation in context  Points might include: <ul style="list-style-type: none"> <li>• Increase price [k] to help ensure sales increase by 300% [app]</li> <li>• Reduce cost of materials [k] used in hand creams [app]</li> <li>• Change packaging [k]</li> <li>• Branding OR create a USP [k] to use on social networks [app]</li> <li>• Improve design [k]</li> <li>• Add extra features [k]</li> </ul>	<b>4</b>	Application marks may be awarded for appropriate use of the following: <ul style="list-style-type: none"> <li>• Beauty products or related words such as hand cream, face cream,</li> <li>• Enjoys being in control</li> <li>• Rosa does the design and marketing, five employees,</li> <li>• Looking to have customers in many countries</li> <li>• Sales increase by 300%</li> <li>• Social networks</li> </ul> <b>Do not award</b> better quality materials – as this would suggest higher costs which would reduce added value

Question	Answer	Marks	Guidance
1(d)	<p><b>Identify and explain <u>one</u> advantage and <u>one</u> disadvantage to Rosa's business of using social networks for promotion.</b></p> <p>Knowledge [2 × 1]: Award 1 mark for 1 relevant advantage and 1 disadvantage</p> <p>Application [2 × 1] Award 1 mark for each relevant reference to this business</p> <p>Analysis [2 × 1] Award 1 mark for each relevant explanation</p> <p>Advantages include:</p> <ul style="list-style-type: none"> <li>• Large potential audience [k] leading to increased revenue [an] as she is looking for customers in other countries [app]</li> <li>• Target specific groups [k] who want to buy hand creams [app] which can help create brand loyalty [an]</li> <li>• Easy OR quick to update [k] so able to spend more time on other activities [an]</li> <li>• Relatively low cost method of advertising [k] so will not increase expenses [an] so can use money to help fund a bigger factory [app]</li> </ul> <p>Disadvantages include:</p> <ul style="list-style-type: none"> <li>• Customers may not have access to internet OR ignore adverts [k] so will not know about her designs [app] so not able to increase her market share [an]</li> <li>• Have to pay for 'pop ups' on popular sites [k] leading to additional expenses [an]</li> <li>• Lack of control OR comments can be altered [k] which could be an issue as Rosa likes to be in control [app]</li> </ul>	<b>6</b>	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>• Beauty products or related words such as hand cream OR face cream</li> <li>• Enjoys being in control</li> <li>• Rosa does the design and marketing</li> <li>• five employees</li> <li>• Looking to have customers in many countries,</li> <li>• Need a bigger factory</li> <li>• Sales increase by 300%</li> </ul>

Question	Answer	Marks	Guidance
1(e)	<p><b>Do you think Rosa should continue to expand her business? Justify your answer.</b></p> <p>Knowledge [1] Award 1 mark for identification of relevant issue(s)  Application [1] Award 1 mark for a relevant reference to this business  Analysis [2] Award up to 2 marks for relevant development of point(s)  Evaluation [2] Award up to 2 marks for a justified decision whether Rosa should continue to expand the business or not.</p> <p>Relevant points might include:</p> <ul style="list-style-type: none"> <li>• Does she have access to enough finance [k] as would need a new factory [app] which she may not be able to afford [an]</li> <li>• May need to hire more workers [k] as only has 5 [app] so will have to spend time OR money on recruitment [an] which increases her costs [an]</li> <li>• Can she manage a larger business on her own [k] as even though she enjoys being in control [app] leading to mistakes OR increased wastage [an]</li> <li>• She is currently successful OR it would allow her to increase sales [k] as looking for customers in other countries [app] could increase her revenue [an]</li> <li>• Possible economies of scale [k] allowing her to lower average cost [an]</li> <li>• Risk of increased competition [k]</li> </ul>	<b>6</b>	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>• Beauty products or related words such as hand cream, face cream,</li> <li>• Enjoys being in control</li> <li>• Rosa does the design and marketing, five employees,</li> <li>• looking to have customers in many countries</li> <li>• sales increase by 300%</li> <li>• Needs a bigger factory</li> <li>• Import quotas</li> </ul> <p>Either viewpoint is acceptable.</p>

Question	Answer	Marks	Guidance
2(a)	<p><b>What is meant by ‘public limited company’?</b></p> <p>Clear understanding [2]: e.g. a business whose shares can be sold to the general public [2]  Some understanding [1] e.g. a business that can sell shares  OR outlines general features, e.g. have limited liability OR separate legal identity from owner OR incorporated</p>	<b>2</b>	<b>Do not accept</b> in private sector OR no Government involvement as generic statement also applies to unlimited businesses.
2(b)	<p><b>Calculate the values for <u>X</u> and <u>Y</u>.</b></p> <p>Application [2] Award one mark per correct answer  X = 18 000; Y = (3000)</p>	<b>2</b>	<b>Note:</b> answer for Y must be shown as a negative value
2(c)	<p><b>Identify and explain <u>two</u> ways in which ASZ could use cost data to help make decisions.</b></p> <p>Knowledge [2 × 1] Award 1 mark for each way identified  Application [2 × 1] Award 1 mark for each explanation in context</p> <p>Points might include:</p> <ul style="list-style-type: none"> <li>• Help set prices [k] for products sold to retailers [app]</li> <li>• Decide whether to stop OR change production [k] of certain tools [app]</li> <li>• Help choose suitable technology to use [k] as looking to change its production methods [app]</li> <li>• Help choose a suitable OR best location to sell its products [k]</li> <li>• Identify how to reduce costs [k]</li> </ul>	<b>4</b>	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>• Garden tools or related words such as digging, forks, wheelbarrows,</li> <li>• Retailers OR wholesalers</li> <li>• Customer loyalty</li> <li>• Correct use of data from table 1</li> <li>• Change production methods</li> </ul>

Question	Answer	Marks	Guidance
2(d)	<p><b>Identify and explain <u>two</u> ways in which new technology could change production methods at ASZ.</b></p> <p>Knowledge [2 × 1]: Award 1 mark for each relevant way identified  Application [2 × 1] Award 1 mark for each relevant reference to this business  Analysis [2 × 1] Award 1 mark for each relevant explanation</p> <p>Relevant points might include:</p> <ul style="list-style-type: none"> <li>• Allows for CAD OR help design new products OR more variety [k] of garden tools [app] to help increase target markets [an]</li> <li>• Automation or capital intensive OR flow production [k] leading to possible economies of scale [an] could help lower its total costs below \$38 000 [app]</li> <li>• Fewer workers needed [k] reducing wage costs [an]</li> <li>• Less errors OR wastage OR consistent quality [k] improving reputation [an] so able to gain customer loyalty [app]</li> <li>• Improve productivity OR efficiency OR increased speed of production OR increased output [k] so able to make more goods available to wholesalers OR retailers [app] so able to meet demand [an]</li> <li>• Improved stock control [k] as easier to keep track of how many wheelbarrows [app] so do not have to produce unnecessary items [an]</li> <li>• Different skill set for workers [k]</li> <li>• More complex work possible [k]</li> <li>• Continuous production (24/7) / no breaks [k]</li> </ul>	<b>6</b>	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>• Garden tools or related words such as digging, forks, wheelbarrows</li> <li>• Retailers OR wholesalers,</li> <li>• Customer loyalty</li> <li>• Correct use of data from table 1</li> </ul> <p>Candidates can identify methods or advantages of using new technology in production</p>



Question	Answer	Marks	Guidance
2(e)	<p><b>Do you think ASZ should change its channel of distribution? Justify your answer.</b></p> <p>Knowledge [1] Award 1 mark for identification of relevant issue(s)  Application [1] Award 1 mark for a relevant reference to this business  Analysis [2] Award up to 2 marks for relevant development of point(s)  Evaluation [2] Award up to 2 marks for a justified decision as whether ASZ should change its channel of distribution</p> <p>Relevant points might include:  Use of wholesaler:</p> <ul style="list-style-type: none"> <li>• Have lots of contacts OR customers [k] for its tools [app] leading to more revenue [an]</li> <li>• Able to focus on other tasks [k] as do not need to deal with lots of retailers [app] saving time to focus on production [an]</li> <li>• Wholesalers buy in bulk [k] so may receive cash more quickly [an] improving cash flow [an]</li> <li>• Lower administration costs OR no additional employees [k] as fewer invoices OR customers to manage [an]</li> <li>• Can provide feedback from customers OR identify trends</li> <li>• Can keep more of the profit per item [k] as no need to pay share / money to middleman [an]</li> <li>• Needs to develop links with each retailer [k]</li> <li>• Can gain direct feedback from its customers [k] so able to design more appropriate products [an]</li> <li>• More control of marketing mix [k]</li> <li>• May need to employ extra workers to manage paperwork [k]</li> </ul>	<b>6</b>	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>• garden tools or related words such as digging, forks, wheelbarrows</li> <li>• Retailers OR wholesalers</li> <li>• Customer loyalty,</li> <li>• Correct use of data from table 1</li> </ul> <p><b>Note:</b> For either option it should mean holding less stock and either could help with advertising – will need to be clearly explained to award these points.  For evaluation either viewpoint is possible.</p>

Question	Answer	Marks	Guidance
3(a)	<p><b>What is meant by ‘chain of command’?</b></p> <p>Clear understanding [2]: structure within an organisation through which orders are passed down from senior management to the lower levels of management OR way to pass messages up and down the hierarchy.</p> <p>Some understanding [1]: ‘shows who gives orders’</p>	<b>2</b>	<p>For 2 marks must have idea of ‘messages passed OR communication’ AND ‘who between’.</p> <p><b>Do not award</b> answers which confuse term with span of control or organisation chart.</p>
3(b)	<p><b>Identify <u>two</u> examples of business activity in the tertiary sector.</b></p> <p>Knowledge [2 × 1] Award one mark for each relevant example</p> <p>Points might include:</p> <p>Accountants, retailers, hairdressers, doctors, restaurants, airlines, transport or distribution businesses</p>	<b>2</b>	<p>Accept any reasonable suggestion</p> <p><b>Do not award</b> specific company names such as McDonalds, Starbucks as this does not answer the question.</p>
3(c)	<p><b>Identify and explain <u>two</u> reasons why maintaining customer loyalty is important to AUC.</b></p> <p>Knowledge [2 × 1] Award 1 mark for each reason identified Application [2 × 1] Award 1 mark for each explanation in context Points might include:</p> <ul style="list-style-type: none"> <li>• Improve reputation [k] of the bank [app]</li> <li>• Spend less on advertising [k] which can help cut costs [app]</li> <li>• Word of mouth advertising or recommend to others [k] in the tertiary sector [app]</li> <li>• Increase sales OR more likely buy other products [k] may help reduce \$60m loss [app]</li> <li>• Good source of feedback [k] about what to improve in its 2000 branches [app]</li> </ul>	<b>4</b>	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>• Bank</li> <li>• \$60m loss</li> <li>• Small business customers</li> <li>• 500 or 1500 or 2000 (branches)</li> <li>• 20% or 3800 or 19 000 (employees)</li> </ul> <p><b>Do not award</b> definitions of customer loyalty.</p>

Question	Answer	Marks	Guidance
3(d)	<p><b>Identify and explain <u>two</u> factors that AUC should consider when deciding which employees to make redundant.</b></p> <p>Award 1 mark for each relevant factor identified Award 1 mark for each relevant reference made to this business Award 1 mark for each relevant explanation</p> <p>Relevant points might include:</p> <ul style="list-style-type: none"> <li>Identify which jobs are important OR not essential [k] in bank [app] as would not want to spend money recruiting employees again [an]</li> <li>Performance OR experience OR skills OR flexibility [k] so will want to get rid of people who make mistakes [an]</li> <li>Amount of wages OR salary [k] higher paid employees could be part of the 20% [app] could save greater amount of money (than if low paid) [an]</li> <li>Length of service OR cost of redundancy [k] if only worked for a short time at bank [app] might be cheaper to make redundant [an]</li> <li>Attitude OR attendance OR disciplinary record [k] in order to maintain customer loyalty [app] will want to lose poor OR lazy workers [an]</li> <li>Where they work [k] as could let go all people at the 500 branches [app] as there will not be any work for them to do there [an]</li> </ul>	<b>6</b>	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>Bank</li> <li>Maintaining customer loyalty</li> <li>\$60m loss</li> <li>Small business customers</li> <li>500 or 1500 or 2000 (branches)</li> <li>20% or 3800 or 19 000 (employees)</li> </ul>

Question	Answer	Marks	Guidance
3(e)	<p><b>Explain <u>two</u> methods of communication that AUC could use to inform customers about the planned closures. Recommend which one AUC should use. Justify your answer.</b></p> <p>Knowledge [1] Award 1 mark for identification of relevant points  Application [1] Award 1 mark for a relevant reference to this business  Analysis [2] Award up to 2 marks for relevant development of point(s)  Evaluation [2] Award up to 2 marks for a justified decision on which method of communication AUC should choose</p> <p>Relevant points might include:</p> <ul style="list-style-type: none"> <li>• Meeting [k] can provide opportunity for feedback [an] but will take long time to meet every customer [an] of the 500 branches [app]</li> <li>• Email [k] as this will provide hard copy which people can refer back to [an] but will everyone have internet access or trust emails [an]</li> <li>• Letter [k] can be personalized to each customer [an] which may help maintain customer loyalty [app] but they may not receive it [an]</li> <li>• Text messages [k] but this would have a word limit [an]</li> <li>• Notice on bank door [k] but may not be seen by all customers [an] of the bank [app]</li> <li>• Phone call [k] but will take time to call every customer [an]</li> </ul>	<b>6</b>	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>• Bank</li> <li>• Maintaining customer loyalty</li> <li>• \$60m loss</li> <li>• Small business customers</li> <li>• 500 or 1500 or 2000 (branches)</li> <li>• 20% or 3800 or 19 000 (employees)</li> </ul> <p><b>Do not award</b> answers which discuss methods of promotion, e.g. television</p> <p>For evaluation can choose any suitable method of external communication if justified.  For second evaluation mark, must explain why chosen method is better than alternative.</p>

