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Grade thresholds – November 2017

Cambridge IGCSE Business Studies (0450)

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

		minimum raw mark required for grade:						
	maximum raw mark available	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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1 hour 30 minutes

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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^2	5000 m^2	1000 m^2
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 $5000.	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

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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 10 000 m^2 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 6000 m^2 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 2000 m^2 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.

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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 $20 000. This building is located in a high-income part of the city and Stella thinks she can increase prices at this nursery.

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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

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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

Published

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

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Question	Answer	Marks	Guidance
1(a)	**Identify two characteristics of a successful entrepreneur.** Knowledge [2 × 1] – award 1 mark for each relevant characteristic 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	**2**	Award any reasonable answer.
1(b)	**Identify two possible reasons why Ella plans to produce the lights in another country** Application: [2 × 1] award 1 mark for each relevant reason Points might include: • lower costs • no local factory or capacity to make it • access to materials • Fewer restrictions	**2**	
1(c)	**Identify and explain two reasons why obtaining finance might be difficult for Ella's business.** Knowledge [2 × 1] – award 1 mark for each relevant reason Application [2 × 1] – award 1 mark for each explanation in context Possible points might include: • No business experience [k] of making lights [app] • Seen as higher risk OR don't trust her OR can't repay [k] as just left college [app] • Can offer no security [k] • May not have a business plan OR documentation to support request for finance [k] • Unproven product [k]	**4**	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.

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Question	Answer	Marks	Guidance
1(d)	**Identify and explain one advantage and one disadvantage to Ella of using price skimming.** 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 Points might include: Advantages: • Recover costs quicker [k] as need to sell fewer than 300 [app] to pay for development [an] • Gives the image of a quality product [k] which can attract wealthy customers [an] to try out the new light [app] • Higher revenue **per item**[k] • Break even at a lower output [k] Disadvantages: • Put off some potential customers [k] leading to lower sales [an] • Only work in short term [k] as competitors could produce cheaper alternatives [an]	**6**	Application marks may be awarded for appropriate use of the following: just left college, light, new business, new product, new entrepreneur, produce in another country, raising finance difficult, correct use of numbers, safety features Note: be wary of 'higher sales'/ 'higher revenue' as a K point. It must be per unit
1(e)	**Recommend which promotion option Ella should choose. Justify your answer using the information in Table 1.** 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 Points might include: • Option 2 is cheaper [k] as is $200 less than option 1[app] + [an] • Ella can't afford much advertising [k] as a new business [app] she can't afford a website [an] • Specialist magazine reaches the target market [k] for bicycle lights [app] therefore likely to sell more [an] • Website may not be required [k] already has an order for 300[app]	**6**	Application marks may be awarded for appropriate use of the following: just left college, light, new business, produce overseas, raising finance difficult, price skimming, correct use of numbers, magazine, website Either option is acceptable if justified. **Note: $250 is incorrect** as this is an incorrect calculation of the difference between the cost of a website with and without online ordering

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Question	Answer	Marks	Guidance
2(a)	**What is meant by 'productivity'?** 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] Some understanding [1] e.g. output per worker OR measure of efficiency OR rate at which they produce goods	**2**	
2(b)	**Identify two reasons why a business might need working capital.** Knowledge [2 × 1] award one mark per reason • Paying invoices/bills • Day to day expenses • Buying raw materials • Paying wages • Paying salaries • Paying rent • Re-payment of short term debts • Paying utilities • Use in an emergency • Evidence to support requests for finance	**2**	
2(c)	**Calculate the following values shown on the cash flow forecast.** Application [4] award one mark per correct answer **W**: 5 or 5000 **X:** 75 or 75 000 **Y:** 5 or 5000 **Z:** (10) or (10 000) Note: **Z** must be shown as a negative number to be credited.	**4**	Note: answers can be written on the cash flow forecast or in the space provided **Do not** use OFR as no wage calculation is required.

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Question	Answer	Marks	Guidance
2(d)	**Identify and explain one advantage and one disadvantage to NMBJ of having a low level of inventory.** 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 Possible points might include: Advantages: • Lower inventory holding costs [k] help reduce variable costs [an] • Lower security OR rent costs OR insurance [k] as less space needed [an] for ingredients [app] • More flexible [k] as adapt to each different batch [app] to keep customers returning [an] • Help cash flow [k] • Less risk of waste OR damage OR obsolescence [k] which could lower productivity [app] Disadvantages: • Possible delays in production [k] as batches delayed [app] leading to lower output [an] • Few OR no purchasing economies of scale [k] which could help reduce cash outflows [app] • Not able to meet orders [k] for cookies [app] so could damage reputation [an]	**6**	Application marks may be awarded for appropriate use of the following: cookies/biscuits, related words such as ingredients or examples, productivity, use of numbers, batch production, $1.5 million. Note: Points can refer to raw materials or finished goods.

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Question	Answer	Marks	Guidance
2(e)	**Do you think paying higher wages is the best way for NMBJ to improve employee motivation? Justify your answer.** 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 Points might include • Only a short term incentive [k] have to pay, whatever the output [an] • Money is the main motivator [k] • Other ways to motivate e.g. job rotation, enrichment, fringe benefits [k] • Help retain workers [k] so not as many people leave [app] leading to lower recruitment costs [an] • This will increase costs for the business [k] by $15 000 per month [app] so output per worker would need to rise [an]	**6**	Application marks may be awarded for appropriate use of the following: correct use of numbers, batch production, cookies or related words such as ingredients; workers leave, profits increased, 1.5 million, increased productivity Candidates could calculate value of wages per worker (to show increase i.e. $200 to $250) App and AN 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

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

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Question	Answer	Marks	Guidance
3(b)	**What is meant by 'autocratic leadership style'?** 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] Some understanding: [1] workers have no say in decisions OR decisions made by managers [1]	**2**	
3(c)	**Identify and explain one advantage and one disadvantage of GDC's organisational structure.** Knowledge [2 × 1] award 1 mark for one advantage and one disadvantage identified Application [2 × 1] award 1 mark for each explanation in context Advantages • Employees have a clearly defined role [k] so know where they fit into delivery process [app] • Clear chain of command OR know their manager [k] so know who to ask for help if problem with a parcel [app] • Employees have a clear career structure [k] so can see how to progress from driver [app] • Specialists can be employed [k] Disadvantages • Slow communication [k] due to many number of levels [app] • Heavy workload for managers [k] so do they have time to focus on expansion [app] • Communication between departments can be difficult [k] which could damage its good reputation [app] • Can create rivalry between departments [k] • Workers can feel isolated [k]	**4**	Application marks may be awarded for appropriate use of the following: 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.

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Question	Answer	Marks	Guidance
3(d)	**Identify and explain two reasons why a good reputation might be important to GDC.** 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 Points might include: • Build trust OR loyalty [k] so customers want to use their delivery services [app] and keep purchasing from them [an] • Attract new customers [k] and therefore sales will increase [an] • Easier to raise finance [k] which could help growth plans [app] • Way to attract OR retain employees [k] so able to offer a good service [an] • Can charge higher prices [k] for each delivery [app] helping it increase revenue per unit [an] • Create brand awareness [k] so customers do not buy from competitors [an] in this competitive market [app] • Word of mouth promotion [k]	**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)	**Recommend the most suitable way for GDC to expand its business to another country. Justify your answer.** 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. Relevant points might include: • Joint venture [k] with a local delivery business [app] you share the risks of expansion [an] • Merger/takeover [k] they will benefit from local expertise [an] • Franchise [k] they will receive a license fee [an] • Set up own operations [k] they will keep control [an] however this is an expensive way [an]	**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.

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Question	Answer	Marks	Guidance
4(a)	**What is meant by a 'stakeholder group'?** Clear understanding [2]: any person or people with a direct interest in the performance and activities of a business Some understanding [1]: someone affected by what a business does	**2**	Do not award examples.
4(b)	**Identify two ways (other than legal controls) that a government might use to influence business decisions.** Knowledge [2 × 1] award one mark per way Points might include: • cheaper rents • loans OR grants OR subsidies • training • interest rates • taxation • build infrastructure	**2**	

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Question	Answer	Marks	Guidance
4(c)	**Identify and explain one advantage and one disadvantage of CHONS being a public limited company.** Knowledge [2 × 1] award one mark for each advantage and disadvantage Application [2 × 1] award one mark for each relevant reference to this business Advantages: • Able to sell shares on stock market [k] so no limit to potential number of shareholders [app] • Access to more sources of finance [k] so do not have to ask for support from Government [app] • Limited liability [k] • Separate legal identity [k] of mining business and owners [app] • Better status OR seen as lower risk [k] so suppliers more willing to offer credit [app] Disadvantages: • Have to disclose accounts [k] so less able to keep expansion plans secret [app] • Many legal requirements/regulations [k] • Selling shares expensive [k] • Risk of loss of control [k] for the original shareholders [app]	**4**	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.

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Question	Answer	Marks	Guidance
4(d)	**Identify and explain two ways in which legal controls might affect CHONS.** 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 Points might include: • Need to provide safety equipment [k] such as helmets for miners [app] increasing costs [an] • Limit working hours [k] so cannot obtain 50 m tonnes [app] • Minimum wages [k] so cannot afford to create 10 000 jobs [app] • Pollution restrictions/permits [k] as coal burning could damage environment [app] so stakeholders become unhappy [an] • Where business is located [k] as need Government to allow mine to be built [app] without it they cannot start operations [an] • Restrictions on what OR how much can be produced [k] • Increase costs [k] • Banning/restricting exports [k] CHONS would not be able to operate because they are planning to export [an] coal [app] • Banning/restricting imports [k]	**6**	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

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Question	Answer	Marks	Guidance
4(e)	**Do you think the Government should allow CHONS to open the coal mine? Justify your answer using the information in Table 3.** 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 Points might include: • Jobs created [k] for 10 000 people [app] so more money to spend in community [an] • Use up local coal [k] as plan to export it all [app] • Impact on environment [k] • Traffic problems created [k] which could discourage people OR other businesses setting up in area [an] • Other businesses will benefit [k] e.g. Suppliers [app]	**6**	Application marks may be awarded for appropriate use of the following: no government support, correct use of data from table, export, high unemployment, protect the environment, PLC, suppliers, shareholders, traffic Either viewpoint is acceptable Do not award reference to coal mine as application as stated in question.

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

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Question	Answer	Marks	Guidance
1(c)	**Identify and explain two ways in which break-even information could help FlyAway.** Knowledge [2 × 1] – award 1 mark for each relevant way Application [2 × 1] – award 1 mark for each explanation in context Possible points might include: • Shows the expected level of profit OR loss at different levels of output [k] to show which routes to expand or cut [app] • Shows the margin of safety [k] if sell over 70 OR 90 tickets [app] • Helps planning OR forecasting OR decision making [k] about passenger numbers [app] • Can see what will happen if costs OR prices change [k] to see if should close its (ticket) shops [app] • Help apply for finance [k]	**4**	Application marks may be awarded for appropriate use of the following: • passengers • (ticket) shops OR website OR e-commerce • routes • extra for luggage and food • airlines • flights OR trip • correct use of numbers • competitive market • bookings or tickets • low cost (airline) **Do not** award points such as shows costs OR sales OR revenue OR profit on own as too vague. **Do not** 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.

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Question	Answer	Marks	Guidance
1(d)	**Identify and explain two ways in which FlyAway could improve customer service.** Knowledge [2 × 1] – award 1 mark for each way identified Application [2 × 1] – award 1 mark for each relevant reference made to this business Analysis [2 × 1] – award 1 mark for each relevant explanation Possible points might include: • Training [k] so that employees know what to do [an] in case of any problems on route [app] • Seek feedback e.g. carrying out surveys [k] about the airline [app] to help improve customer loyalty [an] • Set OR enforce clear standards OR use Quality Assurance [k] to ensure that employees provide a consistent service [an] • Recruit suitable OR knowledgable employees [k] to work in its shops [app] so can provide a quicker service to customers [an] • Treat employees well OR motivate employees [k] so want to help its passengers [app] • Handle complaints OR queries quickly [k] • Open more outlets in cities [k] to sell tickets [app] so more convenient to buy for customers [an] • better communication [k] e.g. text if flights are delayed [app]	**6**	Application marks may be awarded for appropriate use of the following: • passengers • (ticket) shops OR website OR e-commerce • routes • airlines • flights OR trip • correct use of numbers • competitive market • bookings or tickets • break-even • low cost (airline) **Do not** 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

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Question	Answer	Marks	Guidance
1(e)	**Do you think FlyAway should use only e-commerce? Justify your answer.** 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 whether FlyAway should use only e-commerce. Relevant points might include: • Less labour OR rent needed [k] so reduced costs [an] which lower break-even [app] • Will need **more** employees with technical skills [k] to run website [app] which will add to recruitment costs [an] • Security issues e.g. risk of fraud OR hacking OR problems if system does not work [k] • Not everyone has access to internet or is willing to use internet [k] • Cannot attract passing trade [k] without a shop [app] • Harder to stand out against competitors [k] as it is a competitive market [app] so less able to attract potential customers [an] • Most people prefer to buy via internet [k]	**6**	Application marks may be awarded for appropriate use of the following: • passengers • (ticket) shops OR website • routes • extra for luggage and food • airline • flights OR trip • correct use of numbers • competitive market • bookings or tickets • break-even • low cost (airline) Points must be from viewpoint of business **not** employees or customers e.g. customer convenience [TV] unless explain how this is a benefit (or not) to the business **Do not** 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

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Question	Answer	Marks	Guidance
2(a)	**Identify two advantages of specialisation.** Knowledge [2 × 1] – award 1 mark for each relevant advantage Points might include: • Increased output OR quicker production OR increased productivity OR higher efficiency • lower **unit** cost OR economies of scale • Workers become expert OR more skilled OR focus on what they are good at • Improved accuracy OR better quality OR fewer mistakes OR reduced waste • Help improve competitiveness	2	**Do not** award answers related to a niche market, e.g. able to charge higher price as this is not necessarily true of specialisation in general. **Do not** award answers such as motivate, better reputation, specialised as too vague **Do not** award reduced training costs on its own unless explained
2(b)	**What is meant by 'external cost'?** Clear understanding [2] impact paid for by the rest of society [1] as a result of business actions [+1] OR Costs or disadvantages that fall on third parties that is one not directly involved in the production process [2] Some understanding [1] costs society has to pay	2	**Do not** award examples on own as does not explain the term Some understanding plus example can be awarded two marks **Do not** award 'harms environment' as this is too vague

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Question	Answer	Marks	Guidance
2(c)	**Identify and explain two ways in which CGM could try to protect the environment.** Knowledge [2 × 1] – award 1 mark for each relevant way Application [2 × 1] – award 1 mark for each explanation in context Possible points might include: • Create less waste [k] by changing way make shoes [app] • Change materials used OR use sustainable resources [k] so reduce external costs [app] • Use less materials OR less packaging [k] • Use less energy OR renewable energy [k] by buying new technology [app] • Buy local [k] reducing distance travelled for raw materials [app] • Dispose of waste responsibly [k] • Recycle [k] any leftover leather [app] • Raise awareness of environmental issues [k] • Develop environmentally friendly products [k] • Use environmentally friendly machinery OR production methods OR examples e.g. fit filters or create less smoke or create less noise [k] • Reuse [k]	**4**	Application marks may be awarded for appropriate use of the following: • shoes • raw materials or examples such as leather or sewing or dye or laces • specialisation • external cost • job production • niche market • new technology • High quality (product) Buy new technology is [app] and cannot be awarded as [k] **Do not** award 'reduce pollution' as this is too vague. Must explain a way that this could be achieved e.g. reduce noise

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Question	Answer	Marks	Guidance
2(d)	**Identify and explain one advantage and one disadvantage to CGM of using job production.** 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 Possible points might include: Advantages: • Meet exact customer demands OR unique [k] so able to charge higher price [an] in a niche market [app] • Flexible [k] which can help them remain competitive [an] in the shoe market [app] • More varied work leads to higher motivation [k] leading to fewer workers leaving OR less absenteeism [an] • Skilled workers are less likely to make mistakes [k] Disadvantage: • Skilled labour costs more [k] as employ 30 employees [app] which increases labour OR training costs [an] • Production can take longer [k] for a high quality product [app] which reduces (potential) output [an] • No economies of scale possible [k] when buying raw materials [app] leading to higher costs [an] • Costs are higher as it is often labour intensive [k] • Products are made to order so mistakes can be expensive to correct [k]	**6**	Application marks may be awarded for appropriate use of the following: • shoes • raw materials or examples such as leather or sewing or dye or laces • specialisation • external cost • niche market • new technology • want to increase profit • 30 or 26 employees • $30 000 • High quality (product)

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Question	Answer	Marks	Guidance
2(e)	**Do you think CGM should introduce new technology into the production process? Justify your answer.** 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 whether CGM should introduce new technology into the production process Relevant points might include: • High cost of equipment or retraining [k] at $30 000 [app] which business might not be able to afford [an] • Ensure **consistent** quality [k] as machines do not need to rest [an] • Using cheaper raw materials puts quality at risk [K+APP] • Increased output OR quicker production OR increased productivity [k] reducing unit costs [an] so able to increase profit [app] • Impact on motivation of employees [k] e.g. as jobs will go from 30 to 26 [app] as work could become less interesting [an] • workers may struggle to adapt OR resist new training [k] slowing production OR decreasing productivity [an] • Risk to reputation [k] in this niche market [app] could lead to fewer sales [an] • Risk of job insecurity [k] could lead to other workers leaving as well [an] • Fewer employees needed [k] as 4 less [app + an] so lower labour costs [an]	**6**	Application marks may be awarded for appropriate use of the following: • shoes • **cheaper** raw materials or examples such as leather or sewing or dye or laces • specialisation • external cost • job production • niche market • **want to** increase profit • 30 or 26 employees • $30 000 • High quality (product) Note: Points can refer to business or employees Note productivity can be K or An, but do not award twice **Do not** award answers which discuss different production methods

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Question	Answer	Marks	Guidance
3(a)	**Identify two main parts (other than finance) of a business plan** Knowledge [2 × 1] award one mark per part Points might include: • Executive summary • Business aims OR targets OR vision statement • Marketing OR any element of mix e.g. pricing, product, place or promotion • Market research OR Competition • Human resources OR number of employees OR skills needed • Production details OR break even • Organisational and management details e.g. structure, type of business, name and location of business	**2**	**Do not** award answers such as sales, wages, costs, number of resources as these are too vague
3(b)	**What is meant by 'non-current assets'?** Clear understanding [2]: e.g. resources owned by business to use for more than one year Some understanding [1]: e.g. things that are owned OR last for more than a year	**2**	Some understanding plus example e.g. buildings can gain 2 marks **Do not** award 'fixed asset' as this is an alternative term for non-current assets **Do not** award examples on own as does not explain the term **Do not** award long time/long term as too vague
3(c)(i)	**Calculate the current ratio as at 30 September 2017.** Good application [2]: Correct answer 1.5 (times) OR 1.5:1 OR 3:2 Some understanding [1] correct formula OR 60/40	**2**	

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

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Question	Answer	Marks	Guidance
3(d)	**Identify two possible problems for Yanis if he expands his business. Explain what he might do to overcome each problem.** Knowledge [2 × 1] – award 1 mark for each problem identified Application [2 × 1] – award 1 mark for each relevant reference made to this business Analysis [2 × 1] – award 1 mark for each relevant solution to the problem identified Possible points might include: • Access to finance [k] so could ask the bank for a loan to help purchase [an] his new restaurant [app] • Cash flow problems OR lack of working capital [k] as need to buy additional ingredients [app] so try to arrange higher credit limit [an] • Need to recruit more workers [k] so needs to decide on a suitable way to advertise vacancies [an] such as catering magazines [app] • Communication problems [k] could hold regular meetings to keep everyone informed OR involved [an] with his chefs or serving staff [app] • Competition or lack of demand [k] so could use promotions [an] • Government OR legal controls [k] so may ask for legal advice to check he is not breaking any laws [an] when selling food [app] • Ability to manage or control two locations [k] so could recruit a manager [an] to oversee the second restaurant [app] • Having a consistent quality [k]	**6**	Application marks may be awarded for appropriate use of the following: • kitchen • restaurant • correct use of numbers • 4 (chefs) or 6 workers or 10 in total • skilled • many workers leave • no bonuses • part time contract, • high hourly rate • business plan • city centre **Do not** award solutions without an appropriate problem having been identified in the response **Do not** award effects of the problem – answer must focus on how to overcome the problem **Note:** Problems must refer to expansion not his current situation e.g. his current workers leave

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Question	Answer	Marks	Guidance
3(e)	**Do you think Yanis should change the way he motivates his chefs? Justify your answer.** 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 whether Yanis should change the way he motivates his chefs Relevant points might include: • Depends on reason why people are leaving [k] as only a part-time contract [app] • Little incentive with current method to work harder [k] as no bonuses [app] • May not be able to afford alternative methods [k] as planning to open another restaurant [app] • Workers may expect high wages [k] as skilled [app] • Current system offers flexibility to employees [k] • Could offer bonuses [k] which increases costs [an] so may not be able to afford to expand [an] • Increase hours [k] • Offer job rotation [k] so there is more variety [an]	**6**	Application marks may be awarded for appropriate use of the following: • kitchen • restaurant, • correct use of numbers • 4 (chefs) • skilled • many workers leave • **no** bonuses • part time (contract) • high **hourly** rate **Do not** award **chefs** as application as stated in question. 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. **Do not** award answers which discuss advantages of motivated workforce, e.g. increased productivity, work harder, better quality as this is not the question set.

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Question	Answer	Marks	Guidance
4(a)	**Identify two reasons why markets can become more competitive.** Knowledge [2 × 1] award 1 mark for each reason identified Points might include: • globalisation • developments in technology such as internet, social media • improvements in transport links • lower barriers to entry e.g. government intervention or changes to legal controls OR free trade • more businesses enter the market OR more products	2	**Do not** award answers which explain ways of competing e.g. more competitive prices, more advertising
4(b)	**Identify two methods of training that a business might use.** Knowledge [2 × 1] award 1 mark for each method identified Possible methods are: • on-the-job, • off-the-job • induction	2	**Do not** award descriptions of methods e.g. watching someone do the work

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Question	Answer	Marks	Guidance
4(c)	**Identify and explain two ways in which higher taxation might affect VIS.** Knowledge [2 × 1] – award 1 mark for each relevant way Application [2 × 1] – award 1 mark for each explanation in context Possible points might include: • Reduced demand OR lower sales [k] for insurance [app] • Increased costs OR lower profit [k] so less money for training [app] • May have to increase prices [k] leading to more customer complaints [app] • Might decide to relocate or stop selling some products [k] especially as some markets have become more competitive [app] • Delay plans to expand [k]	**4**	Application marks may be awarded for appropriate use of the following: • insurance • more competitive market, • retained profits decrease • customer complaints • need training **Do not** award cars or electrical products as app as they do not sell these products

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Question	Answer	Marks	Guidance
4(d)	**Identify and explain two advantages to VIS of changing its organisational structure.** Knowledge [2 × 1] – award 1 mark for each advantage 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 Possible points might include: • Improved communication [k] could reduce (customer) complaints [app] leading to better reputation OR as fewer levels in hierarchy [an] • Lower labour costs [k] as fewer regional managers [app] reducing its expenses [an] • Managing Director OR Senior managers are less remote [k] so more aware of issues [an] which may be helpful in competitive market [app] • 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] • Quicker decision making [k]	**6**	Application marks may be awarded for appropriate use of the following: • insurance • retained profit decrease • customer complaints increased • regional managers or regional directors • shorter chains of command **Do not** award cars or electrical products as app as they do not sell these products 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

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Question	Answer	Marks	Guidance
4(e)	**Recommend the best method of communication VIS should use to inform employees about the changes to its organisational structure. Justify your answer.** Knowledge [1] – award 1 mark for identification of relevant method(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 the best method of communication for VIS to use to inform employees about the changes to its organisational structure Relevant methods might include: • Letter [k] which can be kept for future reference [an] • Meeting [k] as able to ask questions [an] but some might not go [an] • Email [k] can be sent to everyone at the same time [an] but some people may not read it [an] • Phone call [k] as it allows feedback [an] • Text (SMS) [k] OR mobile phone [k] • Notice on office board [k] • Notice on website [k] OR social media [k]	**6**	Application marks may be awarded for appropriate use of the following: • insurance • retained profit decrease, • customer complaints increased • regional managers or regional directors • shorter chains of command **Do not** award cars or electrical products as app as they do not sell these products **Do not** award verbal or written or visual communication, or face to face as not classed as a method. **Do not** award answers relating to cost or speed as [an] unless explained Candidates can discuss one method in detail or compare different methods

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Cambridge Assessment International Education
Cambridge International General Certificate of Secondary Education

BUSINESS STUDIES **0450/13**

Paper 1 Short Answer/Structured Response **October/November 2017**

MARK SCHEME

Maximum Mark: 80

Published

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Question	Answer	Marks	Guidance
1(a)	**What is meant by 'quality assurance'?** Clear understanding [2] – checking for quality standards [1] throughout production process OR every stage [1] Some understanding [1] – e.g. checking work done	**2**	**Do not** award answers such as 'check at end' OR 'check end product' as this defines quality control **Do not** award explanations of why it is done e.g. manufacturer wants product to be perfect
1(b)	**Calculate the value of X from Table 1.** Good application: [2] correct answer i.e. 9 (engines) Some application: e.g. total output/number of employees OR 1260 / 140	**2**	
1(c)	**Identify and explain <u>two</u> ways the Government might help HGH become more competitive.** Knowledge [2 × 1] – award 1 mark for each relevant way [max 2] Application [2 × 1] – award 1 mark for each explanation in context Reasons might include: • Import quotas [k] to limit number of engines [app] • Import tariffs [k] as it is facing increased competition from imports [app] • Reduce rent OR rates [k] so easier to pay high energy costs [app] • Change legal controls OR examples such as lower minimum wage or quality standards [k] so rivals have to think about quality assurance [app] • Offer grants OR subsidies OR cheap finance OR loans [k] so can update machinery OR operations in its factories [app] • Offer advice [k] • Provide training [k] • Lower tax [k] • Provide infrastructure e.g. build more roads [k]	**4**	Application marks may be awarded for appropriate use of the following: • correct use of data from table 1, • trade union membership • labour productivity • rent • engines • quality assurance • (high) energy costs • 30% decrease in profit • factory • increased competition OR competition from imports

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Question	Answer	Marks	Guidance
1(d)	**Identify and explain <u>one</u> advantage and <u>one</u> disadvantage to HGH of using batch production.** Knowledge [2 × 1] – award 1 mark for an advantage and disadvantage identified Application [2 × 1] – award 1 mark for each relevant reference made to this business Analysis [2 × 1] – award 1 mark for each relevant explanation Relevant points might include: Advantage: • Flexible [k] easier to change engines made [app] to better meet customer demands [an] • Some economies of scale [k] when buying parts for factory [app] which can help reduce average costs [an] • Less impact if machinery breaks down [k], so other stages can continue OR some output made [an] • Spread risk as can make more than one type of product [k] • Variety of products [k] could lead to more sales [an] • Some variety in work can motivate workers [k] leading to less absenteeism [an] Disadvantage: • Time lost switching OR resetting machines between batches [k] could lead to lost output [an] • Added cost of moving or storing semi-finished goods [k] • Inventory may be sitting around between stages [k] increasing costs [an] so profit may decrease by more than 30% [app] • One fault could affect entire batch [k] increasing waste [an]	**6**	Application marks may be awarded for appropriate use of the following: • correct use of data from Table 1 • trade union membership • labour productivity • rent of site • engines • increased competition OR competition from imports • quality assurance (is important) • high energy costs • factory Note: business makes engines, not the whole truck **Do not** award 'motivated' or 'demotivated' as knowledge, unless explained. The analysis must explain the impact on the business e.g. less workers leave. **Do not** award answers such as variety of work or economies of scale, unless qualified OR compared to other method of production. **Do not** award knowledge mark for reference to whole production as this implies flow. Answer must relate to idea of it being semi-finished or between stages to be awarded.

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Question	Answer	Marks	Guidance
1(e)	**Recommend which factory HGH should close. Justify your answer using the information in Table 1.** 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. Relevant points might include: • Rent lower for factory 1[k] saving $100 000 each month [app+an] • Productivity in factory 2 is higher [k] by 12.5% higher [app+an] • Trade union action could create negative publicity [k] as factory 1 has high number of members [app], damaging reputation [an] • Current level of output higher in factory 2 [k] by 60 units per month [app+an] • Fewer jobs lost if close factory 2 [k] as 10 fewer employees [app+an] • More jobs lost if close factory 1 [k] as has 150 employees [app] so saving more labour costs [an]	**6**	Application marks may be awarded for appropriate use of the following: • Correct use of data from Table 1 • engines, • increased competition OR competition from imports • quality assurance (is important) • high energy costs, • profit decreased by 30% • batch production

Question	Answer	Marks	Guidance
2(a)	**What is meant by 'marketing strategy'?** 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] Some understanding [1]: how combine the 4 Ps OR plan for marketing or how to increase sales OR how to promote a product	**2**	

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Question	Answer	Marks	Guidance
2(b)	**Identify <u>two</u> reasons for a business to set objectives.** Application [2 × 1] – award one mark for each relevant reason Points might include: • Measure of success (to judge performance) • Helps decision-making OR planning OR budgeting • Gives sense of purpose and direction OR know what you have to do • Aim or target • Motivate	**2**	
2(c)	**Identify and explain two ways in which BBT could act in an ethical way.** Knowledge [2 × 1] – award 1 mark for each relevant way [max 2] Application [2 × 1] – award 1 mark for each explanation in context Points might include: • Pay fair wages [k] as employees is one of its stakeholders [app] • Provide better working conditions for workers [k] • Pay fair price to suppliers OR pay suppliers on time [k] for its ingredients [app] • Help growers to prevent damage to farmland OR source environmentally friendly materials [k] when growing wheat [app] • Not sell excess stock cheaply OR not fixing prices [k] as it's a popular brand [app] • Charging a fair price to customers [k] • Pay taxes in country in which sales are made [k] • Not employing child labour [k]	**4**	Application marks may be awarded for appropriate use of the following: • breakfast cereal • ingredients or examples such as wheat • popular (brand) • correct use of numbers such as number of years, change in revenue, 2016 revenue • decline stage • competitive pricing • stakeholders • marketing strategy

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Question	Answer	Marks	Guidance
2(d)	**Identify and explain <u>one</u> advantage and <u>one</u> disadvantage to BBT of using competitive pricing.** 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 Relevant points might include: Advantage: • Price will not discourage customers from buying [k] its cereals [app] so will buy again [an] • Prevents business losing market share [k] Disadvantage: • Time OR money taken to find out competitor's prices [k] could increase costs [an] • Need another way to attract customers [k] e.g. free gift could increase costs [an] • Customer may be prepared to pay more [k] as it is a popular brand [app] so could lose potential revenue OR profit [an] • May not cover the costs (of production) [k] especially when entering decline stage [app] so may not be able to break even [an]	**6**	Application marks may be awarded for appropriate use of the following: • breakfast cereal • ingredients or examples such as wheat • popular (brand) • correct use of numbers such as number of years, change in revenue, 2016 revenue • decline stage • ethical • marketing strategy

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Question	Answer	Marks	Guidance
2(e)	**Do you think BBT should stop selling product A? Justify your answer.** 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 Relevant points might include: • Sales of Product A fallen [k] by 40% [app] • Product A still the highest sales [k] by $20 000 [app+an] which is more than B & C combined [an] • Have other products that are increasing in demand [k] • 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] • Could use opportunity to introduce new brands [k] as product C has now been in the market for 2 years [app]	**6**	Application marks may be awarded for appropriate use of the following: • breakfast cereal • ingredients or examples such as wheat • popular (brand) • correct use of numbers such as number of years, change in revenue, 2016 revenue • decline stage, • competitive pricing • ethical • marketing strategy **Do not** award general marketing methods such as lower prices or advertise, as these are not examples of extension strategies

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

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Question	Answer	Marks	Guidance
3(b)	**Identify <u>two</u> financial documents (other than a cash flow forecast) that a business might use.** Knowledge [2 × 1] – award 1 mark for each relevant document Points might include: • Break-even chart • Balance sheet • Income statement • Budget OR specific example, such as Marketing budget OR Operations budget OR Human Resources budget	**2**	
3(c)	**Calculate the values of W, X, Y and Z.** Application [4 × 1] – award 1 mark for each correct value **W** 28 000 **X** 2000 **Y** (4000) OR –4000 **Z** (2000) OR –2000	**4**	OFR **can apply** as error in W will have implications for value of X and Z (max 3). Subsequent answers must be consistent throughout. NO OFR for Y

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Question	Answer	Marks	Guidance
3(d)	**Identify and explain <u>one</u> advantage and <u>one</u> disadvantage of ZumGo being a business partnership.** Knowledge [2 × 1] – award 1 mark for an advantage and a disadvantage identified [max 1] Application [2 × 1] – award 1 mark for relevant reference to this business Analysis [2 × 1] – award 1 mark for each relevant explanation Relevant points might include: Advantage: • More ideas [k] about what type of tours to offer [app] can help increase business sales [an] • Access to more capital (than sole trader) [k] can help solve cash flow problems [app] improving chance of survival [an] • Share workload OR decision making [k] so making business more efficient [an] • More skills OR expertise OR can specialise [k], Richie does the finance [app] allowing time for Justin to focus on his job [an] • Share loss OR risk [k] so do not have to carry all the financial burden [an] especially if buy new bus [app] Disadvantage: • Disagreements [k] about expansion [app] leading to lost sales OR low productivity [an] • 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] • Have to share profits [k] with each brother [app] • Slower decision-making [k] on whether to lease [app] so lose competitive advantage [an]	**6**	Application marks may be awarded for appropriate use of the following: • Correct use of cash flow numbers, • $6000 (advertising) • $28 000 • bus tours • extra buses OR looking to expand • leasing • two successful years • all retained profit • business plan or cash flow forecast • brothers

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Question	Answer	Marks	Guidance
3(e)	**Which source of finance do you think ZumGo should use for the new bus? Justify your answer.** 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. Relevant points might include: Profits: • No need to repay [k] • No interest OR monthly outgoings from cash flow [k] so no additional cash outflows to pay [app] • Have sufficient money [k] as matches total retained profit [app] • Can keep profit for emergency [k] which could be important for partnership [app] as have fewer sources of finance to rely on [an] • No money left for emergencies [k] as uses all retained profits [app] Leasing • Not owned [k] so will not add to value of balance sheet [an] • Can return if necessary [k] as only 2 successful years [app] but may be penalty payment [an] • 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] • Negative impact on cash flow [k] as forecast ($4000) [app] • Cheaper [k] as only $24 000 [app + an] saving $4000 [an] • Can update to new model [k] after 2 years [app]	**6**	Application marks may be awarded for appropriate use of the following: • correct use of cash flow numbers • bus tours • $28 000 (cost of new bus) • $1000 for 2 years (leasing) • all retained profits • partnership • two successful years • business plan or cash flow forecast • brothers Can award answers that discuss other suitable sources of finance such as loans. **Do not** accept issue shares as not appropriate.

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Question	Answer	Marks	Guidance
4(a)	**What is meant by 'multinational company'?** 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. Some understanding [1] – e.g. has businesses everywhere OR works/operates in more than one country	**2**	**Do not** award 'sells in more than one country' as could equally apply to exporter
4(b)	**What is meant by 'economic boom'?** 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	**2**	For two marks must have both idea that economy growing and the rate of growth Answers must refer to whole economy and not a single business or product
4(c)	**Identify and explain <u>two</u> methods that CYB could use to communicate with its customers.** Knowledge [2 × 1] – award 1 mark for each relevant method [max 2] Application [2 × 1] – award 1 mark for each explanation in context Reasons might include: • Email [k] so that can include attachments such as balance sheets [app] • Letter [k] explaining customer benefits of new system [app] • Meeting [k] with representatives from multinational companies [app] • Phone [k] • FaceTime OR Skype [k] with someone from the small team [app] • Text OR SMS OR messages on mobile phone [k] • Social media e.g. Facebook [k]	**4**	Application marks may be awarded for appropriate use of the following: • accountants • examples of financial documents e.g. balance sheet • multinational company • small teams • 3 (new employees) • new computerised system OR system • (highly) skilled Note: method selected should be appropriate for use with customers, not internal communication

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Question	Answer	Marks	Guidance
4(d)	**Explain <u>how</u> each of the following stages could help CYB in the recruitment process.** 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 Relevant points might include: **Person (job) specification** • Sets out the qualifications needed [k] such as accountancy degree [an] so know whoever is chosen can do tasks required [an] • Sets out the skills needed [k] such as team worker [app] so able to work effectively with the others in the group [an] • Sets out experience necessary [k] such as working with multinationals [app] so able to be effective quickly [an] **Advertising the job vacancies** • Make people aware [k] about the 3 jobs [app] increasing the number of potential applicants [an] • 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] • Can target suitable people [k] in accountancy magazines [app]	**6**	Application marks may be awarded for appropriate use of the following: • accountants • multinational company • small teams • 3 (new employees) • new computerised system OR system • economic boom • on the job training OR off the job training • (highly) skilled The focus of the answer should focus on the business not employees

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Question	Answer	Marks	Guidance
4(e)	**Do you think it would be better for CYB to use on-the-job or off-the-job training? Justify your answer.** 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. Relevant points might include: Off-the-job training: • Not necessarily tailored to individual business [k] so not cost effective [an] • Have to pay more OR high cost for specialists [K] which increases costs [an] • Skills might not be available in the business [k] so benefit from new techniques [an] • Allows for mistakes [k] so can build employees confidence in new computer system [app] reducing waste [an] • Workers have access to skilled trainers [k] so know how to use the system [app] • Workers can focus 100% on training [k] On-the-job training: • Can reinforce errors OR bad practices [k] reducing sales OR damage reputation [an] • Fewer new ideas OR skills will be taught [k] • Control what is taught [k] so workers only learn skills needed [an] • Employees can carry on working [k] within their team [app] improving productivity [an] • Cheaper (than off-the-job) [k]	**6**	Application marks may be awarded for appropriate use of the following: • accountants • examples of financial documents e.g. balance sheet • multinational company • small teams • 3 (new employees) • new computerised system OR system • economic boom • (highly) skilled Either option is acceptable.

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BUSINESS STUDIES **0450/21**

Paper 2 Case Study **October/November 2017**

MARK SCHEME

Maximum Mark: 80

Published

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Question	Answer	Marks
1(a)	**Identify <u>two</u> ways the size of AH can be measured. Explain the limitations of each of these measures.** 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 Award one mark for each way (maximum of two), such as: • Capital employed • Number of employees • Sales revenue/revenue/income • Output/quantity of services/number of customers Do not accept profit Award a maximum of three additional marks for **each** explanation – **2 of which must be applied to this context** – of the way Indicative response: 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 has18 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) 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. There may be other examples in context that have not been included here.	**8**

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Question	Answer	Marks
1(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.**	**12**

Relevant points might include:

	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

Note: Also reward – Survey; Observation; Newspapers; Internet/online data; Government statistics.

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

	Knowledge/Analysis/Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified recommendation of **which method to choose for the proposed location** 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

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Question	Answer	Marks
1(b)	Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Government statistics are cheap to collect. 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) 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. **Award up to 2 additional marks for relevant application.** 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. There may be other examples in context that have not been included here.	

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

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Question	Answer	Marks
2(a)(ii)	**Identify and explain one way AH could use to increase profit from the existing site.** Knowledge – 1 mark for correctly identifying one way profit can be increased. Possible ways: - Increase revenue (1) e.g. by increasing prices/advertising more/introducing a new service (1) - Reduce costs/expenses (1) e.g. by finding cheaper suppliers/improving efficiency (1) Analysis award up to 3 marks – **2 of which must be applied to this context** – for a relevant explanation of one way AH could increase profit. Indicative response: 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) 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. There may be other examples in context that have not been included here	4
2(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.** Relevant points might include: Cash flow forecast – predicts cash in-flows and outflows – to avoid liquidity problem – is there sufficient working capital for the larger premises? 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? 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	12

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>2(b)</td><td>
Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.

<table>
<tr><th></th><th>Knowledge/Analysis/Evaluation</th></tr>
<tr><td>Level 3</td><td>At least 2 × Level 2 +
9–10 marks for well justified recommendation as to which is most important to the decision about how to finance the new site.

7–8 marks for some limited judgement shown in recommendation as to which is most important in its general usefulness to the business.</td></tr>
<tr><td>Level 2</td><td>4–6 marks
Discussion of each financial statement, how it can be used and why it is important.</td></tr>
<tr><td>Level 1</td><td>1–3 marks
Outline of what each financial statement shows.</td></tr>
</table>

Level 1 – 1 mark for each L1 statement (max of 3 marks)
e.g. A balance sheet shows the value of the business.