Question	Answer	Marks	Guidance
4(a)	<p><b>What is meant by ‘shareholder’?</b></p> <p>Clear understanding [2]: Shareholders are the owners of a limited company. Some understanding [1]: some one who owns part of business</p>	2	
4(b)	<p><b>Identify <u>two</u> reasons why a business might need short-term finance.</b></p> <p>Knowledge [2 × 1] Award 1 mark per reason.</p> <p>Points might include:</p> <ul style="list-style-type: none"> <li>• Avoid cash flow problems</li> <li>• Ensure survival</li> <li>• Pay day to day costs</li> <li>• Offer credit to customers</li> <li>• Increase level of inventory</li> </ul>	2	<p>Accept any reasonable suggestion. <b>Do not accept</b> examples of short-term finance, as this does not answer the question.</p>

Question	Answer	Marks	Guidance
4(c)	<p><b>Identify and explain <u>two</u> ways increased interest rates could affect CLG.</b></p> <p>Knowledge [2 × 1] Award 1 mark for each way identified Application [2 × 1] Award 1 mark for each explanation in context</p> <p>Points might include:</p> <ul style="list-style-type: none"> <li>• Cost of borrowing increases [k] so less incentive to build new runway [app]</li> <li>• Lower sales OR consumers reduce spending [k] as cannot afford to pay for flights [app]</li> <li>• Increased cost of any current loans [k] so have high level of non-current liabilities [app]</li> <li>• Higher interest rates attract more savings [k]</li> <li>• Can delay OR reduce investment OR less likely to expand [k] at the 6 airports [app]</li> <li>• Look to sell assets for cash to reduce existing loans [k]</li> <li>• Workers may want a pay rise [k]</li> <li>• May have to increase prices (to remain profitable) [k]</li> </ul>	<b>4</b>	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>• \$300 m</li> <li>• 6 (airports)</li> <li>• Airport or related words such as runway, planes</li> <li>• 50 flights</li> <li>• Correct use of data from Table 2</li> </ul> <p><b>Do not award</b> 'lower profit'</p>

Question	Answer	Marks	Guidance
4(d)	<p><b>Identify and explain <u>two</u> factors (other than interest rates) that CLG should consider when choosing a source of finance to pay for the expansion.</b></p> <p>Knowledge [2 × 1] Award 1 mark for each relevant factor identified  Application [2 × 1] Award 1 mark for each relevant reference to this business  Analysis [2 × 1] Award 1 mark for each relevant explanation</p> <p>Relevant points might include:</p> <ul style="list-style-type: none"> <li>• Amount [k] as need \$300 m [app] may not have enough funds to use internal methods so have to borrow [an]</li> <li>• Time span [k] for a long term project like a runway [app] would need to use a long term source [an]</li> <li>• Current level of debt [k] as non current liabilities are \$230 m [app] lenders may not be willing to lend any more money [an]</li> <li>• Type of organization [k] as limited companies (shareholders) a business is seen as lower risk [an]</li> <li>• Security [k] as have non-current assets of \$350 m [app] it may help guarantee any loan [an]</li> <li>• Credit history OR financial status [k] as lender will want to know that you have paid back previous loans [an]</li> <li>• Purpose of loan [k]</li> </ul>	<b>6</b>	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>• \$300 m</li> <li>• 6 (airports)</li> <li>• Airport or related words such as runway,</li> <li>• 50 flights,</li> <li>• Correct use of data from Table 2</li> </ul> <p><b>Do not award</b> sources of finance as this does not answer the question.</p>

Question	Answer	Marks	Guidance
4(e)	<p><b>Considering the external costs and external benefits, do you think the Government should allow CLG to build the new runway? Justify your answer.</b></p> <p>Knowledge [1] Award 1 mark for identification of relevant issue(s)]  Application [1] Award 1 mark for a relevant reference to this business  Analysis [2] Award up to 2 marks for relevant development of point(s)  Evaluation [2] Award up to 2 marks for a justified decision on whether the government should allow the new runway to be built</p> <p>Points might include:</p> <ul style="list-style-type: none"> <li>Nearly all business activity creates some social costs [k]</li> <li>Create additional jobs [k] at airport [app] could reduce unemployment [an]</li> <li>Infrastructure improvements [k] which can help speed up / improve access for local community and business [an]</li> <li>More tourists [k] as 50 extra flights [app] leading to additional business for local shops and hotels [an]</li> <li>Assist economic growth [k]</li> <li>Additional tax revenues [k]</li> <li>Lost land cannot be replaced [k] as loss of green spaces [app] could deter people /businesses from visiting/ setting up in area [an]</li> <li>Additional road congestion [k] so local businesses receive deliveries late [an]</li> <li>Increased levels of noise OR air pollution [k] caused by the extra pollution [app]</li> <li>Help maintain business or countries competitiveness [k]</li> </ul>	<b>6</b>	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>\$300 m,</li> <li>6 (airports)</li> <li>Airport or related words such as planes,</li> <li>50 extra flights,</li> <li>Correct use of data from Table 2</li> <li>Loss of green spaces</li> <li>Extra pollution</li> </ul> <p><b>Do not accept</b> runway as application as stated in question  <b>Note:</b> question should focus on the external costs and benefits and not impact on the business.</p>





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**BUSINESS STUDIES**

**0450/21**

Paper 2 Case Study

**May/June 2018**

MARK SCHEME

Maximum Mark: 80

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**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 International will not enter into discussions about these mark schemes.

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This document consists of **13** printed pages.

**Generic Marking Principles**

These general marking principles must be applied by all examiners when marking candidate answers. They should be applied alongside the specific content of the mark scheme or generic level descriptors for a question. Each question paper and mark scheme will also comply with these marking principles.

**GENERIC MARKING PRINCIPLE 1:**

Marks must be awarded in line with:

- the specific content of the mark scheme or the generic level descriptors for the question
- the specific skills defined in the mark scheme or in the generic level descriptors for the question
- the standard of response required by a candidate as exemplified by the standardisation scripts.

**GENERIC MARKING PRINCIPLE 2:**

Marks awarded are always **whole marks** (not half marks, or other fractions).

**GENERIC MARKING PRINCIPLE 3:**

Marks must be awarded **positively**:

- marks are awarded for correct/valid answers, as defined in the mark scheme. However, credit is given for valid answers which go beyond the scope of the syllabus and mark scheme, referring to your Team Leader as appropriate
- marks are awarded when candidates clearly demonstrate what they know and can do
- marks are not deducted for errors
- marks are not deducted for omissions
- answers should only be judged on the quality of spelling, punctuation and grammar when these features are specifically assessed by the question as indicated by the mark scheme. The meaning, however, should be unambiguous.

**GENERIC MARKING PRINCIPLE 4:**

Rules must be applied consistently e.g. in situations where candidates have not followed instructions or in the application of generic level descriptors.

**GENERIC MARKING PRINCIPLE 5:**

Marks should be awarded using the full range of marks defined in the mark scheme for the question (however; the use of the full mark range may be limited according to the quality of the candidate responses seen).

**GENERIC MARKING PRINCIPLE 6:**

Marks awarded are based solely on the requirements as defined in the mark scheme. Marks should not be awarded with grade thresholds or grade descriptors in mind.

Question	Answer	Marks
1(a)	<p><b>Identify and explain <u>two</u> ways a business plan could have helped Peter when setting up Value Gym.</b></p> <p>Award one mark for each way (maximum of two), such as:</p> <ul style="list-style-type: none"> <li>• To help gain finance from a bank/other investors/government grants</li> <li>• To set objectives/goals/targets</li> <li>• To encourage careful planning that will reduce risks of financial failure</li> <li>• To be clear how the business is going to operate and to identify the human and physical requirements of the business</li> <li>• To identify the target market from market research/identify the level of demand for the gym</li> </ul> <p>Award a maximum of three additional marks for <b>each</b> explanation of the way – <b>2 of which must be applied to this context.</b></p> <p>Indicative response: Peter will have written the business plan to help him gain finance. (1) Peter will have taken it to show the bank manager to help persuade him to give VG the loan needed to start the gym. (ap) The business plan will show financial forecasts to show that the business will be able to repay the loan. (1) Therefore after the bank has given Peter the loan he will have the capital he needs to set up the gym and start signing up members. (ap)</p> <p>Possible application marks: Fitness instructor; membership fee for many gyms is monthly; payment each visit to the gym; demand for low-priced gyms; a bank loan was used to finance the opening of the gym; as a sole trader; \$5,000 was put into the business; expects a good profit at the end of a successful first year; needs to employ 4 personal trainers; 2 receptionists; gym is open 7 days a week; Information from Appendix 1 listing gym equipment; information from Appendix 3 such as government grants are available to encourage the provision of gym facilities.</p> <p>There may be other examples in context that have not been included here.</p>	<b>8</b>

Question	Answer	Marks						
1(b)	<p>Consider the following <u>three</u> roles of marketing in Peter's business. Which one of these is the most important role? Justify your answer.</p> <p>Relevant points might include:</p> <table><tr><td>Identify customer needs  <b>The answer should be focused on how market research can find out what the customer wants</b></td><td><ul style="list-style-type: none"><li>• Carrying out market research to be sure the business delivers the service that customers want</li><li>• So that they would know what types of equipment customers would wish to use</li><li>• So they would know what exercise classes customers would wish to attend</li><li>• So they would know what price customers were willing to pay</li><li>• So they would know what hours/days the customers would want to use the gym</li><li>• However, it can be expensive to carry out the market research necessary to identify these needs accurately</li></ul></td></tr><tr><td>Satisfy customer needs  <b>The answer should be focused on how well the services are delivered</b></td><td><ul style="list-style-type: none"><li>• So the gym equipment works correctly to make the customers happy</li><li>• So the exercise classes are run well to make the customers happy</li><li>• The customers are content with the prices that are charged</li><li>• So the opening hours of the gym are convenient for customers' lifestyle</li><li>• However, Peter may need to buy more gym equipment and/or recruit more personal trainers to work in the gym</li><li>• However, it can be expensive to maintain the equipment</li></ul></td></tr><tr><td>Build customer relationships  <b>The answer should focus on how loyalty and good reputation of the business are developed</b></td><td><ul style="list-style-type: none"><li>• Peter needs VG to retain a good reputation with customers</li><li>• VG needs to maintain customer loyalty</li><li>• Customers need to feel like their opinions matter</li><li>• Customers need to feel valued</li><li>• However, if customers are dissatisfied they may go to a competitor</li><li>• However, it may be difficult to satisfy all customers and therefore some may still give the business a bad reputation if unhappy</li></ul></td></tr></table> <p>Level 1 <b>[1–3 marks]</b> 1 mark for each outline of the advantages and/or disadvantages of each of the roles of marketing. (Max of 3 marks)</p> <p>E.g. Carry out market research to find out what gym equipment customers want</p>	Identify customer needs  <b>The answer should be focused on how market research can find out what the customer wants</b>	<ul style="list-style-type: none"><li>• Carrying out market research to be sure the business delivers the service that customers want</li><li>• So that they would know what types of equipment customers would wish to use</li><li>• So they would know what exercise classes customers would wish to attend</li><li>• So they would know what price customers were willing to pay</li><li>• So they would know what hours/days the customers would want to use the gym</li><li>• However, it can be expensive to carry out the market research necessary to identify these needs accurately</li></ul>	Satisfy customer needs  <b>The answer should be focused on how well the services are delivered</b>	<ul style="list-style-type: none"><li>• So the gym equipment works correctly to make the customers happy</li><li>• So the exercise classes are run well to make the customers happy</li><li>• The customers are content with the prices that are charged</li><li>• So the opening hours of the gym are convenient for customers' lifestyle</li><li>• However, Peter may need to buy more gym equipment and/or recruit more personal trainers to work in the gym</li><li>• However, it can be expensive to maintain the equipment</li></ul>	Build customer relationships  <b>The answer should focus on how loyalty and good reputation of the business are developed</b>	<ul style="list-style-type: none"><li>• Peter needs VG to retain a good reputation with customers</li><li>• VG needs to maintain customer loyalty</li><li>• Customers need to feel like their opinions matter</li><li>• Customers need to feel valued</li><li>• However, if customers are dissatisfied they may go to a competitor</li><li>• However, it may be difficult to satisfy all customers and therefore some may still give the business a bad reputation if unhappy</li></ul>	12
Identify customer needs  <b>The answer should be focused on how market research can find out what the customer wants</b>	<ul style="list-style-type: none"><li>• Carrying out market research to be sure the business delivers the service that customers want</li><li>• So that they would know what types of equipment customers would wish to use</li><li>• So they would know what exercise classes customers would wish to attend</li><li>• So they would know what price customers were willing to pay</li><li>• So they would know what hours/days the customers would want to use the gym</li><li>• However, it can be expensive to carry out the market research necessary to identify these needs accurately</li></ul>							
Satisfy customer needs  <b>The answer should be focused on how well the services are delivered</b>	<ul style="list-style-type: none"><li>• So the gym equipment works correctly to make the customers happy</li><li>• So the exercise classes are run well to make the customers happy</li><li>• The customers are content with the prices that are charged</li><li>• So the opening hours of the gym are convenient for customers' lifestyle</li><li>• However, Peter may need to buy more gym equipment and/or recruit more personal trainers to work in the gym</li><li>• However, it can be expensive to maintain the equipment</li></ul>							
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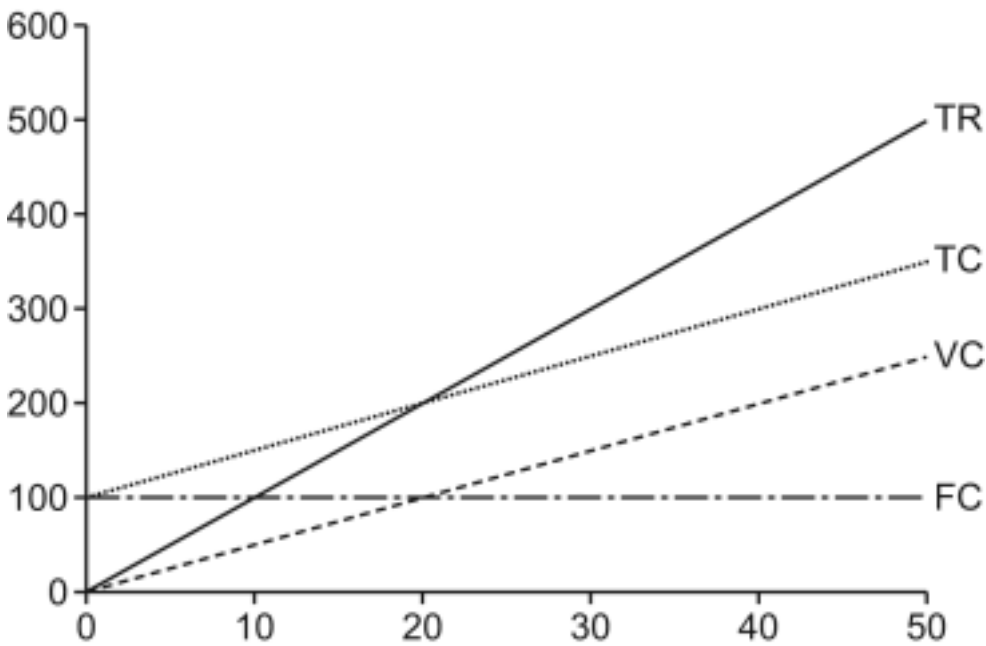
Question	Answer	Marks
1(b)	<p><b>Level 2 [4–6 marks]</b> Detailed discussion of the advantages and/or disadvantages of each of the roles of marketing. 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks)</p> <p>E.g. Carry out market research to find out what gym equipment customers want. The right equipment, such as a cross trainer, needs to be purchased so that customer needs are met. However, it can be time consuming and expensive to carry out the market research required to ensure this happens. (Level 2 plus one application mark for answering in the context of the gym and its equipment)</p> <p><b>Level 3 [7–10 marks]</b> For L3 to be awarded there needs to be at least two L2 marks awarded and then a conclusion of the most important role of marketing. 7–8 marks for limited conclusion of the most important role of marketing OR why the other roles are less important.</p> <p>9–10 marks for well justified conclusion of the most important role of marketing AND why the other roles are less important.</p> <p><b>Award up to 2 additional marks for relevant application.</b></p> <p>Possible application marks: Fitness instructor; helps people lose weight and get fit; membership fee for many gyms is monthly; payment each visit to the gym; demand for low-priced gyms; needs to attract more customers to continue to expand the gym; needs to employ 4 personal trainers; 2 receptionists; gym is open 7 days a week; Information from Appendix 1 listing gym equipment.</p> <p>There may be other examples in context that have not been included here.</p>	