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)

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.

Award up to 2 additional marks for relevant application.

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.

There may be other examples in context that have not been included here.
</td><td></td></tr>
</table>

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Question	Answer	Marks
3(a)	**Identify and explain <u>two</u> possible ethical issues that AH should consider.** Knowledge [2 × 1] – award one mark for each ethical issue ('Doing the right thing') Analysis [2 × 1] – award one mark for a relevant explanation for each ethical issue Application [2 × 2] – award two application marks for each ethical issue Award one mark for each ethical issue (maximum of two), such as: • Types of animals looked after – all legal? • Welfare of animals/danger to animals • Working conditions • Child labour employed • Fair pay/paying minimum wage • Disposal of waste in a responsible manner Award a maximum of three additional marks for **each** explanation – **2 of which must be applied to this context** – of the ethical issue Indicative response: 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) 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 There may be other examples in context that have not been included here.	**8**

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Question	Answer	Marks
3(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.**	**12**

Relevant points might include:

	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 – award up to 10 marks using the levels-based mark scheme below.

	Knowledge/Analysis/Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified recommendation as to 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

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Question	Answer	Marks
3(b)	Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Site X is the cheapest of the three sites. 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) 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. **Award up to 2 additional marks for relevant application.** 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.	

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Question	Answer	Marks
4(a)	**Identify and explain <u>one</u> advantage and <u>one</u> disadvantage of using social media networks for the promotion of AH.** Knowledge [2 × 1] – award one mark for each advantage/disadvantage. Analysis [2 × 1] – award one mark for a relevant explanation for each advantage/disadvantage. Application [2 × 2] – award two application marks for each advantage/disadvantage. Award one mark for each advantage/disadvantage (maximum of two), such as: Advantages • Cheap to advertise the business • Will be seen by many people • Covers a wide area • Easy to update • Target specific customers • Cheap way to gain customer feedback Disadvantages • One unhappy customer can give the business a bad reputation quickly • Message lost amongst many messages on social media • Quickly forgotten and no hard copy to remind customers of the services provided • Not all customers have access to internet/social media Award a maximum of three additional marks for **each** explanation – **2 of which must be applied to this context** – of the advantage/disadvantage. Indicative response: 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) 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 There may be other examples in context that have not been included here.	**8**

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Question	Answer	Marks
4(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.**	**12**

Relevant points might include:

	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 – award up to 10 marks using the levels-based mark scheme below.

	Knowledge/Analysis/Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified recommendation as to whether 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.

Level 1 – 1 mark for each L1 statement (max of 3 marks)
e.g. Internal recruitment is cheaper than external.

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)

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..

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Question	Answer	Marks
4(b)	**Award up to 2 additional marks for relevant application.** 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; There may be other examples in context that have not been included here	

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BUSINESS STUDIES **0450/22**

Paper 2 Case Study **October/November 2017**

MARK SCHEME

Maximum Mark: 80

Published

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Question	Answer	Marks
1(a)	**Identify and explain <u>one</u> advantage and <u>one</u> disadvantage of GS being a partnership.** 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 Award one mark for each advantage/disadvantage (maximum of two), such as: Advantages • Increased capital investment • Share responsibilities/specialise/more skills/more ideas • Share risks/losses Disadvantages • Unlimited liability • No separate legal identity • Share profit • Lack of continuity • Arguments between partners Award a maximum of three additional marks for **each** explanation – **2 of which must be applied to this context** – of the advantage/disadvantage. Indicative response: 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) 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. There may be other examples in context that have not been included here.	**8**

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Question	Answer	Marks
1(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.** Relevant points might include:	**12**

	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 – award up to 10 marks using the levels-based mark scheme below.

	Knowledge/Analysis/ Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified recommendation 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.

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Question	Answer	Marks
1(b)	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. 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) 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. **Award up to 2 additional marks for relevant application.** 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. There may be other examples in context that have not been included here.	

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Question	Answer	Marks
2(a)	**Identify and explain <u>two</u> ways GS can increase added value.** 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 Award one mark for each way (maximum of two). • Increase price (1) – explained why/how prices can be increased (1) such as: – improve quality of products such as plant pot containers – improve reputation – establish brand image – improve product features such as excellent customer service • Reduce raw material costs (1) explanation of how these can be reduced (1) such as: – buy cheaper sources of flowers/find cheaper suppliers – lower the quality of inputs such as cheaper seeds – reduce the amount of inputs needed, for example less fertiliser Award a maximum of three additional marks for **each** explanation – **2 of which must be applied to this context** – of the way. Indicative response: 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) 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. There may be other examples in context that have not been included here.	**8**

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Question	Answer	Marks
2(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.** **Relevant points might include:**	**12**

	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 – award up to 10 marks using the levels-based mark scheme below.

	Knowledge/Analysis/ Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified recommendation as to 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.

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Question	Answer	Marks
2(b)	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. 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) 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. **Award up to 2 additional marks for relevant application** 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. There may be other examples in context that have not been included here.	

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Question	Answer	Marks
3(a)	**Identify and explain <u>four</u> characteristics the partners should include in the person (job) specification when recruiting the new employees.** Application [4 × 1] – award one mark for each suitable characteristic for this business Analysis [4 × 1] – award one mark for a relevant explanation of each characteristic Award one mark for each characteristic (maximum of four), such as: • Experience of gardening • Punctual • Polite • Honest/trustworthy • Qualifications in gardening • Reliable • Clean/neat appearance • Physically fit • Good communicator • Hard working There may be other possible answers. Award an additional mark for **each** explanation in context Indicative response: 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)	**8**

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Question	Answer	Marks
3(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.** **Relevant points might include:**	**12**

	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 – award up to 10 marks using the levels-based mark scheme below.

	Knowledge/Analysis/ Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified recommendation as to 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.

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Question	Answer	Marks
3(b)	Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Site Z is the most expensive of the three sites. 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) 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. **Award up to 2 additional marks for relevant application.** Possible application marks: Partnership; set up by 2 brothers; information about the three sites found in the case study. There may be other examples in context that have not been included here.	

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Question	Answer	Marks
4(a)	**Identify and explain <u>two</u> problems for GS of having a high level of inventory.** 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. Award one mark for each problem (maximum of two), such as: • Capital tied up/ liquidity problem • High levels of working capital required • Inventory may deteriorate and be wasted – loss of profit • Inventory may go out of date/seasonal changes /fashion changes – cannot sell inventory unless at a discount – reduce profit • Costs of storage space • Maintenance costs such paying wages of workers to water plants Award a maximum of three additional marks for **each** explanation – **2 of which must be applied to this context** – of the problem. Indicative response: 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) 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. There may be other examples in context that have not been included here.	**8**

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Question	Answer	Marks
4(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:**	**12**

Profit	$5 000 (L2)
GPM	50000/60000 × 100 = 83% (L2)
NPM	5000/60000 × 100 = 8% (L2)
ROCE	5000/10000 × 100 = 50% (L2)
Total revenue	$60 000 (L1)
Total cost	$55 000 (L1)

Level 3 judgements may be based on:
- Survival in the first year – GS may build on this in the future
- GS ratios worse than competing businesses but only just started-up
- Comparison of the figures and suggestions made of why GS ratios might be worse than the ratios of other similar businesses
- Other information that may be useful to make a judgement

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

	Knowledge/Analysis/Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified conclusion as to 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.

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Question	Answer	Marks
4(b)	Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. The average profit for other businesses is higher than GS. 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) 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. **Award up to 2 additional marks for relevant application.** 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. There may be other examples in context that have not been included here.	

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Cambridge Assessment International Education
Cambridge International General Certificate of Secondary Education

BUSINESS STUDIES **0450/23**

Paper 2 Case Study **October/November 2017**

MARK SCHEME

Maximum Mark: 80

Published

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Question	Answer	Marks
1(a)	**Identify and explain <u>one</u> advantage and <u>one</u> disadvantage of BB being a private limited company.** Knowledge [2 × 1] – award one mark for each advantage/disadvantage Analysis [2 × 1] – award one mark for a relevant explanation for each advantage/disadvantage Application [2 × 2] – award two application marks for each advantage/disadvantage Award one mark for each advantage/disadvantage (maximum of two), such as: Advantages • Increased capital investment – from sale of shares • Limited liability • Continuity Disadvantages • Only sell shares to family and friends • Accounts have to be audited • Legal formalities to set up and run Award a maximum of three additional marks for **each** explanation – **2 of which must be applied to this context** – of the advantage/disadvantage. Indicative response: 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) 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. There may be other examples in context that have not been included here.	**8**

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Question	Answer	Marks
1(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.**	**12**

Relevant points might include:

	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 – award up to 10 marks using the levels-based mark scheme below.

	Knowledge/Analysis/Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified recommendation 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.

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Question	Answer	Marks
1(b)	Level 1 – 1 mark for each L1 statement (max of 3 marks). e.g. Government population statistics might be out of date. 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) 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. **Award up to 2 additional marks for relevant application.** 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. There may be other examples in context that have not been included here.	

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Question	Answer	Marks
2(a)	**Identify and explain <u>two</u> leadership styles Stella could use.** 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 Award one mark for each leadership style (maximum of two), such as: • Democratic • Autocratic • Laissez-faire Award a maximum of three additional marks for **each** explanation – **2 of which must be applied to this context** – of the leadership style. Indicative response: 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) 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. There may be other examples in context that have not been included here.	**8**

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Question	Answer	Marks
2(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.**	**12**

Relevant points might include:

	Advantages	Disadvantages
Option 1	• Poor area of city – high demand • Lower operating costs • Quickly open as already a nursery – already has children attending • Less to invest in improvements $5000 investment needed	• Lower prices – less revenue • Overcome poor reputation – badly managed - may increase advertising costs • Costs of training staff
Option 2	• Expensive part of town – raise prices – raise revenue • Family paid for the building – no borrowing required	• High cost of conversion – $20 000 • Time delay before it can open – lost revenue

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

	Knowledge/Analysis/Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified recommendation of which option to choose and why not the alternative option. 7–8 marks for limited recommendation of which option to choose.
Level 2	4–6 marks Detailed discussion of advantages and/or disadvantages of each option.
Level 1	1–3 marks Outline of each advantages and/or disadvantages of each option.

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Question	Answer	Marks
2(b)	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. 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) 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. **Award up to 2 additional marks for relevant application.**	

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Question	Answer	Marks
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.** Knowledge [2 × 1] – award one mark each for chain of command and span of control. Analysis [2 × 1] – award one mark each for explanation of chain of command and span of control Application [2 × 2] – award two application marks each for chain of command and span of control Award one mark each for chain of command and span of control (maximum of two). Award a maximum of three additional marks for **each** explanation – **2 of which must be applied to the information in Appendix 2** – of the chain of command and span of control. 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) 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) Possible application marks: children's nursery; parents; information from Appendix 2. There may be other examples in context that have not been included here.	**8**

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Question	Answer	Marks
3(b)(i)	**Draw on the break-even chart below:** **Total Cost line, Total Revenue line and the Break-even point.** Break-even output = **25 children per day** 1 mark for Total Cost line 1 mark for Total Revenue line 1 mark for indicating Break-even output at 25	**3**
3(b)(ii)	**Consider <u>two</u> ways BB could use to reduce this break-even output. Recommend the best way to choose. Justify your answer.** 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. Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below. **Knowledge/Analysis/Evaluation** **Level 3:** At least 2 × Level 2 + 9 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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Question	Answer	Marks
3(b)(ii)	Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Increase price of nursery care 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) 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.	

Question	Answer	Marks
4(a)	Identify and explain **two** reasons why profit is important to BB. Knowledge [2 × 1] – award one mark for each reason. Analysis [2 × 1] – award one mark for a relevant explanation for each reason. Application [2 × 2] – award two application marks for each reason. Award one mark for each reason (maximum of two), such as: • Provide a source of funds for investment/improvement of the business • Provide a source of funds for expansion of the business • Reward for risk taking • Provides a return on shareholder investment • Pay for unexpected events Award a maximum of three additional marks for each explanation – **2 of which must be applied to this context** – of the reason. Indicative response: 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) 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. There may be other examples in context that have not been included here.	**8**

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Question	Answer	Marks
4(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.**	**12**

Relevant points might include:

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 – award up to 10 marks using the levels-based mark scheme below.

	Knowledge/Analysis/Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified conclusion as to which change will 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.

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Question	Answer	Marks
4(b)	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. 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) 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. **Award up to 2 additional marks for relevant application.** 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. There may be other examples in context that have not been included here.	

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Cambridge International General Certificate of Secondary Education

CANDIDATE NAME	

CENTRE NUMBER						CANDIDATE NUMBER					

8014975208

BUSINESS STUDIES **0450/12**

Paper 1 **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.

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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'?

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.....

.....

..... [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]

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(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]

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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]

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

Advantage:.....

.....

Explanation:.....

.....

.....

.....

Disadvantage:.....

.....

Explanation:.....

.....

.....

..... [6]

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

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..... [6]

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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'?

.....

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.....

..... [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]

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

Problem 1:.....

.....

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]

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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:.....

.....

Explanation:.....

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Way 2:.....

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Explanation:.....

..... [4]

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(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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CANDIDATE NAME	

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BUSINESS STUDIES **0450/13**

Paper 1 **October/November 2017**

1 hour 30 minutes

Candidates answer on the Question Paper.

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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	**X**
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:.....

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Explanation:.....

..... [4]

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

Advantage:.....

.....

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]

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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:.....

..... [4]

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(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]

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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	**W**
Net cash flow	0	11 000	**X**
Opening balance	(15 000)	(15 000)	**Y**
Closing balance	(15 000)	(4000)	**Z**

(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]

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(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]

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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]

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(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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BUSINESS STUDIES **0450/21**

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1 hour 30 minutes

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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]

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(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]

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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]

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(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]

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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]

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(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]

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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]

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(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: .....

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External recruitment: .....

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Recommendation: .....

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..... [12]

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BUSINESS STUDIES **0450/22**

Paper 2 **October/November 2017**

1 hour 30 minutes

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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]

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(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]

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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]

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(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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[12]

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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]

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(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]

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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]

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(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.

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BUSINESS STUDIES **0450/23**

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[Turn over

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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]

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(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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[12]

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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]

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(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]

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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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[8]

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Please turn over.
Question 3 continues on page 8.

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(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]

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(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]

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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]

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(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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[12]

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BUSINESS STUDIES **0450/12**

Paper 1 Short Answer/Structured Response **March 2018**

MARK SCHEME

Maximum Mark: 80

Published

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

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

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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.

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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.

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Question	Answer	Marks	Guidance
1(a)	**What is meant by 'motivation'?** Clear understanding (2) is the reason OR drive OR factor why employees want to work hard **and** work effectively OR efficiently for the business Some understanding (1) why employees work hard	**2**	**Do not** award examples as this does not answer the question
1(b)	**Identify two disadvantages to Ruby of using job production.** Application (2 × 1) – award one mark for each relevant disadvantage Relevant answers could include: • Skilled labour costs more • Costs are higher as it is often labour intensive • Lower output OR production can take longer • No economies of scale (likely) • Products are made to order so mistakes can be expensive to correct	**2**	**Do not** award higher costs on own as too vague **Do not** award points such as that can equally apply to any method of production

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Question	Answer	Marks	Guidance
1(c)	**Identify and explain two advantages to Ruby of having part-time employees.** Knowledge (2 × 1) – award 1 mark for each relevant advantage (max 2) Application (2 × 1) – award 1 mark for each relevant explanation in context Advantages may include: • Helps keep experienced staff [k] which is important as cards are handmade [app] • Flexible OR can call in workers when needed [k] such as during festivals and celebrations [app] • Lower labour costs OR when not working no need to pay wages [k] which is important for a sole trader [app] • Help attract workers who need flexible working hours [k] to produce greetings cards [app] • Provide a wider range of skills / ideas [k] as products are individually designed [app]	**4**	Application marks may be awarded for appropriate use of the following: • festivals OR celebrations • sole trader • individually designed • greetings cards OR related words such as paper • hand made • quality cards are important • three (employees) • job production • hourly wage rate or piece rate

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Question	Answer	Marks	Guidance
1(d)	**Identify and explain two non-financial methods of motivation which Ruby could use.** 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 Relevant points may include: • Job rotation [k] could help staff to become multi-skilled and more flexible [an] when producing hand made cards [app] • Job enlargement [k] as greater variety of work can help keep them satisfied [an] to help meet the higher orders during festivals [app] • Job enrichment [k] which may increase quality which is important to Ruby [app] as workers feel they have been given more responsibility [an] • Ruby could use fringe benefits (allow only once) [k] as she is a sole trader [app] • Praise [k] • Employee of the month awards [k] • Team working • Delegation OR empowerment OR decision making [k] • Opportunity for promotion [k]	**6**	Application marks may be awarded for appropriate use of the following: • festivals OR celebrations • sole trader • individually designed • greetings cards OR related words such as paper • hand made • quality cards are important • three (employees) • job production • part-time • piece rate **Do not** accept financial methods such as pay rises, bonuses, shares, pension, commission as this does not answer question

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Question	Answer	Marks	Guidance
1(e)	**Do you think Ruby should change the payment method she uses for her employees? Justify your answer.** 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. Relevant points might include: Piece rate • 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] • Workers may rush the production [k] leading to many mistakes [an] which is a problem as quality is important [app] • Can discourage team work as employees focus only on own work [k] • Difficult to calculate individual pay OR must have way to accurately record output [k] which may not be easy when work part-time [app] Hourly wage rate • Help budget effectively [k] which is important for a small sole trader business [app] • Workers are able to focus on quality [k] which can help maintain reputation [an] of its greeting cards [app] • Does not encourage employees to increase output [k] so may not be able to meet demand during festivals [app]	**6**	Application marks may be awarded for appropriate use of the following: • higher number of orders during festivals OR celebrations • sole trader • individually designed • greetings cards • hand made • impact on quality • three (employees) • part-time • job production • hourly wage rate or piece rate Note: candidate's final decision can be either for or against changing the payment method.

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Question	Answer	Marks	Guidance
2(a)	**Identify two features of an economic boom.** Award one mark for each relevant characteristic (max 2) Relevant points may include: • **Rapid** OR **fast** increase in GDP • **Increase in** OR **Higher** inflation OR **higher** prices • Increase in business costs • Increase in business start-ups • **Increase** OR **high** business profits • **Low** unemployment OR **high** employment OR shortage of skilled workers OR few vacancies • High levels of **consumer** demand • **High** income OR **High** standard of living • High levels of investment	**2**	
2(b)	**Calculate the current ratio in 2017.** Clear application [2] **2** (times not needed) Some application [1] correct method incorrect answer e.g. current assets/current liabilities OR 30/15	**2**	

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Question	Answer	Marks	Guidance
2(c)	**Identify and explain two disadvantages to PShirts of being a private limited company.** Knowledge [2 × 1] – award 1 mark for each relevant disadvantage (max 2) Application (2 × 1) – award 1 mark for each relevant explanation in context. Relevant points may include: • Can only sell shares to friends and family [k] so may not raise sufficient funds to expand into other countries [app] • Shareholders may expect dividends (k) from selling shirts [app] • Have to publish (some) financial accounts [k] • Legal formalities to set up and run [k]	**4**	Application marks may be awarded for appropriate use of the following: • shirts • men and women • priced lower than competitors • sales have fallen • legal controls • relevant use of financial data in table • selling in other countries
2(d)	**Identify and explain two benefits to PShirts of selling in other countries.** 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 Relevant points may include: • Access to more markets [k] which can increase revenue OR market share [an] for its shirts [app] • Spread risk [k] as more men and women to sell to [app] so less reliant on sales for one country [an] • Lower demand in home market [k] where sales have fallen despite the economic boom [app] • Greater recognition OR brand awareness [k] leading to more (sales) revenue [an] • Possible economies of scale [k] so able to lower prices further [app] allowing business to remain competitive [an]	**6**	Application marks may be awarded for appropriate use of the following: • private limited company • shirts • men and women • priced lower than competitors • sales have fallen • legal controls • relevant use of financial data in table • economic boom **Do not** accept fewer legal restrictions as stem states MD is worried about legal controls.

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Question	Answer	Marks	Guidance
2(e)	**Do you think Paul should be worried about the change in the profit margins between 2016 and 2017? Justify your answer.** 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 Relevant points may include: • Gross profit margin **decreased** [k] from 42% to 34% [app + an] which is a decrease of 8% [an] • Profit margin **decreased** [k] from 32% to 17% [app + an] a decrease of 15% [an] • Revenue decreased [k] by $150m OR to $350m [app] • Cost of sales **decreased** [k] by $60m OR to $230m [app] • Expenses **increased** [k] by $10m OR to $60m [app] • Profit **decreased** [k] to $60m OR by $100m [app]	**6**	Application marks may be awarded for appropriate use of the following: • private limited company • shirts • men and women • priced lower than competitors • sales have fallen • legal controls • relevant use of financial data in table • selling in other countries • economic boom

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Question	Answer	Marks	Guidance
3(a)	**What is meant by 'mass market'?** 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	**2**	
3(b)	**What is meant by 'price elastic demand'?** 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	**2**	
3(c)	**Identify and explain two disadvantages to STC of business growth.** Knowledge (2 × 1) – award 1 mark for each relevant disadvantage Application (2 × 1) – award 1 mark for each relevant explanation in context. Relevant points may include: • Larger business is difficult to control (k) as the factory is in another country (to head office) [app] • Communication problems [k] especially as already complaints (app) • Slower decision making [k] so less able to respond effectively to high level of competition [app] • Lower levels of employee motivation OR morale as employees are remote from managers [k]	**4**	Application marks may be awarded for appropriate use of the following: • laissez faire • toothpaste • factory in another country to head office • mass market • high level of competition (in market) • price elastic demand • complaints (about communication) Only award diseconomies of scale if separate diseconomies of scale have not been identified

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Question	Answer	Marks	Guidance
3(d)	**Identify and explain two ways STC could improve communication between managers and workers.** 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) Relevant points may include: • 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] • Keep the channel of communication short [k] to reduce the risk of the message being changed before it gets to the final receiver [an] • Barriers such as noise should be removed [k] • Change the leadership style [k] from laissez faire [app] so that both employees and managers are fully involved in the decisions [an] • Change organisation structure OR delayering [k] • 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]	**6**	Application marks may be awarded for appropriate use of the following: • laissez faire • toothpaste • factory in another country to head office • mass market • high level of competition in market • price elastic demand • complaints about communication

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Question	Answer	Marks	Guidance
3(e)	**Do you think STC should change its pricing strategy? Justify your answer.** 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 Relevant points might include: Competitive pricing: • Will not discourage customers from buying [k] its toothpaste [app] so will buy again [an] • Business does not lose market share [k] which is important when there is a high level of competition [app] • Time OR money to find out competitor's prices [k] increase costs [an] • Need another way to attract customers [k] • Customer may be prepared to pay more [k] could lose potential revenue [an] • May not cover the costs (of production) [k] so may not be able to break- even [an] Lower price: • 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] • Customers may think product is lower quality [k] decreasing sales OR revenue [an] • Revenue will increase [k] to $225 000 [app + an] • No guarantee will gain forecast extra demand [k] of 50 000 [app + an]	**6**	Application marks may be awarded for appropriate use of the following: • laissez faire • toothpaste • factory in another country to head office • mass market • high level of competition in market • price elastic demand • complaints about communication • competitive pricing • correct use numerical data from table 2 Note: candidate's final decision may be for or against changing its pricing strategy

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

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Question	Answer	Marks	Guidance
4(c)	**Identify and explain one advantage and one disadvantage to MSH of using on-the-job training.** 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 Relevant points may include: Advantages: • Employees learn the way the business wants the job done [k] from loyal employees [app] • Employees are working while training [k] so still cleaning some floors [app] • Cheaper (than off the job training) [k] so have more funds to help pay for relocation [app] Disadvantages: Likely to make mistakes (as still learning) [k] so damage reputation with local businesses [app] • Slows down work of experienced employees [k] at a time of falling demand [app] • May pick up bad habits or practices from other employees [k] • Might not learn the most up to date methods OR fewer new skills and ideas taught [k]	4	Application marks may be awarded for appropriate use of the following: • floor cleaning • relocating • business customers • high levels of unemployment • falling demand • loyal employees • expanding industrial areas • stakeholder groups • increase promotion • 50 km away

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Question	Answer	Marks	Guidance
4(d)	**Identify and explain two ways MSH could promote its services.** 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 Relevant points might include: • 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] • Sponsorship [k] will help to increase their brand image [an] in Main city [app] • Demonstrations [k] so customers can see the high standard of cleaning [app] • After sales service [k] this can help assure business customers [app] so may be more willing to use MSH services again [an] • **Short term** price discounts OR special offers [k] to attract people to try its services initially [an] in the expanding industrial areas [app] • Loyalty schemes [k] which could be important if they relocate [app] • Competitions [k]	**6**	Application marks may be awarded for appropriate use of the following: • floor cleaning • relocate • business customers • high levels of unemployment • falling demand • loyal employees • on the job training • expanding industrial areas • stakeholder groups • 50 km away Answers can refer to customers in either current location or if MSH relocates

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Question	Answer	Marks	Guidance
4(e)	**Do you think MSH should relocate its business? Justify your answer.** 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 Relevant points might include: • Higher possible demand OR sales [k] due to expanding industrial areas [app] leading to increased revenue [an] • Demand will continue to be low in the current location [k] as unemployment levels are high [app] • Employees may not want to move [k] 50 km away [app] so may leave leading to additional recruitment costs [an] • Possible reaction OR high level of competition in new location [k] so may not be able to attract new customers [an] • Need to use promotion in new location [k] • Likely to pay low wage rates in current location [k]	**6**	Application marks may be awarded for appropriate use of the following: • floor cleaning • business customers • high levels of unemployment • falling demand • loyal employees • on-the-job training • expanding industrial areas • stakeholder groups • increase promotion • 50 km away Note: candidates final decision may be for or against the relocation

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CANDIDATE NAME	

CENTRE NUMBER						CANDIDATE NUMBER					

8011414016

BUSINESS STUDIES **0450/12**

Paper 1 **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 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.

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

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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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.....

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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]

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

Method 1:.....

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Explanation:.....

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Method 2:.....

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Explanation:.....

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..... [6]

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

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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

	2016 ($m)	**2017** ($m)
Revenue	500	350
Gross profit	210	120
Profit	160	60
Current assets	35	30
Current liabilities	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:.....

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Disadvantage 2:.....

.....

Explanation:.....

..... [4]

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

Benefit 1:.....

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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]

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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:.....

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Explanation:.....

..... [4]

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(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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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'?

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..... [2]

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

Advantage:.....

.....

Explanation:.....

.....

Disadvantage:.....

.....

Explanation:.....

..... [4]

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

Way 1:.....

.....

Explanation:.....

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Way 2:.....

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Explanation:.....

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..... [6]

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

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BUSINESS STUDIES **0450/22**
Paper 2 **February/March 2018**
INSERT **1 hour 30 minutes**

4887090156-I

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

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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.

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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

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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

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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Generic Marking Principles

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- 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:

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- marks are not deducted for omissions
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GENERIC MARKING PRINCIPLE 6:

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Question	Answer	Marks
1(a)	**Explain two characteristics that makes George a successful entrepreneur.** 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 Award one mark for each relevant characteristic (maximum of two), such as: • Self-confident – decision to leave full-time job • Creative – created new menu to attract additional customers • Independent – willing to go with own ideas • Hard worker – prepared to work a lot of hours/prepared to make all the decisions and take on all responsibilities of running the business • Risk taker – possibility of losing own capital –sole trader so may lose personal assets • Effective communicator – persuades others • Optimistic – think positively about new ventures • Innovative – creating new recipes to retain customers Award a maximum of three additional marks for **each** explanation of the characteristic – **2 of which must be applied to this context.** 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) 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.	**8**
1(b)(i)	*Calculate values for X, Y and Z* 1 mark for each correct answer. X = $ 11 000 Y = $8 000 Z = -$2 000	**3**

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Question	Answer	Marks
1(b)(ii)	**Consider whether CC is in a good financial position to expand the business. Justify your answer.** Relevant points might include: • 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 • 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 • 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 • 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 Knowledge/Analysis/Evaluation – award up to 9 marks using the levels-based mark scheme below. Level 1 **[1–3 marks]** 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. Level 2 **[4–6 marks]** 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. Level 3 **[7–9 marks]** 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.	**9**

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Question	Answer	Marks
2(a)	**Identify two stakeholder groups for CC. Explain an objective of each stakeholder group you have identified.** 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 Award one mark for each stakeholder group (maximum of two), such as: • Employees/managers – paid higher wages/job security • George/owner – profit/return on investment • Supplier – ensure payment/continued orders • Bank/other lenders – repayment of loans • Local community – doesn't damage the local environment • Customers – good quality service and good value • Government – tax revenue/provides jobs Award a maximum of three additional marks for **each** explanation of the stakeholder group – **2 of which must be applied to this context.** 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) 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. There may be other examples in context that have not been included here.	**8**

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Question	Answer	Marks
2(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.**	**12**

Relevant points might include:

Applicant	Advantages	Disadvantages
Jim	• Already has experience of managing a café • less training costs • easier to delegate responsibility for running the café • may have suggestions to improve the café • probably expects low wages as previous job only paid $5 per hour	• Few qualifications – only 3 IGCSE's • Less experience than the other two applicants • Not as interested in cooking as other applicants
Sally	• Experience of working in a large busy restaurant means new working practices could be introduced to café • Highest qualified of the three, so skilled and may cook high quality meals • Middle wage in previous job of the three applicants	• No experience of working in a café • May not be interesting enough as less range of meals cooked in café than restaurant
Vera	• Enjoys baking and cooking so maybe can cook new menu items • A lot of experience means no training required • Highest experience and in a high quality café so may bring new ideas to CC	• Highest wages of the 3 applicants • No formal cooking qualifications • Lack of experience in a basic café so may have unrealistic expectations of the cafe

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

Level 1 **[1–3 marks]** 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.

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Question	Answer	Marks
2(b)	Level 2 **[4–6 marks]** 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) Level 3 **[7–10 marks]** 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. **Award up to 2 additional marks for relevant application.** 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. There may be other examples in context that have not been included here.	

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Question	Answer	Marks
3(a)	**Identify and explain two roles of marketing for City Café.** 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 Award one mark for each role (maximum of two): • Identify customer needs • Satisfy customer needs • Maintain customer loyalty • Gain information about customers • Anticipate changes in customer needs Award a maximum of three additional marks for **each** explanation of the role – **2 of which must be applied to this context.** 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) 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. There may be other examples in context that have not been included here.	**8**

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Question	Answer	Marks
3(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.**	**12**

Relevant points might include:

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

	Advantages	Disadvantages
Option 1	• Existing customers can still visit • Keep existing employees – less recruitment costs – less training costs • Can buy the building so more certainty for future development as cannot be moved out of the building	• Not as large as the alternative café • High costs to buy the building and redecorating = $30 000
Option 2	• Twice as large as existing café • New part of city so many potential new customers • Busy part of Main City so opportunity for significant increase of customers and revenue • Capital from sale of existing building may fund the expansion costs or new equipment and redecoration	• Need to find new customers • Increased marketing costs • Lose regular customers and employees • Only rent building as not available to buy so may not be able to keep it in the future

Level 1 **[1–3 marks]**

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.

Level 2 **[4–6 marks]**

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)

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Question	Answer	Marks
3(b)	Level 3 **[7–10 marks]** 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. 9–10 marks for well justified recommendation as to which option to choose and why not the other option. 7–8 marks for some limited judgement shown in recommendation as to which option to use. **Award up to 2 additional marks for relevant application.** Possible application marks: 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 Option 1 Serve 50% more customers – larger cafe – $10 000 redecorate + building work – $20 000 cost to buy Option 2 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 There may be other examples in context that have not been included here.	

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Question	Answer	Marks
4(a)	**Identify and explain two reasons why quality is important for CC.** 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 Award one mark for each relevant reason (maximum of one each), such as: • Establishes a brand image • Builds brand loyalty • Maintains a good reputation • Helps to increase sales • Attracts new customers • Can charge a higher price • Ensure food safety regulations are met • Avoids cost of dealing with defects/waste • Maintain or increase market share Award a maximum of three additional marks for **each** explanation of the reason – **2 of which must be applied to this context**. 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) 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. There may be other examples in context that have not been included here.	**8**

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>4(b)</td><td>

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

Relevant points might include:

<table>
<tr><th>Source of finance</th><th>Advantages</th><th>Disadvantages</th></tr>
<tr><td>Take out a bank loan</td><td>• Large amounts borrowed
• Lower interest than many alternative sources of finance</td><td>• May lose house if fail to make repayments
• Interest paid so increased expenses
• May be more difficult to gain another bank loan as already has one</td></tr>
<tr><td>Form a partnership with a family friend</td><td>• Already knows the person
• Will be able to help run the business</td><td>• Will have to share profit
• May have disagreements on how to run the café</td></tr>
<tr><td>Sell some business assets from the old café</td><td>• Less need to borrow money
• No interest payable</td><td>• May not have enough assets to raise sufficient capital
• As CC wish to expand they are more likely to want to keep business assets rather than sell them</td></tr>
</table>

Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.
Level 1 **[1–3 marks]**

Outline of the advantages and disadvantages of each source of finance. 1 mark for each L1 statement (max of 3 marks) e.g. Large amounts of capital can be borrowed with a bank loan.

Level 2 **[4–6 marks]**

Discussion of the advantages and disadvantages of each source of finance. 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. Large amounts of capital can be borrowed with a bank loan and the money can be paid back in monthly installments making it easier to pay it back as the café increases its sales of food and drinks. However, there are the increased costs from interest payments payable on the loan. (Level 2 plus one application mark for answering in the context of the food and drinks sold)

</td><td>**12**</td></tr>
</table>

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Question	Answer	Marks
4(b)	Level 3 **[7–10 marks]** For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation of the best source of finance to choose. 9–10 marks for well justified recommendation as to the best source of finance to choose rather than the alternatives. 7–8 marks for some limited judgement shown in recommendation as to the best source of finance to choose. **Award up to 2 additional marks for relevant application.** Possible application marks: Set up as his own boss – sole trader; set up 15 years ago; bought a building for $10 000; cafe is open 6 days a week; pay himself a high salary; already has an existing bank loan; advertises using menu board outside the café; information from Appendix 1 such as interest rates are increasing and multinational coffee shop chain; information from Appendix 3 from the cash flow forecast. There may be other examples in context that have not been included here.	

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CANDIDATE NAME	

CENTRE NUMBER						CANDIDATE NUMBER					

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BUSINESS STUDIES **0450/22**

Paper 2 **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.

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

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

Characteristic 1:.....

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Characteristic 2:.....

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..... [8]

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(b) Refer to Appendix 3.

(i) Calculate values for:

X: .....

Y: .....

Z: ..... [3]

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

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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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(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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Sally:.....

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Vera:.....

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Recommendation:.....

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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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(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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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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(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: .....

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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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ACCOUNTING **0452/22**

Paper 2 **March 2018**

MARK SCHEME

Maximum Mark: 120

Published

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1(a)</td><td>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
Any 2 advantages (1) each</td><td>2</td></tr>
<tr><td>1(b)</td><td>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
Any 2 reasons (1) each</td><td>2</td></tr>
<tr><td>1(c)</td><td>
<table>
<tr><th></th><th>debit</th><th>credit</th><th>no entry</th></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>
</td><td>9</td></tr>
</table>

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Question	Answer	Marks
1(d)		6

	principle
Kamika uses the double entry system of book-keeping when recording transactions in her ledgers	Duality **(1)**
Kamika adjusted the charge for insurance in the income statement for an amount prepaid at the year-end	Accruals (matching) **(1)**
Kamika adjusts her provision for doubtful debts at the end of each year so it is always 3% of her trade receivables	Prudence **Or** Consistency **(1)**
Kamika intends to trade for several years and values her premises at net book value not expected sales value in her statement of financial position	Going concern **(1)**
Kamika did not make any entry in her accounting records when a competitor reduced his prices even though it may affect her sales	Money measurement **(1)**
Kamika did not make any entry in her accounting records when a customer asked for goods to be put aside for him to collect sometime in the future	Realisation **(1)**

1(e) — **9**

Kamika
Fuel2go account

Date	Details	$	Date	Details	$
2017			*2017*		
Mar 31	Bank **(1)**	780	*Feb 1*	*Balance b/d*	800
	Discount received **(1)**	20	Dec 10	Fuel expenses **(1)**	3200
2018					
Jan 31	Balance c/d	3200			
		4000			4000
			2018		
			Feb 1	Balance b/d **(1)OF**	3200

Fuel expenses account

Date	Details	$	Date	Details	$
2017			2018		
Feb 1	*Balance (inventory) b/d*	*950*	Jan 31	Income statement**(1)OF**	3260
Jun 4	Bank **(1)**	210		Balance (inventory) c/d	1100
Dec 10	Fuel2go **(1)**	3200			
		4 360			4360
2018					
Feb 1	Balance (inventory) b/d **(1)**	1100			

+ (1) Dates

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>2(a)</td><td>Ensures that the profit for the year is not overstated in the income statement (1)
Ensures that the non-current assets are not overstated in the statement of financial position(1)</td><td>2</td></tr>
<tr><td>2(b)</td><td>Dipak
Journal
<table><tr><th></th><th>Debit
$</th><th>Credit
$</th><th></th></tr><tr><td>Motor vehicles</td><td>50 000</td><td></td><td>(1)</td></tr><tr><td>ZY Motors</td><td></td><td>50 000</td><td>(1)</td></tr></table></td><td>2</td></tr>
<tr><td>2(c)</td><td><table><tr><td></td><td>$</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>25 600</td><td></td></tr><tr><td>Depreciation for the year ended 30 November 2016</td><td>5 120</td><td>(1)</td></tr><tr><td>Book value at 30 November 2016</td><td>20 480</td><td></td></tr><tr><td>Depreciation for the year ended 30 November 2017</td><td>4 096</td><td>(1)</td></tr></table></td><td>2</td></tr>
<tr><td>2(d)</td><td><table><tr><td></td><td>$</td><td></td></tr><tr><td>Cost</td><td>50 000</td><td></td></tr><tr><td>Depreciation for the year ended 30 November 2016</td><td>10 000</td><td>(1)</td></tr><tr><td>Book value 30 November 2016</td><td>40 000</td><td></td></tr><tr><td>Depreciation for the year ended 30 November 2017</td><td>8 000</td><td>(1)</td></tr></table></td><td>2</td></tr>
<tr><td>2(e)</td><td>Dipak
Journal
<table><tr><th></th><th>Debit
$</th><th>Credit
$</th><th></th></tr><tr><td>Income statement (4096 + 8000)</td><td>12 096</td><td></td><td>(1) OF</td></tr><tr><td>Provision for depreciation of motor vehicles</td><td></td><td>12 096</td><td>(1) OF</td></tr></table></td><td>2</td></tr>
<tr><td>2(f)</td><td><table><tr><td></td><td>$</td><td></td></tr><tr><td>Depreciation to 30 November 2015</td><td>14 400</td><td></td></tr><tr><td>Depreciation for the year ended 30 November 2016</td><td>5 120</td><td>}</td></tr><tr><td>Depreciation for the year ended 30 November 2017</td><td>4 096</td><td>} (1)OF</td></tr><tr><td></td><td>23 616</td><td>(1)OF</td></tr></table></td><td>2</td></tr>
</table>

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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)	ND Sports Club Café Income Statement for the year ended 31 December 2017	**7**

	$		$	
Revenue (sales)			9 520	
Purchases (5760 **(1)** + 130 **(1)**)	5 890			
Closing inventory	970			
	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)	700	**(1)**	10 680	
Loss for the year			1 160	**(1)OF**

Question	Answer	Marks
3(b)	ND Sports Club Income and Expenditure Account for the year ended 31 December 2017	**9**

	$		$	
Subscriptions ((14 850 + 500**(1)**) – 350 **(1)**) (**Or** 300 **(1)** × 50 **(1)**)			15 000	
Net income from competition			710	**(1)**
			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)	1 240	**(1)**	11 640	
Surplus for the year			4 070	**(1) OF**

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

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Question	Answer	Marks
4(a)	Amaira Corrected Statement of Financial Position at 31 January 2018	**15**

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	**(1)**	9 625	**(1)OF**
	136 000	20 895		115 105	
Current assets					
Inventory (18 000 + 2 000)				20 000	**(1)**
Trade receivables		14 000			
Less Provision for doubtful debts (3% × 14 000)		420	**(1)**	13 580	**(1)OF**
Petty cash				90	**(1)**
				33 670	
Total assets				148 775	
Capital and liabilities					
Capital					
Opening balance				100 000	
Plus Profit for the year (14 735 **(1)** – 1375 **(1)** – 150**(1)** + (450 – 420) **(1)**)				13 240	*
				113 240	
Less Drawings				7 000	**(1)**
				106 240	**(1)OF**
Current liabilities					
Trade payables				15 144	
Bank overdraft (7 241 + 150)				7 391	**(1)**
Loan – EasyLoans				20 000	**(1)**
				42 535	
Total capital and liabilities				148 775	

*** Accept calculation outside Statement**

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>4(b)</td><td>Amaira
Capital account

<table>
<tr><th>Date</th><th>Details</th><th>$</th><th>Date</th><th>Details</th><th>$</th></tr>
<tr><td>2018</td><td></td><td></td><td>2017</td><td></td><td></td></tr>
<tr><td>Jan 31</td><td>Drawings (1)</td><td>7 000</td><td>Feb 1</td><td>Balance b/d (1)</td><td>100 000</td></tr>
<tr><td></td><td>Balance c/d</td><td>106 240</td><td>2018</td><td></td><td></td></tr>
<tr><td></td><td></td><td></td><td>Jan 31</td><td>Profit for year (1)OF</td><td>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</td><td></td><td></td></tr>
<tr><td></td><td></td><td></td><td>Feb 1</td><td>Balance b/d (1)OF</td><td>106 240</td></tr>
</table>
+ (1) Dates</td><td>5</td></tr>
<tr><td>4(c)</td><td>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</td><td>2</td></tr>
<tr><td>4(d)</td><td>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</td><td>2</td></tr>
</table>

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Question	Answer	Marks
5(a)	ABC Limited Statement of Changes in Equity for the year ended 31 December 2017	6

	Ordinary share capital $	General reserve $	Retained earnings $	Total $	
On 1 January 2017	180 000	25 000	9 500	214 500	
Share issue	20 000	.....	.....	**20 000**	**1**
Profit for the year	.....	.....	**21 000**	**21 000**	**1**
Final dividend paid for year ended 31 December 2016	.....	.....	**(7 200)**	(7 200)	**1**
Interim dividend for the year ended 31 December 2017	.....	.....	**(6 000)**	(6 000)	**1**
Transfer to general reserve	.....	2 000	**(2 000)**	.....	**1**
At 31 December 2017	**200 000**	**27 000**	**15 300**	**242 300**	**1**

5(b)	Increase in gross profit Decrease in expenses/better control of expenses Increase in other income Different type of expenses **Or other suitable reason** **Any 2 reasons (1) each**	**2**
5(c)	2017 **(1)** In 2016 the percentage of expenses to revenue was 20%: in 2017 the percentage of expenses to revenue was 16% **(1)s**	**2**
5(d)		**4**

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)**

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>5(e)</td><td>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
Or other suitable comment
Any 2 comments (1) each</td><td>2</td></tr>
<tr><td>5(f)</td><td>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
Any 2 points (1) each</td><td>2</td></tr>
<tr><td>5(g)</td><td>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
Any 2 points (1) each</td><td>2</td></tr>
<tr><td>5(h)</td><td>Have to wait longer for the money
Increased risk of bad debts
Or other suitable disadvantage
Any 1 disadvantage (1)</td><td>1</td></tr>
<tr><td>5(i)</td><td>Do not have to allow cash discount
May charge interest on overdue accounts
Or other suitable advantage
Any 1 advantage (1)</td><td>1</td></tr>
<tr><td>5(j)</td><td>The profit earned for every $100 used in the business</td><td>1</td></tr>
<tr><td>5(k)</td><td>
<table>
<tr><th></th><th colspan="3">effect on return on capital employed (ROCE)</th></tr>
<tr><th></th><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>
</td><td>3</td></tr>
</table>

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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

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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

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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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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

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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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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%	

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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

Published

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Question	Answer	Marks	Notes
1(a)	**What is meant by 'market share'?** Clear understanding: e.g. percentage or proportion of the total market sales [1] held by one brand or business [+1] **OR** business sales/total market sales × 100 Some understanding [1] e.g. share of sales made / percentage of customers a business has	**2**	
1(b)	**Identify <u>two</u> aims of promotion.** Award 1 mark per aim. Points might include: • inform / raise awareness / introduce new products • create brand image / improve image • compete with competitors • persuade / increase sales / attract customers • customer loyalty	**2**	Question must relate to Marketing Mix. **Do not award** answers related to staff promotion.

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Question	Answer	Marks	Notes
1(c)	**Identify and explain <u>two</u> methods of market research that GKA could use.** Award 1 mark for each method identified Award 1 mark for each explanation in context Points might include: • observation / visiting competition [k] other food retailers [app] • questionnaires [k] about the low prices [app] • surveys [k] about the own-label products [app] • interviews [k] about the new shops [app] • experiments / free samples / test marketing [k] the cereal [app] • access government statistics [k] • focus groups / consumer panels [k] • use market research agencies [k] • loyalty card data [k] • articles / newspapers / magazines[k]	**4**	Application marks may be awarded for appropriate use of the following: • use of numbers such as 300 or 100 (shops) • food retailer • food / breakfast cereal • toothpaste • high income / low income areas • change its pricing strategy • low prices • quality products • limited range (of products) • no promotion • own-label products (TV) Internet / online on own (NAQ) Primary / Secondary / Field / Desk

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Question	Answer	Marks	Notes
1(d)	**Identify and explain <u>two</u> ways in which GKA could keep costs low.** 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 Relevant points might include: • choose low cost locations [k] for all 100 sites [app] leading to lower fixed costs [an] • pay minimum wage [k] to shop workers [app] keep variable costs low [an] • economies of scale [k] (only once) for its limited range of products [app] leading to lower average costs [an] • set lower marketing budget [k] as no money spent on market research [app] • replace workers with machinery / automation / reduce workforce [k] • cheaper supplier [k] • close some locations [k] which would reduce electricity cost [an] • set up online [k] • reduce waste [k] • Buy direct from manufacturer [k] so lower cost than buying from wholesaler [an]	**6**	Application marks may be awarded for appropriate use of the following: • use of numbers such as 300 or 100 (shops) • food retailer • food / breakfast cereal • toothpaste • high income / low income areas • limited range (of products) • no promotion • low prices • quality products • own-label • market share increased 5% • profit increased by 40% **Do not award** analysis for answers that clearly refer to manufacturing such as Lean production.

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Question	Answer	Marks	Notes
1(e)	**Do you think GKA should change its pricing strategy as the business expands? Justify your answer.** 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. Relevant points might include: • identification of a pricing strategy [k] • actions of competitors [k] • cost of new locations [k] in high income areas [app] may make it hard to control costs [an] • diseconomies of scale [k] from extra 100 shops [app] leading to a rise in average costs [an] • economies of scale[k] may allow them to charge lower prices[an] • current prices give the image of poor quality [k] because they are low prices [app] so may not attract new customers [an] • 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]	**6**	Application marks may be awarded for appropriate use of the following: • use of numbers such as 300 or 100 (shops) • food retailer • food / breakfast cereal • toothpaste • high income or low income areas • limited range (of products) • no promotion • quality products • low prices • try to keep costs low • market share increased 5% • profit increased by 40% Note: question should focus on whether business should change its pricing strategy not just increase or decrease price.

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Question	Answer	Marks	Notes
2(a)	**Identify <u>two</u> situations in which downsizing the workforce might be necessary.** Award one mark per situation Points might include: • introduction of automation / new technology • redesign work space / layout • demand factors e.g. falling demand, changing tastes, end of product life cycle, recession / economic slump, more competition, less revenue • factory closure • relocation to another country • business taken over / merger • excess workforce / unnecessary workers • financial problems e.g. lack of income, increase in costs, cash flow issues, cannot afford the workers, • changes in law • delayering / restructuring	**2**	**Do not award** answers discussing who should be removed from the workforce e.g. poor attendance
2(b)	**Identify <u>two</u> possible ethical issues that SJD might have to respond to.** Award 1 mark per ethical issue. Points might include: • protecting the environment • fair wages to workers / pay **above** minimum wage • pay fair prices to suppliers • charge fair prices to consumers • not employing child labour.	**2**	Ethical issues raised must relate to SJD Do not reward aspects covered by law

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Question	Answer	Marks	Notes
2(c)	**Identify and explain <u>two</u> possible problems for SJD if it decides to relocate its business.** Award 1 mark for each problem identified Award 1 mark for each explanation in context Points might include: • access to / cost of available space [k] for steel production [app] • legal controls / level of government support [k] in other countries [app] • access to suitable / cost of workers [k] for private sector business [app] • availability / cost of raw materials [k] such as iron [app] • access to / cost of infrastructure e.g. transport and energy [k] • level of competition [k] • exchange rates / currency issues [k] • cultural issues e.g. different working hours [k] • language / communication difficulties [k] • trade restrictions / obtaining permits [k]	**4**	Application marks may be awarded for appropriate use of the following: • cheap imports • steel • iron • high tax rates • ethical issues • 3500 or 9000 • competitors plan to close factories • construction businesses • (other) countries • private sector • factory

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Question	Answer	Marks	Notes
2(d)	**Explain how each of the following factors might affect SJD's business.** 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 Relevant points might include: **High business tax rates:** • reduces profit [k] so may need to make more workers redundant [app] • increase prices [k] so may lead to lower demand [an] from construction businesses [app] • increases costs [k] leading to less profit [an] for this private sector business [app] **Cheap imports:** • reduced demand [k] for steel [app] as its customers are able to buy from rivals [an] • may reduce prices [k] so revenue is reduced [an] • lower costs of production [k] as this is a producer [app] as raw materials may be cheaper [an] • reduce market share [k]	**6**	Application marks may be awarded for appropriate use of the following: • steel • iron • ethical issues • 3500 or 9000 • competitors plan to close factories • construction businesses • private sector • producer • (other) countries • government support • employees redundant • relocation **Do not award** reference to cheap imports / high business tax rates, as application. This is in the question.

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Question	Answer	Marks	Notes
2(e)	**Do you think the Government should help businesses like SJD? Justify your answer.** 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 Points for might include: • protect jobs [k] as they plan to make 3500 redundant [app] which would increase unemployment [an] and the cost of paying unemployment benefits [an] • protect the vital industry [k] of steel [app] to ensure supply in their own country [an] • impact on other businesses [k] who need the material for construction [app] • government could lose tax revenue if they fail [k] Points against might include: • 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] • can obtain materials from other countries [k] as have access to cheap imports [app] • environmental impact of business [k] as industry creates pollution [an] • it is not the role of government [k] to help private sector business [app] • disincentive for businesses to be successful [k] this could lead to them being inefficient [an]	**6**	Application marks may be awarded for appropriate use of the following: • cheap imports • steel • iron • high tax rates • ethical issues • 3500 or 9000 • competitors plan to close factories • construction • private sector • producer • (other) countries • relocate **Do not award** government support as application as referred to in the question. **Do not award** answers which focus on how governments will help businesses

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Question	Answer	Marks	Notes
3(a)	**What is meant by 'non-current liabilities'?** Clear understanding [2]: debts / loans repayable in more than 12 months [2] **Or** Money owed for more than a year [2] Some understanding [1]: e.g. debts or money owed [1] **Or** repayable in more than 12 months [1]	**2**	**Do not award** 'long term liabilities' as this is the alternative name for the term **Do not** credit 'liability' as stated in question Some understanding plus a relevant example can gain 2 marks. i.e. money owed for example bank loan
3(b)	**Identify <u>two</u> reasons why a business might need finance.** Award 1 mark per reason. Points might include: • start-up / start a business venture • cash flow problems / survive (BOD) • pay creditors • offer credit to customers • fund expansion • replace machinery / investment • working capital/ day-to-day • pay for advertising (promotion)	**2**	

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Question	Answer	Marks	Notes
3(c)	**Identify and explain <u>two</u> possible advantages to IBH of being a private limited company.** Award 1 mark for each advantage identified Award 1 mark for each explanation in context Points might include: • can control who buys shares [k] so can keep control in this competitive market [app] • easier to raise finance / able to sell shares [k] as they want to expand [app] • seen as more creditworthy to suppliers [k] so could be more willing to supply leather [app] • limited liability [k] this keeps personal assets of family safe [app] • incorporation / separate legal identity [k] • no need to publish accounts [k] • continuity [k]	**4**	Application marks may be awarded for appropriate use of the following: • family (owned) • want to expand • shoes or related words such as leather, children, women • competitive market • needs finance • directors **Do not award** private limited company as application, as this is stated in the question.

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Question	Answer	Marks	Notes
3(d)	**Identify and explain <u>two</u> advantages to IBH of using batch production** 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 Points might include: • economies of scale [k] to reduce average costs [an] to increase the profit above $120 000 [app] • allows variety of products [k] so easier to meet demand for different styles [an] of shoes [app] • flexibility / easy to switch production [k] • limited quantity [k] so if children's tastes change [app] so not left with unwanted stock [an] • variety of tasks for workers [k] which increase worker motivation and output [an] • production may not be affected if machinery breaks down [k] • spread risk [k] as they are not reliant on one product for all sales [an]	**6**	Application marks may be awarded for appropriate use of the following: • want to expand • shoes or related words such as leather, children, women • competitive market • correct references to data in Table 1 • needs finance • directors • private limited company The advantage needs to clearly relate to the business not the worker

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Question	Answer	Marks	Notes
3(e)	**Do you think IBH's performance has improved in 2017? Justify your answer using profit margins.** 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 Points might include: • revenue increased [k] by 80 000 [app] • non-current liabilities have increased [k] by 100 000 [app] • gross profit increased [k] by 80 000 [app] • profit has remained the same [k] • gross profit margin increased [k] from 60% [app + an] to 67% [an] • gross profit margin increased [k] by 6–7% [app + an + an] • (net) profit margin has fallen [k] from 30% [app + an] 25% [an] • (net) profit margin fallen [k] by 5% [app + an + an]	**6**	Application marks may be awarded for appropriate use of the following: • want to expand • shoes or related words • correct use of data from Table 1 • (use of $000 not required) • competitive market • directors • private limited company To gain analysis mark at least one profit margin must be calculated. % sign is not required. Accept 66% or 67% for gross profit margin.

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Question	Answer	Marks	Notes
4(a)	**What is meant by 'stakeholder group'?** Clear understanding [2]: any group or person with a (direct) interest in the performance / activities of a business Some understanding [1]: someone affected by a business [1] or anybody inside or outside the business who cares about its operations [1]	**2**	**Do not award** examples as this does not answer the question. **Do not award** affects/influences the decisions
4(b)	**Identify <u>two</u> possible reasons why Ben's business has remained small.** Award 1 mark per possible reason Points might include: • personal wishes / owners objectives • size of market / niche • lack of finance • avoid diseconomies of scale / communication issues / co-ordination issues	**2**	(TV) State of economy
4(c)	**Identify and explain <u>two</u> reasons why quality might be important for Ben's business.** Award 1 mark for each reason identified Award 1 mark for each explanation in context Points might include: • help establish loyalty [k] which can help improve his business success [app] • increase sales / revenue / attract new customers [k] through more recommendations [app] • improve reputation / brand image [k] for his gardening business [app] • no need for rework [k] • able to charge high prices [k] • maybe his USP[k]	**4**	Application marks may be awarded for appropriate use of the following: • small (business) • gardening or related words such as cutting grass • (business) success • bonus • recommendation • 15 years ago

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Question	Answer	Marks	Notes
4(d)	**Identify and explain <u>two</u> advantages to Ben's business of having part-time workers.** 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 Points might include: • 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] • help retain experienced employees [k] who have worked there for a number of years [app] so reducing his recruitment costs [an] • can add more skills / experience to business [k] to increase demand [an] • help attract / easier to find workers [k] • do not have to pay holiday / sick pay [k] • may be more motivated [k] so productivity would rise [an] • 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]	**6**	Application marks may be awarded for appropriate use of the following: • small (business) • gardening or gardening related words allowed once • (business) success • bonus • hourly wage rate • recommendation • 15 years ago • 4 (part-time), 2 (full-time) **Do not award** answers which clearly confuse part-time with seasonal workers. **Do not award** answers that suggest that part-time are easier to dismiss **Do not award** answers such as cheaper unless explained as all paid an hourly wage rate.

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Question	Answer	Marks	Notes
4(e)	**Explain <u>two</u> ways Ben could improve employee motivation. Recommend which way Ben should choose. Justify your answer.** 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. Points might include: • change method of payment / increased rate of pay [k] • training [k] so feel more valued [an] • involve workers in decision making [k] so workers feel more important [an] to the gardening business [app] • change leadership style [k] Ben orders workers to do jobs [app] • chance for promotion / become full time [k] • job rotation [k] for the 6 employees [app] so employees are not bored doing the same thing [an] • job enlargement [k] • job enrichment [k] • employee of the month [k] therefore workers feel like their hard work is being recognised [an] • praise [k] meeting employees esteem needs [an] • team working / communication [k] • fringe benefits [k]	**6**	Application marks may be awarded for appropriate use of the following: • small (business) • gardening or related words such as cutting grass • (business) success • service • customer recommendation • seasonal (as gardening may not be needed all year) • ordered to do jobs • 15 years ago • 4 (part-time), 2 (full-time) • hourly wage rate • employed for a number of years **Do not award** bonus as knowledge (currently does offer this) For evaluation marks to be awarded two relevant ways must have been explained

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BUSINESS STUDIES **0450/12**

Paper 1 Short Answer / Structured Response **May/June 2018**

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Maximum Mark: 80

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Question	Answer	Marks	Notes
1(a)	Identify **two** features of a sole trader. Knowledge [2 × 1] Award 1 mark per feature Points might include: • Keeps all profits • Unlimited liability • Unincorporated OR no separate legal identity • Takes all decisions OR own boss/ works for himself/herself • Has total ownership of business OR full control • Few legal requirements	**2**	**Do not accept** in private sector as this applies to all types of organisation in the sector. **Do not award** features of an entrepreneur **Do not award** answers such as: • Independent [tv] • fast decision making [tv] • no one to help run / manage business OR help make decisions [tv]
1(b)	Identify **two** of the main sections of a business plan. Knowledge [2 × 1]: Award 1 mark per element. Points might include: • Executive summary • Business aims OR targets OR vision statement OR objectives • Marketing OR any element of mix, e.g. pricing, product, place or promotion • Market research OR Competition OR market analysis • Financial, e.g. cash flow forecast OR budgets • Human resources OR number of employees OR skills needed • Production details • Organisational OR management details, e.g. structure, type of business, name and location of business	**2**	Note only award one point from each section **Do not award** examples of objectives, e.g. **increase in** profit OR expand

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Question	Answer	Marks	Notes
1(c)	Identify and explain **two** reasons why using the right pricing method is important for Adele's business. Knowledge [2 × 1]: Award 1 mark for each reason identified Application [2 × 1]: Award 1 mark for each explanation in context Points might include: • Help attract customers [k] to go to her school [app] • Help retain customers [k] in the dance classes [app] • Maintain OR create business image [k] so that children want to attend [app] • Remain competitive OR don't lose customers to competitors [k] • Ensure cover costs OR survival [k] especially if she takes out a bank loan [app] • Ensure business makes a profit [k] to pay herself a salary [app]	**4**	Application marks may be awarded for appropriate use of the following: • Children OR parents • Exercise classes OR dance • School • Sole trader • $8000 • $1000 • Pays herself a salary • Expand OR second (school) • Business plan • 5 years **Do not award** students as [app] as it is too vague **Do not award** 'money for expansion' as knowledge **Do not award** answers which identify possible pricing methods as this does not answer the question

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Question	Answer	Marks	Notes
1(d)	Identify and explain **two** location factors that Adele should consider when deciding on a second school. Knowledge [2 × 1] Award 1 mark for each relevant factor Application [2 × 1] Award 1 mark for each relevant reference to this business Analysis [2 × 1] Award 1 mark for each relevant explanation Relevant points might include: • Customers OR level of demand [k] for dance classes [app] to increase OR ensure revenue [an] • Cost OR availability of suitable premises [k] as might not be able to afford location [an] as only set aside $8000 [app] • Government regulations OR availability of grants [k] which could stop her from opening in certain locations [an] • Competitors OR loyalty to other businesses [k] by children [app] making it difficult to compete [an] • Access to employees [k] as will need trained people to help or advise customers [an] • Infrastructure OR transport links OR utilities OR internet access [k] as without electricity may be difficult to operate the site [an] • Reputation / image OR security OR crime level OR pollution in area [k] • Close to suppliers [k] to reduce transport costs [an] • Personal preference [k]	**6**	Application marks may be awarded for appropriate use of the following: • Children OR parents • Exercise or dance classes or related words such as instructors • sole trader • $8000 • $1000 • Pays herself a salary • Business plan • 5 years • Bank loan **Do not accept** school as application as stated in question. Note: For analysis only award impact on revenue once e.g. increase in sales / revenue OR decrease in sales / revenue Do not award points such as climate OR location is good as these are [TV]

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Question	Answer	Marks	Notes
1(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. 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 a bank loan is the best source of finance for Adele to use Relevant points might include: Loan • Needs to be repaid [k] • Have to pay interest [k] which will increase her costs [an] • Have long time to repay [k] so has time to gain extra revenue to meet repayments [an] • Can keep profits for future OR emergency [k] • Has unlimited liability [k] as sole trader [app] so could lose personal assets if unable to repay [an] • May need to offer security [k] • Can borrow large amount or all the money [k] Profits • Using retained profits [k] but only has $5000 [app + an] so would still need $3000 [an] • Using retained profits [k] as no need to repay [an] • Using profit [k] could reduce the amount needed to borrow [an] which could reduce the amount of interest paid [an] Additional options could include: 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]	**6**	Application marks may be awarded for appropriate use of the following: • Children OR parents • Exercise classes or dance • School • sole trader • $8000 • $1000 • pays herself a salary • business plan • 5 years Note: Other **suitable long term** 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. **Do not award** sell shares OR short term methods of finance, e.g. overdraft 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, **do not award** points such as bank see her as high risk

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Question	Answer	Marks	Notes
2(a)	What is meant by a 'cash flow forecast'? 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 Some understanding [1]: shows cash / money inflows **and** outflows	**2**	For both marks must have idea of cash in and outflows [1] plus future / estimated / predicted [+1] **Do not award** forecast as this is part of the question
2(b)	Calculate the values for **X** and **Y**. Application [2 × 1] award 1 mark per value X = (30) or (30 000) Y = (20) or (20 000)	**2**	Note: must clearly indicate that the numbers are **negative values** to award the marks.

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Question	Answer	Marks	Notes
2(c)	Identify and explain **two** benefits to JSF of market research. Knowledge [2 × 1] – award 1 mark per way identified Application [2 × 1] – award 1 mark for each explanation in context. Points might include: • Greater awareness of (current) consumer needs / preferences (only once) [k] for towels and sheets [app] • Help identify gaps in the market OR future trends [k] • Find out about competitors OR size of the market [k] as in private sector [app] • Helps set price [k] which could help increase cash inflow above $9000 [app] • Produce the correct **amount** of products [k] that could help reduce cash outflows which are too high [app] • Reduces risks OR products launched with more confidence [k] • Help decide how best to promote its products [k] to retailers [app] • Help gain competitive advantage [k]	**4**	Application marks may be awarded for appropriate use of the following: • Correct use of appropriate numbers from Table 1 • Household goods or examples such as bed sheets, towels • (Sold to) retailers • Cash outflows **too high** • 50 (production workers) • Private sector • $1000 (training per month) Note: Answers should focus on the benefit to JSF of the market research 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.

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Question	Answer	Marks	Notes
2(d)	Identify and explain **two** reasons why training is important to JSF. Knowledge [2 × 1] Award 1 mark for each relevant reason identified Application [2 × 1] Award 1 mark for each relevant reference to this business Analysis [2 × 1] Award 1 mark for each relevant explanation Relevant points might include: • Increased motivation [k] so could lead to increased efficiency OR output OR faster [an] when making towels [app] • Fewer customer complaints [k] from retailers [app] increasing customer loyalty OR sales OR revenue [an] • Fewer mistakes OR less wastage OR better / maintain quality [k] of 50 production workers [app] lower costs of rework [an] • Fewer accidents OR ensure safe working conditions [k] when operating machines [app] • More skilled OR flexible employees OR workers know what to do [k] so able to cover absences of others [an] • Less supervision needed [k] • Help reduce number of employees leaving OR encourage employee loyalty OR retention [k] lowering recruitment costs [an] • Help attract employees [k] • Able to train others [k] so reducing training costs [an] below $1000 per month [app]	**6**	Application marks may be awarded for appropriate use of the following: • Household goods or examples such as bed sheets, towels • Cash outflows too high • 50 (production workers) • $1000 (per month) • Machines OR machinery • Retail businesses • Correct use of numbers from Table 1

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Question	Answer	Marks	Notes
2(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. Knowledge [1] Award 1 mark for identification of relevant point(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 which method JSF should use to improve its cash flow position Relevant points might include: Practical examples such as: • Find cheaper supplier [k] as this would reduce cash outflow [an] but cheaper could mean lower quality leading to lower cash inflows/ sales [an] • Increase number of customers [k] which could increase cash inflows [an] OR • Arrange a **short term loan** OR overdraft [k] giving them quick access to cash [an] especially at time when cash outflows are high [app] • Reduce level of trade receivables (debtors) or ask trade receivables (debtors) to pay quicker [k] than 2 months [app] • Delay purchases [k] so keeping cash in the business [an] • Reduce level of inventory [k] • Sell unwanted non-current assets [k] as workers use machines [app] so releasing cash tied up in the business [an] • Ask for more time to pay suppliers [k]	**6**	Application marks may be awarded for appropriate use of the following: • Correct use of numbers from Table 1 • Fabrics and associated words such as bed sheets, towels • Market research budget cut to zero • Cash outflows too high • 50 (production workers) • 2 months OR retailers • 2 weeks (to pay suppliers) **Do not accept** answers such as 'increase cash inflow' OR 'reduce cash outflow' as knowledge as does not identify a way **Do not accept** training as knowledge or application as stated in question or market research as has zero budget. Note: evaluation marks can **only** be awarded if two relevant ways of improving cash flow have been identified **and** at least 1 analysis mark given for reference to effect on cash flow. Note: a decision alone is not evaluation. Must give a supported reason for choice. For second evaluation mark, must **clearly** explain why chosen method is better than other option discussed.

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Question	Answer	Marks	Notes
3(a)	Identify **two** ways to measure business success. Knowledge [2 × 1]: Award 1 mark for each measure of success. Relevant points might include: • Growth OR number of shops • Market share • Revenue OR sales value OR sales volume • Survival (in short run) • Profit OR financial ratios such as ROCE OR profit margin OR capital invested • Customer satisfaction OR number of repeat customers • Good reputation • Share price OR dividends • Efficiency OR productivity OR number of output • Number of employees OR employee loyalty • Achieving environmental OR ethical targets	**2**	Accept any reasonable answer **Do not award** size OR compare performance to competitors or over time [tv] on own. Answer must state what they are measuring / comparing **Do not award** value of output as too vague Only accept meeting their objectives if no other valid answer

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Question	Answer	Marks	Notes
3(b)	Identify **two** features of a growing economy. Knowledge [2 × 1] Award 1 mark per feature. Points might include: • **Lower** unemployment OR **more** jobs created • **More** businesses opening OR **improved** business confidence OR **increased** capital investment • **Higher** living standards OR **more** disposable income OR **rising** incomes OR **increase** in demand / sales • **Higher** rates of economic growth OR **increase** in GDP OR Level of output **increases** • **Increased** tax revenue • **Higher** business profits • **Higher** inflation OR higher prices	**2**	**Do not award** answers which refer to an individual business. **Do not award** change in exchange rates OR interest rates Note: Answer must state the direction of change to be awarded

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Question	Answer	Marks	Notes
3(c)	Identify and explain **two** ways in which an increase in the minimum wage could affect DPC. Knowledge [2 × 1] Award 1 mark for each way identified Application [2 × 1] Award 1 mark for each explanation in context Points might include: • Increased cost (of labour) OR increase cash outflows [k] as have to pay $5 per hour [app] • May hire fewer workers OR reduce hours OR make workers redundant [k] so not able to sustain level of success [app] • Might increase prices [k] of pizzas [app] • Increase sales as people might have more money to spend [k] in its 200 shops [app] • Other employees may ask for higher wages [k] • Increased motivation OR increased productivity [k]	**4**	Application marks may be awarded for appropriate use of the following: • Pizzas • Successful year • $5 per hour • Environmental pressures OR complaints about food waste OR litter (empty boxes) • 200 OR shops / stores OR takeaways OR delivery • Economy is growing **Do not award** lower profit OR cannot expand as knowledge **Do not award** increased sales on own **Do not award** have to pay them more money OR increased salary as this does not explain the effect on DPC

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Question	Answer	Marks	Notes
3(d)	Identify and explain **two** advantages to DPC of using e-commerce. Knowledge [2 × 1] Award 1mark for each advantage identified Application [2 × 1] Award 1 mark for each relevant reference to this business Analysis [2 × 1] Award 1 mark for each relevant explanation Relevant points might include: • Increase potential number of customers OR larger target market [k] for its 200 shops [app] leading to higher revenue [an] • Easy to update communication OR information [k] about food waste [app] • Cheaper method of advertising [k] as don't need to pay to reprint leaflets [an] about pizzas [app] • Fewer employees needed [k] so lower labour costs [an] could help reduce impact of increase in minimum wage [app] • Need fewer shops [k] so less rent [an] • Good reviews can enhance reputation [k] • Helps to compete [k] to maintain market share OR ensure customer loyalty [an]	**6**	Application marks may be awarded for appropriate use of the following: • Pizzas or associated words such as toppings • Successful year • $5 per hour • Increase in minimum wage • Environmental pressures OR complaints about food waste OR litter (empty boxes) • 75% (orders from e-commerce) • 200 OR shops / stores OR takeaways OR delivery • Economy is growing **Do not award** advantages for customers, e.g. easy access or convenient or easier to purchase unless answer explains how it is a benefit to the business. **Do not award lower costs** on own unless explained

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Question	Answer	Marks	Notes
3(e)	Explain **two** ways in which DPC could respond to environmental pressures. Recommend which of the two options it should choose. Justify your answer. Knowledge [1] Award 1 mark for identification of relevant ways(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 which of the two options DPC should choose. Relevant points might include: • Reduce the amount of paper OR cardboard used [k] so there is less litter created [an] • Provide recycling facilities [k] for litter [app] so less is left around the streets [an] but it might be expensive to provide bins [an] • Use recycled materials [k] for the boxes [app] but this could increase production cost [an] • Buy supplies in smaller amounts [k] when making pizzas [app] • Offer smaller portions OR only make to order [k] • Organise patrols [k] to collect litter [app] to reduce the amount of complaints [an] • Hire someone to collect rubbish [k] but would have to pay them [an] • Ask customers to bring own containers [k]	**6**	Application marks may be awarded for appropriate use of the following: • Pizzas or associated words such as toppings • Successful year • $5 per hour • Increase in minimum wage • Complaints about food waste and litter (empty pizza boxes) • 75% orders from e-commerce • 200 or shops / store OR takeaways OR delivery Note a decision alone is not evaluation. Must give a supported reason for choice. For second evaluation mark, must **clearly** explain why chosen method is better than other option discussed. Note: Evaluation marks can only be awarded if **two** relevant ways have been identified **and** at least 1 analysis mark given for reference to effect on environment, e.g. less litter **Do not award** reuse pizza boxes as [K] as not appropriate as unhygienic

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Question	Answer	Marks	Notes
4(a)	Identify **two** reasons for a business having objectives. Knowledge [2 × 1] Award 1 mark for each reason identified Points might include: • Act as measure of success • Provides an aim or target • Motivate OR teamwork OR unite the business • Gives a sense of direction OR know what to do • Help decision making / planning / budgeting / manage business better	**2**	**Do not award** examples of objectives
4(b)	Identify **two** fixed costs for JKL. Application [2 × 1] Award 1 mark for each relevant cost identified Points might include: • Rent OR rates • Utilities, e.g. electricity OR gas OR water • Insurance • Salaries OR cost of office employees • Loan repayments OR interest charges • Storage costs	**2**	**Do not award** taxes OR dividends OR examples of variable costs such as wages OR transport OR postage

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Question	Answer	Marks	Notes
4(c)	Identify and explain **one** advantage and **one** disadvantage to JKL of using job production. Knowledge [2 × 1] Award 1 mark for an advantage <u>and</u> 1 mark for a disadvantage identified Application [2 × 1] Award 1 mark for each explanation in context Points might include: Advantages: • Unique OR meet exact customer needs [k] for its clocks [app] • Workers less likely to make mistakes [k] as employees are skilled [app] • More varied work (leads to higher motivation) [k] helping retain existing workers [app] • Can charge a higher price [k] • Flexible [k] Disadvantages: • No economies of scale [k] when buying raw materials **locally** [app] • Production can take longer OR slow OR low output [k] leading to problems when exporting [app] • Skilled labour can cost more [k] so can lead to high fixed costs [app] • Costs are higher as it is often labour intensive [k] so may not be able to find 30 employees [app] • Mistakes can be expensive to correct as each job is different [k]	**4**	Application marks may be awarded for appropriate use of the following: • Clocks • Buys raw materials **locally** • 60% exported • 30 (employees) • Skilled • Part-time • Delegation • Barriers to communication • High fixed costs **Do not accept** high quality or hand made as unknown assumptions **Do not accept** definition of job, e.g. one item at a time **Do not accept** more motivated on own unless explained. **Do not accept** expensive on own as too vague.

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Question	Answer	Marks	Notes
4(d)	Identify **two** possible barriers to communication for JKL. For each barrier, explain how JKL could reduce or remove it. Knowledge [2 × 1] Award 1 mark for each relevant barrier identified Application [2 × 1] Award 1 mark for each relevant reference to this business Analysis [2 × 1] Award 1 mark for each relevant solution as to how the barrier identified could be reduced or removed Relevant points might include: • 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] • Problems with sender [k] OR examples such as send wrong information, message too detailed [k] • Problems with receiver [k] OR examples such as not listening, too busy to pay attention or read material [k] • Problems with feedback [k] OR examples such as no immediate OR opportunities for feedback [k]	**6**	Application marks may be awarded for appropriate use of the following: • Clocks • Buys raw materials **locally** • 60% exported • 30 (employees) • Skilled • Part-time • Delegation • High fixed costs • Email • Job production **Do not award** answers which refer to barriers to trade Note: can accept answers from same category (but development points must be clearly different to award analysis mark) 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.

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Question	Answer	Marks	Notes
4(e)	Do you agree that it is better for JKL to try to retain existing workers rather than recruit new employees? Justify your answer. 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]: 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 Relevant points might include: Retain • Cheaper recruitment costs OR no recruitment cost [k] • Current workers know how things are done [k] so easier to maintain quality OR standards [an] of its clocks [app] • Improve employee motivation OR loyalty [k] so easier to use delegation [app] • Can help improve business image [k] New: • Access to new ideas OR skills [k] to overcome barriers to communication [app] helping them to produce / develop new products [an] • New employees may need training [k] which will increase costs [an] at time when has high fixed costs [app] • 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] • New employees may bring bad habits with them [k]	**6**	Application marks may be awarded for appropriate use of the following: • Clocks • Buys raw materials **locally**, • 60% exported • 30 (employees) • Skilled • Part-time • Delegation • Barriers to communication • High fixed costs • Job production For evaluation a decision alone is not evaluation. Candidates must give a supported reason for choice. For second evaluation mark, must **clearly** explain why chosen option is better than alternative. **Do not award** more expensive or cheaper on own unless explained in relation to specific cost, e.g. lower / higher recruitment cost Note: question is not about whether JKL should recruit **more** employees or benefits of internal / external recruitment

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Cambridge Assessment International Education
Cambridge International General Certificate of Secondary Education

BUSINESS STUDIES **0450/13**

Paper 1 Short Answer/Structured Response **May/June 2018**

MARK SCHEME

Maximum Mark: 80

Published

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

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

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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.

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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.

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Question	Answer	Marks	Guidance
1(a)	**What is meant by 'import quota'?** Clear understanding [2]: limit on the number of goods allowed into a country Some understanding [1]: limit on number of imports	**2**	Do not award answers which confuse term with tariff.
1(b)	**Rosa's revenue was $5000 in 2017. Calculate her expected increase in revenue in 2018.** Application [2] 15 000 Some application: [1] correct method, e.g. 5000 × 300%	**2**	
1(c)	**Identify and explain <u>two</u> ways Rosa could increase added value.** Knowledge [2 × 1] Award 1 mark for each way identified Application [2 × 1] Award 1 mark for each explanation in context Points might include: • Increase price [k] to help ensure sales increase by 300% [app] • Reduce cost of materials [k] used in hand creams [app] • Change packaging [k] • Branding OR create a USP [k] to use on social networks [app] • Improve design [k] • Add extra features [k]	**4**	Application marks may be awarded for appropriate use of the following: • Beauty products or related words such as hand cream, face cream, • Enjoys being in control • Rosa does the design and marketing, • five employees, • Looking to have customers in many countries • Sales increase by 300% • Social networks **Do not award** better quality materials – as this would suggest higher costs which would reduce added value

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Question	Answer	Marks	Guidance
1(d)	**Identify and explain <u>one</u> advantage and <u>one</u> disadvantage to Rosa's business of using social networks for promotion.** Knowledge [2 × 1]: Award 1 mark for 1 relevant advantage and 1 disadvantage Application [2 × 1] Award 1 mark for each relevant reference to this business Analysis [2 × 1] Award 1 mark for each relevant explanation Advantages include: • Large potential audience [k] leading to increased revenue [an] as she is looking for customers in other countries [app] • Target specific groups [k] who want to buy hand creams [app] which can help create brand loyalty [an] • Easy OR quick to update [k] so able to spend more time on other activities [an] • Relatively low cost method of advertising [k] so will not increase expenses [an] so can use money to help fund a bigger factory [app] Disadvantages include: • 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] • Have to pay for 'pop ups' on popular sites [k] leading to additional expenses [an] • Lack of control OR comments can be altered [k] which could be an issue as Rosa likes to be in control [app]	**6**	Application marks may be awarded for appropriate use of the following: • Beauty products or related words such as hand cream OR face cream • Enjoys being in control • Rosa does the design and marketing • five employees • Looking to have customers in many countries, • Need a bigger factory • Sales increase by 300%

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Question	Answer	Marks	Guidance
1(e)	**Do you think Rosa should continue to expand her business? Justify your answer.** 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. Relevant points might include: • Does she have access to enough finance [k] as would need a new factory [app] which she may not be able to afford [an] • 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] • 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] • 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] • Possible economies of scale [k] allowing her to lower average cost [an] • Risk of increased competition [k]	**6**	Application marks may be awarded for appropriate use of the following: • Beauty products or related words such as hand cream, face cream, • Enjoys being in control • Rosa does the design and marketing, • five employees, • looking to have customers in many countries • sales increase by 300% • Needs a bigger factory • Import quotas Either viewpoint is acceptable.

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Question	Answer	Marks	Guidance
2(a)	**What is meant by 'public limited company'?** 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	**2**	**Do not accept** in private sector OR no Government involvement as generic statement also applies to unlimited businesses.
2(b)	**Calculate the values for X and Y.** Application [2] Award one mark per correct answer X = 18 000; Y = (3000)	**2**	**Note:** answer for Y must be shown as a negative value
2(c)	**Identify and explain two ways in which ASZ could use cost data to help make decisions.** Knowledge [2 × 1] Award 1 mark for each way identified Application [2 × 1] Award 1 mark for each explanation in context Points might include: • Help set prices [k] for products sold to retailers [app] • Decide whether to stop OR change production [k] of certain tools [app] • Help choose suitable technology to use [k] as looking to change its production methods [app] • Help choose a suitable OR best location to sell its products [k] • Identify how to reduce costs [k]	**4**	Application marks may be awarded for appropriate use of the following: • Garden tools or related words such as digging, forks, wheelbarrows, • Retailers OR wholesalers • Customer loyalty • Correct use of data from table 1 • Change production methods

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Question	Answer	Marks	Guidance
2(d)	**Identify and explain <u>two</u> ways in which new technology could change production methods at ASZ.** 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 Relevant points might include: • Allows for CAD OR help design new products OR more variety [k] of garden tools [app] to help increase target markets [an] • 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] • Fewer workers needed [k] reducing wage costs [an] • Less errors OR wastage OR consistent quality [k] improving reputation [an] so able to gain customer loyalty [app] • 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] • Improved stock control [k] as easier to keep track of how many wheelbarrows [app] so do not have to produce unnecessary items [an] • Different skill set for workers [k] • More complex work possible [k] • Continuous production (24/7) / no breaks [k]	**6**	Application marks may be awarded for appropriate use of the following: • Garden tools or related words such as digging, forks, wheelbarrows • Retailers OR wholesalers, • Customer loyalty • Correct use of data from table 1 Candidates can identify methods or advantages of using new technology in production

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Question	Answer	Marks	Guidance
2(e)	**Do you think ASZ should change its channel of distribution? Justify your answer.** 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 Relevant points might include: Use of wholesaler: • Have lots of contacts OR customers [k] for its tools [app] leading to more revenue [an] • 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] • Wholesalers buy in bulk [k] so may receive cash more quickly [an] improving cash flow [an] • Lower administration costs OR no additional employees [k] as fewer invoices OR customers to manage [an] • Can provide feedback from customers OR identify trends • Can keep more of the profit per item [k] as no need to pay share / money to middleman [an] • Needs to develop links with each retailer [k] • Can gain direct feedback from its customers [k] so able to design more appropriate products [an] • More control of marketing mix [k] • May need to employ extra workers to manage paperwork [k]	**6**	Application marks may be awarded for appropriate use of the following: • garden tools or related words such as digging, forks, wheelbarrows • Retailers OR wholesalers • Customer loyalty, • Correct use of data from table 1 **Note:** 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.