Question	Answer	Marks									
2(a)	<p><b>Identify and explain <u>four</u> reasons why making a profit is important to Peter.</b></p> <p>Award one mark for each reason (maximum of four), such as:</p> <ul style="list-style-type: none"> <li>• Source of finance/retained profit/Peter could use the profit for reinvestment – expand the gym by buying new equipment</li> <li>• To ensure survival of the business/avoid closure</li> <li>• Reward for enterprise – reward for Peter’s hard work/good ideas to start the business</li> <li>• Reward for risk taking – Peter risked losing his investment of \$5,000</li> <li>• Indicator of success – the more profit Peter makes the more his success will be recognised by customers/employees</li> </ul> <p><b>Note: Do not reward payment of day-to-day expenses</b></p> <p>Award a maximum of one additional mark for each explanation suitable for this context.</p> <p>Indicative response: It is a reward for risk taking (1) as Peter has risked \$5,000 of his own money in the business and could have gained interest on this money if he had put it in the bank.(1)</p>	8									
2(b)	<p><b>Peter is considering the following <u>two</u> options. Recommend which option he should choose. Justify your answer.</b></p> <table border="1"> <thead> <tr> <th></th><th>Advantages</th><th>Disadvantages</th></tr> </thead> <tbody> <tr> <td>Employ his own personal trainers</td><td> <ul style="list-style-type: none"> <li>• Full control over trainers</li> <li>• Higher profit especially when busy with many clients</li> </ul> </td><td> <ul style="list-style-type: none"> <li>• Pay trainers whether or not they have clients</li> <li>• More expensive when not busy</li> </ul> </td></tr> <tr> <td>Charge a fixed fee to personal trainers who work for themselves to use VG facilities with their clients</td><td> <ul style="list-style-type: none"> <li>• Fixed amount paid to VG</li> <li>• Risk of low demand taken by the trainer</li> <li>• Less expenses as no wages to pay each month</li> </ul> </td><td> <ul style="list-style-type: none"> <li>• Additional revenue/profit lost to gym</li> <li>• Cannot control the quality of the training provided for clients</li> <li>• Maybe unreliable and this could affect reputation of VG</li> </ul> </td></tr> </tbody> </table> <p><b>Level 1 [1–3 marks]</b> Outline of advantages and/or disadvantages of each option. (max of 3 marks)</p> <p>E.g. Peter has full control over his own trainers if he employs them.</p> <p><b>Level 2 [4–6 marks]</b> Discussion of advantages and/or disadvantages of each option. 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks)</p>		Advantages	Disadvantages	Employ his own personal trainers	<ul style="list-style-type: none"> <li>• Full control over trainers</li> <li>• Higher profit especially when busy with many clients</li> </ul>	<ul style="list-style-type: none"> <li>• Pay trainers whether or not they have clients</li> <li>• More expensive when not busy</li> </ul>	Charge a fixed fee to personal trainers who work for themselves to use VG facilities with their clients	<ul style="list-style-type: none"> <li>• Fixed amount paid to VG</li> <li>• Risk of low demand taken by the trainer</li> <li>• Less expenses as no wages to pay each month</li> </ul>	<ul style="list-style-type: none"> <li>• Additional revenue/profit lost to gym</li> <li>• Cannot control the quality of the training provided for clients</li> <li>• Maybe unreliable and this could affect reputation of VG</li> </ul>	12
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Question	Answer	Marks
2(b)	<p><b>Level 3 [7–10 marks]</b></p> <p>For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation of which option to choose.</p> <p>7–8 marks for limited recommendation on which option to choose OR why not the other option.</p> <p>9–10 marks for well justified recommendation of which option to choose AND why not the other option.</p> <p><b>Award up to 2 additional marks for relevant application.</b></p> <p>Possible application marks: Fitness instructor; membership fee for many gyms is monthly; payment each visit to the gym; demand for low-priced gyms; needs to attract more customers to continue to expand the gym; gym is open 7 days a week; information from Appendix 3; qualifications to meet health and safety requirements.</p> <p>There may be other examples in context that have not been included here.</p>	

Question	Answer	Marks
3(a)	<p><b>Identify and explain <u>two</u> legal controls that could affect Peter when recruiting and employing workers.</b></p> <p>Award one mark for each legal control (maximum of two), such as:</p> <ul style="list-style-type: none"> <li>• Pay minimum wage</li> <li>• Employer liability insurance required</li> <li>• Legal citizenship/work permit/licence required</li> <li>• Ensure a safe working environment/Health and Safety laws observed</li> <li>• No discrimination when recruiting workers</li> <li>• Not employing children</li> <li>• No unfair dismissal</li> <li>• Number of hours worked may have a maximum limit</li> </ul> <p>Award a maximum of three additional marks for <b>each</b> explanation of the legal control – <b>2 of which must be applied to this context.</b></p> <p>Indicative response: It is important to pay at least the minimum wage (1) set by the government or the owner will be prosecuted. (1) This may mean that Peter has to pay higher wages than he wants to pay and the wage costs of the gym might be high. (ap) It might mean that Peter cannot afford to employ as many trainers as he wants at the gym due to the high cost. (ap)</p> <p>Possible application marks: Fitness instructor; needs to employ 4 personal trainers; 2 receptionists; gym is open 7 days a week; Information from Appendix 1 listing gym equipment; information from Appendix 3; health and safety regulations must be met; shortage of personal trainers; need to have qualifications in personal training; most personal trainers are paid the minimum wage.</p> <p>There may be other examples in context that have not been included here.</p>	<b>8</b>



Question	Answer	Marks
3(b)	<b>Refer to Appendix 2. Complete the break-even chart below by drawing the Total Revenue line.</b>	<b>12</b>
3(b)(i)	<b>1 mark for correct TR line – starts at 0 and goes up to \$500</b> <b>Identify the break-even number of customers per day.</b>	
3(b)(ii)	<b>1 mark for break-even number of customers = 20</b> 	

Question	Answer	Marks									
3(b)(iii)	<p><b>Consider the following <u>two</u> ways Peter could use to try to increase profit. Recommend which way he should choose. Justify your answer.</b></p> <p><b>Relevant points might include:</b></p> <table border="1"> <thead> <tr> <th></th><th>Advantages</th><th>Disadvantages</th></tr> </thead> <tbody> <tr> <td>Increase prices</td><td> <ul style="list-style-type: none"> <li>• Increase in revenue if same number of gym members remain</li> <li>• Increase inflows of cash</li> <li>• Reduces break-even number of customers</li> </ul> </td><td> <ul style="list-style-type: none"> <li>• Possible decreased demand – as situated in low income area – so overall effect may not be to increase revenue and inflows</li> <li>• Expect higher quality facilities so may need to invest in more equipment</li> </ul> </td></tr> <tr> <td>Reduce variable costs</td><td> <ul style="list-style-type: none"> <li>• Less outflows</li> <li>• Increased profit</li> <li>• Reduces break-even number of customers</li> </ul> </td><td> <ul style="list-style-type: none"> <li>• Lower quality provision</li> <li>• Deter customers as perceived as reduced service</li> </ul> </td></tr> </tbody> </table> <p><b>Level 1 [1–3 marks]</b> Outline of advantages and disadvantages of each option. (max of 3 marks)</p> <p>E.g. Increasing prices will increase inflows from increased revenue.</p> <p><b>Level 2 [4–6 marks]</b></p> <p>Detailed discussion of advantages and disadvantages of each option. 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks)</p> <p>E.g. Increasing prices will increase inflows from increased revenue which will help to increase the profit at the gym. However, if prices are much higher than similar competing gyms then VG will lose customers and cash inflows will fall.</p> <p><b>Level 3 [7–10 marks]</b> For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation that justifies which option to choose. 7–8 marks for limited judgement shown in recommendation as to which option to use OR why the alternative option is not chosen. 9–10 marks for well justified recommendation as to which option to use AND why the alternative option is not chosen.</p> <p><b>Note: Do not award application marks in (iii)</b></p>		Advantages	Disadvantages	Increase prices	<ul style="list-style-type: none"> <li>• Increase in revenue if same number of gym members remain</li> <li>• Increase inflows of cash</li> <li>• Reduces break-even number of customers</li> </ul>	<ul style="list-style-type: none"> <li>• Possible decreased demand – as situated in low income area – so overall effect may not be to increase revenue and inflows</li> <li>• Expect higher quality facilities so may need to invest in more equipment</li> </ul>	Reduce variable costs	<ul style="list-style-type: none"> <li>• Less outflows</li> <li>• Increased profit</li> <li>• Reduces break-even number of customers</li> </ul>	<ul style="list-style-type: none"> <li>• Lower quality provision</li> <li>• Deter customers as perceived as reduced service</li> </ul>	
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Question	Answer	Marks
4(a)	<p><b>Identify and explain <u>one</u> advantage and <u>one</u> disadvantage of leasing all the equipment used in the business.</b></p> <p>Award one mark for each relevant advantage/disadvantage (maximum of one each), such as:</p> <p>Advantage</p> <ul style="list-style-type: none"> <li>• The business does not have to find a large sum of cash to purchase the equipment</li> <li>• Care and maintenance is carried out by the leasing company</li> <li>• When the lease expires the latest equipment could be obtained</li> </ul> <p>Disadvantage</p> <ul style="list-style-type: none"> <li>• Total cost of leasing higher than to purchase the equipment outright</li> <li>• The equipment is not owned by VG</li> <li>• Cannot sell the equipment if not needed any more</li> </ul> <p>Award a maximum of three additional marks for <b>each</b> explanation of the advantage/disadvantage – <b>2 of which must be applied to this context.</b></p> <p>Indicative response: The business does not have to find a large sum of cash in one go (1) as the equipment can be leased even if VG does not have the cash to buy it outright. (ap) This means VG can have better quality equipment such as treadmills for the gym at the start (ap) which will allow Peter to get the gym set up quicker and with better equipment than if he had to find all the cash at the start. (1)</p> <p>Possible application marks: Fitness instructor; a bank loan was used to finance the opening of the gym; as a sole trader; \$5,000 was put into the business; a business plan was written to support the bank loan application; expects a good profit at the end of a successful first year; Information from Appendix 1 listing gym equipment.</p> <p>There may be other examples in context that have not been included here.</p>	<b>8</b>

Question	Answer	Marks												
4(b)	<p><b>Consider how the following <u>three</u> changes will affect VG. Which one will have the biggest effect on the business? Justify your answer.</b></p> <p><b>Relevant points might include:</b></p> <table border="1"> <thead> <tr> <th></th><th>Advantages</th><th>Disadvantages</th></tr> </thead> <tbody> <tr> <td>A multinational chain of luxury gyms recently set up in country X</td><td> <ul style="list-style-type: none"> <li>Encourages increased gym membership for all gyms as it becomes more fashionable to go to a gym</li> <li>May have no effect as aimed at different market segment</li> <li>Little effect as low income workers cannot afford luxury gym membership</li> </ul> </td><td> <ul style="list-style-type: none"> <li>Increased competition so may lose some existing gym members</li> <li>May lose some staff such as personal trainers to the new gyms so will need to be replaced</li> <li>May need to increase wages to retain staff</li> </ul> </td></tr> <tr> <td>There is an increased proportion of elderly people in the population</td><td> <ul style="list-style-type: none"> <li>Increased demand for exercise classes for the elderly because they have more leisure time</li> <li>More potential elderly customers leads to increased revenue</li> <li>Elderly people more likely to lead a healthier lifestyle – encouraged by government campaign</li> </ul> </td><td> <ul style="list-style-type: none"> <li>May change the image of the gym and puts off potential younger customers</li> <li>Increased costs of providing trainers specialised in providing classes or tuition for elderly members</li> <li>Revenue may fall if the elderly do not go to the gym</li> </ul> </td></tr> <tr> <td>Interest rates have increased</td><td> <ul style="list-style-type: none"> <li>Higher costs of borrowing means pressure on family income – less demand for high priced luxury gyms – increased demand VG</li> </ul> </td><td> <ul style="list-style-type: none"> <li>Increased costs of borrowing if VG needs to take loans to purchase more gym equipment for expansion or replacement of equipment</li> <li>Less discretionary income by members reduces less important spending</li> </ul> </td></tr> </tbody> </table> <p><b>Level 1 [1–3 marks]</b></p> <p>Outline of the advantages and disadvantages of each change. (max of 3 marks)</p> <p>E.g. Lower demand for gyms as less income left over after essential bills paid.</p>		Advantages	Disadvantages	A multinational chain of luxury gyms recently set up in country X	<ul style="list-style-type: none"> <li>Encourages increased gym membership for all gyms as it becomes more fashionable to go to a gym</li> <li>May have no effect as aimed at different market segment</li> <li>Little effect as low income workers cannot afford luxury gym membership</li> </ul>	<ul style="list-style-type: none"> <li>Increased competition so may lose some existing gym members</li> <li>May lose some staff such as personal trainers to the new gyms so will need to be replaced</li> <li>May need to increase wages to retain staff</li> </ul>	There is an increased proportion of elderly people in the population	<ul style="list-style-type: none"> <li>Increased demand for exercise classes for the elderly because they have more leisure time</li> <li>More potential elderly customers leads to increased revenue</li> <li>Elderly people more likely to lead a healthier lifestyle – encouraged by government campaign</li> </ul>	<ul style="list-style-type: none"> <li>May change the image of the gym and puts off potential younger customers</li> <li>Increased costs of providing trainers specialised in providing classes or tuition for elderly members</li> <li>Revenue may fall if the elderly do not go to the gym</li> </ul>	Interest rates have increased	<ul style="list-style-type: none"> <li>Higher costs of borrowing means pressure on family income – less demand for high priced luxury gyms – increased demand VG</li> </ul>	<ul style="list-style-type: none"> <li>Increased costs of borrowing if VG needs to take loans to purchase more gym equipment for expansion or replacement of equipment</li> <li>Less discretionary income by members reduces less important spending</li> </ul>	12
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Question	Answer	Marks
4(b)	<p><b>Level 2 [4–6 marks]</b>  Discussion of the advantages and disadvantages of each change. 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks)</p> <p>E.g. Lower demand for gyms as less income left over after essential bills paid. Therefore the number of members and therefore revenue might fall for VG. However, as VG is a low cost gym it might attract members from luxury gyms and so membership might increase. (Level 2 plus one application mark for answering in the context of the gym membership)</p> <p><b>Level 3 [7–10 marks]</b>  For L3 to be awarded there needs to be at least two L2 marks awarded and then a conclusion as to which change will have the greatest effect on profit. 7–8 marks for limited judgement shown in the conclusion as to which change will have the greatest effect on VG AND why the alternatives will have less effect on VG.  9–10 marks for well justified conclusion as to which change will have the greatest effect on VG OR why the alternatives will have less effect on VG.</p> <p><b>Award up to 2 additional marks for relevant application.</b></p> <p>Possible application marks:  Fitness instructor; helps people lose weight and get fit; membership fee for many gyms is monthly; payment each visit to the gym; demand for low-priced gyms; a bank loan was used to finance the opening of the gym; as a sole trader; needs to attract more customers to continue to expand the gym; needs to employ 4 personal trainers; 2 receptionists; gym is open 7 days a week; Information from Appendix 1 listing gym equipment; information from Appendix 3; government worried about increasing health problems of the population.</p> <p>There may be other examples in context that have not been included here.</p>	



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**BUSINESS STUDIES**

**0450/22**

Paper 2 Case Study

**May/June 2018**

MARK SCHEME

Maximum Mark: 80

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**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 International will not enter into discussions about these mark schemes.

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

**Generic Marking Principles**

These general marking principles must be applied by all examiners when marking candidate answers. They should be applied alongside the specific content of the mark scheme or generic level descriptors for a question. Each question paper and mark scheme will also comply with these marking principles.

**GENERIC MARKING PRINCIPLE 1:**

Marks must be awarded in line with:

- the specific content of the mark scheme or the generic level descriptors for the question
- the specific skills defined in the mark scheme or in the generic level descriptors for the question
- the standard of response required by a candidate as exemplified by the standardisation scripts.

**GENERIC MARKING PRINCIPLE 2:**

Marks awarded are always **whole marks** (not half marks, or other fractions).

**GENERIC MARKING PRINCIPLE 3:**

Marks must be awarded **positively**:

- marks are awarded for correct/valid answers, as defined in the mark scheme. However, credit is given for valid answers which go beyond the scope of the syllabus and mark scheme, referring to your Team Leader as appropriate
- marks are awarded when candidates clearly demonstrate what they know and can do
- marks are not deducted for errors
- marks are not deducted for omissions
- answers should only be judged on the quality of spelling, punctuation and grammar when these features are specifically assessed by the question as indicated by the mark scheme. The meaning, however, should be unambiguous.

**GENERIC MARKING PRINCIPLE 4:**

Rules must be applied consistently e.g. in situations where candidates have not followed instructions or in the application of generic level descriptors.

**GENERIC MARKING PRINCIPLE 5:**

Marks should be awarded using the full range of marks defined in the mark scheme for the question (however; the use of the full mark range may be limited according to the quality of the candidate responses seen).

**GENERIC MARKING PRINCIPLE 6:**

Marks awarded are based solely on the requirements as defined in the mark scheme. Marks should not be awarded with grade thresholds or grade descriptors in mind.

Question	Answer	Marks
1(a)	<p>Refer to Appendix 1. Identify and explain Hilda's span of control and DH's chain of command.</p> <p>Award up to 2 marks for an explanation of span of control Award up to 2 marks for explaining span of control using examples from Appendix 1</p> <p>Span of control explanation might include:</p> <ul style="list-style-type: none"> <li>• Span of control is the number of subordinates working directly under a manager</li> <li>• This span of control is narrow</li> <li>• It is only 3 people</li> <li>• Makes it easier to delegate</li> </ul> <p>For example:</p> <p>Span of control is the number of subordinates working directly under a manager (1). This makes it easier to delegate. (1) E.g. The span of control for Hilda is 3 (ap) these are the Administration manager, Hotel manager and Restaurant manager (ap).</p> <p>Award up to 2 marks for an explanation of chain of command</p> <p>Award up to 2 marks for explaining chain of command using examples from Appendix 1</p> <p>Chain of command explanation might include:</p> <ul style="list-style-type: none"> <li>• Chain of command is the structure in an organisation, which allows instructions to be passed down from senior management to lower levels of management</li> <li>• This chain of command is short</li> <li>• It has only 4 levels</li> <li>• Hilda, the general manager, is at the top of the hierarchy and any instructions will pass through a further three levels down to the lowest level, such as receptionists or waiters</li> <li>• Makes communication quicker</li> <li>• Communication is less likely to be distorted</li> <li>• Hilda is less remote from the lower level employees in the hierarchy</li> </ul> <p>For example:</p> <p>Chain of command is the structure in an organisation, which allows instructions to be passed down from senior management to lower levels of management (1). This makes communication quicker. (1) E.g. DH has a short chain of command (ap) as any instructions need to pass from Hilda at the top to the employees at the bottom such as the waiters (ap).</p>	8



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1(b)	<p><b>Level 1</b> <span style="float: right;"><b>[1–3 marks]</b></span></p> <p>1 mark for a suitable method of communication from employer to employee and / or 1 mark for an outline of an advantage and / or disadvantage of each suitable method. (max of 3 marks)</p> <p>E.g. Telephone the employee</p>	
	<p><b>Level 2</b> <span style="float: right;"><b>[4–6 marks]</b></span></p> <p>Detailed discussion of the advantages and/or disadvantages of each method. 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks)</p> <p>E.g. Telephone the employee as Hilda will know straight away if the message has been received and understood. However, the employee may not have their mobile phone with them or even have switched it on when they are serving guests in the hotel and so the message may not be received. (Level 2 plus one application mark for answering in the context of serving guests in the hotel)</p>	
	<p><b>Level 3</b> <span style="float: right;"><b>[7–10 marks]</b></span></p> <p>For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation of the most suitable method.</p> <p>7–8 marks for limited recommendation of the most suitable method for an urgent message that requires quick feedback OR why the alternatives were rejected.</p> <p>9–10 marks for well justified recommendation of the most suitable method for an urgent message that requires quick feedback AND why the alternative methods were not chosen.</p> <p><b>Award up to 2 additional marks for relevant application.</b></p> <p>Possible application marks:</p> <p>Small hotel; 39 employees; demand for hotel accommodation is increasing; most guests are local tourists on coach tours; information from the organisational chart in Appendix 1.</p> <p>There may be other examples in context that have not been included here.</p>	

Question	Answer	Marks
2(a)	<p>Explain the externalities of each of the following:</p> <p><b><i>The external cost of large amounts of rubbish left on the beach</i></b></p> <p>Award 1 mark for an understanding of an external cost plus 1 mark for each example of an impact on a third party where the third party is identified A maximum of 2 marks can be awarded if only <b>examples of external costs</b> are in the answer</p> <p><b>The answer could be one external cost developed or several costs developed with the impacts on third parties identified for a maximum of 4 marks</b></p> <p>Possible answers might include:</p> <ul style="list-style-type: none"> <li>• Costs paid for by the rest of society as a result of the business activity</li> <li>• The externality in this case is local people visiting the beach and leaving rubbish which then affects hotel guests and the hotel itself</li> <li>• Eye-sore spoils the view - puts off tourists so DH may lose trade</li> <li>• Increased cost of cleaning beach – to hotel or government</li> <li>• Harm to wildlife and environment – especially marine animals getting injured</li> </ul> <p><b>Indicative response:</b></p> <p>The rubbish makes it unpleasant for tourists and local people visiting the beach (1) and therefore may reduce demand for hotel rooms at DH. (1) Jobs at the hotel may be reduced (1) and so there may be more unemployment (1).</p> <p style="text-align: right;"><b>Maximum 4 marks</b></p> <p><b><i>The external benefit of a new motorway from Main City to Downtown</i></b></p> <p>Award 1 mark for an understanding of an external benefit plus 1 mark for each example of an impact on a third party where the third party is identified A maximum of 2 marks can be awarded if only <b>examples of external benefits</b> are in the answer</p> <p><b>The answer could be one external benefit developed or several costs developed with the impacts on third parties identified for a maximum of 4 marks</b></p> <p>Possible answers might include:</p> <ul style="list-style-type: none"> <li>• Benefits gained by the rest of society as a result of the business activity</li> <li>• The business activity in this case is the building of a new motorway which will help hotels / local residents / other businesses – wanting to reach Downtown quickly and easily</li> <li>• Easier journey time – so guests can get to the hotel quicker</li> <li>• Encourage more tourists from other countries – increases hotel revenue</li> <li>• Less accidents for local people on side roads – as more cars and lorries travel on the motorway</li> </ul> <p style="text-align: right;"><b>Maximum 4 marks</b></p>	8