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Question	Answer	Marks	Guidance
3(a)	**What is meant by 'chain of command'?** 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. Some understanding [1]: 'shows who gives orders'	**2**	For 2 marks must have idea of 'messages passed OR communication' AND 'who between'. **Do not award** answers which confuse term with span of control or organisation chart.
3(b)	**Identify <u>two</u> examples of business activity in the tertiary sector.** Knowledge [2 × 1] Award one mark for each relevant example Points might include: Accountants, retailers, hairdressers, doctors, restaurants, airlines, transport or distribution businesses	**2**	Accept any reasonable suggestion **Do not award** specific company names such as McDonalds, Starbucks as this does not answer the question.
3(c)	**Identify and explain <u>two</u> reasons why maintaining customer loyalty is important to AUC.** Knowledge [2 × 1] Award 1 mark for each reason identified Application [2 × 1] Award 1 mark for each explanation in context Points might include: • Improve reputation [k] of the bank [app] • Spend less on advertising [k] which can help cut costs [app] • Word of mouth advertising or recommend to others [k] in the tertiary sector [app] • Increase sales OR more likely buy other products [k] may help reduce $60m loss [app] • Good source of feedback [k] about what to improve in its 2000 branches [app]	**4**	Application marks may be awarded for appropriate use of the following: • Bank • $60m loss • Small business customers • 500 or 1500 or 2000 (branches) • 20% or 3800 or 19 000 (employees) **Do not award** definitions of customer loyalty.

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Question	Answer	Marks	Guidance
3(d)	**Identify and explain <u>two</u> factors that AUC should consider when deciding which employees to make redundant.** 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 Relevant points might include: • Identify which jobs are important OR not essential [k] in bank [app] as would not want to spend money recruiting employees again [an] • Performance OR experience OR skills OR flexibility [k] so will want to get rid of people who make mistakes [an] • 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] • 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] • Attitude OR attendance OR disciplinary record [k] in order to maintain customer loyalty [app] will want to lose poor OR lazy workers [an] • 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]	**6**	Application marks may be awarded for appropriate use of the following: • Bank • Maintaining customer loyalty • $60m loss • Small business customers • 500 or 1500 or 2000 (branches) • 20% or 3800 or 19 000 (employees)

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Question	Answer	Marks	Guidance
3(e)	**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.** 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 Relevant points might include: • Meeting [k] can provide opportunity for feedback [an] but will take long time to meet every customer [an] of the 500 branches [app] • 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] • Letter [k] can be personalized to each customer [an] which may help maintain customer loyalty [app] but they may not receive it [an] • Text messages [k] but this would have a word limit [an] • Notice on bank door [k] but may not be seen by all customers [an] of the bank [app] • Phone call [k] but will take time to call every customer [an]	**6**	Application marks may be awarded for appropriate use of the following: • Bank • Maintaining customer loyalty • $60m loss • Small business customers • 500 or 1500 or 2000 (branches) • 20% or 3800 or 19 000 (employees) **Do not award** answers which discuss methods of promotion, e.g. television 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.

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Question	Answer	Marks	Guidance
4(a)	**What is meant by 'shareholder'?** Clear understanding [2]: Shareholders are the owners of a limited company. Some understanding [1]: some one who owns part of business	**2**	
4(b)	**Identify <u>two</u> reasons why a business might need short-term finance.** Knowledge [2 × 1] Award 1 mark per reason. Points might include: • Avoid cash flow problems • Ensure survival • Pay day to day costs • Offer credit to customers • Increase level of inventory	**2**	Accept any reasonable suggestion. **Do not accept** examples of short-term finance, as this does not answer the question.

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Question	Answer	Marks	Guidance
4(c)	**Identify and explain <u>two</u> ways increased interest rates could affect CLG.** Knowledge [2 × 1] Award 1 mark for each way identified Application [2 × 1] Award 1 mark for each explanation in context Points might include: • Cost of borrowing increases [k] so less incentive to build new runway [app] • Lower sales OR consumers reduce spending [k] as cannot afford to pay for flights [app] • Increased cost of any current loans [k] so have high level of non-current liabilities [app] • Higher interest rates attract more savings [k] • Can delay OR reduce investment OR less likely to expand [k] at the 6 airports [app] • Look to sell assets for cash to reduce existing loans [k] • Workers may want a pay rise [k] • May have to increase prices (to remain profitable) [k]	**4**	Application marks may be awarded for appropriate use of the following: • $300 m • 6 (airports) • Airport or related words such as runway, planes • 50 flights • Correct use of data from Table 2 **Do not award** 'lower profit'

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Question	Answer	Marks	Guidance
4(d)	**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.** 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 Relevant points might include: • Amount [k] as need $300 m [app] may not have enough funds to use internal methods so have to borrow [an] • Time span [k] for a long term project like a runway [app] would need to use a long term source [an] • Current level of debt [k] as non current liabilities are $230 m [app] lenders may not be willing to lend any more money [an] • Type of organization [k] as limited companies (shareholders) a business is seen as lower risk [an] • Security [k] as have non-current assets of $350 m [app] it may help guarantee any loan [an] • Credit history OR financial status [k] as lender will want to know that you have paid back previous loans [an] • Purpose of loan [k]	**6**	Application marks may be awarded for appropriate use of the following: • $300 m • 6 (airports) • Airport or related words such as runway, • 50 flights, • Correct use of data from Table 2 **Do not award** sources of finance as this does not answer the question.

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Question	Answer	Marks	Guidance
4(e)	**Considering the external costs and external benefits, do you think the Government should allow CLG to build the new runway? Justify your answer.** 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 Points might include: • Nearly all business activity creates some social costs [k] • Create additional jobs [k] at airport [app] could reduce unemployment [an] • Infrastructure improvements [k] which can help speed up / improve access for local community and business [an] • More tourists [k] as 50 extra flights [app] leading to additional business for local shops and hotels [an] • Assist economic growth [k] • Additional tax revenues [k] • Lost land cannot be replaced [k] as loss of green spaces [app] could deter people /businesses from visiting/ setting up in area [an] • Additional road congestion [k] so local businesses receive deliveries late [an] • Increased levels of noise OR air pollution [k] caused by the extra pollution [app] • Help maintain business or countries competitiveness [k]	**6**	Application marks may be awarded for appropriate use of the following: • $300 m, • 6 (airports) • Airport or related words such as planes, • 50 extra flights, • Correct use of data from Table 2 • Loss of green spaces • Extra pollution **Do not accept** runway as application as stated in question **Note:** question should focus on the external costs and benefits and not impact on the business.

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Cambridge Assessment International Education
Cambridge International General Certificate of Secondary Education

BUSINESS STUDIES **0450/21**

Paper 2 Case Study **May/June 2018**

MARK SCHEME

Maximum Mark: 80

Published

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

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

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

Cambridge International is publishing the mark schemes for the May/June 2018 series for most Cambridge IGCSE™, Cambridge International A and AS Level and Cambridge Pre-U components, and some Cambridge O Level components.

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

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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.

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Question	Answer	Marks
1(a)	**Identify and explain <u>two</u> ways a business plan could have helped Peter when setting up Value Gym.** Award one mark for each way (maximum of two), such as: • To help gain finance from a bank/other investors/government grants • To set objectives/goals/targets • To encourage careful planning that will reduce risks of financial failure • To be clear how the business is going to operate and to identify the human and physical requirements of the business • To identify the target market from market research/identify the level of demand for the gym Award a maximum of three additional marks for **each** explanation of the way – **2 of which must be applied to this context.** 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) 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. There may be other examples in context that have not been included here.	**8**

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Question	Answer	Marks
1(b)	**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.** **Relevant points might include:**	**12**

Identify customer needs **The answer should be focused on how market research can find out what the customer wants**	• Carrying out market research to be sure the business delivers the service that customers want • So that they would know what types of equipment customers would wish to use • So they would know what exercise classes customers would wish to attend • So they would know what price customers were willing to pay • So they would know what hours/days the customers would want to use the gym • However, it can be expensive to carry out the market research necessary to identify these needs accurately
Satisfy customer needs **The answer should be focused on how well the services are delivered**	• So the gym equipment works correctly to make the customers happy • So the exercise classes are run well to make the customers happy • The customers are content with the prices that are charged • So the opening hours of the gym are convenient for customers' lifestyle • However, Peter may need to buy more gym equipment and/or recruit more personal trainers to work in the gym • However, it can be expensive to maintain the equipment
Build customer relationships **The answer should focus on how loyalty and good reputation of the business are developed**	• Peter needs VG to retain a good reputation with customers • VG needs to maintain customer loyalty • Customers need to feel like their opinions matter • Customers need to feel valued • However, if customers are dissatisfied they may go to a competitor • However, it may be difficult to satisfy all customers and therefore some may still give the business a bad reputation if unhappy

Level 1 **[1–3 marks]**
1 mark for each outline of the advantages and/or disadvantages of each of the roles of marketing. (Max of 3 marks)

E.g. Carry out market research to find out what gym equipment customers want

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Question	Answer	Marks
1(b)	Level 2 **[4–6 marks]** 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) 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) Level 3 **[7–10 marks]** 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. 9–10 marks for well justified conclusion of the most important role of marketing AND why the other roles are less important. **Award up to 2 additional marks for relevant application.** 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. There may be other examples in context that have not been included here.	

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>2(a)</td><td>

Identify and explain <u>four</u> reasons why making a profit is important to Peter.

Award one mark for each reason (maximum of four), such as:
- Source of finance/retained profit/Peter could use the profit for reinvestment – expand the gym by buying new equipment
- To ensure survival of the business/avoid closure
- Reward for enterprise – reward for Peter's hard work/good ideas to start the business
- Reward for risk taking – Peter risked losing his investment of $5,000
- Indicator of success – the more profit Peter makes the more his success will be recognised by customers/employees

Note: Do not reward payment of day-to-day expenses

Award a maximum of one additional mark for each explanation suitable for this context.

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)

</td><td>8</td></tr>
<tr><td>2(b)</td><td>

Peter is considering the following <u>two</u> options. Recommend which option he should choose. Justify your answer.

<table>
<tr><th></th><th>Advantages</th><th>Disadvantages</th></tr>
<tr><td>Employ his own personal trainers</td><td>• Full control over trainers
• Higher profit especially when busy with many clients</td><td>• Pay trainers whether or not they have clients
• More expensive when not busy</td></tr>
<tr><td>Charge a fixed fee to personal trainers who work for themselves to use VG facilities with their clients</td><td>• Fixed amount paid to VG
• Risk of low demand taken by the trainer
• Less expenses as no wages to pay each month</td><td>• Additional revenue/profit lost to gym
• Cannot control the quality of the training provided for clients
• Maybe unreliable and this could affect reputation of VG</td></tr>
</table>

Level 1 **[1–3 marks]**
Outline of advantages and/or disadvantages of each option. (max of 3 marks)

E.g. Peter has full control over his own trainers if he employs them.

Level 2 **[4–6 marks]**
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)

</td><td>12</td></tr>
</table>

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Question	Answer	Marks
2(b)	Level 3 **[7–10 marks]** For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation of which option to choose. 7–8 marks for limited recommendation on which option to choose OR why not the other option. 9–10 marks for well justified recommendation of which option to choose AND why not the other option. **Award up to 2 additional marks for relevant application.** 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. There may be other examples in context that have not been included here.	

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Question	Answer	Marks
3(a)	**Identify and explain <u>two</u> legal controls that could affect Peter when recruiting and employing workers.** Award one mark for each legal control (maximum of two), such as: • Pay minimum wage • Employer liability insurance required • Legal citizenship/work permit/licence required • Ensure a safe working environment/Health and Safety laws observed • No discrimination when recruiting workers • Not employing children • No unfair dismissal • Number of hours worked may have a maximum limit Award a maximum of three additional marks for **each** explanation of the legal control – **2 of which must be applied to this context.** 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) 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. There may be other examples in context that have not been included here.	**8**

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

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>3(b)(iii)</td><td>

Consider the following <u>two</u> ways Peter could use to try to increase profit. Recommend which way he should choose. Justify your answer.

Relevant points might include:

<table>
<tr><th></th><th>Advantages</th><th>Disadvantages</th></tr>
<tr><td>Increase prices</td><td>• Increase in revenue if same number of gym members remain
• Increase inflows of cash
• Reduces break-even number of customers</td><td>• Possible decreased demand – as situated in low income area – so overall effect may not be to increase revenue and inflows
• Expect higher quality facilities so may need to invest in more equipment</td></tr>
<tr><td>Reduce variable costs</td><td>• Less outflows
• Increased profit
• Reduces break-even number of customers</td><td>• Lower quality provision
• Deter customers as perceived as reduced service</td></tr>
</table>

Level 1 **[1–3 marks]**
Outline of advantages and disadvantages of each option. (max of 3 marks)

E.g. Increasing prices will increase inflows from increased revenue.
Level 2 **[4–6 marks]**

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. 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.

Level 3 **[7–10 marks]**
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.

Note: Do not award application marks in (iii)

</td><td></td></tr>
</table>

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Question	Answer	Marks
4(a)	**Identify and explain <u>one</u> advantage and <u>one</u> disadvantage of leasing all the equipment used in the business.** Award one mark for each relevant advantage/disadvantage (maximum of one each), such as: Advantage • The business does not have to find a large sum of cash to purchase the equipment • Care and maintenance is carried out by the leasing company • When the lease expires the latest equipment could be obtained Disadvantage • Total cost of leasing higher than to purchase the equipment outright • The equipment is not owned by VG • Cannot sell the equipment if not needed any more Award a maximum of three additional marks for **each** explanation of the advantage/disadvantage – **2 of which must be applied to this context.** Indicative response: 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) 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. There may be other examples in context that have not been included here.	**8**

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Question	Answer	Marks
4(b)	**Consider how the following three changes will affect VG. Which one will have the biggest effect on the business? Justify your answer.**	**12**

Relevant points might include:

	Advantages	Disadvantages
A multinational chain of luxury gyms recently set up in country X	• Encourages increased gym membership for all gyms as it becomes more fashionable to go to a gym • May have no effect as aimed at different market segment • Little effect as low income workers cannot afford luxury gym membership	• Increased competition so may lose some existing gym members • May lose some staff such as personal trainers to the new gyms so will need to be replaced • May need to increase wages to retain staff
There is an increased proportion of elderly people in the population	• Increased demand for exercise classes for the elderly because they have more leisure time • More potential elderly customers leads to increased revenue • Elderly people more likely to lead a healthier lifestyle – encouraged by government campaign	• May change the image of the gym and puts off potential younger customers • Increased costs of providing trainers specialised in providing classes or tuition for elderly members • Revenue may fall if the elderly do not go to the gym
Interest rates have increased	• Higher costs of borrowing means pressure on family income – less demand for high priced luxury gyms – increased demand VG	• Increased costs of borrowing if VG needs to take loans to purchase more gym equipment for expansion or replacement of equipment • Less discretionary income by members reduces less important spending

Level 1 **[1–3 marks]**

Outline of the advantages and disadvantages of each change. (max of 3 marks)

E.g. Lower demand for gyms as less income left over after essential bills paid.

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Question	Answer	Marks
4(b)	Level 2 **[4–6 marks]** 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) 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) Level 3 **[7–10 marks]** 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. **Award up to 2 additional marks for relevant application.** 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. There may be other examples in context that have not been included here.	

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BUSINESS STUDIES **0450/22**

Paper 2 Case Study **May/June 2018**

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Question	Answer	Marks
1(a)	Refer to Appendix 1. Identify and explain Hilda's span of control and DH's chain of command. 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 Span of control explanation might include: • Span of control is the number of subordinates working directly under a manager • This span of control is narrow • It is only 3 people • Makes it easier to delegate For example: 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). Award up to 2 marks for an explanation of chain of command Award up to 2 marks for explaining chain of command using examples from Appendix 1 Chain of command explanation might include: • Chain of command is the structure in an organisation, which allows instructions to be passed down from senior management to lower levels of management • This chain of command is short • It has only 4 levels • 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 • Makes communication quicker • Communication is less likely to be distorted • Hilda is less remote from the lower level employees in the hierarchy For example: 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).	**8**

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Question	Answer	Marks
1(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. Relevant points might include:	**12**

	Advantages	**Disadvantages**
Telephone/ mobile	• One-to-one communication • Ensures the message is received and understood • Message can be passed on quickly	• It can be expensive • Mobile may not be switched on • May take time to reach employees – may need to keep trying to contact them
Letter	• Written record	• Too slow to be received
Notices/ Noticeboard	• Seen by many staff • Cheap method	• Don't know if read • Would not let employees know in time
Email	• Cheap to send • Fast way to send message • Can be sent to many employees at the same time	• Don't know if read unless ask for a reply • There may not be an internet connection / message failed to send
Text (SMS) message	• Fast to send • Quick reply often gained	• Message failed to send if no network coverage • Employee may not have a mobile phone
Face-to-face meeting	• Instant feedback • Fairly quick to ask employees if they are already at work that day • Easier to persuade the employee to work later	• Takes time to find the person if not at work that day
Social media, e.g. Facebook group, WhatsApp group	• Cheap to send • Fast to send • Sent to many in the group at the same time	• Don't know if the message has been read • Message might fail to send

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Question	Answer	Marks
1(b)	Level 1 **[1–3 marks]** 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) E.g. Telephone the employee Level 2 **[4–6 marks]** 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) 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) Level 3 **[7–10 marks]** For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation of the most suitable method. 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. 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. **Award up to 2 additional marks for relevant application.** Possible application marks: 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. There may be other examples in context that have not been included here.	

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Question	Answer	Marks
2(a)	Explain the externalities of each of the following: ***The external cost of large amounts of rubbish left on the beach*** 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 **examples of external costs** are in the answer **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** Possible answers might include: • Costs paid for by the rest of society as a result of the business activity • The externality in this case is local people visiting the beach and leaving rubbish which then affects hotel guests and the hotel itself • Eye-sore spoils the view - puts off tourists so DH may lose trade • Increased cost of cleaning beach – to hotel or government • Harm to wildlife and environment – especially marine animals getting injured **Indicative response:** 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). **Maximum 4 marks** ***The external benefit of a new motorway from Main City to Downtown*** 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 **examples of external benefits** are in the answer **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** Possible answers might include: • Benefits gained by the rest of society as a result of the business activity • 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 • Easier journey time – so guests can get to the hotel quicker • Encourage more tourists from other countries – increases hotel revenue • Less accidents for local people on side roads – as more cars and lorries travel on the motorway **Maximum 4 marks**	**8**

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Question	Answer	Marks
2(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. Relevant points might include: **Higher market share** • Increased growth in the market but could grow without taking a larger market share as market itself is growing. • May have to accept lower profit in a competitive market to increase market share • Improved brand image / good reputation from having a higher market share encourages sales • Increased influence over suppliers • May have to reduce prices or increase marketing costs to attract more customers • Possibly have more control over prices if more dominant in the market **Profit** • 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. • Will need to make a profit in the long term or will not attract more investors in the future. • Profit should be made so that it may be retained for future investment without the need to borrow capital **Survival** • 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. • In the long term this may not be an objective – other objectives become more important.	**12**

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Question	Answer	Marks
2(b)	Level 1 **[1–3 marks]** 1 mark for outline of each objective (max of 3 marks) E.g. Need to cover all costs to survive in order to be worth staying in business. Level 2 **[4–6 marks]** 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) 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) Level 3 **[7–10 marks]** 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. 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. 9–10 marks for well justified conclusion as to which objective is most important to DH AND why the other objectives are less important. **Award up to 2 additional marks for relevant application.** Possible application marks: 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. There may be other examples in context that have not been included here.	

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Question	Answer	Marks
3(a)	Identify and explain **four** economies of scale DH could benefit from when it takes over a competitor. Award one mark for each economy of scale. (maximum of four) Examples include: • Purchasing economies • Marketing economies • Financial economies • Managerial economies • Technical economies Award a maximum of one additional mark for each explanation suitable for this context. (maximum of four) Indicative response: Purchasing economy (1) as Hilda can now buy towels in bulk and receive discount for the higher quantity purchased. (1)	**8**

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>3(b)</td><td>Consider the advantages and disadvantages of the two businesses Hilda could take over. Recommend which business Hilda should take over. Justify your answer.

Relevant points might include:
<table>
<tr><th></th><th>Advantages</th><th>Disadvantages</th></tr>
<tr><td>ABC hotel</td><td>• 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
• Good beach location – attractive to visitors from other countries
• Cheaper to buy at half the price of alternative hotel</td><td>• Needs redecoration / modernising – increased cost of $50,000
• May have poor reputation for not being modern and well decorated
• Could get poor ratings on hotel comparison websites
• Too much money tied up in inventory</td></tr>
<tr><td>XYZ hotel</td><td>• Already modern – so no costs to redecorate/modernise
• Location is good for tourists coming into country X as it is near the airport
• Technology used in hotel – reduces wage costs as more efficient with quicker computer based booking system
• Better security as key cards restrict access to hotel rooms only to hotel guests – improved reputation</td><td>• High price to buy at $100 000 more
• Not near beach so will not attract tourists wanting beach holidays
• Lower current ratio at 1
• Lower acid test ratio at 0.5
• Poor liquidity</td></tr>
</table></td><td>12</td></tr>
</table>

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Question	Answer	Marks
3(b)	Level 1 **[1–3 marks]** 1 mark for outline of advantages and/or disadvantages of each hotel (max of 3 marks) E.g. The cost of buying ABC hotel is a lot cheaper than XYZ hotel by $100 000. Level 2 **[4–6 marks]** 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) 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) Level 3 **[7–10 marks]** 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. 7–8 marks for some limited judgement shown in the recommendation as to which hotel to choose OR why not the alternative hotel. 9–10 marks for well justified recommendation as to which hotel to choose AND why not the other hotel. **Award up to 2 additional marks for relevant application.** Possible application marks: DH is located next to a beach 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 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 There may be other examples in context that have not been included here.	

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Question	Answer	Marks
4(a)	Identify and explain **two** reasons why cash flow forecasting is important to Hilda. Award one mark for each relevant reason (maximum of one each), such as: • To know how much cash is flowing into the business and how much cash is flowing out of the business • To ensure the business does not run out of cash • To plan for times when cash might be low or negative • To ensure she can meet day-to-day expenses • To help make decisions for the future to know how much cash is available • To help gain a bank loan by showing the cash flow forecast to the bank manager • To support planning for buying the new hotel • Assessing how well the business is being managed by comparing the cash flow forecast with the actual cash flow • To help identify where costs could be reduced • To assess whether the business is holding too much cash which could be put to better use Award a maximum of three additional marks for the explanation of each reason – **2 of which must be applied to this context**. **Indicative response:** 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). Possible application marks: 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. There may be other examples in context that have not been included here.	**8**

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Question	Answer	Marks
4(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. Relevant points might include:	**12**

	Advantages	**Disadvantages**
Increase in the number of tourists from other countries	• Increased demand from tourists may increase demand for DH rooms • Increased demand for tourist hotels – good if Hilda buys XYZ hotel.	• Competitors may attract these guests and may not have much effect on DH. • Foreign tourists may not want beach holidays. • None of the employees speak foreign languages
Government of country X reduces income tax	• Increased disposable income – increased demand for weekend breaks – increased demand for DH	• Weekend breaks luxury – money may be spent elsewhere • Higher income may lead to increased demand for alternative holidays – therefore decreased demand for DH.
Fewer people demanding coach holidays	• If takeover other hotel – increased demand for alternative holidays	• Most of customers are from coach holidays – lower demand for DH • May force DH to target a different market leading to increased costs

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Question	Answer	Marks
4(b)	Level 1 **[1–3 marks]** 1 mark for outline of the advantages and / or disadvantages of each change (max of 3 marks) E.g. Increased disposable income from lower income tax. Level 2 **[4–6 marks]** 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) 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) Level 3 **[7–10 marks]** 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. 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. 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. **Award up to 2 additional marks for relevant application.** Possible application marks: 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. There may be other examples in context that have not been included here.	

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Cambridge Assessment International Education
Cambridge International General Certificate of Secondary Education

BUSINESS STUDIES **0450/23**

Paper 2 Case Study **May/June 2018**

MARK SCHEME

Maximum Mark: 80

Published

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

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

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

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

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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.

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Question	Answer	Marks
1(a)	**Identify and explain <u>four</u> characteristics that have made the two partners successful entrepreneurs.** Award one mark for each characteristic (maximum of four), such as: • Hard working • Risk taker • Creative • Optimistic • Self-confident • Independent • Effective communicator • Innovative Award a maximum of one additional mark for each explanation applied to this context. Indicative response: 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) Possible application marks: 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. There may be other examples in context that have not been included here.	**8**

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Question	Answer	Marks
1(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.** Relevant points might include: **Advantages** Working for AH: • Take part in decision making • Feel valued as an employee • More paid holidays • Sympathetic managers when need time off for personal reasons Working for BB Heating: • High wage rates • More chance of promotion at a much larger business • Use company vehicles for own use when not at work- beneficial if doesn't own a vehicle – saves the cost of buying own vehicle Level 1 **[1–3 marks]** 1 mark for outline of an advantage(s) of working for each business. (max of 3 marks) E.g. Working for a smaller business such as AH means there is a closer relationship with the owners. Level 2 **[4–6 marks]** 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) 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)	**12**

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Question	Answer	Marks
1(b)	Level 3 **[7–10 marks]** 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. 7–8 marks for limited judgement shown as to which business to choose to work for OR why the alternative business was rejected. 9–10 marks for a well justified recommendation as to which business to work for AND why not the other business. **Award up to 2 additional marks for relevant application.** Possible application marks: 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. There may be other examples in context that have not been included here.	

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Question	Answer	Marks
2(a)	**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.** Award one mark for each relevant advantage / disadvantage (maximum of two), such as: Advantages • Fewer legal formalities when setting up and running the business • Partners can work in the business/help with decisions/holidays/ responsibility shared/more ideas/ additional specialisms/skills of partners Disadvantages • Unlimited liability • No continuity • Responsible for actions of other partners/ disagreements may cause problems/arguments/profit will have to be shared Award a maximum of three additional marks for **each** explanation of the advantage/disadvantage – **2 of which must be applied to this context**. Indicative response: 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] Possible application marks: 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. There may be other examples in context that have not been included here.	**8**

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Question	Answer	Marks
2(b)	**Consider the advantages and disadvantages of the <u>two</u> locations for AH. Recommend which location should be chosen. Justify your answer.** Relevant points might include:	**12**

	Advantages	**Disadvantages**
Location A	• Near to customers so reduced transport costs • Twice as large as existing premises so plenty of room to expand • Available for rent straight away • On a main road so easy for customers and suppliers to find – can also advertise on the building	• Additional costs to convert part of premises to an office – needs to be equipped • As premises are rented there may be restrictions on what can be done in them
Location B	• Can purchase the building so can change the building – is a business asset • Larger premises – plenty of room for expansion in the future if needed without moving again • Office already equipped – lower costs	• Further away from customers so takes longer to reach them – increased transport costs • Further for employees to travel to work – may put some off and they may leave

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Question	Answer	Marks
2(b)	Level 1 **[1–3 marks]** 1 mark for outline of an advantage and / or a disadvantage of each location. (max of 3 marks) E.g. Location A is near to customers so transport costs will be lower. Level 2 **[4–6 marks]** Detailed discussion of an advantage and / or a disadvantage of each location. One L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) E.g. Location A is near to customers so transport costs will be lower. This will allow the partnership to gain more profit if the same price is charged for repairing heating systems. (Level 2 plus one application mark for answering in the context of repairing heating systems) Level 3 **[7–10 marks]** For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation as to which location to choose. 7–8 marks for limited judgement shown as to which location to choose OR why not the alternative location. 9–10 marks for well justified recommendation as to which location to choose AND why not the other location. **Award up to 2 additional marks for relevant application.** Possible application marks: Installs and repairs heating equipment; set up as a partnership 2 years ago; each partner invested $10 000; planning to also install and repair air conditioning equipment; located in a small warehouse with no office space; want to expand into larger premises; information about location A and B such as location B costs $200 000 and is located on the edge of the city. There may be other examples in context that have not been included here.	

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>3(a)</td><td>

Calculate for 2017:

(i) Gross Profit Margin
GPM = ($500 000 – $100 000) / $500 000 = 80%
2 marks for correct answer – 1 mark if correct method but incorrect answer.

(ii) Profit margin
PM = $125 000 / $500 000 = 25%
2 marks for correct answer – 1 mark if correct method but incorrect answer.

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

Award a maximum of two additional marks for **each** explanation of the profitability ratios.

Indicative response:

The gross profit margin has improved because the cost of sales has not increased (1) in line with the increase in revenue. (1)

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)

</td><td>8</td></tr>
<tr><td>3(b)</td><td>

Consider the effects of the following <u>three</u> changes in legal controls on AH. Which change is likely to have the biggest impact on AH? Justify your answer.

Relevant points might include:

<table>
<tr><th></th><th>Advantages</th><th>Disadvantages</th></tr>
<tr><td>Heating engineers must now have health and safety qualifications</td><td>• Fewer accidents as all staff are qualified
• One off payment for training</td><td>• Increased training costs
• May need to train employees as some are part-qualified</td></tr>
<tr><td>Employees are now protected against unfair dismissal</td><td>• Motivating – increased security</td><td>• Harder to get rid of unsatisfactory employees – may reduce efficiency</td></tr>
<tr><td>Increase in the minimum wage</td><td>• Higher wages – happier workers – increased motivation</td><td>• Higher wage costs – lower profit
• Increased costs – increased prices – lower demand</td></tr>
</table>

</td><td>12</td></tr>
</table>

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Question	Answer	Marks
3(b)	Level 1 **[1–3 marks]** 1 mark for outline of impact of each change. (max of 3 marks) E.g. Wage costs will increase. Level 2 **[4–6 marks]** 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) 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) Level 3 **[7–10 marks]** 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. 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. 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. **Award up to 2 additional marks for relevant application.** Possible application marks: 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. There may be other examples in context that have not been included here.	

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Question	Answer	Marks
4(a)	**Refer to Appendix 3. Identify and explain how the change in the exchange rate could affect:** • **AH** • **AH's customers** Award one mark for identifying how AH / AH's customers will be affected (maximum of one each), such as: • Exports may become cheaper • Imported goods may become more expensive Award a maximum of three additional marks for **each** explanation of how AH / AH's customers will be affected – **2 of which must be applied to this context**. Indicative response: 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) 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; information from Appendix 3 such as depreciation in the currency and components being imported. There may be other examples in context that have not been included here.	**8**

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Question	Answer	Marks
4(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.** Relevant points might include:	**12**

	Advantages	Disadvantages
Hand out fliers in the street	• Cheap to produce • Domestic customers likely to see the advert • Written record to keep	• May be thrown away and not looked at • May not be in a location where target customers go • Unsuitable for business customers
Email existing business customers	• Increases sales to existing customers • Low cost and goes directly to target market for business customers	• Will not reach new domestic customers
Billboard adverts by the side of main roads	• Seen by many people • Remain in position for some time	• Little detail / information included • May not be seen by target audience

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Question	Answer	Marks
4(b)	Level 1 **[1–3 marks]** 1 mark for outline of an advantage and / or a disadvantage of each method of promotion. (max of 3 marks) e.g. Fliers are fairly cheap to produce. Level 2 **[4–6 marks]** 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) 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) Level 3 **[7–10 marks]** 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. 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. 9–10 marks for a well justified recommendation as to which form of promotion to use AND why the alternatives were less suitable. **Award up to 2 additional marks for relevant application.** 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. There may be other examples in context that have not been included here.	

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CANDIDATE NAME	

CENTRE NUMBER						CANDIDATE NUMBER					

5344954158

BUSINESS STUDIES **0450/11**

Paper 1 **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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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]

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(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]

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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]

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

High business tax rates:.....

.....

Explanation:.....

.....

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Cheap imports:.....

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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]

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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)

	2016	**2017**
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]

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(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]

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

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..... [6]

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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]

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

Advantage 1:.....

.....

Explanation:.....

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Advantage 2:.....

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Explanation:.....

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..... [6]

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(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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CANDIDATE NAME	

CENTRE NUMBER						CANDIDATE NUMBER					

6770550458

BUSINESS STUDIES **0450/12**

Paper 1 **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]

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

Factor 1:.....

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Explanation:.....

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Factor 2:.....

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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]

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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	**X**	(20)	(30)
Opening balance	60	30	10
Closing balance	30	10	**Y**

(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]

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(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]

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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:.....

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Explanation:.....

..... [4]

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

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 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]

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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]

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(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:.....

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

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..... [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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..... [6]

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CANDIDATE NAME	

CENTRE NUMBER						CANDIDATE NUMBER					

1579752302

BUSINESS STUDIES **0450/13**

Paper 1 **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'?

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..... [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:.....

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Explanation:.....

..... [4]

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(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]

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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	**X**
Total costs	$38 000
Profit / (loss)	**Y**
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]

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

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 ASZ should change its channel of distribution? Justify your answer.

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..... [6]

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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'?

.....

.....

.....

..... [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]

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

Factor 1:.....

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Explanation:.....

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Factor 2:.....

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Explanation:.....

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..... [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]

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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]

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(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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CANDIDATE NAME	

CENTRE NUMBER						CANDIDATE NUMBER					

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BUSINESS STUDIES **0450/21**

Paper 2 **May/June 2018**

1 hour 30 minutes

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

Way 1:.....

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Explanation:.....

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Way 2:.....

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Explanation:.....

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..... [8]

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(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]

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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:.....

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Reason 3:.....

.....

Explanation:.....

.....

Reason 4:.....

.....

Explanation:.....

..... [8]

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(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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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]

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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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..... [8]

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(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]

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(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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Reduce variable costs:.....

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Recommendation:.....

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..... [10]

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

Advantage:.....

.....

Explanation:.....

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Disadvantage:.....

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Explanation:.....

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..... [8]

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(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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CANDIDATE NAME	

CENTRE NUMBER						CANDIDATE NUMBER					

8877439394

BUSINESS STUDIES **0450/22**

Paper 2 **May/June 2018**

1 hour 30 minutes

Candidates answer on the Question Paper.

No Additional Materials are required.

READ THESE INSTRUCTIONS FIRST

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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.

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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]

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(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]

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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]

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(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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Profit:.....

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Survival:.....

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Conclusion:.....

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..... [12]

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

Economy of scale 1:.....

Explanation:.....

.....

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Economy of scale 2:.....

Explanation:.....

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Economy of scale 3:.....

Explanation:.....

.....

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Economy of scale 4:.....

Explanation:.....

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..... [8]

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(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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XYZ Hotel:.....

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Recommendation:.....

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..... [12]

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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]

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(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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CANDIDATE NAME	

CENTRE NUMBER						CANDIDATE NUMBER					

8185354056

BUSINESS STUDIES **0450/23**

Paper 2 **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.
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.

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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:.....

.....

..... [8]

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(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]

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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:.....

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Explanation:.....

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..... [8]

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(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]

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3 **(a)** Calculate for 2017:

(i)
Gross profit margin.....

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..... [2]

(ii)
Profit margin.....

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.....

..... [2]

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

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..... [4]

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(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:.....

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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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AH's customers:.....

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..... [8]

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(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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BUSINESS STUDIES

Paper 0450/12
Short Answer/Structured Response

Key messages

Candidates should try to use the information contained in the stem of each question to help answer the questions set, especially as this provides the basis for application. Application marks could not always be awarded because candidates did not refer to the scenario for parts **(c), (d)** and **(e)**.

The lack of effective evaluation continues to be an area of weakness. Of those who did attempt an evaluative statement, most were unable to provide reasoned statements to back up their choice. Candidates would benefit from greater guidance in how to produce an evaluative answer to part **(e)** questions.

General comments

The questions requiring definitions and knowledge such as part **(a)** and **(b)** of each question were generally well attempted. However, a number of candidates struggled to provide a precise definition to question **2(b)**. There were areas of the syllabus that some candidates were less familiar with, particularly the disadvantages of part-time employees. A significant number of candidates had clearly misread questions **1(d)** and **4(e)**. Candidates should refer directly to the information within the stem of the question throughout their answers to ensure that points raised are appropriate to the business.

Candidates must also ensure that a different point of application is used for each separate point made. In parts **(d)** and **(e)** of each question it is important to explain the effect of points identified on the business described in the stem of the question.

Candidates should be reminded that for evaluation there must be a justified decision that follows from the points raised in the answer not a repetition of points already explained.

Comments on specific questions

Question 1

(a) Well answered by most candidates. Many candidates were able to give a clear and precise definition of niche market. The majority of responses were able to show some understanding of the term. Weaker candidates identified this as a small market rather than a small segment of a larger market.

(b) This area of the syllabus was not well understood by most candidates. Better responses identified possible disadvantages, including 'less committed' or 'it may take longer to recruit two part-time employees rather than one full-time employee'. Many candidates based their answer on incorrect assumptions about skills, pay and level of motivation. A small number of candidates confused part-time employees with temporary workers.

(c) This question differentiated well between candidates. Most candidates could identify at least one reason why Anna and James formed a business partnership. Only the best responses gained both the application marks available by using different points from the scenario to illustrate points made.

(d) This question caused some confusion. Many candidates misread this question and identified general points about why a business carries out market research. Better responses did attempt to identify specific points when using questionnaires. For example being able to gather large amounts of data is an advantage while poorly written questions could lead to inaccurate or misleading

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information. Only the best answers were able to explain the impact of such issues on this ice-cream business.

(e) Good knowledge of issues was evident in most responses. Better answers developed points made and were able to use the source material to support their answer. Only the best responses attempted a justified decision. For example some candidates recognised that as the business operated in a niche market, a different location might actually lead to fewer customers so there may not be sufficient extra demand to cover the additional costs of relocation. Instead of development, weaker responses were characterised by simple statements such as 'able to gain more customers' without showing how or why this might be an issue. Evaluation was not attempted in most responses.

Question 2

(a) A generally well-answered question.

(b) Most candidates understood that redundancy meant employees were no longer needed. Very few candidates were able to provide a precise definition of the term. A common mistake was to identify reasons why people might be made redundant or candidates simply stated it was through no fault of the employee without indicating that this was because the job role no longer existed.

(c) Most candidates knew what flow production was and could identify an advantage and disadvantage with 'increased output' or 'if one machine breaks down all production would stop' being typical responses. Weaker answers were not able to apply the knowledge points to the scenario.

(d) The most successful candidates made good use of the information provided and explained how different stakeholder groups might be affected by the business decision to introduce new machinery. Weaker answers repeated the same application point or stated that the stakeholder group would be affected without actually explaining the impact.

(e) This question proved to be a good discriminator. Better candidates showed strong knowledge of exchange rates and were able to explain the impact of a currency appreciation. The best answers made good use of the information provided, recognising this business imported raw materials or exported the finished car components. These candidates then attempted to make an appropriate conclusion based on their argument. Weaker answers identified points but did not develop them to show why or how they were important. Others made vague statements such as 'fewer sales' without identifying why this was the case. A small number of candidates had the wrong focus and discussed the effect of import tariffs on international trade.

Question 3

(a) Well answered by most candidates. A common error was to calculate total variable costs rather than total costs. Some candidates calculated the figures incorrectly but as they had included the correct formula could still gain some credit.

(b) Well attempted by most candidates.

(c) This question produced a range of responses. Most candidates could identify either an advantage or disadvantage of advertising in national newspapers. Stronger candidates were then able to link points made to the context of this cricket bat business. Weaker responses tended to make general statements that could apply to any business. A number of candidates made vague statements such as advertising was 'expensive' which could not be awarded.