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2(b)	<p>Consider each of the following business objectives for DH. Which one do you think should be the most important objective for DH in the long run? Justify your answer.</p> <p>Relevant points might include:</p> <table><tr><td>Higher market share</td><td><ul style="list-style-type: none"><li>Increased growth in the market but could grow without taking a larger market share as market itself is growing.</li><li>May have to accept lower profit in a competitive market to increase market share</li><li>Improved brand image / good reputation from having a higher market share encourages sales</li><li>Increased influence over suppliers</li><li>May have to reduce prices or increase marketing costs to attract more customers</li><li>Possibly have more control over prices if more dominant in the market</li></ul></td></tr><tr><td>Profit</td><td><ul style="list-style-type: none"><li>Dividends should be paid to shareholders to reward the investment or shareholders may want to sell their shares. However, it is a private limited company and shareholders can only sell shares to family and friends so there will be fewer opportunities to sell shares than if it is a public limited company.</li><li>Will need to make a profit in the long term or will not attract more investors in the future.</li><li>Profit should be made so that it may be retained for future investment without the need to borrow capital</li></ul></td></tr><tr><td>Survival</td><td><ul style="list-style-type: none"><li>Need to make a profit in order to be worth staying in business but survival is usually an objective when the business is first starting out or if times are difficult such as in a recession, when expanding the business or facing increasing competition.</li><li>In the long term this may not be an objective – other objectives become more important.</li></ul></td></tr></table>	Higher market share	<ul style="list-style-type: none"><li>Increased growth in the market but could grow without taking a larger market share as market itself is growing.</li><li>May have to accept lower profit in a competitive market to increase market share</li><li>Improved brand image / good reputation from having a higher market share encourages sales</li><li>Increased influence over suppliers</li><li>May have to reduce prices or increase marketing costs to attract more customers</li><li>Possibly have more control over prices if more dominant in the market</li></ul>	Profit	<ul style="list-style-type: none"><li>Dividends should be paid to shareholders to reward the investment or shareholders may want to sell their shares. However, it is a private limited company and shareholders can only sell shares to family and friends so there will be fewer opportunities to sell shares than if it is a public limited company.</li><li>Will need to make a profit in the long term or will not attract more investors in the future.</li><li>Profit should be made so that it may be retained for future investment without the need to borrow capital</li></ul>	Survival	<ul style="list-style-type: none"><li>Need to make a profit in order to be worth staying in business but survival is usually an objective when the business is first starting out or if times are difficult such as in a recession, when expanding the business or facing increasing competition.</li><li>In the long term this may not be an objective – other objectives become more important.</li></ul>	12
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2(b)	<p>Level 1 <span style="float: right;"><b>[1–3 marks]</b></span></p> <p>1 mark for outline of each objective (max of 3 marks)</p> <p>E.g. Need to cover all costs to survive in order to be worth staying in business.</p> <p>Level 2 <span style="float: right;"><b>[4–6 marks]</b></span></p> <p>Detailed discussion of each objective. 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks)</p> <p>E.g. Need to cover all costs to survive in order to be worth staying in business but survival is usually an objective when the business is first starting out or if times are difficult such as a recession. The hotel has been successful for the last 9 years and in the long term survival is not an objective as other objectives are likely to be. (Level 2 plus one application successful for the last 9 years and in the long term survival is not an objective as other objectives are likely to be. (Level 2 plus one application mark for answering in the context of the hotel being established 9 years ago)</p> <p>Level 3 <span style="float: right;"><b>[7–10 marks]</b></span></p> <p>For L3 to be awarded there needs to be at least two L2 marks awarded and then a conclusion as to which objective is most important to DH.</p> <p>7–8 marks for some limited judgement shown in the conclusion as to which objective is most important to DH OR why the other objectives are less important.</p> <p>9–10 marks for well justified conclusion as to which objective is most important to DH AND why the other objectives are less important.</p> <p><b>Award up to 2 additional marks for relevant application.</b></p> <p>Possible application marks:</p> <p>Small hotel; 39 employees; private limited company set up 9 years ago; capital employed is \$100 000; demand for hotel accommodation is increasing; hotel is located next to a beach; half full 6 months; full 4 months; empty 2 months; most guests are local tourists on coach tours; wants to expand by taking over a hotel; details of ABC / XYZ hotels; financial information from Appendix 2; information in Appendix 3 about ways to attract more customers.</p> <p>There may be other examples in context that have not been included here.</p>	

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3(a)	<p>Identify and explain <b>four</b> economies of scale DH could benefit from when it takes over a competitor.</p> <p>Award one mark for each economy of scale. (maximum of four) Examples include:</p> <ul style="list-style-type: none"><li>• Purchasing economies</li><li>• Marketing economies</li><li>• Financial economies</li><li>• Managerial economies</li><li>• Technical economies</li></ul> <p>Award a maximum of one additional mark for each explanation suitable for this context. (maximum of four)</p> <p>Indicative response:</p> <p>Purchasing economy (1) as Hilda can now buy towels in bulk and receive discount for the higher quantity purchased. (1)</p>	<b>8</b>

Question	Answer	Marks									
3(b)	<p>Consider the advantages and disadvantages of the <b>two</b> businesses Hilda could take over. Recommend which business Hilda should take over. Justify your answer.</p> <p>Relevant points might include:</p> <table border="1"> <thead> <tr> <th></th><th>Advantages</th><th>Disadvantages</th></tr> </thead> <tbody> <tr> <td>ABC hotel</td><td> <ul style="list-style-type: none"> <li>Well established hotel as has been run by the same family for 30 years – well known by regular customers and suppliers – possibly less advertising required</li> <li>Good beach location – attractive to visitors from other countries</li> <li>Cheaper to buy at half the price of alternative hotel</li> </ul> </td><td> <ul style="list-style-type: none"> <li>Needs redecoration / modernising – increased cost of \$50,000</li> <li>May have poor reputation for not being modern and well decorated</li> <li>Could get poor ratings on hotel comparison websites</li> <li>Too much money tied up in inventory</li> </ul> </td></tr> <tr> <td>XYZ hotel</td><td> <ul style="list-style-type: none"> <li>Already modern – so no costs to redecorate/modernise</li> <li>Location is good for tourists coming into country X as it is near the airport</li> <li>Technology used in hotel – reduces wage costs as more efficient with quicker computer based booking system</li> <li>Better security as key cards restrict access to hotel rooms only to hotel guests – improved reputation</li> </ul> </td><td> <ul style="list-style-type: none"> <li>High price to buy at \$100 000 more</li> <li>Not near beach so will not attract tourists wanting beach holidays</li> <li>Lower current ratio at 1</li> <li>Lower acid test ratio at 0.5</li> <li>Poor liquidity</li> </ul> </td></tr> </tbody> </table>		Advantages	Disadvantages	ABC hotel	<ul style="list-style-type: none"> <li>Well established hotel as has been run by the same family for 30 years – well known by regular customers and suppliers – possibly less advertising required</li> <li>Good beach location – attractive to visitors from other countries</li> <li>Cheaper to buy at half the price of alternative hotel</li> </ul>	<ul style="list-style-type: none"> <li>Needs redecoration / modernising – increased cost of \$50,000</li> <li>May have poor reputation for not being modern and well decorated</li> <li>Could get poor ratings on hotel comparison websites</li> <li>Too much money tied up in inventory</li> </ul>	XYZ hotel	<ul style="list-style-type: none"> <li>Already modern – so no costs to redecorate/modernise</li> <li>Location is good for tourists coming into country X as it is near the airport</li> <li>Technology used in hotel – reduces wage costs as more efficient with quicker computer based booking system</li> <li>Better security as key cards restrict access to hotel rooms only to hotel guests – improved reputation</li> </ul>	<ul style="list-style-type: none"> <li>High price to buy at \$100 000 more</li> <li>Not near beach so will not attract tourists wanting beach holidays</li> <li>Lower current ratio at 1</li> <li>Lower acid test ratio at 0.5</li> <li>Poor liquidity</li> </ul>	12
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3(b)	<p><b>Level 1 [1–3 marks]</b></p> <p>1 mark for outline of advantages and/or disadvantages of each hotel (max of 3 marks)</p> <p>E.g. The cost of buying ABC hotel is a lot cheaper than XYZ hotel by \$100 000.</p> <p><b>Level 2 [4–6 marks]</b></p> <p>Detailed discussion of advantages and/or disadvantages of each hotel. 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks)</p> <p>E.g. The cost of buying ABC hotel is a lot cheaper than XYZ hotel by \$100 000 so this will make it easier for Hilda to raise the necessary capital. However, she will still need to raise the same amount of capital as is already invested in her existing hotel so it might be difficult to find a suitable source of finance. (Level 2 plus one application mark for answering in the context of the cost of buying the hotels)</p> <p><b>Level 3 [7–10 marks]</b></p> <p>For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation which justifies which hotel to choose.</p> <p>7–8 marks for some limited judgement shown in the recommendation as to which hotel to choose OR why not the alternative hotel.</p> <p>9–10 marks for well justified recommendation as to which hotel to choose AND why not the other hotel.</p> <p><b>Award up to 2 additional marks for relevant application.</b></p> <p>Possible application marks:</p> <p>DH is located next to a beach</p> <p>ABC Hotel – owned by local family for more than 30 years – not recently redecorated – needs updating to attract foreign tourists - costs \$50 000 to update – costs \$100 000 to buy – beach location – current ratio = 3 acid test ratio = 2 – non-current assets = \$80 000</p> <p>XYZ Hotel – modern hotel – city centre – located 50 km from Downtown – recently redecorated – near restaurants, train station and airport – uses new technology – computer-based booking system and electronic key cards - current ratio = 1 – acid test ratio = 0.5 – non-current assets = \$150 000</p> <p>There may be other examples in context that have not been included here.</p>	



Question	Answer	Marks
4(a)	<p>Identify and explain <b>two</b> reasons why cash flow forecasting is important to Hilda.</p> <p>Award one mark for each relevant reason (maximum of one each), such as:</p> <ul style="list-style-type: none"> <li>• To know how much cash is flowing into the business and how much cash is flowing out of the business</li> <li>• To ensure the business does not run out of cash</li> <li>• To plan for times when cash might be low or negative</li> <li>• To ensure she can meet day-to-day expenses</li> <li>• To help make decisions for the future to know how much cash is available</li> <li>• To help gain a bank loan by showing the cash flow forecast to the bank manager</li> <li>• To support planning for buying the new hotel</li> <li>• Assessing how well the business is being managed by comparing the cash flow forecast with the actual cash flow</li> <li>• To help identify where costs could be reduced</li> <li>• To assess whether the business is holding too much cash which could be put to better use</li> </ul> <p>Award a maximum of three additional marks for the explanation of each reason – <b>2 of which must be applied to this context.</b></p> <p><b>Indicative response:</b></p> <p>To ensure the business does not run out of cash (1) as the hotel is empty for two months of the year and will have no cash flowing in. (ap) This could cause a cash flow problem if the hotel is still paying out wages for the staff (ap) which could cause Hilda to run out of cash and be unable to trade if she has not planned for this to happen by taking out an overdraft (1).</p> <p>Possible application marks:</p> <p>Small hotel; 39 employees; demand for hotel accommodation is increasing; half full 6 months; full 4 months; empty 2 months; most guests are local tourists on coach tours; wants to expand by taking over a hotel; details of ABC/XYZ hotels.</p> <p>There may be other examples in context that have not been included here.</p>	<b>8</b>

Question	Answer	Marks												
4(b)	<p>Consider how each of the following changes could affect DH. Which change is likely to have the biggest impact on the profit of DH? Justify your answer.</p> <p>Relevant points might include:</p> <table border="1" data-bbox="316 414 1313 1232"> <thead> <tr> <th></th><th>Advantages</th><th>Disadvantages</th></tr> </thead> <tbody> <tr> <td>Increase in the number of tourists from other countries</td><td> <ul style="list-style-type: none"> <li>Increased demand from tourists may increase demand for DH rooms</li> <li>Increased demand for tourist hotels – good if Hilda buys XYZ hotel.</li> </ul> </td><td> <ul style="list-style-type: none"> <li>Competitors may attract these guests and may not have much effect on DH.</li> <li>Foreign tourists may not want beach holidays.</li> <li>None of the employees speak foreign languages</li> </ul> </td></tr> <tr> <td>Government of country X reduces income tax</td><td> <ul style="list-style-type: none"> <li>Increased disposable income – increased demand for weekend breaks – increased demand for DH</li> </ul> </td><td> <ul style="list-style-type: none"> <li>Weekend breaks luxury – money may be spent elsewhere</li> <li>Higher income may lead to increased demand for alternative holidays – therefore decreased demand for DH.</li> </ul> </td></tr> <tr> <td>Fewer people demanding coach holidays</td><td> <ul style="list-style-type: none"> <li>If takeover other hotel – increased demand for alternative holidays</li> </ul> </td><td> <ul style="list-style-type: none"> <li>Most of customers are from coach holidays – lower demand for DH</li> <li>May force DH to target a different market leading to increased costs</li> </ul> </td></tr> </tbody> </table>		Advantages	Disadvantages	Increase in the number of tourists from other countries	<ul style="list-style-type: none"> <li>Increased demand from tourists may increase demand for DH rooms</li> <li>Increased demand for tourist hotels – good if Hilda buys XYZ hotel.</li> </ul>	<ul style="list-style-type: none"> <li>Competitors may attract these guests and may not have much effect on DH.</li> <li>Foreign tourists may not want beach holidays.</li> <li>None of the employees speak foreign languages</li> </ul>	Government of country X reduces income tax	<ul style="list-style-type: none"> <li>Increased disposable income – increased demand for weekend breaks – increased demand for DH</li> </ul>	<ul style="list-style-type: none"> <li>Weekend breaks luxury – money may be spent elsewhere</li> <li>Higher income may lead to increased demand for alternative holidays – therefore decreased demand for DH.</li> </ul>	Fewer people demanding coach holidays	<ul style="list-style-type: none"> <li>If takeover other hotel – increased demand for alternative holidays</li> </ul>	<ul style="list-style-type: none"> <li>Most of customers are from coach holidays – lower demand for DH</li> <li>May force DH to target a different market leading to increased costs</li> </ul>	12
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4(b)	<p>Level 1 <span style="float: right;"><b>[1–3 marks]</b></span></p> <p>1 mark for outline of the advantages and / or disadvantages of each change (max of 3 marks)</p> <p>E.g. Increased disposable income from lower income tax.</p> <p>Level 2 <span style="float: right;"><b>[4–6 marks]</b></span></p> <p>Discussion of the advantages and/or disadvantages of each change. 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks)</p> <p>E.g. Increased disposable income from lower income tax may lead to increased demand for weekend breaks. This could mean there is increased demand for DH or even increased demand as people choose to go on holiday for longer and stay at DH for more than a weekend. However, as disposable incomes are higher people may want to go on holiday in other countries and so DH might see lower demand. (Level 2 plus one application mark for answering in the context of the hotels)</p> <p>Level 3 <span style="float: right;"><b>[7–10 marks]</b></span></p> <p>For L3 to be awarded there needs to be at least two L2 marks awarded and then a conclusion as to which change will have the greatest effect on DH's profit.</p> <p>7–8 marks for some limited judgement shown in the conclusion as to which change will have the greatest effect on DH's profit OR why the alternative changes will have less effect.</p> <p>9–10 marks for well justified conclusion as to which change will have the greatest effect on DH's profit AND why the alternatives would have less effect.</p> <p><b>Award up to 2 additional marks for relevant application.</b></p> <p>Possible application marks:</p> <p>Small hotel; 39 employees; demand for hotel accommodation is increasing; hotel is located next to a beach; half full 6 months; full 4 months; empty 2 months; wants to expand by taking over a hotel; details of ABC / XYZ hotels; information in Appendix 3 about ways to attract more customers.</p> <p>There may be other examples in context that have not been included here.</p>	



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**BUSINESS STUDIES**

**0450/23**

Paper 2 Case Study

**May/June 2018**

MARK SCHEME

Maximum Mark: 80

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**Published**

This mark scheme is published as an aid to teachers and candidates, to indicate the requirements of the examination. It shows the basis on which Examiners were instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began, which would have considered the acceptability of alternative answers.