(d) Most candidates could identify at least one advantage, but many were not able to fully develop their answers. Many candidates did attempt to apply their answer to the scenario. The best responses were then able to show how the opportunity to benefit from economies of scale and higher sales could be helpful to this cricket bat business. Instead of development, weaker answers simply repeated the knowledge point. Others incorrectly assume that higher sales will automatically result in higher profit.

(e) The concept of delegation was clearly understood. Better candidates were then able to effectively analyse the advantages and disadvantages of giving authority to other employees. Only the best responses used the material to support points made and help justify their decision. Evaluation in

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most responses was simple or not attempted. The weakest answers identified a range of knowledge points but were not able to develop them.

Question 4

(a) Well answered by most candidates. A common mistake was to identify methods of primary research.

(b) This term was generally well understood. A common error was to define hierarchy rather than chain of command.

(c) Generally well attempted. Many candidates identified advantages such as 'spreading risk' or 'access to new markets'. Application was often not included or the same application point was repeated for both answers. The question was specifically about being a multinational company and not general benefits of being a large business, such as economies of scale. Others ignored the fact that this was a retailer and incorrectly linked their answer to a manufacturing business.

(d) Many candidates found this question challenging. The best candidates gained marks for identifying factors and linking their answer to the scenario. Even the most successful candidates struggled to provide effective analysis for both points. A common mistake was to identify sources of finance as the analysis point rather than explain why factors such as interest rate and amount would influence the choice of finance being considered. Some candidates misread the question and identified sources of finance the business should use. These answers could not be credited.

(e) This question proved very challenging to a number of candidates. Some candidates were aware that franchisees would have local knowledge and poor management could damage the reputation of the entire business but very few were able to develop their knowledge to show the impact of these points on DGC. A number of candidates included a two-sided answer but did not make a decision. A number of candidates misread the question and incorrectly assumed DGC was the franchisee or wrote about production issues. Others discussed whether the business should expand. Such answers could not be rewarded.

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BUSINESS STUDIES

Paper 0450/22
Case Study

Key messages

Candidates should be reminded that throughout this paper they are expected to **apply** their business knowledge and understanding to an unseen case study or business scenario. This will ensure responses are appropriate for each given situation.

- To do well in this paper, candidates must make clear reference, or application, to the accompanying case study. Specific marks are allocated throughout the mark scheme in both **parts (a)** and **(b)** for application. In this particular case study, candidates were expected to refer to a chain of restaurants whose owner is planning to expand further by opening another restaurant which will also offer a takeaway and delivery service.
- Candidates should try to give a full explanation of positive and negative consequences of a business decision when this is asked. Responses require developed reasoning rather than simple description; listed points generally only gain Level 1 whereas an explanation of a point could move the answer to Level 2.
- Several questions on this paper ask candidates to make a justified recommendation or provide a conclusion. Candidates should be reminded that it is important to offer a decision based on balanced argument. A recommendation should compare and make reference to why the other alternative options were rejected as well as justifying the option that was chosen, without full repetition of the previous analysis.

General comments

Candidates had generally been well prepared for this examination. It is good to see that many candidates are developing a strong examination technique and clearly understand what is expected of them. The context of PR, a restaurant business, provided an accessible scenario for candidates. Those who applied their skills to the context of PR boosted their marks much further.

Candidates must be reminded to take careful note of how many marks are awarded for each question so they are clear about the extent of developed explanation that is required for each answer. The majority of candidates showed good knowledge and understanding of the full range of the syllabus that was assessed, but in a handful of cases it was clear that some topics were not well understood. Candidates should ensure they are prepared to respond to questions on the whole syllabus, as they could earn basic marks by defining business terms and using them confidently.

Candidates should be reminded to contextualise their answers and not provide generic textbook responses. They must be able to utilise the information provided in the case study and use it in their responses if they are to access the highest marks. For example, in **Question 1(a)** a number of candidates just listed and then explained the way a business plan could help a business without any application of the answer to this restaurant. Better responses explained how it would help in the planning for the expansion and in securing a bank loan for the restaurant.

Overall, many good scripts were seen, very weak ones were few and far between. Application marks were often gained – but candidates should aim to consider the consequences/implications/long term/short term/balance issues of the decisions they plan to make to secure Level 2 and Level 3 marks.

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Comments on specific questions

Question 1

(a) Many candidates demonstrated sound knowledge of the way a business plan could be useful to a business when expanding. Obtaining a bank loan and setting objectives were the most popular answers but identifying the resources needed and accounting information were also often given. The majority of candidates used material from the case study to explain how the business plan could help to make a success of the expansion. Weaker answers just described or repeated the point and did not link the benefit of a business plan to this business. Stronger candidates were able to link application to their answers, for example, the requirement to obtain $150 000 with a business plan helping to obtain a bank loan.

(b) Overall, this question was answered well. However, 'paying a higher wage rate than competing restaurants' was not well answered by many candidates. Many responses just suggested that paying a higher wage will motivate and did not give a reason why. However, a minority referred to Taylor's theory and a few referred to workers having more income or take-home pay. 'Job rotation' was accessible to most, contrasting boredom alleviation with the likely outcome of staff lacking skills to carry out other tasks leading to upset customers and poor service. Application was often achieved by answering in the context of the different jobs such as chefs, kitchen staff or delivery drivers. 'Free food' was seen as an income enhancer as it saved food preparation at home and this was contrasted with the possible extra expense for the business. The recommendations were varied and there were good answers that justified each of the three alternatives. Job rotation was the most popular choice given that most candidates felt this would not cost the business any money whereas the other two alternatives would be likely to raise costs.

Question 2

(a) The majority of candidates scored well on this question, with good application provided, for example the significance of the restaurant's appearance and type of meals and how this would affect PR in what they would then do. More delivery drivers, more creative chefs, not spending so much on the appearance of restaurant were popular answers. Weak candidates failed to use the results from Appendix 1 and just generalised about how questionnaires could help PR to understand what customers might want.

(b) This question was less well answered and clearly differentiated those candidates who did not know what economies of scale are, those that did understand them but could not apply the concept to a business and those that could fully apply the answer to a particular context. The majority of candidates knew what purchasing economies were but answers were not always well linked to bulk buying giving discounts and resulting in lower unit cost. Weak responses focused on the possible extra costs of storage and food deteriorating rather than why unit costs would fall. Technical economies were often limited to quicker or better productivity and efficiency, but weaker answers emphasised breakdowns and cost of purchase and upkeep rather than the cost savings such as from lower labour costs. Financial economies were sometimes misunderstood in terms of how they relate to a large business. However, better answers saw the ability for unit costs to be reduced by interest rates being lower. Conclusions were not always strong, even after good earlier discussion. Those candidates who did give a reason why one economy of scale would have more effect on profits seldom discussed why this would have more effect than the other alternatives and instead candidates simply discussed why one economy of scale would have the biggest effect.

Question 3

(a) The majority of candidates correctly identified sales promotion strategies rather than advertising, with BOGOF, discounts, free samples and free delivery being the most popular. However, weaker candidates did make the mistake of discussing two different advertising methods. Application was present in a large number of responses but lack of full application of the response was often the reason full marks were not achieved.

(b) This question was generally well answered. Most candidates were able to discuss the relevant advantages and disadvantages of each option and application was often awarded as answers made use of the information provided in the case study. Weaker responses referred to the information provided in the case study and did little more than repeat the information, for example,

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Option 1 is close to the railway station; Option 2 is on a quiet road; Option 1 will not be open for 1 year, without any consideration of why these might be advantages and/or disadvantages of each of the locations. Weaker candidates used lists of facts from the case study with simple statements as to the effect on the business with little reasoning and thus were unable to access the higher marks. Better answers identified, for example, the potential cash flow problems of Option 1 from the longer time required before opening the restaurant relative to Option 2 and the impact additional competition might have for Option 2. This often resulted in a good Level 3 recommendation as to which is the best option to choose for this business and why it is better than the other option.

Question 4

(a) Generally a well answered question for most candidates. There were clear links to profit and demand offered in response to recessionary effects and lower income tax raising disposable income, with possible benefits for Peter himself. Most considered that recycling adds to cost, and hence price might rise and demand might fall. The additional costs of reprinting the menu was often given but also the possibility this would help PR as they sell high quality food and would benefit by customers making comparisons with PR's competitors. Weak candidates identified the benefits for customers and then failed to link this to PR as required by the question.

(b) This question proved accessible but there were fewer responses achieving at the top end of the mark range. Better candidates were able to calculate the interest payments for the options and so were able to access the Level 2 marks through this route. Well-reasoned discussion, such as payback time, pressures of full repayment in a year and cash flow being improved by a 3 year loan, could have also gained higher marks for analysis even if cost calculations were not included. However, there were many weaker answers that discussed generic loans and did not link them to the case study and the new business. Using retained profit was often identified as having no interest needing to be paid and some candidates identified its opportunity cost. However, weaker answers included that the interest could be gained even if retained profit was used to pay for the building. Stronger candidates identified that if the retained profit was saved the interest received would be more than the interest paid on the bank loan and thus reasoned an effective higher Level 3 answer. The best responses built on the earlier detailed analysis in the recommendation to consider which source would be the best one to choose for PR and justified their decisions with reasons why the alternatives were less suitable without repeating earlier points. Weaker candidates often just repeated earlier points and so gained no further credit for the recommendation.

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Grade thresholds – March 2019

Cambridge IGCSE™ Business Studies (0450)

Grade thresholds taken for Syllabus 0450 (Business Studies) in the March 2019 examination.

		minimum raw mark required for grade:						
	maximum raw mark available	A	B	C	D	E	F	G
Component 12	80	40	32	25	20	16	12	8
Component 22	80	48	39	30	26	22	17	12

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
AY	12, 22	105	88	71	55	46	38	29	20

Cambridge Assessment International Education
Cambridge International General Certificate of Secondary Education

BUSINESS STUDIES **0450/22**
Paper 2 **February/March 2019**
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.

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Peter's Restaurants (PR)

Peter has a successful restaurant business, called PR, which he set up 10 years ago. The business has a chain of 5 restaurants located in the centre of the main city, in high income areas. The business is in country Z which has had high levels of economic growth for the past 5 years. PR has increasing sales and profits.

The 5 restaurants are well-known for the good quality of the food, which is sold at high prices. Peter wants to expand the business and open a new restaurant with a takeaway service. He has written a business plan for this expansion. Peter thinks locating the new restaurant in an area with low incomes will be a new challenge for him. He also thinks there is a demand for takeaway food. These are meals that are prepared and then delivered to customers' homes to be eaten there. Peter needs to decide which methods of sales promotion to use.

The new restaurant will need to employ 15 workers. There will be 3 chefs, 3 kitchen assistants, 5 people serving food, 3 delivery drivers and 1 office worker. Well-motivated employees will be important to the success of the new restaurant and takeaway food service. The expansion of the business should allow Peter to benefit from economies of scale.

Peter is considering the following two locations for the new restaurant.

Option 1: On a main road close to the city railway station. The area is very busy with many cars and buses passing by most of the day and evening. The cost of the building and changing it to a restaurant is $150 000. The building is currently used as a warehouse. It is estimated that it will be 1 year before the restaurant will be ready to open.

Option 2: This is already a restaurant and will cost $150 000 to buy. It is located on a quiet road away from the city centre. The building is much smaller than Option 1 but is in a well-known and popular area for restaurants. The owner is only selling it because he wants to retire. It is estimated that it will take Peter 6 months to redecorate and change the restaurant to the PR style.

Appendix 1

Questionnaire results for the new restaurant takeaway service

Question	**Most popular response based on a 1 to 5 scale with 5 being very important and 1 being not important at all**
How important is price when deciding to use a takeaway service?	3
How important are the type of meals available?	4
How important is the appearance of the restaurant?	1
How important is a delivery service with the meals?	5
How important are the opening times?	3

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Appendix 2

Newspaper article in Daily News – 15 February 2019

Takeaway restaurants in country Z are increasingly allowing customers to use new technology to order and pay for food. Applications (apps) are available to download so that food can be ordered using the customer's mobile (cell) phone. Customers then either collect the food or pay a small additional price to have it delivered to their home.

There is no need to employ workers to answer the phone as customers choose from the menu displayed and the food order is then sent automatically to the restaurant kitchen. This increases efficiency and reduces costs for the restaurant. This benefits both customers and businesses.

Appendix 3

Information for alternative sources of finance

The new restaurant will need $150 000 of finance.

Source of finance	**Additional information**
Bank loan repaid over 1 year	5% interest for the year
Bank loan repaid over 3 years	3% interest every year
Retained profit	No interest charged but if cash is put in a bank savings account it could earn 4% interest.

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BUSINESS STUDIES **0450/12**

Paper 1 Short Answer/Structured Response **March 2019**

MARK SCHEME

Maximum Mark: 80

Published

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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.

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Question	Answer	Marks	Notes
1(a)	**What is meant by 'niche market'?** Clear understanding (2) e.g. a highly specialised [1] subpart of a larger market [1] Some understanding (1) e.g. selling to a small part / small segment of the market OR specialist market OR part of the market with specific needs and characteristics	**2**	For 2 marks must have both elements Do not credit answers such as small market OR small number of customers or small group as these do not explain the term
1(b)	**Identify <u>two</u> disadvantages to a business of having part-time employees.** Knowledge (2 × 1) – award one mark for each relevant disadvantage Disadvantages may include: • May take longer / more expensive to recruit two part-time workers than one full time worker • Can be less committed to the business OR more likely to leave • Difficult to communicate / co-ordinate / lack of continuity as not there all the time • Extra training costs as need to train more people • Manager may spend more time supervising two workers instead of one	**2**	Do not credit points such as less motivated / less efficient OR less skilled/less trained as these are based on unknown assumptions Do not credit answers which confuse part-time employees with temporary workers.

Question	Answer	Marks	Notes
1(c)	**Identify and explain <u>two</u> possible reasons why Anna and James formed a business partnership.** Knowledge (2 × 1) – award one mark for each relevant reason (max 2) Application (2 × 1) – award one mark for each explanation in context Advantages may include: • Access to more capital (than sole trader)[k] to open a shop [app] • Shared responsibilities OR share decision making OR share workload [k] to deal with customer complaints [app] • Share costs OR share risk [k] of operating in a niche market [app] • New ideas into the business [k] about how to deal with long queues [app] • More skills OR expertise OR can specialise in different areas [k] so such as managing the 3 part-time employees [app]	**4**	Application marks may be awarded for appropriate use of the following: • Ice cream • Shop • Part-time • Niche market • High quality • Questionnaires • Long queues • Poor customer service • Always busy Do not credit comparative points such as less paperwork OR fewer legal requirements unless clear reference to limited companies.

Question	Answer	Marks	Notes
1(d)	**Identify and explain <u>one</u> advantage and <u>one</u> disadvantage to Anna and James's business of asking customers to complete questionnaires.** Knowledge (2 × 1) – award 1 mark for identification of advantage / disadvantage (Max 2) Application (2 × 1) – award 1 mark for each relevant reference to this business Analysis (2 × 1) – award 1 mark for each relevant explanation Relevant points may include: Advantage: • Large amounts of information can be collected in a short period of time [k] • Many people can be asked the same questions [k] helps increase the sample size [an] • Respondent has time to consider question so more likely to complete [k] as do not have to complete whilst in shop [app] • Relatively easy to analyse (as standard responses) [k] about poor customer service [app] so quickly able to do something to solve it [an] Disadvantage: • Questions may be poorly worded OR difficult to phrase questions properly OR people interpret questions in a different way [k] so business makes the wrong decisions [an] about the ice cream [app] • People may not tell the truth OR say what they think sounds good [k] • Simple questionnaires cannot tell the meaning behind a response [k] • Customers may not return / fill in the questionnaires [k] • May have to pay someone with the right skills to design the questionnaire properly [k]	**6**	Application marks may be awarded for appropriate use of the following: • Business partners • Ice cream • Shop • Part-time • Niche market • High quality • Long queues • Poor customer service • Always busy Accepts answers that refer to either online or paper based questionnaires Do not credit points such as cheap or expensive on own as there is no cost information to make comparisons. Do not credit answers which refer to why the market research has been carried out as this does not answer the question set Note points should relate to business not customers.

Question	Answer	Marks	Notes
1(e)	**Do you think Anna and James should move to a larger shop? Justify your answer.** 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 × 1) – award up to 2 marks for relevant development of points Evaluation (2) – justified decision as to whether the business should move to a larger shop Relevant points might include: • Access to more customers / increase sales [k] by reducing the problem of long queues [app] which can increase revenue [an] • May need to recruit more employees [k] to sell its ice cream [app] which increases recruitment costs [an] • Business may not be known in new location [k] as its in a different part of the city [app] increasing costs of advertising to raise awareness [an] • Could lose some existing customers if move too far away OR may not gain sufficient extra customers in new location [k] as it's a niche market [app] • Access to capital OR possible increase in rent of a larger shop [k] which will increase fixed costs [an] which they may not be able to afford [an] • Possibility of increased competition in new location [k] • Legal controls may restrict where they can move to [k] • More storage [k]	**6**	Application marks may be awarded for appropriate use of the following: • Business partners • Ice cream • Part-time • Niche market • High quality • Questionnaires • Long queues • Poor/bad customer service • Always very busy Note: candidate's final decision can be either for or against moving to a larger shop. Do not credit shop as application as stated in question. Question does allow for a one-sided answer.

Question	Answer	Marks	Notes
2(a)	**Identify <u>two</u> economies of scale.** Knowledge (2 × 1) – award one mark for each economy of scale Examples may include: • Purchasing / bulk buying • Marketing • Financial • Managerial • Technical	**2**	Do not credit answers such as internal or external economies of scale
2(b)	**What is meant by 'redundancy'?** Clear understanding [2] e.g. when an employee is no longer needed because the job no longer exists Some understanding [1] e.g. when an employee is no longer needed OR loses job OR job role has gone	**2**	For 2 marks must clearly understand idea that it is the job role that no longer exists Do not credit answers such as fired or dismissed as this is not the same concept Do not credit reasons why the job may no longer exist

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Question	Answer	Marks	Notes
2(c)	**Identify and explain <u>one</u> advantage and <u>one</u> disadvantage to GXC of using flow production.** Knowledge (2 × 1) – award one mark for each relevant advantage / disadvantage (max 1 for each) Application (2 × 1) – award one mark for each relevant explanation in context of business Relevant points may include: Advantage: • High output OR fast production [k] of car components [app] • Low cost per unit [k] due to economies of scale [app] • Can produce 24 hours a day OR continuous production [k] • Allows for specialisation / simple repetitive tasks allows for greater use of unskilled labour [k] • Allows for fewer employees [k] so can make 30% redundant [app] Disadvantage: • (Boring) system of work leading to low motivation of workers [k] due to use of new machinery [app] • If one machine breaks down the whole production line will stop [k] so not able to meet demand of car manufacturers [app] • High set up costs [k] • High cost of storage [k] as will need larger amounts of imported raw materials [app] • Inflexible if demand changes [k]	**4**	Application marks may be awarded for appropriate use of the following: • Car components • 100 employees OR 30% redundant OR redundancy • Economies of scale • Car manufacturers • Stakeholders • (Invested in) new machinery • Imports raw materials • Exports to country Y Do not credit points such as faster OR cheaper on own

Question	Answer	Marks	Notes
2(d)	**Identify and explain <u>two</u> stakeholder groups that could be affected by GXC's decision to invest in new machinery.** Knowledge (2 × 1) – award one mark for identification of each relevant stakeholder (max 2) Application (2 × 1) – award one mark for each relevant reference made to this business Analysis (2 × 1) – award 1 mark for each relevant development Relevant points may include: • Employees [k] as 70% of the workforce may feel less secure in their jobs [app+an] OR as 100 employees [app] would lose their jobs/source of income [an] • Customers [k] as quality may become more consistent [an] of the car components [app] • Government [k] as may need to pay more unemployment benefit [an] • Suppliers [k] of imported raw materials [app] as business may require inventory in larger amounts OR different timescales [an] • Local community [k] as machinery may create a lot of noise pollution [an] • Banks/lenders [k] • Owners [k] • Pressure groups OR trade unions [k]	**6**	Application marks may be awarded for appropriate use of the following: • Car components • 100 employees redundant OR 30% of workforce OR redundancy • Economies of scale • Car manufacturers • Imported raw materials Do not credit new machinery as application as stated in question Do not credit shareholders as we do not know what type of business this is

Question	Answer	Marks	Notes
2(e)	**Do you think GXC's Managing Director should be worried about the recent appreciation of the exchange rate of country X's currency?** Knowledge (1) – award one mark for identification of relevant issue(s) (Max 1) Application (1) – award one mark for a relevant reference made to this business Analysis (2 × 1) – award up to two points for relevant development of points Evaluation (2) – justified decision as to whether GXC should be worried about the appreciation Relevant points might include: • Exporting goods appear more expensive / can result in higher prices [k] which may decrease demand / sales in country Y [an] for car components [app] • Imports become cheaper [k] when buying its raw materials [app] reducing GXC's costs [an] so may be able to lower prices [an] so they may be able to be more competitive / increase sales [an]	**6**	Application marks may be awarded for appropriate use of the following: • Car components • 100 employees redundant OR 30% of workforce • Economies of scale • Car manufacturers • Stakeholders • [Imports] raw materials Note: candidate's final decision can be either for or against being worried about the appreciation Question does allow for a one-sided answer.

Question	Answer	Marks	Notes
3(a)	**Calculate the total cost of producing 3 million cricket bats.** Clear understanding (2) = $12 200 000 [2] Some understanding (1) e.g. FC+ VC OR 200 000 + (4 × 3 million) OR 200 000 + 12 000 000 [1]	**2**	
3(b)	**What is meant by 'variable cost'?** Clear understanding [2] e.g. costs which change directly with OR in proportion to the number of items sold or produced. Some understanding [1] e.g. costs which change OR costs that vary with sales / output [1]	**2**	Do not accept examples of variable costs Do not accept the phrase 'costs that vary' on its own as this is re-wording the question
3(c)	**Identify and explain <u>one</u> advantage and <u>one</u> disadvantage to Sachin's business of advertising in a national newspaper.** Knowledge (2 × 1) – award one mark for each relevant advantage/disadvantage (max 2) Application (2 × 1) – award one mark for each relevant explanation in context of business Relevant points may include: Advantage: • A large number of people will see the advert [k] about cricket bats [app] • Adverts can be cut out and kept for reference [k] • A lot of information can be included [k] for the mass market [app] Disadvantage: • People may not notice/read/understand the advert [k] so demand may stop (rapidly) increasing [app] • Target market may not buy the newspaper [k] • Will have to pay to advertise [k] every two weeks [app]	**4**	Application marks may be awarded for appropriate use of the following: • Cricket bats • Mass market • Demand rapidly increases • 3 million (per year) • Correct use of relevant data from table • Every 2 weeks Do not credit points such as cheaper/more expensive as this is a relative term and we do not have any cost data

Question	Answer	Marks	Notes
3(d)	**Identify and explain <u>two</u> advantages to Sachin's business of selling to the mass market.** Knowledge (2 × 1) – award one mark for identification of each relevant advantage (max 2) Application (2 × 1) – award one mark for each relevant reference made to this business Analysis (2 × 1) – award 1 mark for each relevant development of point Relevant points may include: • High number of sales/may find new customers [k] as demand increasing rapidly [app] can increase revenue [an] • Can benefit from economies of scale [k] as selling 3 million products [app] so able to lower average costs [an] • No need to develop specialist products [k] such as different cricket bats [app] lowering development costs [an] • Increased recognition/status [k] as only started two years ago [app]	**6**	Application marks may be awarded for appropriate use of the following: • Cricket bats • Demand rapidly increases • 3 million • Correct use of relevant data from table • Two years ago • (National) newspaper

Question	Answer	Marks	Notes
3(e)	**Do you think Sachin should delegate some tasks to employees? Justify your answer.** Knowledge (1) – award one mark for identification of relevant issue(s) (Max 1) Application (1) – award one mark for a relevant reference made to this business Analysis (2 × 1) – award up to two points for relevant development of points Evaluation (2) – justified decision as to whether Sachin should delegate some tasks Relevant points might include: • Sachin is less likely to make mistakes [k] which helps protect his reputation [an] • Sachin cannot do all the jobs on his own/needs to reduce his workload [k] as demand is increasing [app] so can focus on other key/important tasks [an] • Employees may feel more motivated/important [k] which could increase productivity/output [an] of cricket bats [app] • Employees may feel demotivated if they are given more work to do [k] which may increase labour turnover (an) • Employees may need training to complete the additional tasks [k] which may increase costs (an) • Sachin is still responsible for errors [k] • Workers may not have the necessary skills/make poor decisions [k] which could lead to lower demand/less output / damage reputation [an] • Sachin would lose some control [k]	**6**	Application marks may be awarded for appropriate use of the following: • Cricket bats • Mass market • National newspaper • Every two weeks • Demand rapidly increases • Two years ago • 3 million • Correct use of relevant data from table • Difficult to run the business on his own • 30 (employees) • Marketing or production decisions Note: candidate's final decision can be either for or against delegating some tasks Question does allow for a one-sided answer.

Question	Answer	Marks	Notes
4(a)	**Identify <u>two</u> methods of secondary market research.** Knowledge [2 × 1] – award one mark for each relevant method Relevant methods include: • Government statistics • Newspaper OR magazine articles • Internet OR online sources • Paying for market research agencies • Trade associations reports • Company records	**2**	
4(b)	**What is meant by 'chain of command'?** Clear understanding [2] e.g. the structure in an organisation which allows instructions to be passed down from senior management to lower levels Some understanding [1] e.g. shows who gives orders	**2**	For 2 marks must have idea of 'orders or instructions' and 'who between'.

Question	Answer	Marks	Notes
4(c)	**Identify and explain <u>two</u> advantages to DGC of being a multinational company.** Knowledge (2 × 1) – award one mark for each relevant advantage (max 2) Application (2 × 1) – award one mark for each relevant explanation in context of business Advantages may include: • Spread risk [k] as operates in 10 countries [app] • Access to new markets/higher sales/more customers/increase market share [k] for their high quality products [app] • Improve/maintain brand image [k] • Avoid barriers to trade [k] • Reduce tax liability/take advantage of favourable tax laws [k] • Reduce transport costs [k] • Remain competitive [k] • Access government grants/support [k]	**4**	Application marks may be awarded for appropriate use of the following: • Public limited company • High quality/branded • Clothes and/OR shoes • Women • 10 countries • Different social and cultural trends • Franchises OR shops • Expand (into country Z) Do not credit points about production e.g. reduce production costs OR lower labour costs OR lower health and safety costs OR land costs [k] OR easier access to raw materials as this is a retailer. Do not credit answers which focus on advantages of a being large e.g. economies of scale

Question	Answer	Marks	Notes
4(d)	**Identify and explain <u>two</u> factors that DGC should consider when choosing a source of finance for expansion.** Knowledge [2 × 1] – award one mark for identification of each relevant factor (max 2) Application [2 × 1] – award one mark for each relevant reference made to this business Analysis [2 × 1] – award 1 marks for each relevant development Relevant points may include: • Use/purpose of finance [k] as buying shops [app] which needs long term finance [an] • Legal structure [k] DGC is a public limited company [app] could be seen as a lower risk [an] • Level of existing loans [k] of this multinational company [app] which if high means less likely to be given additional loans [an] • Interest rates/cost of finance [k] • Time to repay OR time span [k] as it is a long term project would need to use a long term source [an] • Amount needed [k] as may not have enough funds to use internal methods so would have to borrow [an] • Security [k] as this may help to guarantee loans [an] • Credit history OR financial status [k] lenders will want to know if you are able to repay [an]	**6**	Application marks may be awarded for appropriate use of the following: • Public limited company • High quality/branded • Clothes and shoes • 10 countries • Multinational company • Shops OR franchise Do not credit answers which suggest possible sources of finance the business could use

Question	Answer	Marks	Notes
4(e)	**Do you think DGC should open shops in country Z as a franchise? Justify your answer.** Knowledge (1) – award one mark for identification of relevant issue(s) (Max 1) Application (1) – award one mark for a relevant reference made to this business Analysis (2 × 1) – award up to two marks for relevant development of points Evaluation (2) – justified decision as to whether DGC should open shops as a franchise. Relevant points might include: • Franchisee pays a fee to use the brand name [k] so DGC do not have to raise as much capital [an] when entering a new market with different cultural and social trends [app] • Expansion is much faster [k] for this public limited company [app] • DGC will receive a share of franchisee's profits [k] providing an extra source of revenue [an] • Franchisees will have local knowledge [k] increasing chance of higher sales [an] of clothes and shoes [app] • Poor management of one franchise could damage whole business reputation [k] decreasing demand [an] for shoes and clothes [app] • The franchisee keeps some of the profits from the outlet [k] • DGC will be expected to offer help and advice [k] which can increase costs [an] • Opening own shops will allow DGC to have total control [k]	**6**	Application marks may be awarded for appropriate use of the following: • Public limited company • High quality/branded • Clothes and shoes • Women • 10 countries • Expand for first time • Different social and cultural trends • Multinational company Note: candidate's final decision can be either for or against opening shops as a franchise Question does allow for a one-sided answer. Do not credit shop as application as stated in question. Do not credit points about production as this is a retailer.

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BUSINESS STUDIES **0450/22**

Paper 2 Case Study **March 2019**

MARK SCHEME

Maximum Mark: 80

Published

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Question	Answer	Marks
1(a)	**Identify and explain <u>two</u> ways a business plan could help Peter when expanding his business.** 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 Answers are likely to include: • To obtain a bank loan – show the bank manager so more likely to be given the loan • To plan the strategy for the new business – reduces risk of failure • To help to set a budget/see if he can afford to expand • To help identify the best location/premises • To identify the HR requirements/number of staff needed/skills required • To set aims/objectives/targets for the business • To help analyse the market/demand for the new restaurant/marketing mix for the new business • Break-even • Accounting information – cash flow forecast/Income statement/Statement of financial position • Sources of finance • Resources/capital equipment Award a maximum of three additional marks for **each** explanation of the way – **2 of which must be applied to this context**. Indicative response: Helps to gain a bank loan (k) as Peter can show the manager his business plan for the new restaurant and takeaway business (ap). This means that it will be easier to gain a loan as it will show the cash flow forecast and forecast profits for the new business (an). This will convince the bank manager that Peter has researched and planned out the new business so it will be as successful as the other 5 restaurants (ap). Possible application marks: restaurant business; 5 restaurants; set up 10 years earlier; takeaway service; well known for good quality food; $150 000; chefs; delivery drivers; kitchen assistants; waiters; meals; different target market of low income groups; to buy buildings; new technology available with Apps on mobile phones to order food. There may be other examples in context that have not been included here.	**8**

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Question	Answer	Marks
1(b)	**Consider the following <u>three</u> ways Peter could use to motivate his employees in the new restaurant. Recommend which way he should choose. Justify your answer.** **Relevant points might include:**	**12**

Pay a higher wage rate than competing restaurants	• Taylor's theory suggests that higher pay motivates workers • Earning more at PR than competitors/higher income • It is more expensive for the restaurant – may charge higher prices to cover the costs
Use job rotation	• Makes the job more varied – more interesting • Increased costs from additional training – may not be as suited to different jobs so less efficient – more mistakes made
Offer free food for the employees to take home each day	• Little or no cost as food is left over and would be thrown away • Employees might prefer higher pay as they can then choose how to spend this

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

	Knowledge/Analysis/Evaluation
Level 3	At least 2× Level 2+ 9–10 marks for well justified recommendation as to which is the best way to motivate workers compared to the other ways. 7–8 marks for some limited judgement shown in the recommendation as to which is the best way to motivate workers.
Level 2	4–6 marks Detailed discussion of the advantages and/or disadvantages of each way to motivate workers.
Level 1	1–3 marks Outline of the advantages and/or disadvantages of each way to motivate workers.

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Question	Answer	Marks
1(b)	Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Taylor's theory on motivation states that workers are motivated by higher pay. 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. Taylor's theory on motivation states that workers are motivated by higher pay and so as pay is higher than many competing restaurants then labour turnover would be lower. However, this will increase the costs of the business and therefore profit will be lower or prices higher to compensate. (L2) Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation as to the best way to choose. **Award up to 2 additional marks for relevant application.** Possible application marks: 5 restaurants; set up 10 years earlier and has been successful; chefs; kitchen staff; takeaway service; new technology available with Apps on mobile phones to order food. There may be other examples in context that have not been included here.	

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Question	Answer	Marks
2(a)	**Identify and explain <u>two</u> ways in which the results from the questions in Appendix 1 might affect Peter's decisions about the new service.** Knowledge [2 × 1] – award one mark for each way Analysis [2 × 1] – award one mark for how each way would affect decisions Application [2 × 2] – award two application marks for how each way the questionnaire results would affect decisions Examples might include: The way the questionnaire results might affect decisions: • pricing decisions e.g. a result of 3 was given to the question about the importance of price so they should try to keep prices low so that they remain competitive • types of meals sold – so Peter will need to think carefully about the menu available as types of meals scored 4 and is seen as important • spending money on decorating the takeaway part of the restaurant only scored 1 and will not affect whether customers use the restaurant or not. • whether to offer a delivery service as customers are very interested in the delivery service and so this is something Peter should promote as it may attract more sales • what times the restaurant should be open needs to be considered so it is convenient for customers to help increase sales. Award a maximum of three additional marks for **each** explanation of how each question result would affect decisions – **2 of which must be applied to this context**. Indicative response: The results will affect the decision about the opening times so the business is open when customers want to use it (k) and if the restaurant is not open when they want a takeaway then sales will be lost (ap). Knowing when there is customer demand will help to increase sales and profit for Peter (an). Although in this questionnaire customers see opening times as only quite important with a score of 3 (ap). Possible application marks: use of results from Appendix 1; restaurant business; 5 restaurants; set up 10 years earlier; expand the business by opening another restaurant; takeaway service; different target market of low income groups; delivery service. There may be other examples in context that have not been included here.	**8**

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Question	Answer	Marks
2(b)	**Consider how the following <u>three</u> economies of scale might benefit Peter's business. Which economy of scale is likely to have the biggest effect on profits? Justify your answer.** **Relevant points might include:** Purchasing: • Raw materials can be purchased in bulk – discounts received – lower unit costs Technical: • Can use improvements in technology – such as using business apps for ordering food – quicker production of meal orders – possibly lower labour costs – increased efficiency of equipment – lower unit costs Financial: • Less risk as larger business • lower interest rates charged on loans and overdrafts – lower interest costs – lower unit costs Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below. Level 3: At least 2 × Level 2 + 9–10 marks for well justified recommendation of which economy of scale is likely to have the biggest effect on profits rather than the other two. 7–8 marks for limited recommendation of which economy of scale is likely to have the biggest effect on profits. Level 2: 4–6 marks Detailed discussion of each economy of scale and why it would lead to lower unit costs. Level 1: 1–3 marks Outline of each economy of scale. Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. To buy raw materials in bulk. 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. To buy raw materials in bulk so discounts will be given. This makes the food ingredients cost less than might otherwise have been so the unit cost for each meal will be lower (L2 plus application for reference to food ingredients and meals).	**12**

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Question	Answer	Marks
2(b)	Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a conclusion of which economy of scale is likely to have the biggest effect on profits. **Award up to 2 additional marks for relevant application.** Possible application marks: restaurant business; 5 restaurants; opening another restaurant; ingredients; delivery service; takeaway service; new technology available with Apps on mobile phones to order food; considering bank loan or retained profit to fund the expansion. There may be other examples in context that have not been included here.	

Question	Answer	Marks
3(a)	**Identify and explain <u>two</u> methods of sales promotion Peter could use for the new service.** Knowledge [2 × 1] – award one mark for each relevant method Analysis [2 × 1] – award one mark for a relevant explanation for each method Application [2 × 2] – award two application marks for each method Award one mark for each relevant method (max 2), such as: • Price reductions • Money-off coupons • Gifts • BOGOF • Competitions • Demonstrations • Free samples • Free delivery Note: Do not accept methods of advertising Award a maximum of three additional marks for **each** explanation of the method – **2 of which must be applied to this context.** Indicative response: Money-off coupons (k) means meals will be cheaper and so attract customers (ap). If customers like the service they will return to the restaurant, (ap) it will gain loyal customers and lead to an increase in sales (an). Possible application marks: restaurant business; 5 restaurants; opening another restaurant; food; meals; takeaway service; different target market of low income groups; new technology available with Apps on mobile phones to order food. There may be other examples in context that have not been included here.	**8**

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Question	Answer	Marks
3(b)	**Consider the <u>two</u> options for the location of the new business. Recommend which option Peter should choose. Justify your answer.** **Relevant points might include:**	**12**

	Advantages	Disadvantages
Option 1	• (Near a railway station) so a lot of passing trade • (Busy area) so many potential customers pass by • (Large area) as it is a warehouse at the moment and plenty of scope to change it	• (1 year to convert it) is a long time to convert it into a restaurant – no revenue whilst converting it • ($150 000) worse cash flow as cash out will be large without any cash in from revenue for 1 year
Option 2	• (6 months to convert it) quicker to convert as already a restaurant – revenue starts to flow in quicker • (Already well known as a restaurant in the area) – may attract more local people • (Owner retiring) suggests the restaurant has already been successful in that location – may retain existing customers of previous owner	• (Located on a quiet road) so may not be much passing trade • (Much smaller) than Option 1 so may limit future growth

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

	Knowledge/Analysis/ Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified recommendation as to which option to choose and why not the alternative option. 7–8 marks for some limited judgement shown in the recommendation as to which option to choose.
Level 2	4–6 marks Detailed discussion of the advantages and/or disadvantages of each option.
Level 1	1–3 marks Outline of the advantages and/or disadvantages of each option.

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Question	Answer	Marks
3(b)	Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. As it is near a railway station there will be a lot of passing trade so may attract many customers. Level 2 – 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. As it is near a railway station there will be a lot of passing trade so may attract many customers. This should ensure high revenue and high profits. However, it will take a long time to convert into a restaurant so cash flow may be a problem as cash out will be higher than cash in for a long time and there may be insufficient working capital. (L2) 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. **Award up to 2 additional marks for relevant application.** Possible application marks: Near a railway station; busy area; large area; 1 year to convert it; $150 000; 6 months to convert it; already well known as a restaurant in the area; owner retiring; restaurant business; located on a quiet road; much smaller; 5 restaurants; expand the business by opening another restaurant; takeaway service; different target market of low income groups; considering bank loan or retained profit to fund the expansion. There may be other examples in context that have not been included here.	

Question	Answer	Marks
4(a)	**Identify and explain how the following <u>four</u> changes might affect the success of the new business.** Award one mark for an effect of each change (max 4) plus one additional mark for an explanation of how this impacts the business. • *The economic cycle in country Z moves from boom into recession* – Lower incomes – as unemployment increases – less demand for restaurants and takeaway food • *Government in country Z lowers income tax* – increased disposable income – increased demand for restaurant • *New legal controls so all packaging for takeaways must be able to be recycled* – increased costs – higher prices – changes in packaging may affect food • *New legal controls that all menus must contain full information on the ingredients used* – increased costs – reprint menus – increased demand if healthy food ingredients listed Indicative response: As country Z has moved into recession it will result in an increase in unemployment as there is less demand in the economy (1) this will reduce the demand for takeaway food and sales will fall (1).	**8**

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Question	Answer	Marks
4(b)	**Consider the advantages and disadvantages of the <u>three</u> sources of finance outlined in Appendix 3 for the new business. Recommend which source of finance Peter should choose. Justify your choice using cost comparisons for each source.** **Relevant points might include:**	**12**

	Advantages	Disadvantages
1 year bank loan	• Repaid after a short time of only 1 year (L1) • Only affects cash outflows for 1 year (L1) • Total interest paid is lowest at $7500 (L2)	• Highest rate of interest at 5% (L1) • High repayments each month (L1) • High cash outflows and the new business may take some time to get established so more difficult to repay (L2) • High monthly repayments of $13 125 for one year (L2) • Total payment = $157 500 (L2)
3 year bank loan	• Lowest rate of interest at 3% (L1) • Interest paid is $4500 per year (L2) • Low repayments each month • helps cash outflows (L1) • Low monthly repayments at $4 542 (L2)	• Higher total interest payment (L1) • Total payment of $163 500 (L2) • Total interest paid is $13 500 over three years (L2)
Retained profit	• No interest to pay so cheaper than the other two alternatives (L1)	• Loss of 4% interest from the bank savings account (L1) • Loses $6000 interest per year if $150 000 available as retained profit (L2) • May not have sufficient cash in retained profit (L1)

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>4(b)</td><td>
Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.