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

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This document consists of **13** printed pages.

**Generic Marking Principles**

These general marking principles must be applied by all examiners when marking candidate answers. They should be applied alongside the specific content of the mark scheme or generic level descriptors for a question. Each question paper and mark scheme will also comply with these marking principles.

**GENERIC MARKING PRINCIPLE 1:**

Marks must be awarded in line with:

- the specific content of the mark scheme or the generic level descriptors for the question
- the specific skills defined in the mark scheme or in the generic level descriptors for the question
- the standard of response required by a candidate as exemplified by the standardisation scripts.

**GENERIC MARKING PRINCIPLE 2:**

Marks awarded are always **whole marks** (not half marks, or other fractions).

**GENERIC MARKING PRINCIPLE 3:**

Marks must be awarded **positively**:

- marks are awarded for correct/valid answers, as defined in the mark scheme. However, credit is given for valid answers which go beyond the scope of the syllabus and mark scheme, referring to your Team Leader as appropriate
- marks are awarded when candidates clearly demonstrate what they know and can do
- marks are not deducted for errors
- marks are not deducted for omissions
- answers should only be judged on the quality of spelling, punctuation and grammar when these features are specifically assessed by the question as indicated by the mark scheme. The meaning, however, should be unambiguous.

**GENERIC MARKING PRINCIPLE 4:**

Rules must be applied consistently e.g. in situations where candidates have not followed instructions or in the application of generic level descriptors.

**GENERIC MARKING PRINCIPLE 5:**

Marks should be awarded using the full range of marks defined in the mark scheme for the question (however; the use of the full mark range may be limited according to the quality of the candidate responses seen).

**GENERIC MARKING PRINCIPLE 6:**

Marks awarded are based solely on the requirements as defined in the mark scheme. Marks should not be awarded with grade thresholds or grade descriptors in mind.

Question	Answer	Marks
1(a)	<p><b>Identify and explain <u>four</u> characteristics that have made the two partners successful entrepreneurs.</b></p> <p>Award one mark for each characteristic (maximum of four), such as:</p> <ul style="list-style-type: none"> <li>• Hard working</li> <li>• Risk taker</li> <li>• Creative</li> <li>• Optimistic</li> <li>• Self-confident</li> <li>• Independent</li> <li>• Effective communicator</li> <li>• Innovative</li> </ul> <p>Award a maximum of one additional mark for each explanation applied to this context.</p> <p>Indicative response:</p> <p>They are risk takers (1) as Archi And Boris have risked \$10 000 of their own money in the business and could have gained interest on this money if they had put it in the bank. (ap)</p> <p>Possible application marks:</p> <p>Installs and repairs heating equipment; set up as a partnership 2 years ago; each partner invested \$10 000; install equipment in homes and offices; planning to also install and repair air conditioning equipment; financial information from Appendix 1.</p> <p>There may be other examples in context that have not been included here.</p>	<b>8</b>

Question	Answer	Marks						
1(b)	<p><b>Consider the advantages of working for AH and the advantages of working for BB Heating. Recommend whether AH employees should apply to work for BB Heating. Justify your answer.</b></p> <p>Relevant points might include:</p> <table><tr><td></td><td><b>Advantages</b></td></tr><tr><td>Working for AH</td><td><ul style="list-style-type: none"><li>• Take part in decision making</li><li>• Feel valued as an employee</li><li>• More paid holidays</li><li>• Sympathetic managers when need time off for personal reasons</li></ul></td></tr><tr><td>Working for BB Heating</td><td><ul style="list-style-type: none"><li>• High wage rates</li><li>• More chance of promotion at a much larger business</li><li>• Use company vehicles for own use when not at work-beneficial if doesn't own a vehicle – saves the cost of buying own vehicle</li></ul></td></tr></table> <p>Level 1 <span>[1–3 marks]</span></p> <p>1 mark for outline of an advantage(s) of working for each business. (max of 3 marks)</p> <p>E.g. Working for a smaller business such as AH means there is a closer relationship with the owners.</p> <p>Level 2 <span>[4–6 marks]</span></p> <p>Detailed discussion of advantage(s) of working for each business. 1 x L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks)</p> <p>E.g. Working for a smaller business such as AH means there is a closer relationship with the owners. This can make the employee feel more valued and their work appreciated, which is a motivating factor for the employee and makes them work harder installing boilers. (Level 2 plus one application mark for answering in the context of boilers)</p>		<b>Advantages</b>	Working for AH	<ul style="list-style-type: none"><li>• Take part in decision making</li><li>• Feel valued as an employee</li><li>• More paid holidays</li><li>• Sympathetic managers when need time off for personal reasons</li></ul>	Working for BB Heating	<ul style="list-style-type: none"><li>• High wage rates</li><li>• More chance of promotion at a much larger business</li><li>• Use company vehicles for own use when not at work-beneficial if doesn't own a vehicle – saves the cost of buying own vehicle</li></ul>	12
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1(b)	<p>Level 3 <span style="float: right;"><b>[7–10 marks]</b></span></p> <p>For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation of which business to choose to work for.</p> <p>7–8 marks for limited judgement shown as to which business to choose to work for OR why the alternative business was rejected.</p> <p>9–10 marks for a well justified recommendation as to which business to work for AND why not the other business.</p> <p><b>Award up to 2 additional marks for relevant application.</b></p> <p>Possible application marks:</p> <p>Installs and repairs heating equipment; set up as a partnership 2 years ago; install equipment in homes and offices; planning to also install and repair air conditioning equipment; want to expand into larger premises; AH employs 2 fully qualified heating and air conditioning engineers; details about BB Heating pay and conditions.</p> <p>There may be other examples in context that have not been included here.</p>	



Question	Answer	Marks
2(a)	<p><b>Identify and explain <u>one</u> advantage and <u>one</u> disadvantage to AH of being a business partnership rather than a private limited company.</b></p> <p>Award one mark for each relevant advantage / disadvantage (maximum of two), such as:</p> <p>Advantages</p> <ul style="list-style-type: none"> <li>• Fewer legal formalities when setting up and running the business</li> <li>• Partners can work in the business/help with decisions/holidays/ responsibility shared/more ideas/ additional specialisms/skills of partners</li> </ul> <p>Disadvantages</p> <ul style="list-style-type: none"> <li>• Unlimited liability</li> <li>• No continuity</li> <li>• Responsible for actions of other partners/ disagreements may cause problems/arguments/profit will have to be shared</li> </ul> <p>Award a maximum of three additional marks for <b>each</b> explanation of the advantage/disadvantage – <b>2 of which must be applied to this context.</b></p> <p>Indicative response:</p> <p>Fewer legal formalities when setting up [1] their heating repair and installation business. [ap] This will reduce the costs of setting up the business and also the costs of running the business when fewer legal formalities need to be followed. [1] They can use the money saved to keep wages higher and encourage their engineers to stay working for them rather than move to a rival business such as one that repairs boilers. [ap]</p> <p>Possible application marks:</p> <p>Installs and repairs heating equipment; each partner invested \$10 000; install equipment in homes and offices; planning to also install and repair air conditioning equipment; located in a small warehouse with no office space; AH employs 2 fully qualified heating and air conditioning engineers; details about BB Heating pay and conditions; financial information from Appendix 1.</p> <p>There may be other examples in context that have not been included here.</p>	8

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3(a)	<p><b>Calculate for 2017:</b></p> <p>(i) <b>Gross Profit Margin</b>  <math>GPM = (\\$500\,000 - \\$100\,000) / \\$500\,000 = 80\%</math>  <b>2 marks for correct answer – 1 mark if correct method but incorrect answer.</b></p> <p>(ii) <b>Profit margin</b>  <math>PM = \\$125\,000 / \\$500\,000 = 25\%</math>  <b>2 marks for correct answer – 1 mark if correct method but incorrect answer.</b></p> <p>(iii) <b>Explain why these profitability ratios have changed between 2016 and 2017.</b></p> <p>Award a maximum of two additional marks for <b>each</b> explanation of the profitability ratios.</p> <p>Indicative response:</p> <p>The gross profit margin has improved because the cost of sales has not increased (1) in line with the increase in revenue. (1)</p> <p>The profit margin has stayed the same, which means that although revenue has increased, costs of sales did not increase but profit did increase. (1)  However, expenses increased which kept the ratio the same. (1)</p>	8												
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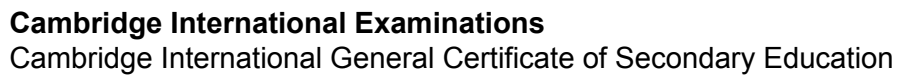
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3(b)	<p>Level 1 <span style="float: right;"><b>[1–3 marks]</b></span></p> <p>1 mark for outline of impact of each change. (max of 3 marks)</p> <p>E.g. Wage costs will increase.</p>	
	<p>Level 2 <span style="float: right;"><b>[4–6 marks]</b></span></p> <p>Detailed discussion of the impact of each change. 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks)</p> <p>E.g. Wage costs will increase as heating employees will get a pay rise to maintain the wage differential with other employees. However, it will also motivate these workers and they will install boilers more efficiently. (Level 2 plus one application mark for answering in the context of the heating business)</p>	
	<p>Level 3 <span style="float: right;"><b>[7–10 marks]</b></span></p> <p>For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation which justifies which will have the greatest impact.</p> <p>7–8 marks for limited judgement shown in recommendation as to which will have the greatest impact on AH OR why the other changes will have less impact.</p> <p>9–10 marks for a well justified recommendation as to which effect will have the greatest impact on AH AND why other changes will have less impact.</p> <p><b>Award up to 2 additional marks for relevant application.</b></p> <p>Possible application marks:</p> <p>Installs and repairs heating equipment; install equipment in homes and offices; planning to also install and repair air conditioning equipment; want to expand into larger premises; AH employs 2 fully qualified heating and air conditioning engineers; details about BB Heating pay and conditions.</p> <p>There may be other examples in context that have not been included here.</p>	

Question	Answer	Marks
4(a)	<p><b>Refer to Appendix 3. Identify and explain how the change in the exchange rate could affect:</b></p> <ul style="list-style-type: none"> <li>• <b>AH</b></li> <li>• <b>AH's customers</b></li> </ul> <p>Award one mark for identifying how AH / AH's customers will be affected (maximum of one each), such as:</p> <ul style="list-style-type: none"> <li>• Exports may become cheaper</li> <li>• Imported goods may become more expensive</li> </ul> <p>Award a maximum of three additional marks for <b>each</b> explanation of how AH / AH's customers will be affected – <b>2 of which must be applied to this context</b>.</p> <p>Indicative response:</p> <p>Import prices will rise (1) therefore the components purchased by AH for repairing heating equipment will cost more. (ap) The prices charged to business customers will have to be increased (ap) which may lead to a decrease in demand from customers. (1)</p> <p>Possible application marks:</p> <p>Installs and repairs heating equipment; install equipment in homes and offices; planning to also install and repair air conditioning equipment; financial information from Appendix 1; information from Appendix 3 such as depreciation in the currency and components being imported.</p> <p>There may be other examples in context that have not been included here.</p>	<b>8</b>

Question	Answer	Marks												
4(b)	<p><b>Consider the following <u>three</u> methods of promotion AH could use for its new service. Recommend the best method of promotion for AH. Justify your answer.</b></p> <p>Relevant points might include:</p> <table border="1"> <thead> <tr> <th></th><th>Advantages</th><th>Disadvantages</th></tr> </thead> <tbody> <tr> <td>Hand out fliers in the street</td><td> <ul style="list-style-type: none"> <li>Cheap to produce</li> <li>Domestic customers likely to see the advert</li> <li>Written record to keep</li> </ul> </td><td> <ul style="list-style-type: none"> <li>May be thrown away and not looked at</li> <li>May not be in a location where target customers go</li> <li>Unsuitable for business customers</li> </ul> </td></tr> <tr> <td>Email existing business customers</td><td> <ul style="list-style-type: none"> <li>Increases sales to existing customers</li> <li>Low cost and goes directly to target market for business customers</li> </ul> </td><td> <ul style="list-style-type: none"> <li>Will not reach new domestic customers</li> </ul> </td></tr> <tr> <td>Billboard adverts by the side of main roads</td><td> <ul style="list-style-type: none"> <li>Seen by many people</li> <li>Remain in position for some time</li> </ul> </td><td> <ul style="list-style-type: none"> <li>Little detail / information included</li> <li>May not be seen by target audience</li> </ul> </td></tr> </tbody> </table>		Advantages	Disadvantages	Hand out fliers in the street	<ul style="list-style-type: none"> <li>Cheap to produce</li> <li>Domestic customers likely to see the advert</li> <li>Written record to keep</li> </ul>	<ul style="list-style-type: none"> <li>May be thrown away and not looked at</li> <li>May not be in a location where target customers go</li> <li>Unsuitable for business customers</li> </ul>	Email existing business customers	<ul style="list-style-type: none"> <li>Increases sales to existing customers</li> <li>Low cost and goes directly to target market for business customers</li> </ul>	<ul style="list-style-type: none"> <li>Will not reach new domestic customers</li> </ul>	Billboard adverts by the side of main roads	<ul style="list-style-type: none"> <li>Seen by many people</li> <li>Remain in position for some time</li> </ul>	<ul style="list-style-type: none"> <li>Little detail / information included</li> <li>May not be seen by target audience</li> </ul>	12
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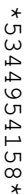
Question	Answer	Marks
4(b)	<p>Level 1 <span style="float: right;"><b>[1–3 marks]</b></span></p> <p>1 mark for outline of an advantage and / or a disadvantage of each method of promotion. (max of 3 marks)</p> <p>e.g. Fliers are fairly cheap to produce.</p> <p>Level 2 <span style="float: right;"><b>[4–6 marks]</b></span></p> <p>Detailed discussion of an advantage and / or a disadvantage of each method of promotion. 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks)</p> <p>E.g. Fliers are fairly cheap to produce and can be handed out to domestic customers in the street. The location where the fliers are handed out can be carefully chosen to reach the target domestic customers who might want to purchase air conditioning equipment. However, fliers are often discarded and not looked at. (Level 2 plus one application mark for answering in the context of the domestic customers of air conditioning equipment)</p> <p>Level 3 <span style="float: right;"><b>[7–10 marks]</b></span></p> <p>For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation of the best method of promotion to use.</p> <p>7–8 marks for limited judgement shown in the recommendation as to which form of promotion to use OR why the alternative methods were rejected.</p> <p>9–10 marks for a well justified recommendation as to which form of promotion to use AND why the alternatives were less suitable.</p> <p><b>Award up to 2 additional marks for relevant application.</b></p> <p>Possible application marks: Installs and repairs heating equipment; install equipment in homes and offices; planning to also install and repair air conditioning equipment; financial information from Appendix 1.</p> <p>There may be other examples in context that have not been included here.</p>	





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**0450/11**

**May/June 2018**

**1 hour 30 minutes**

Candidates answer on the Question Paper.

No Additional Materials are required.

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Answer **all** questions.

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The total number of marks for this paper is 80.

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This document consists of **11** printed pages and **1** blank page.



- 1 GKA is a food retailer. It has 300 shops located in areas where average consumer incomes are low. GKA sells a limited range of own-label products including breakfast cereal and toothpaste. GKA does no promotion or market research. The Managing Director said: 'Last year our market share increased to 5%. Profit increased by 40%. Keeping costs low means GKA can offer customers quality products at low prices.' GKA is planning to open 100 shops in areas with high average consumer incomes. The Managing Director must decide whether GKA should change its pricing strategy (method) as the business expands.

(a) What is meant by 'market share'?

.....

.....

.....

..... [2]

(b) Identify **two** aims of promotion.

Aim 1:.....

.....

Aim 2:.....

..... [2]

(c) Identify and explain **two** methods of market research that GKA could use.

Method 1:.....

.....

Explanation:.....

.....

Method 2:.....

.....

Explanation:.....

..... [4]

(d) Identify and explain **two** ways in which GKA could keep costs low.

Way 1:.....

.....

Explanation:.....

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Way 2:.....

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Explanation:.....

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..... [6]

(e) Do you think GKA should change its pricing strategy as the business expands? Justify your answer.

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..... [6]

- 2 SJD is in the private sector. It makes steel for construction businesses. SJD plans to make 3500 of its 9000 employees redundant. The Operations Director said: 'Cheap steel imports and high business tax rates are affecting our business. There are also ethical issues that we must respond to. The Government should do more to help steel producers. Some of our competitors plan to close their factories and relocate to other countries. SJD may have to do the same.'

(a) Identify **two** situations in which downsizing the workforce might be necessary.

Situation 1:.....

.....

Situation 2:.....

.....

[2]

(b) Identify **two** possible ethical issues that SJD might have to respond to.

Issue 1:.....

.....

Issue 2:.....

.....

[2]

(c) Identify and explain **two** possible problems for SJD if it decides to relocate its business.

Problem 1:.....

.....

Explanation:.....

.....

Problem 2:.....

.....

Explanation:.....

.....

[4]

(d) Explain how each of the following factors might affect SJD's business.

High business tax rates:.....

.....

Explanation:.....

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Cheap imports:.....

.....

Explanation:.....

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..... [6]

(e) Do you think the Government should help businesses like SJD? Justify your answer.

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..... [6]

- 3 IBH is a family-owned private limited company. It makes a range of shoes for children, using batch production. It is a competitive market. Like many businesses, IBH needs finance for a number of reasons. The Finance Director has been looking at some financial data. An extract is shown in Table 1. Some of the directors would like to expand into the women's shoe market and want to know whether IBH's performance is improving.

**Table 1: Extract from financial data for IBH (\$000)**

	<b>2016</b>	<b>2017</b>
Revenue	400	480
Gross profit	240	320
Profit	120	120
Non-current liabilities	100	200

- (a) What is meant by 'non-current liabilities'?

.....

.....

.....

..... [2]

- (b) Identify **two** reasons why a business might need finance.

Reason 1:.....

Reason 2:..... [2]

(c) Identify and explain **two** possible advantages to IBH of being a private limited company.

Advantage 1:.....

.....

Explanation:.....

.....

Advantage 2:.....

.....

Explanation:.....

.....

[4]

(d) Identify and explain **two** advantages to IBH of using batch production.

Advantage 1:.....

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Explanation:.....

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Advantage 2:.....

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Explanation:.....

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[6]

(e) Do you think IBH's performance has improved in 2017? Justify your answer using profit margins.

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[6]



- 4 Ben owns a small gardening business, which he started 15 years ago. Ben believes providing a quality service is important to his success. Ben's business has a number of stakeholder groups including 2 full-time and 4 part-time workers who have all been employed by him for a number of years. Each worker is expected to do any job that Ben orders them to do. All workers are paid an hourly wage rate. They also receive a bonus if customers recommend the business to other people. Ben is always thinking about other ways to improve the motivation of his workers.

(a) What is meant by 'stakeholder group'?

.....

.....

.....

..... [2]

(b) Identify **two** possible reasons why Ben's business has remained small.

Reason 1:.....

.....

Reason 2:.....

..... [2]

(c) Identify and explain **two** reasons why quality might be important for Ben's business.

Reason 1:.....

.....

Explanation:.....

.....

Reason 2:.....

.....

Explanation:.....

..... [4]

(d) Identify and explain **two** advantages to Ben's business of having part-time workers.

Advantage 1:.....

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Explanation:.....

.....

.....

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Advantage 2:.....

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Explanation:.....

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[6]

- (e) Explain **two** ways Ben could improve employee motivation. Recommend which way Ben should choose. Justify your answer.

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[6]

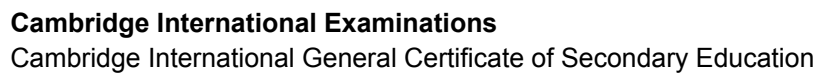
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## 0450/12

**May/June 2018**

**1 hour 30 minutes**

Candidates answer on the Question Paper.

No Additional Materials are required.

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- 1 Adele started a dance school five years ago. Every year Adele pays herself a salary and makes \$1000 profit. The school offers a range of dance and exercise classes for children. It is a sole trader business. Adele believes using the right pricing method is important. Adele wants to expand the business by opening a second dance school. Based on her business plan, she forecasts that this will cost \$8000. Adele cannot decide whether a bank loan is the best source of finance for this expansion.

(a) Identify **two** features of a sole trader.

Feature 1:.....

.....

Feature 2:.....

.....

[2]

(b) Identify **two** of the main sections of a business plan.

Section 1:.....

.....

Section 2:.....

.....

[2]

(c) Identify and explain **two** reasons why using the right pricing method is important for Adele's business.

Reason 1:.....

.....

Explanation:.....

.....

Reason 2:.....

.....

Explanation:.....

.....

[4]

- (d) Identify and explain **two** location factors that Adele should consider when deciding on a second school.

Factor 1:.....

.....

Explanation:.....

.....

.....

.....

Factor 2:.....

.....

Explanation:.....

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.....

..... [6]

- (e) Do you think that a bank loan is the best source of finance for Adele to use to expand the business? Justify your answer.

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..... [6]

- 2 JSF is a business in the private sector. It has 50 production workers who operate machines. JSF makes a range of household products including towels and bed sheets. Most of the products are sold to retail businesses that take two months to pay JSF. The business is given two weeks' credit to pay its suppliers. The Finance manager has just prepared a cash flow forecast. He said: 'Cash outflows are too high. I have already reduced the budget for market research to zero. Training costs are \$1000 per month and cannot be reduced as training is important.' The Finance manager is thinking of other ways to improve cash flow.

**Table 1: Cash flow forecast for JSF for the period July–September 2017 (\$000)**

	July	August	September
Cash inflows	120	100	90
Cash outflows	150	120	120
Net cash flow	<b>X</b>	(20)	(30)
Opening balance	60	30	10
Closing balance	30	10	<b>Y</b>

- (a) What is meant by a cash flow forecast?

.....

.....

..... [2]

- (b) Calculate the values for **X** and **Y**.

X:.....

Y:..... [2]

- (c) Identify and explain **two** benefits to JSF of market research.

Benefit 1:.....

.....

Explanation:.....

.....

Benefit 2:.....

.....

Explanation:.....

..... [4]



- (d) Identify and explain **two** reasons why training is important to JSF.

Reason 1:.....

.....

Explanation:.....

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Reason 2:.....

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Explanation:.....

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[6]

- (e) Explain **two** ways (other than lower training costs) that JSF could improve its cash flow position. Which way do you think JSF should use? Justify your answer.

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[6]

- 3 DPC operates 200 takeaway pizza shops. Over 75% of its pizzas are ordered through e-commerce. The Managing Director thinks 2017 was a successful year. She said: 'Looking ahead, there are signs that the economy is growing. However, DPC has a number of challenges. The Government plans to increase the minimum wage to \$5 per hour. DPC has to respond to environmental pressures as well. Food waste and litter caused by used pizza boxes are problems. Complaints from the local community about this are too high.'

(a) Identify **two** ways to measure business success.

Way 1:.....

.....

Way 2:.....

.....

[2]

(b) Identify **two** features of a growing economy.

Feature 1:.....

.....

Feature 2:.....

.....

[2]

(c) Identify and explain **two** ways in which an increase in the minimum wage could affect DPC.

Way 1:.....

.....

Explanation:.....

.....

Way 2:.....

.....

Explanation:.....

.....

[4]

- (d) Identify and explain **two** advantages to DPC of using e-commerce.

Advantage 1:.....

.....

Explanation:.....

.....

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Advantage 2:.....

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Explanation:.....

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[6]

- (e) Explain **two** ways in which DPC could respond to environmental pressures. Recommend which of the two options it should choose. Justify your answer.

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[6]

- 4 JKL uses job production to make clocks. JKL buys all its raw materials locally and exports 60% of its products. The business has high fixed costs. JKL has 30 skilled employees. Many of them work part-time and delegation is encouraged. All workers receive an email from management every day to keep them informed about production issues. The Human Resources Director said: 'I think it is more cost-effective to try to retain our existing workers rather than to recruit new employees.' The Director wants to reduce barriers to communication, as he knows effective communication is important to help JKL meet its objectives.

(a) Identify **two** reasons for a business having objectives.

Reason 1:.....

.....

Reason 2:.....

.....

[2]

(b) Identify **two** fixed costs for JKL.

Cost 1:.....

.....

Cost 2:.....

.....

[2]

(c) Identify and explain **one** advantage and **one** disadvantage to JKL of using job production.

Advantage:.....

.....

Explanation:.....

.....

Disadvantage:.....

.....

Explanation:.....

.....

[4]

- (d) Identify **two** possible barriers to communication for JKL. For each barrier, explain how JKL could reduce or remove it.

Barrier 1:.....

.....

How to reduce or remove it:.....

.....

.....

.....

Barrier 2:.....

.....

How to reduce or remove it:.....

.....

.....

..... [6]

- (e) Do you agree that it is better for JKL to try to retain existing workers rather than recruit new employees? Justify your answer.