<table>
<tr><th></th><th>Knowledge/Analysis/ Evaluation</th></tr>
<tr><td>Level 3</td><td>At least 2 × Level 2 correct interest cost calculations
9–10 marks for well justified recommendation of which source of finance to use and rather than the alternatives.
7–8 marks for some limited judgement shown in the recommendation of which source of finance to use.</td></tr>
<tr><td>Level 2</td><td>4–6 marks
Detailed discussion of the advantages and/or disadvantages of each source and/or interest cost calculations</td></tr>
<tr><td>Level 1</td><td>1–3 marks
Outline of the advantages and/or disadvantages of each source.</td></tr>
</table>

Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Retained profit does not have any interest payable on it.

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 does not have any interest payable on it and so it is cheaper than taking out a bank loan. However, if the money was saved it would gain more return in interest than is being paid out on the loan. (L2)

Level 3 – For L3 to be awarded there needs to be at least two correct L2 interest cost calculations and then a recommendation of which source of finance to use.

Award up to 2 additional marks for relevant application.

Possible application marks: 3% interest over 3 years; 5% interest over 1 year; 4% on savings account; restaurant business; 5 restaurants; expand by opening another restaurant; new restaurant will have a takeaway service. There may be other examples in context that have not been included here.
</td><td></td></tr>
</table>

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CANDIDATE NAME	

CENTRE NUMBER						CANDIDATE NUMBER					

9988984949

BUSINESS STUDIES **0450/12**

Paper 1 **February/March 2019**

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.

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1 Anna and James have formed a business partnership. They own an ice cream shop on the main street in Capital city. The shop has 3 part-time employees and sells high quality ice cream to a niche market. Anna and James gain feedback by asking customers to complete questionnaires. Customers do not like the long queues and poor customer service. Anna thinks these problems are caused by the shop always being busy. James has suggested moving to a larger shop in a different location in Capital city.

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

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..... [2]

(b) Identify **two** disadvantages to a business of having part-time employees.

Disadvantage 1: .....

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Disadvantage 2: .....

..... [2]

(c) Identify and explain **two** possible reasons why Anna and James formed a business partnership.

Reason 1: .....

.....

Explanation: .....

.....

Reason 2: .....

.....

Explanation: .....

..... [4]

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(d) Identify and explain **one** advantage and **one** disadvantage to Anna and James's business of asking customers to complete questionnaires.

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 Anna and James should move to a larger shop? Justify your answer.

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..... [6]

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2 GXC produces car components in country X using imported raw materials. This year, GXC has invested in new machinery. This has resulted in the redundancy of 100 employees, 30% of its workforce. Some stakeholder groups were unhappy about this decision. GXC uses flow production and benefits from economies of scale. It sells the components to car manufacturers based in country Y. The exchange rate of country X's currency has recently appreciated. GXC's Managing Director is worried about this.

(a) Identify **two** economies of scale.

Example 1: .....

.....

Example 2: .....

..... [2]

(b) What is meant by 'redundancy'?

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..... [2]

(c) Identify and explain **one** advantage and **one** disadvantage to GXC of using flow production.

Advantage: .....

.....

Explanation: .....

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Disadvantage: .....

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Explanation: .....

..... [4]

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(d) Identify and explain **two** stakeholder groups that could be affected by GXC's decision to invest in new machinery.

Stakeholder group 1: .....

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Explanation: .....

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Stakeholder group 2: .....

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Explanation: .....

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..... [6]

(e) Do you think GXC's Managing Director should be worried about the recent appreciation of the exchange rate of country X's currency?

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..... [6]

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3 Sachin's business manufactures cricket bats for the mass market. He advertises in a national newspaper every two weeks. Demand for the cricket bats has rapidly increased since the business started two years ago. His 30 employees now produce 3 million cricket bats per year. A summary of costs and selling price is shown in Table 1. Sachin is finding it difficult to manage the business on his own. His friend has suggested delegating some tasks, such as marketing and production decisions, to employees.

Table 1: Summary of costs and selling price ($)

Fixed costs per year ($)	200 000
Variable cost per unit ($)	4
Price per unit ($)	20

(a) Calculate the total cost of producing 3 million cricket bats.

.....

..... [2]

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

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.....

..... [2]

(c) Identify and explain **one** advantage and **one** disadvantage to Sachin's business of advertising in a national newspaper.

Advantage: .....

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Explanation: .....

.....

Disadvantage: .....

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Explanation: .....

..... [4]

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(d) Identify and explain **two** advantages to Sachin's business of selling to the mass market.

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 Sachin should delegate some tasks to employees? Justify your answer.

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..... [6]

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4 DGC is a public limited company. It has a reputation for selling high quality branded clothes and shoes to women. It is a multinational company and owns shops in 10 countries. Each shop operates with a short chain of command between the shop manager and sales employees. DGC is planning to expand into country Z for the first time. DGC has carried out some secondary market research and has found that country Z has different cultural and social trends to its existing markets. The Managing Director thinks DGC should open the shops in country Z as a franchise. However, the Finance Director thinks DGC should buy its own shops using a suitable source of finance.

(a) Identify **two** methods of secondary market research.

Method 1: .....

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Method 2: .....

..... [2]

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

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..... [2]

(c) Identify and explain **two** advantages to DGC of being a multinational company.

Advantage 1: .....

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Explanation: .....

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Advantage 2: .....

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Explanation: .....

..... [4]

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(d) Identify and explain **two** factors that DGC should consider when choosing a source of finance for expansion.

Factor 1: .....

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Explanation: .....

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Factor 2: .....

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Explanation: .....

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..... [6]

(e) Do you think DGC should open shops in country Z as a franchise? Justify your answer.

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..... [6]

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CANDIDATE NAME	

CENTRE NUMBER						CANDIDATE NUMBER				

9203891871

BUSINESS STUDIES **0450/22**

Paper 2 **February/March 2019**

1 hour 30 minutes

Candidates answer on the Question Paper.

No Additional Materials are required.

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

Answer **all** questions.
The Insert contains the case study.
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.

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1 **(a)** Identify and explain **two** ways a business plan could help Peter when expanding his business.

Way 1: .....

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Explanation: .....

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Way 2: .....

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Explanation: .....

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..... [8]

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(b) Consider the following **three** ways Peter could use to motivate his employees in the new restaurant. Recommend which way he should choose. Justify your answer.

Pay a higher wage rate than competing restaurants: .....

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Use job rotation: .....

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Offer free food for the employees to take home each day: .....

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Recommendation: .....

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..... [12]

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2 **(a)** Identify and explain **two** ways in which the results from the questions in Appendix 1 might affect Peter's decisions about the new service.

Way 1: .....

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Explanation: .....

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Way 2: .....

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Explanation: .....

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..... [8]

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(b) Consider how the following **three** economies of scale might benefit Peter's business. Which economy of scale is likely to have the biggest effect on profits? Justify your answer.

Purchasing: .....

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Technical: .....

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Financial: .....

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Conclusion: .....

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..... [12]

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3 **(a)** Identify and explain **two** methods of sales promotion Peter could use for the new service.

Sales promotion method 1: .....

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Explanation: .....

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Sales promotion method 2: .....

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Explanation: .....

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..... [8]

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(b) Consider the **two** options for the location of the new business. Recommend which option Peter should choose. Justify your answer.

Option 1: .....

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Option 2: .....

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Recommendation: .....

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..... [12]

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4 **(a)** Identify and explain how the following **four** changes might affect the success of the new business.

The economic cycle in country Z moves from boom into recession: .....

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Government in country Z lowers income tax: .....

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New legal controls so all packaging for takeaways must be able to be recycled: .....

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New legal controls that all menus must contain full information on the ingredients used: .

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..... [8]

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(b) Consider the advantages and disadvantages of the **three** sources of finance outlined in Appendix 3 for the new business. Recommend which source of finance Peter should choose. Justify your choice using cost comparisons for each source.

1 year bank loan: .....

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3 year bank loan: .....

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Retained profit: .....

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Recommendation: .....

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..... [12]

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Grade thresholds – June 2019

Cambridge IGCSE™ Business Studies (0450)

Grade thresholds taken for Syllabus 0450 (Business Studies) in the June 2019 examination.

		minimum raw mark required for grade:						
	maximum raw mark available	A	B	C	D	E	F	G
Component 11	80	43	34	26	22	17	13	9
Component 12	80	42	36	31	26	21	17	13
Component 13	80	40	33	25	20	16	12	8
Component 21	80	44	35	25	21	17	13	9
Component 22	80	50	41	32	26	21	16	11
Component 23	80	45	35	26	22	18	14	10

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	105	87	69	51	42	34	26	18
AY	12, 22	107	92	77	63	52	42	33	24
AZ	13, 23	102	85	68	51	42	34	26	18

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BUSINESS STUDIES **0450/21**
Paper 2 **May/June 2019**
INSERT **1 hour 30 minutes**

7649156144-I

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Soap Additions (SA)

SA is a public limited company. It was started 20 years ago in country Z. SA manufactures soap that is sold to the mass market. The soap is produced in a factory employing 100 production workers. The Operations manager thinks that well-motivated employees are important.

SA soap is sold for a low price to wholesalers and retailers throughout country Z. The product is sold and packaged either as bars of soap or liquid soap in a bottle. SA has a 50% share of the total market for low price soap.

The directors of SA want to expand the business by starting to produce different types of soap aimed at niche markets. The products they want to develop are:

- Luxury soap aimed at high income consumers
- Soaps aimed at improving ageing skin
- Medicated soap to help improve bad skin often experienced by teenagers

The manufacturing process for the mass produced soap is automated and uses flow production. However, if the new soaps are produced then they will be manufactured in a new factory using batch production. The new factory and equipment will cost $15m and will require 50 more production workers and a new Operations manager.

SA does not use lean production in its existing factory. However, the Managing Director thinks SA would benefit from the introduction of lean production into both the existing and new factory.

Some of SA's managers think they are never involved when important decisions are made. The directors of SA disagree about which leadership style will lead to the best decisions being taken.

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Appendix 1

Total soap sales in country Z of $200m in 2018

Appendix 2

Newspaper article in Daily News - 15 April 2019

Economic growth in country Z is increasing and is now at 8% per year. Average wage rates are increasing. Many people now work in cities rather than on farms in rural areas.

Multinational companies sell products in country Z as well as setting up factories here. Increased globalisation has encouraged the government of country Z to sign a trade agreement with other countries. It is meant to encourage increased trade between these countries and further economic development of country Z. However, not all businesses in country Z are pleased with this trade agreement.

Appendix 3

Financial information from SA's balance sheets for 2017–2018

	2017	2018
Non-current assets ($m)	40	40
Inventories ($m)	5	10
Trade receivables ($m)	4	4
Cash ($m)	1	1
Current liabilities ($m)	5	5
Bank loan ($m)	10	20
Current ratio	2:1	?
Acid test ratio	1:1	?

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BUSINESS STUDIES **0450/22**
Paper 2 **May/June 2019**
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Wood Additions (WA)

WA is a small private limited company that makes high-quality wooden furniture. It was started 10 years ago by the Singh family. Two brothers and one sister are the only shareholders and they are also the directors of the company. They carry out all the management functions in the business and there are two office workers to support them. As WA is a small business it buys in services from other businesses such as transport companies.

WA makes many different designs of wooden furniture. WA only buys wood from forests that use sustainable methods so that new trees are planted when others are cut down. The cost of this wood is high but the directors think that this cost is justified as WA aims to be environmentally friendly.

WA employs 20 highly skilled production workers in the factory. Each worker specialises in one task. All employees in the factory and the office are paid an hourly wage that is 10% above the legal minimum wage.

WA uses batch production for most furniture designs with machinery that was purchased when the business was started. WA uses cost-plus pricing and has an average selling price of $200 per item of furniture. This price is higher than many of its competitors. Each year WA introduces new designs of furniture. In 2018, WA's profit fell and the directors are worried about this. The directors want to increase productivity as a way to improve profit. The Operations Director is considering purchasing computer-controlled machines.

Individual furniture designs, when requested by a customer, are made using job production. These items of furniture have an average selling price of $250. Each item takes twice as long to make as the furniture made by batch production.

Appendix 1

Advertisement for WA furniture

All our furniture is up to date and modern.

Buy WA furniture and be the envy of your friends.

Special promotion – buy two pieces of furniture and get a third one for half price.

Sign up to our list of satisfied customers and receive information and discounts on our new range of furniture.

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Appendix 2

Market share of furniture manufacturers in 2018

Appendix 3

2018 cost information for WA

	$
Average cost of wood per item of furniture	100
Rent of factory per month	1200
Other expenses per month	800
Wage costs per month	4000
Average number of items of furniture produced per month	100

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Van Conversions (VC)

VC is a sole trader business. It was started two years ago by Peter after he lost his job when the car repair business he was working for failed. The owner of this car repair business lacked management experience. The business closed when it was unable to pay its suppliers of car parts.

To start up his new business Peter had a lot of help from the Government. He was given a grant and a free training course on management skills. He hopes not to make the same mistakes as his former employer.

VC changes vans and large cars into specialist vehicles such as motorhomes which people can sleep in. VC uses job production because every vehicle conversion is different and made to each individual customer's design.

Peter's main objective is to expand the business by providing additional services. He has the following two options to choose between.

Option 1: to offer a vehicle repair service

Option 2: to convert buses into mobile shops

Peter intends to carry out a survey using a questionnaire to find out which option is likely to result in the most sales.

When the business expands, it will need additional equipment. Peter is considering whether he should take out a bank loan to pay for this equipment. Peter will also need to recruit three workers. They will need to have many different skills and experience, as each vehicle conversion or repair is different.

Appendix 1

Advertisement for VC

Always wanted the freedom to go wherever you want without the expense of hotels?

Then converting a van into your home on wheels may be the answer!!

Ask Peter for a price – it may be cheaper than you think!

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Appendix 2

To: Peter

From: Excellent People Recruitment Agency

Date: 12 May 2019

Re: Recruiting new workers

Hi Peter

In answer to your recent enquiry, we are pleased to tell you that we can find suitable people to recruit for your business. Details are as follows:

- We send you the names and contact details of 10 people we think will have the necessary skills you require
- You pay a fee of $50 for each person we send you details about
- We will require 5% of the wages paid to successful candidates for the first year they are employed by you.

Our success rate is much higher than online job vacancy websites. Although the cost to advertise on these websites is low, it is difficult to recruit the right people because they cover such a wide variety of jobs.

Appendix 3

Summary of financial statements for VC ($) 2017–2018

	2017	2018
Revenue	100 000	150 000
Cost of Sales	80 000	129 000
Expenses	15 000	15 000
Owner’s capital	20 000	25 000
Long-term bank loans	10 000	15 000

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BUSINESS STUDIES **0450/11**

Paper 1 Short Answer / Structured Response **May/June 2019**

MARK SCHEME

Maximum Mark: 80

Published

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

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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.

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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.

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Question	Answer	Marks	Notes
1(a)	**What is meant by 'break-even'?** Clear understanding [2]: Where total costs equal total revenue Where business makes neither profit or loss Some understanding [1]: Revenue same as costs	**2**	Accept the formula Fixed costs / contribution [2]
1(b)	**Calculate the revenue per day.** Good application: 90 × $2.50 = $225 Some application: Correct method but incorrect answer	**2**	$ not required for [2]
1(c)	**Identify and explain two objectives Y2M might have if it was in the private sector**. Knowledge [2] award 1 mark for each objective identified Application [2] award 1 mark for each explanation in context Relevant point might include: • profit [k] so prices for journeys could be set higher [app] • reduce costs [k] as it is more concerned about profit than providing bus services [app] • increased returns to shareholders [k] • survival [k] • growth / increase sales [k] • increased market share [k] • improved service [k]	**4**	Application marks may be awarded for appropriate use of the following: • bus or related words e.g. tickets drivers, passengers, trips, routes, journey • appropriate use of numbers from Table 1 • public sector • increased number of customers • competitors • pricing methods • higher / same wage rate • break-even **Do not accept** – Break even on all bus routes as this is their current public sector objective.

Question	Answer	Marks	Notes
1(d)	**Identify and explain two pricing methods Y2M could use**. Knowledge [2 × 1] – award 1 mark for each relevant method Application [2 × 1] – award 1 mark for each relevant reference to this business Analysis [2 × 1] – award 1 mark for each relevant explanation Points might include: • competitive pricing [k] charging similar prices will retain existing [an] passengers [app] • cost plus pricing [k] as Y2M aims to break even [app] so price must cover costs [an] • promotional pricing [k] lower prices encourages more people to use [an] its bus services [app] • penetration [k] • skimming [k]	**6**	Application marks may be awarded for appropriate use of the following: • bus or related words e.g. tickets drivers, passengers, trips, routes, journey • appropriate use of numbers from Table 1 • public sector • private sector • increased number of customers • competitors • higher/ same wage rate • variable costs • break even Accept dynamic pricing and psychological pricing as these are appropriate pricing methods for transport

Question	Answer	Marks	Notes
1(e)	**Do you think Y2M should pay its workers the same wage rate as its competitors? Justify your answer** 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 relevant development of point(s) Evaluation [2] – justified decision made as to whether Y2M should pay its workers the same wage rate as its competitors Points might include: • Help retain employees [k] so fewer drivers leave [app] saving on recruitment costs [an] • Increase labour costs [k] leading to a higher break-even point [an] so need to attract more passengers [app] to be able to cover its costs [an] • Total costs may rise [k] which may lead to higher prices [an] which could reduce demand [an] for its buses [app] • Employees may be happy with their current pay [k] in the public sector [app] because they receive other benefits [an] • Higher pay may lead to reduced services [k] • Increasing pay may motivate workers [k]	**6**	Application marks may be awarded for appropriate use of the following: • bus or related words e.g. tickets, drivers, passengers, trips, routes, journey • appropriate use of numbers from Table 1 • public sector • private sector • increased number of customers • variable costs • break even • $2.20

Question	Answer	Marks	Notes
2(a)	**What is meant by 'entrepreneur'?** Clear understanding [2]: A person who organises/ operates/ takes the risk for a new business venture. A person who combines all factors of production to make a product or service Some understanding [1] : e.g. Someone who starts a business	**2**	
2(b)	**Identify two reasons why obtaining finance may not be easy for a new business.** Knowledge [2 × 1] award 1 mark per reason Points might include: • Asking for too much money OR seen as too high a risk OR not certain able to repay • does not have an accurate/ has an inaccurate business plan • no security/collateral • lack of experience/ relatively new to the market • unproven product/ lack of credit history/ no documents	**2**	Do not accept 'not well known 'as it is unclear how this relates to finance.

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Question	Answer	Marks	Notes
2(c)	**Identify and explain two possible reasons why Kate decided to start up her own business** Knowledge [2 × 1] – award 1 mark for each relevant reason Application [2 × 1] – award 1 mark for each relevant reference to this business Points may include: • To be her own boss [k] instead of working for a multinational business [app] • To make her own decisions [k] e.g. how to promote clothes [app] • She believes the business could be successful / make profit [k] as she spotted a gap in the market [app] • To work on something she enjoys [k]	**4**	Application marks may be awarded for appropriate use of the following: • Fashion / sports clothing or related words • 3 retail shops • 2 years • website • leaflets • multinational • market segmentation / high income/ women • entrepreneur • spotted a gap in the market • obtaining finance • $500 000

Question	Answer	Marks	Notes
2(d)	**Identify and explain two reasons why segmenting the market might help BBB.** Knowledge [2 × 1] – award 1 mark for a relevant reason Application [2 × 1] – award 1 mark for each explanation in context Analysis [2 × 1] - award 1 mark for each relevant explanation Relevant points might include: • Able to tailor goods to specific needs OR know what to produce [k] e.g. clothes for high income women [app] so that costs / materials are not wasted producing wrong products [an] • To help decide best place to sell [k] as sportswear [app] needs a specialist shop to increase sales[an] • Research is simpler/help identify customer needs [k] as know which women to ask [app] so products better meet customer needs [an] • Help target advertising [k] such as where to use leaflets [app] to ensure maximum number of people see them [an] • Help set prices [k] • Identify gaps in the market [k]	**6**	Application marks may be awarded for appropriate use of the following: • Fashion / sports clothing or related words • 3 retail shops • 2 years • website • leaflets • multinational • high income/ women • entrepreneur • spotted a gap in the market • obtaining finance • $500 000 Identify gaps in the market [k or app]

Question	Answer	Marks	Notes
2(e)	**Do you think that using leaflets is the best way for Kate to promote her products? Justify your answer** 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 relevant development of point(s) Evaluation [2] – justified decision made as to whether using leaflets is the best way for Kate to promote her products Relevant points might include: • Leaflets can contain lots of information about her products [k] these can be handed out outside gyms [app] to attract appropriate target market which could lead to increased sales [an] • Leaflets can be handed out in the local area [k] around the 3 retail shops [app] which is cost effective [an] • People may throw leaflets away or see leaflets as litter [k] • Cheaper than television or radio [k] Award 1 knowledge mark for any other appropriate methods of promotion	**6**	Application marks may be awarded for appropriate use of the following: • Fashion / sports clothing or related words • 3 retail shops • 2 years • website • multinational • market segmentation / high income / women • entrepreneur • spotted a gap in the market • obtaining finance • $500 000 Can accept discussion of other appropriate methods of promotion e.g. sales promotions e.g. sponsorship, competitions. For evaluation, answers must have considered the suitability of leaflets.

Question	Answer	Marks	Notes
3(a)	**What is meant by 'return on capital employed'?** Clear understanding [2]: measures the amount of profit made for each dollar invested. Profit of a business expressed as a percentage of capital invested Formula : Profit / Capital employed × 100 Some understanding [1]: e.g. profit / money made on investment	**2**	
3(b)	**Calculate the following values: X and Y** Application [2 × 1] award 1 mark for each correct answer. **X** 20 (20 000) **Y** 40 (40 000)	**2**	

Question	Answer	Marks	Notes
3(c)	**Identify and explain two reasons why a cash flow forecast might be important for BVC.** Knowledge [2 × 1] – award 1 mark for each relevant reason Application [2 × 1] – award 1 mark for each explanation in context Relevant points might include: • Can identify possible causes of cash flow problems [k] e.g. as in August, cash-in is 40 000 lower than July [app] • Help manage cash flow better OR help avoid cash flow problems [k] • Supports a loan application / attract investors [k] as opening balance should improve from $20 000 to $80 000 over the 3 months [app] • Show how much is spent each month [k]	**4**	Application marks may be awarded for appropriate use of the following: • paint • correct use of data from Table 2 • exports OR 60% • chemicals • new legal controls

Question	Answer	Marks	Notes
3(d)	**Identify and explain two possible problems for BVC when exporting its products.** Knowledge [2 × 1] – award 1 mark for each relevant problem Application [2 × 1] – award 1 mark for each relevant reference made to this business Analysis [2 × 1] – award 1 mark for each relevant explanation Relevant points might include: • Different tastes [k] e.g. different countries might prefer different paint colours [app] adding to production costs [an] • Different standards/legislation [k] so may not be able to use certain chemicals [app] stopping possible sales [an] • Effect of exchange rates [k] as an appreciation in own currency would mean its products are more expensive [an] so not able to export as much as 60% [app] • Knowledge of market OR competition [k] • Tariffs [k] • Quotas [k] will restrict numbers of products that can be sold [an] • Increased costs of transport/ increased risk of delay [k] • Increased competition [k]	**6**	Application marks may be awarded for appropriate use of the following: • paint • correct use of data from Table 2 • 60% • chemicals • new legal controls • return on capital employed • cash-flow forecast

Question	Answer	Marks	Notes
3(e)	**The Managing Director thinks the new legal controls to protect the environment will be bad for business. Do you agree? Justify your answer.** 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 relevant development of point(s) Evaluation [2] – justified decision made as to whether the new legal controls to protect the environment will be bad for business. Points might include: • Increased costs [k] from new paint production methods [app] which could lead to higher prices [an] and therefore less demand [an] • Reduces quality [k] by removing some of the chemicals [app] leading to customer complaints [an] • Competitors also affected by new laws [k] so BVC could still remain competitive [an] • New rules may not apply in some of their markets [k] as 60% are exported [app] • Customers may be willing to pay more for environmentally friendly products [k] so the business could increase their profit margin [an]	**6**	Application marks may be awarded for appropriate use of the following: • paint • correct use of data from Table 2 • exported OR 60% • chemicals • return on capital employed • cash-flow forecast

Question	Answer	Marks	Notes
4(a)	**What is meant by 'off-the-job training'?** Clear understanding [2]: Trained away from the work place by specialist trainers Some understanding [1] : Trained away from the work place	**2**	
4(b)	**What is meant by 'total cost'?** Clear understanding [2]: Sum of (total) fixed cost plus (total) variable costs Sum of (total) direct and (total) indirect costs Some understanding [1]: All the costs of the business.	**2**	
4(c)	**Identify and explain two advantages of FGH having a tall hierarchical organisational structure** Knowledge [2 × 1] – award 1 mark for each advantage identified Application [2 × 1] – award 1 mark for each explanation in context Points might include: Many opportunities for promotion [k] in the 20 countries [app] Managers have narrower span of control OR fewer people to supervise [k] so have more time to focus on the takeover [app] Clear chain of command/ know their manager [k] in the book store [app] Clear line of communication [k]	**4**	Application marks may be awarded for appropriate use of the following: • book retailer • 6500 shops • 20 countries • $300m • off the job training • $800m • competitors • take over one its competitors

Question	Answer	Marks	Notes
4(d)	**Identify and explain one advantage and one disadvantage to FGH of becoming a public limited company** Knowledge [2 × 1] – award 1 mark for each relevant advantage / disadvantage Application [2 × 1] – award 1 mark for each relevant reference made to this business Analysis [2 × 1] – award 1 mark for each relevant explanation Relevant points might include: Advantages • Better access to capital [k] i.e. raising share capital from existing and new investors [an] to pay for the takeover [app] • Can give a company a more prestigious profile OR status [k] so more likely to be offered credit OR better interest rates as seen as lower risk [an] to raise capital to open more bookshops [app] • Shares tradeable on the stock exchange [k] Disadvantages: • Cannot control who buys the shares [k] so easier to be taken over [an] by other book retailers [app] • Shareholder may expect dividends to be paid [k] • Accounts published [k] allowing competitors to be able to see all their results [an] so the business FGH wants to take over might reject its offer [app] • Legal formalities need to be followed [k] • Divorce of ownership and control [k]	**6**	Application marks may be awarded for appropriate use of the following: • book retailer • 6500 shops • 20 countries • $300m • on the job training • $800m • take over one its competitors Do not award limited liability or separate legal identity as already has this as a private limited company.

Question	Answer	Marks	Notes
4(e)	**Do you think FGH should take over the other business? Justify your answer** 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 relevant development of point(s) Evaluation [2] – justified decision made as to whether FGH should take over the other business Points might include: • Does not spread risk [k] as still in book retailing [app] so falling demand for books will reduce FGH's sales [an] • Benefit from economies of scale [k] as would have 6500 shops [app] helping to reduce average costs [an] • Increase its market share [k] by removing a competitor [app] • Can they afford to pay the cost of purchase [k] of $800m [app] • Reduced total costs [k] means repayment of $800m [app] within 2.66 years OR 2 years 8 months [an] • Risk of diseconomies of scale [k] as communication errors may arise [an] across 20 countries [app] • Different management styles [k] may reduce productivity [an] across all the shops [app] • Cost savings may not happen [k]	**6**	Application marks may be awarded for appropriate use of the following: • book retailer • 6500 shops • 20 countries • $300m • on the job training • $800m • competitor Note: Cost of takeover $800m, saving $300m therefore payback will be by 2 years 8 months. (2.66 years) Note: accept examples of appropriate economies of scale [k]

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BUSINESS STUDIES **0450/12**

Paper 1 Short Answer/Structured Response **May/June 2019**

MARK SCHEME

Maximum Mark: 80

Published

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- 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.

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GENERIC MARKING PRINCIPLE 5:

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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)	**What is meant by 'social enterprise'?** Clear understanding [2]: e.g. business with both social objectives as well as aim to make a profit OR organisation whose **primary / main** objective is social (and any profit made is reinvested) [2] Some understanding [1] e.g. not all about profit OR profit is not only objective OR an organisation which has social objectives [1] OR business that aims to help / benefit society [1]	**2**	**Do not award** examples e.g. provide jobs to unemployed **Do not award** not for profit or non-profit business
1(b)	**What is meant by 'fixed costs'?** Clear understanding [2] e.g. costs that do not change with output / sales / level of activity OR Costs which have to be paid whether produce any products or not [2] Some understanding [1] e.g. costs that stay the same OR costs that do not change [1]	**2**	Note: Must link answer to idea of level of sales OR output / activity to gain both marks. **Do not award** alternative words such as overheads or examples of fixed costs

Question	Answer	Marks	Guidance
1(c)	**Calculate PLK's weekly profit.** Good application [4] = **$700** Some application: inaccurate or partial answers (i) **<u>Total revenue method: TR-TC</u>** Total revenue: 3 × 1000 = 3000 [1] Total cost = 2300 [2] OR 2 × 1000 = 2000 [1] + FC 300 = 2300 [1] 3000 – 2300 =700 [4] (ii) **OR <u>Contribution method: (total) contribution – fixed costs</u>** Contribution: (3–2 =) 1 [1] 1 × 1000 [1] = 1000 [+1] Profit = 1000 – 300 = 700 [4]	**4**	Correct answer with no calculations can gain 4 marks. $ sign not needed. Note: where there is no other valid calculation the formula can be awarded max. 1 E.g. Total revenue – total cost) OR (total) contribution – fixed cost. **Do not award** 1000 on its own if no working is shown

Question	Answer	Marks	Guidance
1(d)	**Identify and explain <u>two</u> methods of promotion PLK might use to increase sales.** 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 (to show how it would work or why it might be used) Relevant points might include: • Free samples [k] at sports events [app] as by allowing people to try it encourages them to buy it [an] • Use loyalty cards / schemes [k] to encourage customers to return many times [an] for meals [app] • Advertising or examples such as (local) paper OR radio OR television OR leaflets OR social media (allow only once) [k] to raise awareness / inform / attract potential customers [an] about this social enterprise [app] • Sponsorship OR public relations [k] which can help increase its brand image / reputation [an] • Competitions [k] • Free gifts [k] • Use of specific price promotions such as BOGOF, money off coupons or short-term discounts (allow only once) [k] as people able to <u>afford</u> it / willing to buy as its <u>cheaper</u> [an]	**6**	Application marks may be awarded for appropriate use of the following: • social enterprise • chefs or cooks or kitchen • meals or food • local markets or sports events • correct use of data from Table 1 **Do not award** answers which simply say 'cut / reduce prices' or 'discounts' or sales promotion' on own as this is too vague **Do not award** answers such as above or below the line as this is too vague

Question	Answer	Marks	Guidance
1(e)	**Do you agree with PLK's manager that to increase profit it is better to raise prices rather than use cheaper ingredients? Justify your answer.** Knowledge [1] Award max. 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 relevant development of point(s) Evaluation [2] Justified decision made as to whether PLK should increase its prices or use cheaper ingredients. Points might include: Raise prices • could lead to fewer customers (as cannot afford it) [k] resulting in lower revenue [an] of food [app] • lower break-even point [k] so need to sell less to cover costs [an] • People could be willing to pay higher price as they think it's for a good cause [k] as it's a social enterprise [app] • Higher price may suggest better quality [k] Cheaper ingredients • will lower the variable cost [k] which will lower total costs / improve profit margin [an] • could lower quality [k] damaging reputation [an] leading to fewer sales [an]	**6**	Application marks may be awarded for appropriate use of the following: • social enterprise • chefs or cooks or kitchen • food or meals • local markets or sports events • correct use of data from Table 1 Note: the social objective for this business to offer training to young people. It is not about providing cheap food to customers. **Do not award** answers which simply state that 'lower / higher quality' would lead to fewer / more sales as needs impact on brand image / reputation which then causes the impact on sales. **Do not award** cheaper materials might not taste as good / taste bad

Question	Answer	Marks	Guidance
1(e)	Other factors can be also discussed such as: • whether demand is price elastic or inelastic [k] as if meals are price elastic then an increase in price should lead to lower revenue [an] • Level of competition [k]		

Question	Answer	Marks	Guidance
2(a)	**What is meant by 'mass market'?** 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 sell to everyone OR lots of customers OR lots of sales OR lots of buyers	**2**	**Do not award** answers that define other terms such as market share, target market or mass production **Do not award** answers which simply offer alternative words for mass e.g. big or large or larger market **Do not award**: Lots of sellers, lots of competitors, lots of products
2(b)	**What is meant by 'job enrichment'?** Clear understanding [2]: (Involves looking at jobs and) adding tasks that require higher skill or more responsibility Making work more challenging [1] by giving extra tasks [1] Some understanding [1]: Making work more challenging / difficult OR giving workers more responsibility	**2**	**Do not award** answers such as 'to improve motivation' or 'to show full abilities' as this only explains why it is done rather than what it is **Do not award** answers which confuse the term with job rotation. Answers such as 'give more jobs / tasks to do' (on own) are too vague **Do not award** examples

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Question	Answer	Marks	Guidance
2(c)	**Identify and explain <u>two</u> ways in which employees at JNK could be affected by the introduction of new technology.** Knowledge [2 × 1] Award 1 mark for each way identified Application [2 × 1] Award 1 mark for each explanation in context Points might include: • Need for re-training OR fear of change OR opportunity to learn new skills [k] when making pottery [app] • Possible redundancy / loss of jobs / job insecurity [k] for some of the 30 employees [app] • May receive higher pay [k] • Safer working conditions [k] as replace old machines [app] • Higher / lower motivation [1] as may create more / less opportunities for job enrichment [app]	**4**	Application marks may be awarded for appropriate use of the following: • 30 (employees) • Unskilled • pottery OR bowls OR plates • batch production • quality control • minimum wage • job enrichment • old machines **Do not award** answers which focus on the impact on the business e.g. do not credit higher output, cost of equipment, more / less efficient **Do not award** 'deskilling' as knowledge because scenario states workers are unskilled **Do not award** answers such as 'work easier', less workload as too vague.

Question	Answer	Marks	Guidance
2(d)	**Identify and explain <u>two</u> ways (other than new technology) that JNK could use to increase output.** Knowledge [2 × 1] Award 1 mark for each relevant way Application [2 × 1] Award 1 mark for each relevant reference made to this business Analysis [2 × 1] Award 1 mark for each relevant explanation Points might include: • Training [k] so likely to make fewer mistakes OR able to work quicker / increase productivity [an] when making plates [app] • Employ more workers or workers do longer hours [k] by recruiting more than 30 [app] will allow increased output with the same number of machines [an] • Recruit / employ specialist or skilled workers [k] as current workers are unskilled [app] • Change production method to flow production [k] from batch production [app] allowing continuous production [an] • Improve layout / design of factory [k] so less time is wasted moving semi-finished goods around [an] • Take over another company or expand current site [k] so will have additional capacity [an] to meet increased demand [app] • Examples of methods of financial / non-financial motivation (allow once) e.g. introduce piece rate OR bonuses OR job rotation OR fringe benefits [k]	**6**	Application marks may be awarded for appropriate use of the following: • 30 employees • Unskilled • pottery or plates or bowls • batch production • quality control • minimum wage • job enrichment • old machines • mass market • increased demand **Do not award** job enrichment as [k] **Do not award** lean production or examples such as Just-in-time, kaizen

Question	Answer	Marks	Guidance
2(e)	**Do you think JNK should become more ethical? Justify your answer.** Knowledge [1] Award max. 1 mark for identification of relevant issue(s) Application [1] Award max. 1 mark for a relevant reference made to this business Analysis [2] Award up to 2 marks for relevant development of point(s) Evaluation [2] Justified decision made as to whether JNK should become more ethical Points might include: • Customers may boycott the business [k] leading to lower brand image / reputation [an] which may decrease market share [an] • Many customers want to support ethical businesses [k] so may be willing to pay higher prices [an] for its pottery [app] leading to higher revenue [an] • Help employee recruitment / retention [k] of 30 employees [app] so saving cost of recruitment [an] • Opportunity for new sources of finance [k] would allow increased capital from ethical investors [an] who do not want to be linked with businesses using child labour [app] • Ethical suppliers are likely to charge more [k] leading to higher variable costs [an] as not able to use low cost materials [app] • Could lose sales to competitor [k] • Materials purchased from unethical sources may be cheaper [k] • May not be able to find suitable (ethical) suppliers [k] • Shareholders OR owners may want higher profit [k]	**6**	Application marks may be awarded for appropriate use of the following: • 30 employees • Unskilled • pottery or plates or bowls • child labour • low cost materials • mass market • increase in demand • Competitors have introduced an ethical policy **Do not award** answers which refer to legal / quality issues as this does not answer the question.

Question	Answer	Marks	Guidance
3(a)	**What is meant by 'Gross Domestic Product'?** Clear understanding [2]: the total **value** of output of goods and services in a country (in one year OR at a given point in time) Some understanding [1]: e.g. Output of a country OR amount of goods / services produced by a country [1]	**2**	**Do not award** answers which explain why it is used as this does not answer question e.g. Shows whether economy growing
3(b)	**Identify <u>two</u> possible effects on businesses from falling Gross Domestic Product.** Knowledge [2 × 1] award 1 mark for each effect Points might include: • Lower demand / sales • Easier to recruit employees / may need to make workers redundant • More difficult to raise prices / may need to reduce prices • Less likely to invest / expand • Lower profits • Spare capacity increases • Reduce levels of inventory / stock / less output	**2**	Note: effect has to be on business, **not** other stakeholders such as customers or employees **Do not award** answers such as: • Lower market share • Inflation / higher taxes • Fewer grants • High unemployment

Question	Answer	Marks	Guidance
3(c)	**Identify and explain <u>two</u> reasons why REW's objectives might change over time.** Knowledge [2 × 1] Award 1 mark for each reason identified Application [2 × 1] Award 1 mark for each explanation in context Points might include: • Change in economic conditions e.g. decrease in interest rates / decrease in taxes / decrease in employment [k] as the country is seeing GDP falling [app] • Previous objectives met / business has become established [k] • Change in competition / market / demand e.g. decrease in demand [k] for carpets [app] OR Competitors enter market [k] so survival becomes main objective again [app] • Change in board of directors / ownership OR changing demands of stakeholders [k] • Change in profit / business costs e.g. decrease in profit [k]	**4**	Application marks may be awarded for appropriate use of the following: • award winning • carpets or rugs • wool or local suppliers • survival (is main objective) / survive • GDP falling / recession • correct use of data from Table 2 • selling in other countries • market research suggests high demand **Do not award** examples of new objectives Examiners note: candidates must state there is a change or identify the direction of change for [k]

Question	Answer	Marks	Guidance
3(d)	**Identify and explain the effect on REW of the changes in the following ratios.** Knowledge [2 × 1] Award 1 mark for each relevant change Application [2 × 1] Award 1 mark for each relevant reference made to this business Analysis [2 × 1] Award 1 mark for each relevant explanation Points might include: Acid test • **decreased / fallen** [k] by 0.2 or 0.1 [app] Analysis could be awarded for: • so may need to reduce creditors / trade payables [an] • improve cash by selling more products / sell unwanted OR non-current assets [an] • may have problems paying its short-term liabilities OR may have less liquidity OR may have less cash [an] • may make it harder to obtain finance [an] • suppliers may be less willing to provide goods (on credit) [an] Profit margin • **decreased / fallen** [k] by 4% [app] Analysis could be awarded for: • need to look for ways to increase added value [an] • may look for ways to lower costs [an] • may increase prices [an] • may need to sell more products to maintain current level of profit [an]	**6**	Application marks may be awarded for appropriate use of the following: • 4% or from 20% or to 16% • 0.2 or 0.1 or from 1.2:1 or to 1:1 • award winning • carpets or rugs • wool or local suppliers • survival (is main objective) / survive • Selling in other countries • Market research suggests higher demand For Acid Test Ratio accept 0.1 or 0.2 because of the layout of Table 2 **Note: Decrease/fallen is the only possible [k] point. Without this [k] no further marks can be awarded** **Do not award** reasons for the decrease as knowledge or analysis as this does not answer the question **Do not award** answers which say profit has decreased as [k] or [an] as question is about profit margin

Question	Answer	Marks	Guidance
3(e)	**Do you think REW should start selling its products in other countries? Justify your answer.** Knowledge [1] Award max. 1 mark for identification of relevant issue(s) Application [1] Award max. 1 mark for a relevant reference made to this business Analysis [2] Award up to 2 marks for relevant development of point(s) Evaluation [2] Justified decision made as to whether REW should start selling its products in other countries. Points might include: • Access to more markets OR more (potential) customers [1] leading to higher revenue [an] • Spread risk [k] as GDP in own country falling [app] and sales elsewhere could make up for the shortfall in demand [an] • Greater recognition OR brand awareness [k] for its award winning products [app] • Existing competition [k] could make it difficult to achieve high sales [an] even though market research suggests high demand [app] • Lack knowledge of local markets and tastes [k] about rugs [app] so might need to spend money changing products [an] • Language barriers [k] • Exchange rates problems [k] • Tariffs [k] which could increase prices [an] • Quotas [k] which restricts the amount of products the business is able to sell [an] which may make it harder to meet customer demands [an] • Transport problems OR distribution problems [k] increases expenses / cash outflow [an]	**6**	Application marks may be awarded for appropriate use of the following: • correct use of data from Table 2 • award winning • carpets or rugs • wool • survival (is main objective) / survive • GDP falling / recession • Market research suggests high demand **Do not award** answers which focus on production e.g. access to raw materials / labour

Question	Answer	Marks	Guidance
4(a)	**What is meant by 'autocratic leadership style'?** Clear understanding [2]: where the manager expects to be in charge / control of the business and to have their orders followed Managers takes decisions without consulting employees [2] Some understanding [1]: e.g. Manager takes / make all decisions Or employees have no say in decisions	**2**	**Do not award** answers which refer to owners
4(b)	**Identify <u>two</u> possible sources of finance George could use.** Application [2 × 1] award 1 mark for each source Points might include: • own savings • bank loan OR overdraft • government grants • micro-finance • borrow from friends and family • trade credit • lease / hire purchase	**2**	Examiners note: only award the first two responses given **Do not award** retained profits as this is a new business. **Do not award** debentures or sell shares as these are not appropriate Accept suitable sources for either start-up or working capital (as question does not specify purpose) Note: Crowdfunding can be accepted

Question	Answer	Marks	Guidance
4(c)	**Identify and explain <u>two</u> reasons why building good customer relationships might be important to the success of George's business.** Knowledge [2 × 1] Award 1 mark for each reason identified Application [2 × 1] Award 1 mark for each explanation in context Points might include: • Increase sales [k] of its flowers [app] • Increase retention / customer loyalty [k] so customers keep returning to his shop [app] • Help build reputation / act as free advertising / recommendations [k] for this new business [app] • Opportunity for feedback / help identify customer needs [k] • Provide a competitive advantage [k] so can compete against the franchise [app]	**4**	Application marks may be awarded for appropriate use of the following: • Start-up or new / own business • flowers • (small) shop or store or florist • Franchise • $5000 • 10 years **Do not** award ways to build customer relationships as this does not answer the question.