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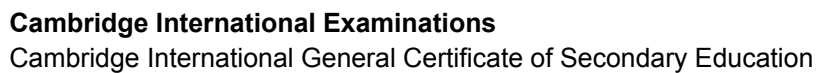
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**0450/13**

**May/June 2018**

**1 hour 30 minutes**

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- 1 Rosa is a successful entrepreneur. Her business makes beauty products that she creates including hand and face creams. She employs 5 production workers and Rosa enjoys being in control of everything else including design and marketing. Rosa uses social networks for promoting the business. She said: 'Increasing added value is important. I am expecting revenue to increase by 300% in 2018. At this rate of growth, I will need a bigger factory. I would like to have customers in other countries so I hope there are no import quotas!' Rosa has to decide whether to continue to expand the business or keep it small.

(a) What is meant by 'import quota'?

.....

.....

.....

..... [2]

(b) Rosa's revenue was \$5000 in 2017. Calculate her expected increase in revenue in 2018.

.....

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.....

..... [2]

(c) Identify and explain **two** ways Rosa could increase added value.

Way 1:.....

.....

Explanation:.....

.....

Way 2:.....

.....

Explanation:.....

..... [4]

- (d) Identify and explain **one** advantage and **one** disadvantage to Rosa's business of using social networks for promotion.

Advantage:.....

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Explanation:.....

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Disadvantage:.....

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Explanation:.....

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..... [6]

- (e) Do you think Rosa should continue to expand her business? Justify your answer.

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..... [6]

- 2 ASZ is a public limited company. It makes a range of garden tools such as digging forks and wheelbarrows using production methods which have not changed for many years. ASZ sells all of its products to a wholesaler. The Marketing Director is considering changing the channel of distribution by selling products directly to retailers. The Operations Director has prepared some revenue and cost data to help make decisions (see Table 1). ASZ is planning to introduce new technology which will change production methods.

**Table 1: Revenue and cost data for Product H for last 6 months**

Revenue	\$35 000
Fixed costs	\$20 000
Total variable costs	<b>X</b>
Total costs	\$38 000
Profit/ (loss)	<b>Y</b>
Number of units produced	1000

- (a) What is meant by 'public limited company'?

.....  
 .....  
 ..... [2]

- (b) Calculate the values for **X** and **Y**.

X:.....  
 Y:..... [2]

- (c) Identify and explain **two** ways in which ASZ could use cost data to help make decisions.

Way 1:.....  
 .....

Explanation:.....  
 .....

Way 2:.....  
 .....

Explanation:.....  
 ..... [4]

- (d) Identify and explain **two** ways in which new technology could change production methods at ASZ.

Way 1:.....

.....

Explanation:.....

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Way 2:.....

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Explanation:.....

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..... [6]

- (e) Do you think ASZ should change its channel of distribution? Justify your answer.

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..... [6]

- 3 AUC is a bank. Its organisational structure has a tall hierarchy and long chain of command. Most of its customers are small businesses in the tertiary sector. Last year AUC made a loss of \$60m. The new Managing Director has to improve employee motivation as well as reduce costs. 20% of its 19 000 employees will be made redundant. She said: 'Maintaining customer loyalty is important. We will need to inform our customers that 500 of our 2000 retail bank branches will be closed.'

(a) What is meant by 'chain of command'?

.....

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.....

.....

[2]

(b) Identify **two** examples of business activity in the tertiary sector.

Example 1:.....

Example 2:.....

[2]

(c) Identify and explain **two** reasons why maintaining customer loyalty is important to AUC.

Reason 1:.....

.....

Explanation:.....

.....

Reason 2:.....

.....

Explanation:.....

.....

[4]

- (d) Identify and explain **two** factors that AUC should consider when deciding which employees to make redundant.

Factor 1:.....

.....

Explanation:.....

.....

.....

.....

Factor 2:.....

.....

Explanation:.....

.....

.....

..... [6]

- (e) Explain **two** methods of communication that AUC could use to inform customers about the planned closures. Recommend which one AUC should use. Justify your answer.

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..... [6]

- 4 CLG owns six airports in country L. The directors want to expand its main airport by building another runway for aircraft to take off and land. It will cost \$300m. Choosing an appropriate source of finance will be important. The Managing Director said: 'CLG could offer 50 extra flights a day. There are environmental pressures including the loss of green spaces and extra pollution. There will be external benefits as well. I hope the Government allows the new runway to be built.' Interest rates increased in 2017.

**Table 2: Extract from financial data 2017 (\$m)**

Non-current assets	350
Non-current liabilities	230
Shareholders' equity	240

- (a) What is meant by 'shareholder'?

.....

.....

.....

..... [2]

- (b) Identify **two** reasons why a business might need short-term finance.

Reason 1:.....

.....

Reason 2:.....

..... [2]

- (c) Identify and explain **two** ways increased interest rates could affect CLG.

Way 1:.....

.....

Explanation:.....

.....

Way 2:.....

.....

Explanation:.....

..... [4]



- (d) Identify and explain **two** factors (other than interest rates) that CLG should consider when choosing a source of finance to pay for the expansion.

Factor 1:.....

.....

Explanation:.....

.....

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Factor 2:.....

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Explanation:.....

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..... [6]

- (e) Considering the external costs and external benefits, do you think the Government should allow CLG to build the new runway? Justify your answer.

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..... [6]

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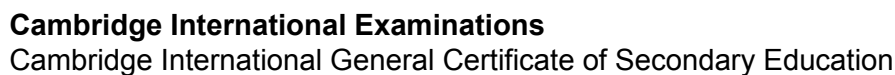
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## 0450/21

May/June 2018

**1 hour 30 minutes**

Candidates answer on the Question Paper.

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**CAMBRIDGE**  
International Examinations

- 1 (a) Identify and explain **two** ways a business plan could have helped Peter when setting up Value Gym.

Way 1:.....

.....

Explanation:.....

.....

.....

.....

.....

.....

Way 2:.....

.....

Explanation:.....

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[8]

- (b) Consider the following **three** roles of marketing in Peter's business. Which one of these is the most important role? Justify your answer.

Identify customer needs:.....

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Satisfy customer needs:.....

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Build customer relationships:.....

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Conclusion:.....

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[12]

- 2 (a) Identify and explain **four** reasons why making a profit is important to Peter.

Reason 1:.....

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Explanation:.....

.....

Reason 2:.....

.....

Explanation:.....

.....

Reason 3:.....

.....

Explanation:.....

.....

Reason 4:.....

.....

Explanation:.....

.....

[8]



- (b) Peter is considering the following **two** options. Recommend which option he should choose. Justify your answer.

Employ his own personal trainers:.....

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.....

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.....

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.....

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Charge a fixed fee to personal trainers who work for themselves to use VG's facilities with their clients:

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Recommendation:.....

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[12]

- 3 (a) Identify and explain **two** legal controls that could affect Peter when recruiting and employing workers.

Legal control 1:.....

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Explanation:.....

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Legal control 2:.....

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Explanation:.....

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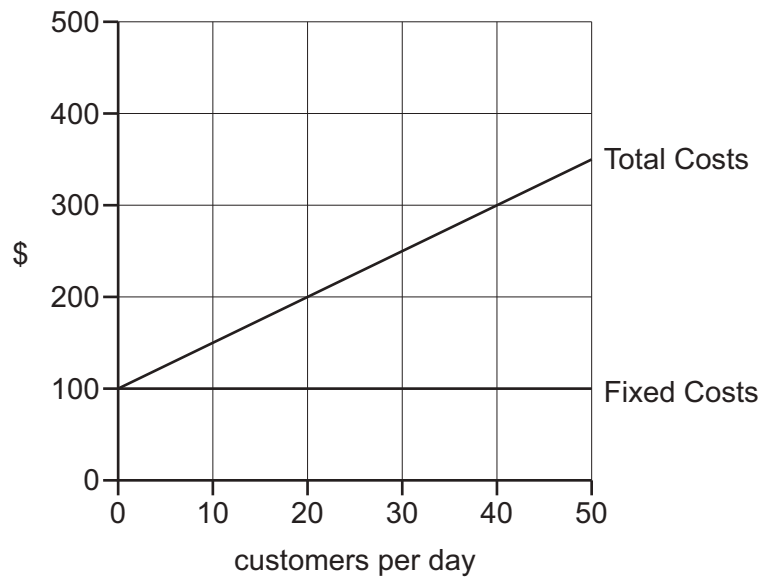
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[8]

- (b) (i) Refer to Appendix 2. Complete the break-even chart below by drawing the Total Revenue line.



[1]

- (ii) Identify the break-even number of customers per day.

..... [1]

- (iii) Consider the following **two** ways Peter could use to try to increase profit. Recommend which way he should choose. Justify your answer.

Increase prices:.....

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.....

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Reduce variable costs:.....

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Recommendation:.....

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[10]

- 4 (a) Identify and explain **one** advantage and **one** disadvantage of leasing all the equipment used in the business.

Advantage:.....

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Explanation:.....

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Disadvantage:.....

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Explanation:.....

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[8]

- (b) Consider how the following **three** changes will affect VG. Which one will have the biggest effect on the business? Justify your answer.

A multinational chain of luxury gyms recently set up in country X:.....

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There is an increased proportion of elderly people in the population:.....

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Interest rates have increased:.....

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Conclusion:.....

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[12]

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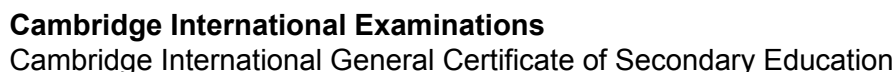
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## 0450/22

May/June 2018

**1 hour 30 minutes**

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**CAMBRIDGE**  
International Examinations

- 1 (a) Refer to Appendix 1. Identify and explain Hilda's span of control and DH's chain of command.

Hilda's span of control:.....

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DH's chain of command:.....

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[8]

- (b) Consider **three** methods Hilda could use to communicate with her employees. Recommend which method she should choose if she needs an employee to work late tonight. Justify your answer.

Method 1:.....

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Method 2:.....

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Method 3:.....

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Recommendation:.....

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[12]

2 (a) Explain the externalities of each of the following:

External cost of large amounts of litter left on the beach:.....

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External benefit of a new motorway from Main City to Downtown:.....

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[8]

- (b) Consider each of the following business objectives for DH. Which one do you think should be the most important objective for DH in the long run? Justify your answer.

Higher market share:.....

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.....

.....

.....

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Profit:.....

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Survival:.....

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Conclusion:.....

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[12]

- 3 (a) Identify and explain **four** economies of scale DH could benefit from when it takes over a competitor.

Economy of scale 1:.....

Explanation:.....

.....

.....

Economy of scale 2:.....

Explanation:.....

.....

.....

Economy of scale 3:.....

Explanation:.....

.....

.....

Economy of scale 4:.....

Explanation:.....

.....

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[8]

- (b) Consider the advantages and disadvantages of the **two** businesses Hilda could take over. Recommend which business Hilda should take over. Justify your answer.

ABC Hotel:.....

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.....

.....

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XYZ Hotel:.....

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Recommendation:.....

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[12]

- 4 (a) Identify and explain **two** reasons why cash flow forecasting is important to Hilda.

Reason 1:.....

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Explanation:.....

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Reason 2:.....

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Explanation:.....

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[8]



- (b) Consider how each of the following changes could affect DH. Which change is likely to have the biggest impact on the profit of DH? Justify your answer.

Increase in the number of tourists from other countries:.....

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Government of country X reduces income tax:.....

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Fewer people demanding coach holidays:.....

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Conclusion:.....

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[12]

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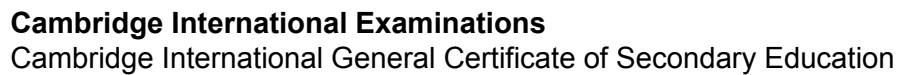
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**0450/23**

**May/June 2018**

**1 hour 30 minutes**

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**CAMBRIDGE**  
International Examinations



- 1 (a) Identify and explain **four** characteristics that have made the two partners successful entrepreneurs.

Characteristic 1:.....

Explanation:.....

.....

.....

Characteristic 2:.....

Explanation:.....

.....

.....

Characteristic 3:.....

Explanation:.....

.....

.....

Characteristic 4:.....

Explanation:.....

.....

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[8]

- (b) Consider the advantages of working for AH and the advantages of working for BB Heating. Recommend whether AH employees should apply to work for BB Heating. Justify your answer.

Working for AH:.....

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Working for BB Heating:.....

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Recommendation:.....

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[12]

- 2 (a) Identify and explain **one** advantage and **one** disadvantage to AH of being a business partnership rather than a private limited company.

Advantage:.....

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Explanation:.....

.....

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Disadvantage:.....

.....

Explanation:.....

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[8]



- (b) Consider the advantages and disadvantages of the **two** locations for AH. Recommend which location should be chosen. Justify your answer.

Location A:.....

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Location B:.....

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Recommendation:.....

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[12]

3 (a) Calculate for 2017:

(i) Gross profit margin.....  
.....  
.....  
..... [2]

(ii) Profit margin.....  
.....  
.....  
..... [2]

(iii) Explain why these profitability ratios have changed between 2016 and 2017.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
..... [4]

- (b) Consider the effects of the following **three** changes in legal controls on AH. Which change is likely to have the biggest impact on AH? Justify your answer.

Heating engineers must now have health and safety qualifications:.....

.....

.....

.....

.....

.....

.....

Employees are now protected against unfair dismissal:.....

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Increase in the minimum wage:.....

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Conclusion:.....

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..... [12]

- 4 (a) Refer to Appendix 3. Identify and explain how the change in the exchange rate could affect:

AH:.....

.....  
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.....  
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.....  
.....

AH's customers:.....

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[8]

- (b) Consider the following **three** methods of promotion AH could use for its new service. Recommend the best method of promotion for AH. Justify your answer.

Hand out fliers in the street:.....

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Email existing business customers:.....

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Billboard adverts by the side of main roads:.....

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Recommendation:.....

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[12]

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