Question	Answer	Marks	Guidance
4(d)	**Identify and explain <u>one</u> advantage and <u>one</u> disadvantage to George's business of having part-time employees.** Knowledge [2 × 1] Identification of relevant advantage / disadvantage Application [2 × 1] Award 1 mark for each way if relevant reference made to this business Analysis [2 × 1] Award 1 mark for each relevant explanation. Relevant points might include: Advantages: • More flexible OR able to extend hours [k] of the shop [app] to maximise possible sales [an] • When not working no need to pay wages OR only pay for hours worked [k] helps lower labour costs [an] which is important for a new business [app] • Can help attract workers who only want to work a few hours OR help keep workers [k] • Provide different skills or experience or ideas [k] Disadvantages: • Can take longer / more expensive to recruit (as need more part-time workers for each full time equivalent) [k] so takes him away from other important jobs [an] when setting up his new business [app] • Can be less committed to business OR more likely to leave [k] • May create problems when trying to offer a consistent level of service [k] which doesn't help build customer relationships [app] leading to fewer (loyal) customers [an] • Communication / coordination OR supervision is more difficult [k]	**6**	Application marks may be awarded for appropriate use of the following: • Start-up or new / own business • flowers • shop or store or florist • franchise • 2 (part time employees) • 10 years • $5000 • Build (good) customer relationships **Do not award** points such as less / less motivated / efficient OR less skilled / less trained as these are based on unknown assumptions **Do not award** answers which confuse part-time employees with temporary workers. **Do not award** 'less expensive', 'lower costs' or 'saves money' as [k] or [an] unless clearly linked to idea that they are only paid less because they work for fewer hours.

Question	Answer	Marks	Guidance
4(e)	**Do you think George should buy a BunchesRUs franchise? Justify your answer.** 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 relevant development of point(s) Evaluation [2] Justified decision made as to whether George should buy a BunchesRUs franchise Points might include: Reasons for: • Help offered by franchisor [k] for training and support [app] which saves costs [an] • Competition [k] if does not accept franchise, someone else may accept it leading to lower sales [an] as it may be more difficult for him to compete against an established brand name [an] • Established brand name of franchise [k] may persuade people to buy from him [an] even though it is a new business [app] Reasons against: • Gives George less control [k] and as he didn't like the autocratic style of his old manager [app] may want the freedom to make his own decisions [an] • High cost [k] of $5 000 [app] could be too expensive / not be able to afford as it's a new business [an] • He has experience [k] as he has worked in a flower shop [app] so support of franchisor is less important [an] • Has to pay percentage of sales revenue to franchisor [k]	**6**	Answer should be from point of view of franchisee not franchisor. Note: candidate's final decision can be either for or against opening shops as a franchise Application marks may be awarded for appropriate use of the following: • Start-up or new / own business • flowers • shop or store or florist • 2 (part time employees) • 10 years • Didn't like autocratic leadership • $5000 • Training and / or support • build (good) customer relationships **Do not award** answers such as cheaper as do not have information to allow such comparisons **Do not award** 'less risk' or 'more chance of success' as [an] on own. Must clearly show how the point identified would help reduce risk / increase chance of success.

Cambridge Assessment International Education
Cambridge International General Certificate of Secondary Education

BUSINESS STUDIES **0450/13**

Paper 1 Short Answer/Structured Response **May/June 2019**

MARK SCHEME

Maximum Mark: 80

Published

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

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

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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.

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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.

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Question	Answer	Marks	Guidance
1(a)	**What is meant by 'economies of scale'?** Clear understanding [2]: factors that lead to a reduction in average or unit cost as a business increases in size Some understanding [1]: benefit of increasing in size	**2**	**Do not award** examples as this does not answer the question **Do not award** answers such as 'benefit of being big' as this does not explain the term
1(b)	**What is meant by 'quality control'?** Clear understanding [2]: checking that a product meets the required standard OR checking of goods at the end of the production process [2] OR Checking the standard of goods through inspection [2] OR process of reviewing accuracy of work bought in or completed [2] Some understanding [1]: e.g. checking the work	**2**	**Do not** accept answers that confuse the term with quality assurance e.g. checking throughout production
1(c)	**Identify and explain <u>two</u> reasons why EGT uses batch production.** Knowledge [2 × 1] Award 1 mark for each reason identified Application [2 × 1] Award 1 mark for each explanation in context Points might include: • Size of output OR level of demand [k] as there may not be sufficient demand to use flow production for its tea [app] • Easier / quicker to respond to changes in demand [k] so if one flavour is more popular it is quick to adapt to that flavour [app] • Not enough capital to use capital-intensive methods [k] as machines used are old and often break down [app] • Various styles/ products produced [k] in the factory [app] • Nature of demand/ seasonal or continuous [k] • Size of business [k] especially as space is limited [app]	**4**	Application marks may be awarded for appropriate use of the following: • tea or leaves • factory • space limited • (leaves) grown locally • machines old OR often break down • no economies of scale • 80 employees • Quality control • Automated line/ flow

Question	Answer	Marks	Guidance
1(d)	**Identify and explain <u>two</u> ways in which the Human Resources manager could use her knowledge of Maslow's hierarchy of needs to motivate employees.** Knowledge [2 × 1] Award 1 mark for each relevant way Application [2 × 1] Award 1 mark for each relevant reference made to this business Analysis [2 × 1] Award 1 mark for each relevant explanation Points might include: • Ways to address physiological needs e.g. wages high enough to meet weekly bills [k] of its 80 employees [app] so have enough money to provide basic needs such as shelter, rest or food [an] • Ways to address safety and security e.g. offer job security/ better working conditions [k] which is important as machines are old [app] so employees feel safe from risk of injury [an] • Ways to address social needs e.g. introduce team working [k] into the factory [app] so that they have a sense of belonging to a team [an] • Ways to address esteem needs e.g. praise [k] which allows them to feel that their hard work is recognised / valued [an] • Ways to address self-actualisation e.g. promotion/ given more responsibility [k] to allow them to reach their full potential [an]	**6**	Application marks may be awarded for appropriate use of the following: • Tea or tea leaves • Factory • space limited • grown locally • machines old OR often break down • no economies of scale • 80 employees • Quality control • Automated line/ flow

Question	Answer	Marks	Guidance
1(e)	**Recommend the best way, other than by improving motivation, EGT could use to increase its level of output. Justify your answer.** Knowledge [1] Award max 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 relevant development of point(s) Evaluation [2] Justified decision made as to which is the best way for EGT to increase its level of output. Points might include: • Introduce new technology [k] as old machines often break down [app] which is likely to lower the possible output as cannot work when machines are being repaired [an]. However would need to ensure they can afford it [an] but this is only suitable if machines are not too big as factory space is limited [eval] • Employ additional workers [k] so able to produce more in same amount of time [an] but would need to pay to recruit [an] increasing its expenses [eval] • Training workers [k] to make the different stages of tea [app] so less likely to make mistakes/ produce more in same amount of time [an] but it would add to business costs [an] • Buy partial processed materials [k] especially as space is limited [app] • Improve layout / design of building [k]	**6**	Application marks may be awarded for appropriate use of the following: • Tea or tea leaves • Factory • space limited • grown locally • machines old OR often break down • no economies of scale • 80 employees • Cannot afford to move to new location • Quality control • Automated line/ flow **Do not award** move location / new factory or flow production as [k] because these are excluded in the scenario. **Do not award** 'buy cheaper materials' as this does not answer the question **Do not award** lean production or examples such as just-in-time or kaizen

Question	Answer	Marks	Guidance
2(a)	**What is meant by 'wholesaler'?** Good understanding [2]: Someone (or organisation) that buys and stores large quantities of several producers' goods and then breaks into bulk deliveries to supply retailers with smaller quantities OR An intermediary that buys in bulk [1] and sells to other businesses/ retailers (rather than to consumers) [1] Some understanding [1]: e.g. middleman from whom retailers buy products OR someone who breaks bulk [1]	**2**	Do not award 'middleman' on its own as this does explain the term
2(b)	**Calculate the revenue from selling direct to retailers in 2018.** Good application [2] correct answer = $495 000 Some application [1] e.g. correct method but incorrect answer OR 900000 × 55%	**2**	
2(c)	**Identify and explain how each of the following might affect CYN's exports.** Knowledge [2 × 1] Award 1 mark for each effect identified Application [2 × 1] Award 1 mark for each explanation in context Points might include: Quotas: • (physical) limits on the number of imports [k] which may become a problem as CYN exports 10% [app] Tariff: • increase the price [k] so toys become more expensive [app]	**4**	Application marks may be awarded for appropriate use of the following: • family owned • children OR toys • revenue increased by 15% for last 10 years • competitive market • stop promotion for 6 months • correct use of data from Figure 1

Question	Answer	Marks	Guidance
2(d)	**Identify and explain <u>one</u> advantage and <u>one</u> disadvantage to CYN of developing new products.** Knowledge [2 × 1] Award 1 mark for each relevant advantage / disadvantage Application [2 × 1] Award 1 mark for each relevant reference made to this business Analysis [2 × 1] Award 1 mark for each relevant explanation Points might include: Advantages: • Enter new markets / segments OR attract new customers [k] helping to increase revenue [an] by more than 15% [app] • Keep / retain customers [k] which is important in a competitive market [app] to maintain market share [an] • Spread risk [k] when selling toys [app] as they have other products to rely on for sales [an] • Can increase or charge higher price [k] to breakeven quicker [an] • Need to replace products at end of product life cycle [k] Disadvantages: • No guarantee that customers will like new products [k] so could waste time / resources [an] • Reaction of competitors e.g. can gain market share whilst develop OR might introduce rival products [k] • Labour issues e.g. additional training for workers [k] • May need to invest in new machinery [k] but it might be difficult to arrange additional finance [an] for this family owned business [app] • Marketing issues e.g. additional cost of market research OR advertising costs [k] • production issues e.g. sufficient capacity OR technical problems when developing or manufacturing could delay launch OR availability of suitable materials [k]	**6**	Application marks may be awarded for appropriate use of the following: • family owned • children OR toys • revenue increased by 15% (for last 10 years) • competitive market • stop promotion for 6 months • wholesalers or 35% • sell direct to retailers or 55% • exports or 10% • cannot meet demand

Question	Answer	Marks	Guidance
2(e)	**CYN has decided to stop all marketing promotion for 6 months. Do you agree with this decision? Justify your answer.** 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 relevant development of point(s) Evaluation [2] Justified decision made as to whether CYN should stop all marketing promotion for 6 months Points might include: • Saves costs / can use money for other purposes [k] such as developing new products [app] • Fewer sales [k] as customer awareness / loyalty might fall [an] of its toys [app] leading to a loss of revenue [an] • Customers may buy from competitors [k] which is important in a competitive market [app] leading a lower market share [k] • Allows time to focus on other activities [k] as cannot meet demand [app]	**6**	Application marks may be awarded for appropriate use of the following: • family owned • children OR toys • revenue increased by 15% for last 10 years • competitive market • wholesalers or 35% • sell direct to retailers or 55% • exports or 10% • cannot meet demand • developing new products **Do not award** answers which discuss alternative methods of promotion or other elements of the marketing mix as this does not answer the question **Do not award answers** which discuss ways to increase output as this does not answer the question

Question	Answer	Marks	Guidance
3(a)	**Identify <u>two</u> features of a sole trader business.** Knowledge [2 × 1] award 1 mark for each feature Points might include: • Keeps all the profit • unlimited liability • (one person has) all the risk • takes all the decisions OR own boss / works for him/herself • unincorporated OR no separate legal identity • few legal requirements • Has total ownership OR full control	**2**	**Do not accept** in private sector as this applies to all types of organisation in the private sector. **Do not award** features of an entrepreneur **Do not award** answers such as Independent fast decision making OR no one to help run/ manage or make decisions as too vague
3(b)	**Calculate values for X and Y** Application: [2 × 1] award 1 mark for each correct answer • X: (220) • Y: 0 or zero	**2**	X must be shown as negative value to be awarded
3(c)	**Identify and explain <u>two</u> factors that Hashim's suppliers might consider before deciding to offer him trade credit.** Knowledge [2 × 1] Award 1 mark for each factor identified Application [2 × 1] Award 1 mark for each explanation in context Points might include: • Amount required/ how much stock he wants [k] for his gift shop [app] • Length of credit terms [k] especially when October – June is the busy time [app] • Credit history / chances of being repaid [k] as his first business failed [app] • Whether he has done any planning [k] such as his business plan [app]	**4**	Application marks may be awarded for appropriate use of the following: • sole trader • gift shop • city centre • popular tourist site • business plan or cash flow statement • correct use of data from Table 1 • first business failed (within 6 months) OR poor financial planning • Parents OR interest free loan for rent • October – June is the busy time

Question	Answer	Marks	Guidance
3(d)	**Identify and explain <u>two</u> ways in which a business plan might help Hashim's new business to be successful.** Knowledge [2 × 1] Award 1 mark for each relevant way Application [2 × 1] Award 1 mark for each relevant reference made to this business Analysis [2 × 1] Award 1 mark for each relevant explanation Points might include: • Help get a bank loan / finance [k] such as asking for trade credit [app] as lender is able to see that the business is able to repay [an] • Helps set targets / clear aims / future planning [k] as can see what need to do to achieve aims [an] of his small gift shop [app] • Helps understand OR reduce possible risks [k] as have time think about possible solutions to problems [an] especially as first business failed within 6 months [app] • Help decision making [k] so will not waste time / money on buying the wrong products [an] to ensure this business does not fail within 6 months [app] • Act as a checklist / track progress [k] especially when October–June is likely to be busy time [app] • Provide an estimate of costs/ help set budgets [k]	**6**	Application marks may be awarded for appropriate use of the following: • sole trader • gift shop • city centre • popular tourist site • correct use of data from Table 1 • poor financial planning • Parents OR interest free loan for rent • first business failed (within 6 months) • October – June is the busy time • Parents • Cash flow forecast • Trade credit **Do not award** answers which identify sections of a business plan as NAQ

Question	Answer	Marks	Guidance
3(e)	**Do you think Hashim should start the new business? Justify your answer using the information in Table 1.** Knowledge [1] Award max 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 relevant development of point(s) Evaluation [2] Justified decision made as to whether Hashim should start the new business Points might include: • Has predicted cash flow problems [k] as has negative closing balance after 4 months [app] • Cash inflows are increasing each month [k] • Cash flow forecast does not cover period of higher demand [k] as October and June is the busy time [app] • The data may not be accurate as it is only a forecast [k] Other points could include: • Does not have a good business record [k] as first business failed within 6 months [app] which could indicate he lacks the necessary skills [an] • Has learned from past mistakes [k] as this time has produced a cash flow forecast [app] • Risk is part of setting up a business [k] • Has support of his family [k] who provided interest free loan for shop rent [app] which will reduce cash outflows [an] • Level of competition [k] as may be other businesses near the popular tourist site [app] leading to fewer sales [an]	**6**	Application marks may be awarded for appropriate use of the following: • sole trader • gift shop • city centre • popular tourist site • business plan or cash flow statement • correct use of data from Table 1 • poor financial planning • Parents OR interest free loan for rent • first business failed (within 6 months) • October – June is the busy time • Trade credit

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Question	Answer	Marks	Guidance
4(a)	**What is meant by 'pressure group'?** Clear understanding [2]: people who have a common interest who take action to change OR influence business (or government) decisions Some understanding [1]: e.g. group formed by people with a common interest	**2**	Do not accept examples
4(b)	**Identify <u>two</u> advantages to a business of selling to a mass market.** Knowledge [2 × 1] award one mark for each advantage Points might include: • High or large number of sales • Could benefit from economies of scale OR lower average costs • No need to develop specialist products • Help build brand awareness OR reputation OR status	**2**	
4(c)	**Identify <u>two</u> stakeholder groups of SWQ. Explain <u>one</u> possible objective for each stakeholder group.** Knowledge [2 × 1] Award 1 mark for each stakeholder group identified Application [2 × 1] Award 1 mark for each explanation in context Points might include: • Employees [k] as want job security in its 200 shops [app] • Owners OR shareholders [k] maximise profits OR dividends from this public limited company [app] • Suppliers [k] may want prompt payment or increased orders to the 3 local suppliers [app] • Government [k] who may have to respond to pressure group action [app] • Customers [k] want access to a wider range of clothes [app] • Lenders [k] • Local community [k]	**4**	Application marks may be awarded for appropriate use of the following: • public limited company • 200 or shops • Clothing or related words such as sewing • 3 or local (suppliers) • information from news article • pressure groups • mass market • (customers) want low prices • 15-hour days • $2 • 8-year-olds or children or child labour .

Question	Answer	Marks	Guidance
4(d)	**Identify and explain <u>two</u> suitable methods of communication SWQ might use with manufacturers in country C if it decided to purchase supplies from them.** Knowledge [2 × 1] Award 1 mark for each relevant way Application [2 × 1] Award 1 mark for each relevant reference made to this business Analysis [2 × 1] Award 1 mark for each relevant explanation Points might include: • Phone call [k] so able to obtain instant feedback to its questions [an] about the possible use of child labour to sew buttons [app] • Email [k] as able to include attachments OR additional information [an] about the clothing required [app] • Letter [k] as have hard copy to refer to in future [an] • (Face to face) meeting [k] • Video conference or FaceTime or skype [k] • Text or messaging system such as WhatsApp [k]	**6**	Application marks may be awarded for appropriate use of the following: • public limited company • 200 or shops • Clothing or related words such as sewing • 3 (local suppliers) • pressure groups • mass market • (customers) want low prices • 15-hour days • $2 • 8-year-olds or children or child labour **Do not award** answers such as verbal, written, electronic, one way or two-way as knowledge as need to identify the method. **Do not award** answers such as quicker / cheaper as analysis unless explained, otherwise. **Do not award** examples of social media as not appropriate methods

Question	Answer	Marks	Guidance
4(e)	**Do you think SWQ should start buying its products from country C? Justify your answer.** Knowledge [1] Award max 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 relevant development of point(s) Evaluation [2] Justified decision made as to whether SWQ should start buying its products from country C • Could lower inventory costs [k] which is important as customers want lower prices [app] allowing SWQ to remain competitive [an] • Could lower sales [k] as customers do not want to be associated with unethical businesses [an] that use 8-year olds to sew buttons [app] • Different quality standards [k] so may have to spend time OR money to check quality [an] of the clothes [app] • Transport or distribution problems [k] as did use 3 local manufacturers [app] it may take too long for stock to arrive in its shops lowering possible sales [an] • Could lose some employees may not want to work for an unethical business [k] • Some shareholders may not want to invest in an unethical business [k] leading to less capital to invest [an]	**6**	Application marks may be awarded for appropriate use of the following: • public limited company • Clothing or related words such as sewing • 200 or shops • 3 or local (suppliers) • 15-hour days • $2 • 8-year-olds or children • pressure groups • mass market • (customers) want low prices Candidates can discuss either / both the practical issues when importing or the ethical considerations in relation to country C. Do not award lower quality as knowledge unless explained

Cambridge Assessment International Education
Cambridge International General Certificate of Secondary Education

BUSINESS STUDIES **0450/21**

Paper 2 Case Study **May/June 2019**

MARK SCHEME

Maximum Mark: 80

Published

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

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

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

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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.

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Question	Answer	Marks
1(a)	**Identify and explain <u>one</u> advantage and <u>one</u> disadvantage to SA of starting to sell new products in a niche market** Knowledge [2 × 1] Award one mark for each relevant advantage/disadvantage Analysis [2 × 1] Award one mark for a relevant explanation for each advantage/disadvantage Application [2 × 2] Award two application marks for each advantage/disadvantage Answers are likely to include: **Advantage** • Higher price charged • Less competition • Meet specific needs of customers • Increase sales/market share • Spreads risk/diversification • Attracts new/different customers **Disadvantage** • More expensive to produce the product – uses batch rather than flow production • Increased costs e.g. product development, new marketing strategy needed • Limited size of market/limited potential sales • Smaller market segment • Higher price does not match existing brand image for low priced soap Indicative response: SA can sell specialist products that meets these specific customer needs (k) and SA wants to sell soap aimed at people with older skin. (ap) This means that there are likely to be few competitors in this market as it is smaller and less attractive for larger businesses making it easier to have a higher market share and higher profits. (an). As incomes are increasing in country Z, older people will be able to afford this soap. (ap) Possible application marks: Produces soap; existing soap sold in a mass market; bars or liquid soap; new factory/equipment will cost $15m; 50 workers in the new factory; country Z is a growing economy; older skin; luxury soap; baby soap; medicated soap; low priced soap. There may be other examples in context that have not been included here.	**8**

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Question	Answer	Marks
1(b)	**Consider the following <u>three</u> roles of packaging for SA's new products. Which is the most important role for the successful launch of these new products? Justify your answer.** Relevant points might include: **Protection**: • So the soap does not get damaged in transit – however this might increase the costs of packaging • Easier to pack and store the soap in warehouses before sale– however this may take up more storage space **Brand image**: • Makes the soap stand out from other products on the shelves • Differentiates products from competitors' products • Images on package reinforces brand **Information about the product**: • Legal requirement – government protection for consumer • Customers need to know what is in the soap – may have a physical reaction e.g. allergies or ethical reaction e.g. animal testing Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below. **Level 3**: At least 2 × Level 2 + 9–10 marks for well justified conclusion as which is the most important role of packaging to choose to successfully launch new products compared to the other roles. 7–8 marks for some limited judgement shown in conclusion as to which is the most important role of packaging to successfully launch new products. **Level 2**: 4–6 marks Detailed discussion of the benefits and/or drawbacks of each role of packaging. **Level 1**: 1–3 marks Outline of the benefits and/or drawbacks of each role of packaging.	**12**

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Question	Answer	Marks
1(b)	Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Information about the ingredients of the soap is necessary as some people might be allergic to the soap. 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. Information about the ingredients of the soap is necessary as some people might be allergic to the soap. This might result in a poor reputation for the soap if customers put bad comments on social media about the soap giving them problems. If full information is provided then this should be avoided and only good comments about the soap should be posted. (L2 plus application for making reference to soap in the explanation) Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a conclusion which is the most important role of packaging to successfully launch new products. **Award up to 2 additional marks for relevant application.** Possible application marks: produces soap; sold in a mass market; soap sold as bars or liquid soap; bottles; niche market soaps; allergies/allergic reaction; medicated soap; baby soap; soap for older skin; luxury soap; retailers; wholesalers. There may be other examples in context that have not been included here.	

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Question	Answer	Marks
2(a)	**Identify and explain how the following <u>two</u> stakeholder groups might be affected by SA's plans to expand.** Knowledge [2 × 1] Award one mark for each effect Analysis [2 × 1] Award one mark for a relevant explanation for each effect Application [2 × 2] Award two application marks for each effect Examples might include: Shareholders • Higher dividend if the expansion is successful – may be lower dividend is retailed profit used • They might be asked to provide share capital – $15m required • Change the market price of shares • Increased risk of their investment Local community • Unemployment in the local area might fall/incomes in the local area might rise • More production jobs will be available • May case environmental costs/damage/negative externalities Indicative response: Shareholders – The cost of expansion is $15m (ap) and they might be asked to provide share capital (k). This could reduce the market price of their shares in the soap company (ap) as it will take time for the new investment to lead to higher profits and possibly higher dividends (an). Possible application marks: Plc set up 20 years ago; produces soap; sold in a mass market; start selling niche market soaps; need a new factory/equipment; will cost $15m; 50 workers. There may be other examples in context that have not been included here.	**8**

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Question	Answer	Marks
2(b)	**Consider the following <u>three</u> benefits to SA of having well-motivated employees. Which benefit will be the most important to SA if it wants to increase profit? Justify your answer.** **Relevant points might include:**	**12**

Higher output	More products available to sell – likely to increase revenue – increased profit as costs may not increase proportionately May increase productivity – lower unit/average costs
Fewer employees leaving	Happier more satisfied employees less likely to leave for another employer – reduces recruitment costs/less need for training of new employees
Higher quality	Fewer mistakes made – lower unit costs – improved gross profit – higher profits Gives a better reputation with regards to the product – may increase price/more customers attracted

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

	Knowledge/Analysis/ Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified conclusion of the most important benefit that will lead to higher profit and why it is more important than the other two benefits. 7–8 marks for limited conclusion of the most important benefit.
Level 2	4–6 marks Detailed discussion of each benefit.
Level 1	1–3 marks Outline of each benefit.

Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Higher output likely to increase sales

Level 2 – 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. Higher output of soap is likely to lead to higher sales and may even lead to higher revenue. If costs do not increase in the same proportion as the increase in revenue then profit may also increase enabling SA to pay higher dividends. (L2 plus application for recognising that it is a company producing soap).

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

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Question	Answer	Marks
2(b)	**Award up to 2 additional marks for relevant application.** Possible application marks: Produces soap; sold in a mass market; niche market soaps; new factory and equipment that will cost $15m; employs 100 production workers in the current factory; employ 50 workers in the new factory; luxury soap. There may be other examples in context that have not been included here.	

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Question	Answer	Marks
3(a)	**Identify and explain <u>two</u> ways SA could use lean production in its factory.** Knowledge [2 × 1] Award one mark for each relevant way Analysis [2 × 1] Award one mark for an explanation for each way Application [2 × 2] Award two application marks for each way • Just-in-time/JIT – inventory arrives at production line when wanted/ no warehousing of inventory • Kaizen – continuous improvement/eliminates waste/ better layout of factory improves flow of production • Cell production – small team working/responsible for complete unit of work • Kanban – inventory arrives at production line only when inventory has been used/reduces the holding of inventory Indicative response: Just-in-time (k) means that inventory is reduced to no or very low levels held in storage. (an) This reduces the need for having warehouse space to hold the ingredients to make soap. (ap) SA will need to have good relationships with its suppliers to ensure that the flow production line is not interrupted by inventory running out. (ap) Possible application marks: Produces soap; sold in a mass market; wants to start selling niche market soaps; employs 100 production workers; flow production; batch production. There may be other examples in context that have not been included here.	**8**

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Question	Answer	Marks
3(b)	**Consider <u>three</u> leadership styles the Operations manager could use in the new factory. Recommend which leadership style should be used to improve decision-making. Justify your answer** Relevant points might include:	**12**

	Advantages	Disadvantages
Autocratic	• Clear instructions given by manager/quick decision making • Less likely to make mistakes if clear what to do • Some employees like having no responsibility to make any decisions	• Does not allow worker involvement/one way communication • May be demotivating for some employees as feel less involved in the business
Democratic	• Motivating as workers feel they can contribute to the decision making • Feel they are being listened to and views respected/two way communication • May have some good ideas for how to improve the work flow as they are the ones working on the production line	• More time consuming to make decisions as time taken consulting the employees before decisions made
Laissez-faire	• Motivating as workers feel in control	• Some workers will not like this responsibility

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Question	Answer	Marks
3(b)	Knowledge/Analysis/Evaluation – award up to 10 marks using the level levels-based mark scheme on the next page	

	Knowledge/Analysis/ Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified recommendation as to which leadership style will be most effective in improving decision making and why the other leadership styles will be less effective. 7–8 marks for some limited judgement shown in the recommendation as to which leadership style will be most effective in improving decision making.
Level 2	4–6 marks Detailed discussion of the benefits and/or drawbacks of each leadership style.
Level 1	1–3 marks Identifies style of leadership and/or identifies features of leadership style

Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Autocratic leadership style (L1) – will lead to clear instructions being given by the manager for workers to follow (L1).

Level 2 – 1 x L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. Autocratic leadership style will lead to clear instructions being given by the manager. This means production workers will always know what to do and know what is expected of them. However, they will not feel they can contribute or make any comments if they feel something could be improved. (L2)

Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation which leadership style should be used to ensure there is an improvement in decision making.

Award up to 2 additional marks for relevant application.

Possible application marks:
Produces soap; selling niche market soaps; employs 100 production workers in the current factory; 50 workers in the new factory; 150 combined workforce; directors of SA disagree about leadership style; some managers not involved in important decisions; well-motivated employees are important.

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

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Question	Answer	Marks
4(a)	**Identify and explain two opportunities and two threats for businesses in country Z from globalisation.** Award one mark for each opportunity/threat (max 4) plus one additional mark for an explanation of each opportunity/threat **Opportunities** • New markets – increased revenue • Increased brand awareness • Increased sales –higher profit • Saturated home markets – new markets to develop • Spread risks – over more markets/products • New products developed – for new markets with different tastes • Higher incomes in growing economies – increased disposable income leading to higher sales • Free trade agreements – may allow domestic companies easier access to overseas market/Easier to export • Access to cheaper supplies/cheaper labour – lowers costs **Threats** • Increased competition in the home market – lose market share – may need to reduce prices • Free trade agreements – may allow foreign companies easier access to domestic market • Jobs lost in industries that cannot compete with cheaper foreign competition • Workers may choose to work for MNC which pays better wages – losing workers • Pressure to increase wage rates due to match MNC pay • Easier for exploitation by MNCs e.g. labour/natural resources • May be more vulnerable to external shocks e.g. recession in main export markets Indicative response: Country Z has signed a trade agreement (1) which provides opportunities for businesses in country Z to sell in new markets abroad and increase revenue (1).	**8**

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Question	Answer	Marks
4(b)	**Using Appendix 3 and other information, consider SA's financial position, using liquidity ratios. Recommend whether the bank manager should give a loan to SA for the new factory. Justify your answer.** Relevant points might include: L2 Liquidity ratios/L2 points: • Current ratio = 3:1 (3) in 2018 • Acid test ratio = 1:1 (1) in 2018 • Acid test ratio has stayed the same • Explanation that shows understanding of the meaning/significance of the ratio figures in 2017 and/or 2018 L1 Basic statements: • Inventory has increased by $5m between 2017–18 • Bank loan has increased by $10m between 2017–18 • Liquidity formulas • Non-current assets has remained the same • Simple calculations e.g. current assets in 2018 = $15m • Revenue in 2018 for low priced soap is $60m Award up to ten marks using the levels-based mark scheme below. Knowledge/Analysis/ Evaluation Level 3: At least 2 × Level 2 + 9–10 marks for well justified recommendation whether or not the bank manager should give a loan to SA for the new factory 7–8 marks for some limited judgement shown in recommendation as to whether the bank manager should give a loan to SA for the new factory Level 2: 4–6 marks Liquidity ratios correctly calculated. Explanation of meaning and significance of liquidity ratios. Level 1: 1–3 marks Outline of financial position without liquidity ratios calculated. Identifies the change in the figures from Appendix 3 Formula for liquidity ratios Makes financial calculation from figures in Appendix 1	12

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Question	Answer	Marks
4(b)	Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. The inventory has increased by $5m (L1) as the inventory was $5m in 2017 and $10m in 2018 (1 × Ap). Level 2 – 1 x L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. The acid test ratio in 2018 is 1:1. (L2) Level 3 – For L3 to be awarded there needs to be at least two correct L2 liquidity calculations and then a recommendation as to whether or not the bank manager should give a loan to SA for the new factory. **Award up to 2 additional marks for relevant application.** Possible application marks: 2017 current ratio was 2:1; 2017 acid test ratio was 1:1; any other relevant use of financial data from Appendix 3 e.g. bank loan is now $20m; produces soap; new factory and equipment that will cost $15m; 50 workers in the new factory; country Z is a growing economy. There may be other examples in context that have not been included here.	

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BUSINESS STUDIES **0450/22**

Paper 2 Case Studies **May/June 2019**

MARK SCHEME

Maximum Mark: 80

Published

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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.

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Question	Answer	Marks
1(a)	**Identify and explain <u>one</u> advantage and <u>one</u> disadvantage to WA of developing new products.** Knowledge – award one mark for each relevant advantage / disadvantage **[2 × 1 marks]** Analysis – award one mark for a relevant explanation for each advantage / disadvantage **[2 × 1 marks]** Application – award two application marks for each advantage / disadvantage **[2 × 2 marks]** Answers are likely to include: **Advantage** • New markets • Maintains image for fashionable designs • Remains competitive • Expansion • Wider range of products / diversification / spreading risk • Attract more customers / increase sales **Disadvantage** • New products might fail • May not be demanded if not liked by consumers • Increased costs – for example development costs / marketing / advertising / market research / storage or warehouse costs / wasted raw materials during development / training labour in new skills • Higher prices needed to recoup development costs Indicative response: WA will remain competitive (k) by ensuring the furniture is fashionable (ap). This will increase demand or at least maintain demand for its furniture (an) and may result in profit increasing again (ap). Possible application marks: Family owned ltd company; small business; started 10 years ago; furniture; wood from sustainable forests; uses batch production to make furniture; new fashionable designs each year; selling price $200; environmentally friendly business objective; reduced profit in 2018; chairs / tables	8

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Question	Answer	Marks
1(b)	**Consider the following <u>three</u> possible business objectives for WA. Which objective is likely to be most important to WA in the long run? Justify your answer.** **Relevant points might include:**	**12**

	Advantages	Disadvantages
Be an environmentally friendly business	• Improved brand image – may attract ethical customers – increase sales • Less likely to break government regulations on environmental damage • Employees may prefer to work for an ethical business • Avoids WA having to deal with pressure groups	• May have a higher cost –higher price for furniture • Less competitive especially if competitors do not use sustainable wood
Increase market share	• Increase sales – higher revenue and profit • More dominant in the market – more influence on price	• Increased cost of marketing • Marketing costs may be higher than improvement in sales and revenue • Increase in WA sales may not increase market share if market is growing at the same rate
Survival	• Avoids making a loss – costs are covered • Easier to achieve than other objectives – just needs to aim to break-even • Protects family investment	• Long term not good as low / no retained profit this is usually a short-term objective • May need to borrow externally if low profit

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1(b)</td><td>
Award up to 10 marks using the levels-based mark scheme below.

<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 is the most important and why the other objectives will be less important in the long run.
7–8 marks for some limited judgement shown in conclusion as to which objective will be most important in the long run.</td></tr>
<tr><td>Level 2</td><td>4–6 marks
Detailed discussion of the advantages and/or disadvantages of each objective.</td></tr>
<tr><td>Level 1</td><td>1–3 marks
Outline of the advantages and/or disadvantages of each objective.</td></tr>
</table>

Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Improved brand image if aim to be environmentally friendly

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. Improved brand image if aim is to be environmentally friendly and this may attract an increased number of customers who are concerned about environmental damage and want to support ethical businesses. However, this might be more expensive, for example when buying the wood and so prices may have to be increased. (L2 plus application for mentioning buying wood)

Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a conclusion of which objective will be most important in the long run.

Award up to 2 additional marks for relevant application.

Possible application marks:
Family owned ltd company; small business; started 10 years ago; furniture; wood from sustainable forests; new fashionable designs each year; individually designed furniture produced using job production; selling price $200 and $250 per item; ethical business objective; reduced profit in 2018; chairs / tables; high cost of wood; uses cost-plus pricing; WA price is higher than competitors, 10% market share

There may be other examples in context that have not been included here
</td><td></td></tr>
</table>

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Question	Answer	Marks
2(a)	**Identify and explain <u>two</u> examples of tertiary sector businesses that help WA to be successful.** Knowledge – award one mark for identifying an example of a tertiary sector business **[2 × 1 marks]** Analysis– award one mark for a relevant explanation of how the tertiary sector business helps WA be successful **[2 × 1 marks]** Application – award two application marks for explaining in context how the tertiary sector business helps WA to be successful **[2 × 2 marks]** Answers are likely to include: • Bank • Insurance • Advertising agency • Transport services • Communication e.g. mobile phone networks, internet providers • IT services • Retailer / wholesaler e.g. furniture retailer • Training companies Indicative response: Transport services (k) that delivers furniture to customers (ap). This saves WA having to purchase its own vehicles to deliver tables and chairs (ap) and so saves WA the expense of delivery vehicles when they would not be used all the time (an). Possible application marks: Family owned ltd; small business; started 10 years ago; furniture; wood from sustainable forests; new fashionable designs each year; individually designed furniture produced; chairs / tables; reduced profit in 2018. There may be other examples in context that have not been included here.	**8**

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>2(b)</td><td>

Consider the following <u>two</u> ways WA could increase productivity. Recommend which would be the best way to choose to increase profit. Justify your answer.

Relevant points might include:

<table>
<tr><th></th><th>Advantages</th><th>Disadvantages</th></tr>
<tr><td>Use computers in manufacturing and design</td><td>• Less labour required – lower labour costs
• Increased output – at a faster pace
• Possibly improved quality – less mistakes from human error
• Improved designs – less waste producing new models</td><td>• High cost of computers
• Cost of redundancy payments for workers
• Disruption while new computers are installed
• Increased training costs for workforce to use new equipment
• May need to recruit workers with new skills</td></tr>
<tr><td>Improving employees skills</td><td>• Makes workers more efficient – lower unit costs
• Increased motivation as employees feel valued
• Increased output may be higher than increased wage costs – lower unit costs</td><td>• Higher cost for training
• May need to be off-the-job training or may cause interruption to production of the products
• Workers may demand higher wages as now more skilled
• Employees may then find new jobs elsewhere as they have more skills</td></tr>
</table>

</td><td>12</td></tr>
</table>

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>2(b)</td><td>
Award up to 10 marks using the levels-based mark scheme below.

<table>
<tr><th></th><th>Knowledge / Analysis / Evaluation</th></tr>
<tr><td>Level 3</td><td>At least 2 × Level 2 +
9–10 marks for well justified recommendation as to which would be the best way to increase productivity in order to increase profit compared to other way.
7–8 marks for some limited judgement shown in recommendation as to which would be the best way to increase productivity.</td></tr>
<tr><td>Level 2</td><td>4–6 marks
Detailed discussion of the advantages and/or disadvantages of each way to increase productivity.</td></tr>
<tr><td>Level 1</td><td>1–3 marks
Outline of the advantages and/or disadvantages of each way to increase productivity.</td></tr>
</table>

Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Use of computers may lead to fewer workers required so saves wage costs.

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. Use of computers may lead to fewer workers required so saves wage costs and this reduces total costs so may help to increase profit. However, workers will need to be made redundant and this will cost money in redundancy payments. (L2)

Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation which would be the best way to increase productivity in order to increase profit.

Award up to 2 additional marks for relevant application.

Possible application marks:
Family owned ltd company; small business; started 10 years ago; furniture; wood from sustainable forests; uses batch production to make furniture; individually designed furniture produced using job production; environmentally friendly business objective; reduced profit in 2018; $4000 wage cost; 20 workers; 10% above minimum wage; selling price $200 and $250; highly skilled production workers.

There may be other examples in context that have not been included here.
</td><td></td></tr>
</table>

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Question	Answer	Marks
3(a)	**Identify and explain how <u>two</u> stakeholder groups of WA are likely to be affected by the reduction in profit in 2018.** Knowledge – award one mark for identifying a relevant stakeholder group **[2 × 1 marks]** Analysis – award one mark for a relevant explanation how each stakeholder group will be affected **[2 × 1 marks]** Application – award two application marks for explaining in context how each stakeholder group will be affected **[2 × 1 marks]** Answers are likely to include:	**8**

Shareholder / Directors / Owners / Family	• Lower dividend likely to be paid – lower return on their investment • Need to change business objectives to try to increase profit again – may require further investment – changes to the way the company is operated
Employees OR accept workers and managers as separate stakeholders	• Less likely to be given a wage increase – less motivated • May have to accept a reduction in wage rates or longer hours for same pay
Suppliers	• Asked to reduce price of wood – less wood purchased • Slower to get paid for wood supplied – worse cash flow

Accept other stakeholder groups e.g. customers, competitors, government, bank, local community.

Indicative response:
Supplier (k) that sells wood to WA to make the furniture (ap) may not be paid as quickly if the profit is lower (an). Supplier may have to lower the price of its wood to help WA reduce its costs (ap).

Possible application marks:
Family owned ltd company; small business; started 10 years ago; furniture; wood from sustainable forests; selling price $200 and $250 per item; environmentally friendly business objective; 2 brothers and a sister; 20 employees; 10% above minimum wage.

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

Note – Do NOT reward reduction in profit as application because this is in the question.

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Question	Answer	Marks
3(b)	**Consider the following <u>three</u> ways WA could use to increase employee motivation. Recommend which way WA should choose. Justify your answer.** **Relevant points might include:**	**12**

Introduce piece rate	• Taylor's theory – money motivates • Increases pay – by rewards for producing a higher output However • Wage costs may increase • Quality might be reduced if rush to produce more output • Less likely to be applicable to office staff and so may not be fair
Give shares to WA employees	• Employees now receive payment from dividends • Increased rewards from higher output / profit • Maslow – increased sense of belonging However • Existing shareholders of this private limited company will lose some control • May lead to reduced dividends per share or less retained profit • Shares may not easily be sold (Ltd) – workers may prefer cash to shares
Introduce job rotation	• Makes the work more interesting / less boring • Change tasks performing regularly However • Increases training requirements as each worker currently only performs one task • Quality may be lower if less specialised in tasks • May mean sometimes a worker does a job not liked • May only be motivating in the short term until the worker gets used to the new tasks

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>3(b)</td><td>
Award up to 10 marks using the level levels-based mark scheme below.

<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 way to choose to increase employee motivation and why it is more important than the other ways.
7–8 marks for limited recommendation of which way it should choose to increase employee motivation.</td></tr>
<tr><td>Level 2</td><td>4–6 marks
Detailed discussion of each way to increase motivation</td></tr>
<tr><td>Level 1</td><td>1–3 marks
Outline of each way to increase motivation</td></tr>
</table>

Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Job rotation makes the work more interesting.

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. Job rotation makes the work more interesting as the workers change round the jobs regularly and therefore are less likely to get bored. This increases the motivation of the worker but they are less specialised and therefore may not perform each task a well as if they only performed the one task so quality may be lower (L2).

Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation which justifies which way should be chosen to increase employee motivation.

Award up to 2 additional marks for relevant application.

Possible application marks:
Family owned ltd company; small business; started 10 years ago; furniture; uses batch production to make furniture; each skilled worker only performs one task; individually designed furniture produced using job production; environmentally friendly business objective; reduced profit in 2018; 10% above minimum wage; 20 workers; tables / chairs; paid an hourly wage rate.

There may be other examples in context that have not been included here.
</td><td></td></tr>
</table>

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Question	Answer	Marks
4(a)(i)	**Calculate the total cost per month of producing 100 items of furniture.** Award 1 mark for correct costs and 1 mark for correct answer $10 000 + $1 200 + $800 + $4 000 **(1)** = $16 000 **(1)** **Note – if answer is only $16 000 with no working then award 2 marks**	**2**
4(a)(ii)	**Calculate the average cost of 1 piece of furniture.** Award 1 mark for correct figures used and 1 mark for correct answer $16 000 / 100 **(1)** = $160 per item of furniture **(1)** **Note – If answer is only $160 with no working then award 2 marks**	**2**
4(a)(iii)	**Explain how total cost and average cost will change if the output is increased to 200 items of furniture per month.** Award 1 mark per point: Total cost will increase due to increase in variable costs **(1)** – as more wood will need to be purchased **(1)** TC = $26 000 / increased by $10 000 **(1)** Average cost will fall **(1)** – as the fixed costs will not change **(1)** – which means the fixed costs are spread over a larger output. **(1)** AC = $130 per item of furniture / decreased by $30 **(1)** Total cost will increase whilst average cost will fall **(1)** (Apply OFR) **Note – 4 marks can be awarded even if no figures are included.**	**4**

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Question	Answer	Marks
4(b)	**Consider how the following <u>three</u> changes might affect WA. Which change is likely to have the biggest effect on WA? Justify your answer.** **Relevant points might include:**	**12**

Introduction of new cost to businesses of $50 per tonne for removing waste	• Increased cost of removing waste – higher prices – less demand for furniture – lower profit • Applies to all businesses so not less competitive – if reduce waste produced then may be more competitive
Increase in legal minimum wage by 5%	• No effect as already paid 10% above minimum wage • Increased wage costs – to keep pay differential – increased total cost – lower profit • Increased income – increased demand for furniture – higher sales and profit • May increase motivation if increase in wage rates for employees
Increase in tax on incomes	• Lower incomes as pay after tax will be lower – lower demand – lower sales of furniture • WA furniture is higher quality so may not have much effect on sales • Workers may demand higher wages to compensate for loss of disposable income

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>4(b)</td><td>
Award up to 10 marks using the levels-based mark scheme below.

<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 greatest effect on WA rather than the other two changes.
7–8 marks for limited justified conclusion as to which change will have the greatest effect on WA.</td></tr>
<tr><td>Level 2</td><td>4–6 marks
Discussion of the impact of the changes on WA.</td></tr>
<tr><td>Level 1</td><td>1–3 marks
Outline of impact of changes on WA.</td></tr>
</table>

Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Increased amount to pay to get rid of waste will raise costs.

Level 2 – 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. Increased amount to pay to get rid of waste will raise costs and WA may need to increase the price of its furniture. Higher prices may deter customers and so sales and possibly profit will fall. (L2 plus application for referring to furniture in the answer)

Level 3 – For L3 to be awarded there needs to be at least two level 2 marks awarded and then a conclusion as to which change will have the biggest impact on WA.

Award up to 2 additional marks for relevant application.

Possible application marks:
Family owned ltd company; small business; started 10 years ago; furniture; new fashionable designs each year; individually designed furniture produced using job production; selling price $200 and $250 per item; environmentally friendly business objective; reduced profit in 2018; tables / chairs; paid 10% above minimum wage; WA prices are higher than competitors.

There may be other examples in context that have not been included here.
</td><td></td></tr>
</table>

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Cambridge Assessment International Education
Cambridge International General Certificate of Secondary Education

BUSINESS STUDIES **0450/23**

Paper 2 Case Study **May/June 2019**

MARK SCHEME

Maximum Mark: 80

Published

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

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

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

Cambridge International is publishing the mark schemes for the May/June 2019 series for most Cambridge IGCSE™, Cambridge International A and AS Level and Cambridge Pre-U components, and some Cambridge O Level components.

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

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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:

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- the specific skills defined in the mark scheme or in the generic level descriptors for the question
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- marks are awarded when candidates clearly demonstrate what they know and can do
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- 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:

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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.

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Question	Answer	Marks
1(a)	**Identify and explain <u>two</u> reasons why the Government helped Peter start up his new business.** 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 Answers are likely to include: • To increase employment/reduce unemployment – often in particular areas • To increase economic growth – generate income and tax revenue • To increase competitiveness – particularly in markets where there are few businesses competing Indicative response: To increase employment (k) as Peter will need to employ other workers to convert vans (ap). By giving Peter a grant to start his own business (ap) this will reduce unemployment in the area and increase incomes (an). Possible application marks: Motorhome; van conversion; changes vans and large cars; sole trader business; started 2 years ago; plans to expand by offering additional services; needs 3 new skilled and experienced workers; the business Peter worked for failed. There may be other examples in context that have not been included here.	**8**

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Question	Answer	Marks
1(b)	**Consider the following <u>three</u> pricing methods VC could use for its new products. Which method should Peter choose? Justify your answer.** **Relevant points might include:**	**12**

Penetration pricing	• Helps a new service enter the market • Helps to ensure sales are made • Lower price may mean lower gross profit
Price skimming	• Help establish the business as a high quality service • May put off many customers as the price is too high
Cost plus pricing	• Easy to apply • Could lose sales if selling price higher than competitors

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

	Knowledge/Analysis/ Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified recommendation of which pricing method to choose and why it is more important than the other methods. 7–8 marks for limited recommendation of which pricing method to choose.
Level 2	4–6 marks Detailed discussion of the benefits and/or drawbacks of each role of packaging.
Level 1	1–3 marks Outline of the advantages and/or disadvantages of each method.

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Question	Answer	Marks
1(b)	Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Penetration pricing means the service is sold for a low price to help it enter the market. 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. Penetration pricing means the service is sold for a low price to help it enter the market and attract customers away from competitors. However, it will result in lower gross profit whilst the prices are kept low and customers may think the service is low quality if the price is too low. (L2) Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation of which pricing method to choose. **Award up to 2 additional marks for relevant application.** Possible application marks: Motorhome; van conversion; changes vans and large cars; sole trader business; started 2 years ago; plans to expand by offering additional services; needs 3 new skilled and experienced workers; financial information from appendix 3. There may be other examples in context that have not been included here.	

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Question	Answer	Marks
2(a)	**Identify and explain <u>two</u> possible reasons for the failure of the business that Peter used to work for.** 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 Answers are likely to include: • Poor management – lack of experience leading to bad decisions • Failure to plan for change – not reacting to changes in technology, markets or economic changes • Poor financial management – leading to shortage of cash/cash flow problems • Over-expansion – problems with finance and management if grows too quickly Indicative response: Poor management (k) as the owner had not been able to pay its suppliers of car parts (ap). The owner did not have the experience to deal with car repair businesses entering in the market (ap) and this may have resulted in cash flow problems as the owner ran out of cash (an). Possible application marks: Motorhome; van conversion; changes vans and large cars; sole trader business; started 2 years ago; financial information from appendix 3; the previous employer lacked management experience; had been unable to pay its suppliers of car parts; car repair business. There may be other examples in context that have not been included here.	**8**

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Question	Answer	Marks
2(b)	**Consider the following <u>three</u> ways Peter could recruit a new skilled worker. Recommend which would be the best way to use. Justify your answer.** **Relevant points might include:**	**12**

	Benefits	Drawbacks
Ask family and friends if they know someone suitable	• Cheap as no cost involved • Quick to carry out • Personal qualities known as coming recommended – more likely to be honest	• May not be a wide range of people known to family/friends • Friends may not know the type of person who will be suitable
Use a job vacancy website	• Wide range of people may see it • more likely to be seen by someone with suitable skills	• Suitable people may not see the job advertisement unless they are looking for a new job • It may be a website for many different types of jobs and the job may be lost amongst the many jobs advertised on it
Use a recruitment agency	• Saves time as do not need to carry out own recruitment • Sends suitable people so saves time interviewing • Already gone through earlier selection procedures	• Have to pay the agency – it is expensive • May have to keep paying the agency part of the wages • Lower wages for the person recruited – may leave for competitor who pays the going wage rate

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>2(b)</td><td>
Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.

<table>
<tr><th></th><th>Knowledge/Analysis/ Evaluation</th></tr>
<tr><td>Level 3</td><td>9–10 marks for well justified recommendation of which way to choose and why the others will be less effective.

7–8 marks for some limited judgement shown in the recommendation of which way to choose.</td></tr>
<tr><td>Level 2</td><td>4–6 marks
Detailed discussion of the benefits and/or drawbacks of each way.</td></tr>
<tr><td>Level 1</td><td>1–3 marks
Outline of the benefits and/or drawbacks of each way.</td></tr>
</table>

Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Asking friends means that it will not cost any money to recruit the new worker.

Level 2 – 1 x L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. Asking friends means that it will not cost any money to recruit the new worker and the person will come recommended by someone who knows them so their suitability may be more accurate. However, the friend may not know how this person works and they may not have the right skills or be suitable for Peter. (L2)

Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a justified recommendation of which way to choose.

Award up to 2 additional marks for relevant application.

Possible application marks:
Motorhome; van conversion; changes vans and large cars; sole trader business; started 2 years ago; plans to expand by offering additional services; needs 3 new skilled and experiences workers; information about the recruitment agency in appendix 2; financial information from appendix 3.

There may be other examples in context that have not been included here
</td><td></td></tr>
</table>

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Question	Answer	Marks
3(a)	**Identify and explain <u>two</u> reasons why building customer relationships is important for VC.** 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 Answers are likely to include: • Getting to know customers' wants by asking them – makes them loyal to the business – retains customers and reputation • To identify what customers want from the van conversion – Peter can adapt the service to meet customer needs • Peter wants to maintain a good reputation – so customers tell others about the business and increase advertising by word of mouth – increase sales • Increase customer loyalty Indicative response: By having a good relationship with customers Peter can ask them about what they want (k). This means Peter must find out what sort of van conversions customers might want. (ap) If Peter then offers these services he will be more likely to attract customers to VC (an) and the business will continue to grow as this is what Peter wants as his main business objective. (ap) Possible application marks: Motorhome; van conversion; changes vans and large cars; sole trader business; started 2 years ago; plans to expand by offering additional services; financial information from Appendix 3; main business objective is growth; job production; every vehicle is different. There may be other examples in context that have not been included here.	**8**

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Question	Answer	Marks
3(b)	**Consider how the following three factors can affect the accuracy of the questionnaire data. Which is the most important factor for achieving accurate results? Justify your answer.** **Relevant points might include:**	**12**

Sample size	• Larger size will mean more accurate results but more expensive to carry out • Smaller sample size will mean there is less likelihood of this being representative of the market
Location where questionnaire is carried out	• If carried out in the city then may not ask people who are interested in van conversions – so results will be less reliable • If carefully selected area such as near campsites for camper vans or motorhomes then the results will be more accurate as people interested in these conversions will be sampled
Questions asked	• If badly phrased questions are asked then the results will be less likely to be truly what the respondents think • Closed questions will not gain qualitative information

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

	Knowledge/Analysis/ Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified conclusion as to which is the most important factor in ensuring accurate results compared to other factors. 7–8 marks for some limited judgement shown in conclusion as to which is the most important factor in ensuring accurate results.
Level 2	4–6 marks Detailed discussion of the benefits and/or drawbacks of each factor.
Level 1	1–3 marks Outline of the benefits and/or drawbacks of each factor.

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Question	Answer	Marks
3(b)	Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. A larger sample size will mean more possible customers will answer it. 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 larger sample size will mean more possible customers will answer the questionnaire giving more accurate results. However, to ask more people will take more time to gather the data and more time to analyse it. This will all cost Peter more money and so he may have to just ask a small number of people but try to ensure the sample is from the target market. (L2) Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation as to which is the most important factor in ensuring accurate results. **Award up to 2 additional marks for relevant application.** Possible application marks: Motorhome; van conversion; changes vans and large cars; sole trader business; started 2 years ago; plans to expand by offering additional services; financial information from appendix 3. There may be other examples in context that have not been included here.	

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Question	Answer	Marks
4(a)	**Identify and explain <u>one</u> advantage and <u>one</u> disadvantage to VC of using job production.** Knowledge [2 × 1] Award one mark for each relevant advantage/disadvantage Analysis [2 × 1] Award one mark for an explanation of each advantage/disadvantage Application [2 × 2] Award two application marks for each advantage/disadvantage Answers are likely to include: Advantages: • It is suitable for these one-off personalised van conversions – each one is different according to customer preferences – can charge higher prices • The service meets the exact requirements of the customer – increasing customer satisfaction • More interesting and varied work for employees – can be more motivating than flow or batch production Disadvantages: • Likely for higher wages to be paid to skilled workers – costs are higher • Labour-intensive production often takes longer – as each job is different – it may take more time to complete a customer order • Materials used may need to be ordered separately – take time to arrive as made especially to order and any mistakes will be expensive to replace • Cannot easily be sold to someone else – materials may have to be specially purchased – increasing costs Indicative response: Service meets the exact requirements of the customer (k) so increases customer satisfaction leading to good image for the business and increase sales. (an) The vans will be converted in the exact way the customer wants (ap) and then when travelling round other people will see the van and if they like the inside, such as a cooker included, then they may be more likely to ask VC to undertake a conversion for them. (ap) Possible application marks: Motorhome; van conversion; changes vans and large cars; sole trader business; started 2 years ago; plans to expand by offering additional services; needs 3 new skilled and experienced workers; financial information from appendix 3; ordering car parts. There may be other examples in context that have not been included here.	**8**

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Question	Answer	Marks
4(b)	**Using Appendix 3 and other information, consider whether Peter should be worried about VC's profitability. Justify your answer using profitability ratios.** **Relevant points might include:**	**12**

Profitability ratios L2	**2017:** GPM = 20% NPM = 5% ROCE = 16.66% **2018:** GPM = 14% NPM = 4% ROCE = 15%
Basic statements L1	**2017:** Gross profit =$ 20 000 (Net) Profit = $5000 Capital employed = $30 000 **2018:** Gross profit = $21 000 (Net) profit = $6000 Capital employed = $40 000 Revenue increased by $50 000 Cost of sales increased by $49 000 Expenses remained the same at $15 000

Award up to ten marks using the levels-based mark scheme below.

	Knowledge/Analysis/ Evaluation
Level 3	At least 2 × Level 2 profitability ratios 9–10 marks for well justified conclusion as to whether Peter should be worried about VC's profitability. 7–8 marks for some limited judgement shown in conclusion as to whether Peter should be worried about VC's profitability
Level 2	4–6 marks Profitability ratios correctly calculated and analysed Analysis of financial information in Appendix 3
Level 1	1–3 marks Outline of changes in financial position without profitability ratios calculated. Formula for profitability ratios

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Question	Answer	Marks
4(b)	Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. The gross profit in 2018 was $1,000 more than in 2017. Level 2 – 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. The gross profit margin for the motorhome business in 2017 was 20%. (L2 plus application for referring to the products being motorhomes). Level 3 – For L3 to be awarded there needs to be at least two correct L2 profitability calculations and then a conclusion of whether or not Peter should be pleased with the figures. **Award up to 2 additional marks for relevant application.** Possible application marks: Motorhome; van conversion; changes vans and large cars; sole trader business; started 2 years ago; plans to expand by offering additional services; needs 3 new skilled and experiences workers; figures from Appendix 3 used to support L1/L2/L3 answers. There may be other examples in context that have not been included here.	

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CANDIDATE NAME	

CENTRE NUMBER						CANDIDATE NUMBER					

4392321930

BUSINESS STUDIES **0450/11**

Paper 1 **May/June 2019**

1 hour 30 minutes

Candidates answer on the Question Paper.

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1 Y2M is a bus operating company in the public sector. One of its objectives is to break even on every bus route. Most of its competitors are in the private sector. Y2M wants to increase the number of customers using its buses. The Finance Director has been looking at some cost data shown in Table1. This is because Y2M plans to review its pricing methods. She is worried other businesses pay workers a higher wage rate and some of its drivers may leave. She said: 'To pay the same wage rate would increase variable cost to $2.20 per passenger per journey.'

Table 1: Cost and price data for one Y2M route

Number of passengers per day	90
Price per passenger per journey	$2.50
Fixed costs per week	$300
Variable cost per passenger per journey	$2

(a) What is meant by 'break-even'?

.....

.....

.....

..... [2]

(b) Calculate the revenue per day.

.....

..... [2]

(c) Identify and explain **two** objectives Y2M might have if it was in the private sector.

Objective 1: .....

.....

Explanation: .....

.....

Objective 2: .....

.....

Explanation: .....

..... [4]

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(d) Identify and explain **two** pricing methods Y2M could use.

Pricing method 1: .....

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Explanation: .....

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Pricing method 2: .....

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Explanation: .....

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..... [6]

(e) Do you think Y2M should pay its workers the same wage rate as its competitors? Justify your answer.

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..... [6]

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2 Kate is an entrepreneur. Two years ago she left her job as a fashion designer at a multinational company. She started up BBB, a women's sportswear clothing business. BBB targets a market segment of high income consumers. BBB's products are sold in 3 retail shops and also through its website. Kate said: 'I saw a gap in the market and took the risk. Obtaining the finance I needed from the bank was not easy. I enjoy making decisions such as using leaflets to promote the clothes.' BBB's revenue target for next year is $500 000.

(a) What is meant by 'entrepreneur'?

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..... [2]

(b) Identify **two** reasons why obtaining finance may not be easy for a new business.

Reason 1: .....

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Reason 2: .....

..... [2]

(c) Identify and explain **two** possible reasons why Kate decided to start up her own business.

Reason 1: .....

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Explanation: .....

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Reason 2: .....

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Explanation: .....

..... [4]

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(d) Identify and explain **two** reasons why segmenting the market might help BBB.

Reason 1: .....

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Explanation: .....

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Reason 2: .....

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Explanation: .....

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..... [6]

(e) Do you think that using leaflets is the best way for Kate to promote her products? Justify your answer.

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..... [6]

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3 BVC makes a range of paints. It exports 60% of its products. The Managing Director has been looking at BVC's cash-flow forecast shown in Table 2. He said: 'Success is not just about our return on capital employed.' The Managing Director is worried about the introduction of new legal controls to protect the environment. This will mean BVC will have to reduce the number of chemicals that are used to make paint. He thinks these new legal controls will be bad for business.

Table 2: Extract of cash flow forecast for the period July–September 2019 ($000)

	July	August	September
Cash inflow	600	560	620
Cash outflow	560	540	580
Net cash flow	40	20	**Y**
Opening balance	**X**	60	80
Closing balance	60	80	120

(a) What is meant by 'return on capital employed'?

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..... [2]

(b) Calculate the following values:

X: .....

Y: ..... [2]

(c) Identify and explain **two** reasons why a cash flow forecast might be important for BVC.

Reason 1: .....

.....

Explanation: .....

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Reason 2: .....

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Explanation: .....

..... [4]

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(d) Identify and explain **two** possible problems for BVC when exporting its products.

Problem 1: .....

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Explanation: .....

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Problem 2: .....

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Explanation: .....

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..... [6]

(e) The Managing Director thinks the new legal controls to protect the environment will be bad for business. Do you agree? Justify your answer.

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4 FGH is a private limited company. FGH has a tall hierarchical organisational structure. It is a book retailer which plans to take over one of its competitors for $800m. If the takeover happens, FGH would have 6 500 bookshops across 20 countries. FGH's Managing Director said: 'We expect to reduce total costs by $300m each year after the takeover. We will stop all off-the-job training of employees.' The Managing Director thinks FGH would benefit from becoming a public limited company but some of the other directors cannot decide if this is a good idea.

(a) What is meant by 'off-the-job training'?

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..... [2]

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

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..... [2]

(c) Identify and explain **two** advantages of FGH having a tall hierarchical organisational structure.

Advantage 1: .....

.....

Explanation: .....

.....

Advantage 2: .....

.....

Explanation: .....

..... [4]

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(d) Identify and explain **one** advantage and **one** disadvantage to FGH of becoming a public limited company.

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 FGH should take over the other business? Justify your answer.

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CANDIDATE NAME	

CENTRE NUMBER						CANDIDATE NUMBER					

8607627732

BUSINESS STUDIES **0450/12**

Paper 1 **May/June 2019**

1 hour 30 minutes

Candidates answer on the Question Paper.

No Additional Materials are required.

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1 PLK is a social enterprise which offers training to young people who leave school with no qualifications. The young people are trained by PLK chefs to prepare food which is sold at local markets or sporting events. Choosing the right method of promotion is important. The manager of PLK thinks that to increase profit it is better to raise prices rather than use cheaper food ingredients.

Table 1: Cost and sales information for PLK

Number of meals sold per week	1000
Price per meal	$3
Variable cost per meal	$2
Fixed costs per week	$300

(a) What is meant by 'social enterprise'?

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..... [2]

(b) What is meant by 'fixed costs'?

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..... [2]

(c) Calculate PLK's weekly profit.

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..... [4]

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(d) Identify and explain **two** methods of promotion PLK might use to increase sales.

Method 1: .....

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Explanation: .....

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Method 2: .....

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Explanation: .....

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..... [6]

(e) Do you agree with PLK's manager that to increase profit it is better to raise prices rather than use cheaper ingredients? Justify your answer.

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..... [6]

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2 JNK makes pottery including plates and bowls for the mass market, using batch production. Quality control is important. JNK has 30 unskilled employees, who are all paid the legal minimum wage. JNK uses job enrichment to keep workers motivated. Due to an increase in demand, JNK is planning to replace its old machines with new technology. The Managing Director thinks that some of the low cost materials purchased by JNK are produced using child labour. One of JNK's competitors has recently introduced a new ethical policy.

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

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..... [2]

(b) What is meant by 'job enrichment'?

.....

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..... [2]

(c) Identify and explain **two** ways in which employees at JNK could be affected by the introduction of new technology.

Way 1: .....

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Explanation: .....

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Way 2: .....

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Explanation: .....

..... [4]

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(d) Identify and explain **two** ways (other than new technology) that JNK could use to increase output.

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 JNK should become more ethical? Justify your answer.

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..... [6]

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3 REW has won many awards for the design and style of its carpets and rugs. All the wool it uses is from local suppliers. REW's objective for this year is to survive and remain in business. The Managing Director is concerned that the country's Gross Domestic Product has been falling for some time. During the recession the Managing Director plans to start selling REW's products in other countries. Market research suggests demand would be high.

Table 2: Extract from REW's accounts

	2017	**2018**
Current ratio	1.5	2
Acid test ratio	1.2:1	1:1
Profit margin	20%	16%

(a) What is meant by 'Gross Domestic Product'?

.....

.....

.....

..... [2]

(b) Identify **two** possible effects on businesses from falling Gross Domestic Product.

Effect 1: .....

.....

Effect 2: .....

..... [2]

(c) Identify and explain **two** reasons why REW's objectives might change over time.

Reason 1: .....

.....

Explanation: .....

.....

Reason 2: .....

.....

Explanation: .....

..... [4]

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(d) Identify and explain the effect on REW of the **changes** in the following ratios.

Change in acid test ratio: .....

.....

Explanation of effect: .....

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Change in profit margin: .....

.....

Explanation of effect: .....

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..... [6]

(e) Do you think REW should start selling its products in other countries? Justify your answer.

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..... [6]

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4 George has worked in a small flower shop for 10 years. He does not like the autocratic leadership style of his manager and wants to leave. He will decide whether to start up his own business or buy a BunchesRUs franchise. The franchise would cost him $5 000 but BunchesRUs would offer training and support. For either option, George will need both finance and to recruit 2 part-time employees. George knows building customer relationships will be important to the success of his business.

(a) What is meant by 'autocratic leadership style'?

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..... [2]

(b) Identify **two** possible sources of finance George could use.

Source 1: .....

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Source 2: .....

..... [2]

(c) Identify and explain **two** reasons why building good customer relationships might be important to the success of George's business.

Reason 1: .....

.....

Explanation: .....

.....

Reason 2: .....

.....

Explanation: .....

..... [4]

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(d) Identify and explain **one** advantage and **one** disadvantage to George's business of having part-time employees.

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 George should buy a BunchesRUs franchise? Justify your answer.

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..... [6]

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BUSINESS STUDIES **0450/13**

Paper 1 **May/June 2019**

1 hour 30 minutes

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1 EGT produces many teas of different flavours. It uses batch production. Tea leaves, the main raw materials, are grown by local farmers. Factory space is limited so EGT is unable to use an automated production line. The old machines used in the factory often break down. One worker is responsible for quality control. EGT does not benefit from economies of scale. The Human Resources manager knows that low motivation is a problem with its 80 employees. She plans to use her knowledge of Maslow's hierarchy of needs to improve motivation. The owners would like to increase the level of output but cannot afford to move EGT to a new location.

(a) What is meant by 'economies of scale'?

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.....

.....

..... [2]

(b) What is meant by 'quality control'?

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..... [2]

(c) Identify and explain **two** reasons why EGT uses batch production.

Reason 1: .....

.....

Explanation: .....

.....

Reason 2: .....

.....

Explanation: .....

..... [4]

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(d) Identify and explain **two** ways in which the Human Resources manager could use her knowledge of Maslow's hierarchy of needs to motivate employees.

Way 1: .....

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Explanation: .....

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.....

Way 2: .....

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Explanation: .....

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..... [6]

(e) Recommend the best way, other than by improving motivation, EGT could use to increase its level of output. Justify your answer.

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..... [6]

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2 CYN makes a range of children's toys. CYN's revenue has increased by 15% a year for the last 10 years. In 2018 CYN's total revenue was $900 000. The Managing Director said: 'The toy market is becoming increasingly competitive in country J. I never expected the rate of growth to be so high. CYN cannot meet demand and we have decided to stop all marketing promotion for 6 months.' The Managing Director wants CYN to spend more time on developing new products.

Figure 1: Percentage value of CYN's revenue in 2018

(a) What is meant by 'wholesaler'?

.....

.....

.....

..... [2]

(b) Calculate the revenue from selling direct to retailers in 2018.

.....

..... [2]

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(c) Identify and explain how each of the following might affect CYN's exports.

Introduction of import quotas in other countries: .....

.....

Explanation: .....

.....

Introduction of import tariffs in other countries: .....

.....

Explanation: .....

..... [4]

(d) Identify and explain **one** advantage and **one** disadvantage to CYN of developing new products.

Advantage: .....

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Explanation: .....

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Disadvantage: .....

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Explanation: .....

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..... [6]

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(e) CYN has decided to stop all marketing promotion for 6 months. Do you agree with this decision? Justify your answer.

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..... [6]

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3 Hashim is an entrepreneur. He plans to start up as a sole trader by opening a small gift shop next to a popular tourist site. His market research shows that October to June are the months when sales are likely to be highest. His first business failed within 6 months of start up because of poor financial planning. This time, Hashim has produced a cash-flow forecast, shown in Table 1, as part of his business plan. His parents have agreed to give him an interest free loan for the shop rent. He is hoping to arrange trade credit from suppliers.

Table 1: Cash-flow forecast for Hashim's business for the period July – October 2019 ($)

	July	August	September	October
Cash inflow	80	140	180	240
Cash outflow	300	180	180	180
Net cash flow	(220)	(40)	**Y**	60
Opening balance	0	(220)	(260)	(260)
Closing balance	**X**	(260)	(260)	(200)

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

Feature 1: .....

Feature 2: ..... [2]

(b) Calculate values for:

X: .....

Y: ..... [2]

(c) Identify and explain **two** factors that Hashim's suppliers might consider before deciding to offer him trade credit.

Factor 1: .....

.....

Explanation: .....

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Factor 2: .....

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Explanation: .....

..... [4]

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(d) Identify and explain **two** ways in which a business plan might help Hashim's new business to be successful.

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 Hashim should start the new business? Justify your answer using the information in Table 1.

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..... [6]

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4 SWQ owns 200 clothing shops in country A. All inventory is purchased from 3 local clothing manufacturers. The Marketing Director has to decide whether to change suppliers. SWQ could buy inventory from country C, a low cost country. He showed the newspaper article, see Figure 2, to other directors. He said: 'Look at this newspaper article. We operate in a mass market and our customers want low prices. Changing suppliers to manufacturers in country C will affect our stakeholders.'

> **Factory life in country C**
>
> You can see why many retailers are buying from country C. 15-hour days for wages of $2 a week. A spokesperson for one pressure group said: 'Today I saw 8-year-old children sewing buttons onto suits and it is legal in this country.'

Figure 2: Newspaper article

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

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..... [2]

(b) Identify **two** advantages to a business of selling to a mass market.

Advantage 1: .....

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Advantage 2: .....

..... [2]

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(c) Identify **two** stakeholder groups of SWQ. Explain **one** possible objective for each stakeholder group.

Stakeholder group 1: .....

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Explanation: .....

.....

Stakeholder group 2: .....

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Explanation: .....

..... [4]

(d) Identify and explain **two** suitable methods of communication SWQ might use with manufacturers in country C if it decided to purchase supplies from them.

Method 1: .....

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Explanation: .....

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Method 2: .....

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Explanation: .....

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..... [6]

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(e) Do you think SWQ should start buying its products from country C? Justify your answer.

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Soap Additions (SA)

SA is a public limited company. It was started 20 years ago in country Z. SA manufactures soap that is sold to the mass market. The soap is produced in a factory employing 100 production workers. The Operations manager thinks that well-motivated employees are important.

SA soap is sold for a low price to wholesalers and retailers throughout country Z. The product is sold and packaged either as bars of soap or liquid soap in a bottle. SA has a 50% share of the total market for low price soap.

The directors of SA want to expand the business by starting to produce different types of soap aimed at niche markets. The products they want to develop are:

- Luxury soap aimed at high income consumers
- Soaps aimed at improving ageing skin
- Medicated soap to help improve bad skin often experienced by teenagers

The manufacturing process for the mass produced soap is automated and uses flow production. However, if the new soaps are produced then they will be manufactured in a new factory using batch production. The new factory and equipment will cost $15m and will require 50 more production workers and a new Operations manager.

SA does not use lean production in its existing factory. However, the Managing Director thinks SA would benefit from the introduction of lean production into the existing and the new factory.

Some of SA's managers think they are never involved when important decisions are made. The directors of SA disagree about which leadership style will lead to the best decisions being taken.

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Appendix 1

Total soap sales in country Z of $200m in 2018

Appendix 2

Newspaper article in Daily News - 15 April 2019

Economic growth in country Z is increasing and is now at 8% per year. Average wage rates are increasing. Many people now work in cities rather than on farms in rural areas.

Multinational companies sell products in country Z and also set up factories there. Increased globalisation has encouraged the government of country Z to sign a trade agreement with other countries. This trade agreement is meant to encourage increased trade between these countries and further economic development of country Z. However, not all businesses in country Z are pleased with this trade agreement.

Appendix 3

Financial information from SA's balance sheets for 2017–2018

	2017	2018
Non-current assets ($m)	40	40
Inventories ($m)	5	10
Trade receivables ($m)	4	4
Cash ($m)	1	1
Current liabilities ($m)	5	5
Bank loan ($m)	10	20
Current ratio	2:1	?
Acid test ratio	1:1	?

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1 **(a)** Identify and explain **one** advantage and **one** disadvantage to WA of developing new products.

Advantage: .....

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Explanation: .....

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Disadvantage: .....

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Explanation: .....

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..... [8]

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(b) Consider the following **three** possible business objectives for WA. Which objective is likely to be most important to WA in the long run? Justify your answer.

Be an environmentally friendly business: .....

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Increase market share: .....

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Survival: .....

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Conclusion: .....

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..... [12]

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2 **(a)** Identify and explain **two** examples of tertiary sector businesses that help WA to be successful.

Example 1: .....

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Explanation: .....

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Example 2: .....

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Explanation: .....

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..... [8]

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(b) Consider the following **two** ways WA could increase productivity. Recommend which would be the best way to choose to increase profit. Justify your answer.

Use computers in manufacturing and design: .....

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Improve employee skills: .....

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Recommendation: .....

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..... [12]

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3 **(a)** Identify and explain how **two** stakeholder groups of WA are likely to be affected by the reduction in profit in 2018.

Stakeholder group 1: .....

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Explanation: .....

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Stakeholder group 2: .....

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Explanation: .....

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..... [8]

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(b) Consider the following **three** ways WA could use to increase employee motivation. Recommend which way WA should choose. Justify your answer.

Introduce piece rate: .....

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Give shares in WA to employees: .....

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Introduce job rotation: .....

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Recommendation: .....

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..... [12]

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4 **(a)** Calculate:

(i) The total cost per month of producing 100 items of furniture.

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..... [2]

(ii) The average cost of 1 piece of furniture.

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..... [2]

(iii) Explain how total cost and average cost will change if the output is increased to 200 items of furniture per month.

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..... [4]

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

Introduction of new cost to businesses of $50 per tonne for removing waste: .....

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Increase in legal minimum wage by 5%: .....

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Increase in tax on incomes: .....

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Conclusion: .....

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1 **(a)** Identify and explain **two** reasons why the Government helped Peter start up his new business.

Reason 1: .....

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Explanation: .....

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Reason 2: .....

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Explanation: .....

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..... [8]

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(b) Consider the following **three** pricing methods VC could use for its new products. Which method should Peter choose? Justify your answer.

Penetration pricing: .....

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Price skimming: .....

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Cost plus pricing: .....

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Recommendation: .....

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..... [12]

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2 **(a)** Identify and explain **two** possible reasons for the failure of the business that Peter used to work for.

Reason 1: .....

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Explanation: .....

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Reason 2: .....

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Explanation: .....

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..... [8]

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(b) Consider the following **three** ways Peter could recruit a new skilled worker. Recommend which would be the best way to use. Justify your answer.

Ask family and friends if they know someone suitable: .....

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Use a job vacancy website: .....

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Use a recruitment agency: .....

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Recommendation: .....

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..... [12]

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3 **(a)** Identify and explain **two** reasons why building customer relationships is important for VC.

Reason 1: .....

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Explanation: .....

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Reason 2: .....

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Explanation: .....

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..... [8]

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(b) Consider how the following **three** factors can affect the accuracy of the questionnaire data. Which is the most important factor for achieving accurate results? Justify your answer.

Sample size: .....

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Location where questionnaire is carried out: .....

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Questions asked: .....

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Conclusion: .....

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..... [12]

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4 **(a)** Identify and explain **one** advantage and **one** disadvantage to VC of using job production.

Advantage: .....

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Explanation: .....

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Disadvantage: .....

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Explanation: .....

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..... [8]

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(b) Using Appendix 3 and other information, consider whether Peter should be worried about VC's profitability. Justify your answer using profitability ratios.

..... [12]

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Grade thresholds – November 2019

Cambridge IGCSE™ Business Studies (0450)

Grade thresholds taken for Syllabus 0450 (Business Studies) in the November 2019 examination.

		minimum raw mark required for grade:						
	maximum raw mark available	A	B	C	D	E	F	G
Component 11	80	45	35	26	22	17	12	7
Component 12	80	40	32	25	20	16	12	8
Component 13	80	44	34	24	19	15	10	5
Component 21	80	46	36	26	21	17	12	7
Component 22	80	46	37	28	23	18	13	8
Component 23	80	47	39	31	27	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	91	71	52	43	34	24	14
AY	12, 22	103	86	69	53	43	34	25	16
AZ	13, 23	109	91	73	55	46	38	28	18

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Main Foods (MF)

MF is a public limited company. It was set up 30 years ago in country X and produces a large variety of food products. The objectives of MF are to increase profits and increase market share. Most of MF's competitors are small partnership businesses. MF is the largest food producer in country X.

The Operations Director is planning to produce a new ice cream that does not contain sugar. Production of the new product will require a new automated production line. It will require new equipment to be purchased. Additional skilled workers will need to be recruited by the Human Resources department and existing workers will need to be retrained. To manufacture ice cream that does not contain sugar, MF will have to use ingredients that are extracted from plants in the rainforests in country X. This will cause environmental damage when the plants are cut down.

MF's Operations Director is worried about the high cost of this raw material and the cost of removing all the waste from the production of this new ice cream. The cheapest way to get rid of the waste is to take it to local landfill sites, which are nearly full. The Government is responsible for the costs of managing landfill sites. Farmers lose their land when new landfill sites are created.

The new ice cream will be targeted at people who want to lose weight or who, for medical reasons, are not allowed to eat products that contain a lot of sugar. Statistics show that 10% of the adult population should not be eating sugary foods and a further 40% are thought to be overweight.

Country X has several new TV programmes aimed at people who are health conscious and new gyms are being set up. Several other food businesses in country X are planning the introduction of new food products that are low in sugar but they are not yet ready to launch them. MF and its competitors sell food products through wholesalers and to large supermarkets.

Appendix 1

Summary of MF's financial statements for 2018 and 2019

	2018	2019
Revenue	$100m	$120m
Gross profit margin	75%	80%
Profit margin	12%	10%
Return on Capital Employed (ROCE)	15%	15%
Current ratio	2	3
Acid test ratio	1	1.5
Bank loans	$10m	$20m

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Appendix 2

Daily News article

Country X is experiencing increasing numbers of overweight people and this is causing serious health problems. Food products which contain a lot of sugar are being blamed for this crisis. Treating people who are overweight increases costs to public sector organisations such as health care services. Businesses in country X also complain that when employees are ill they do not work efficiently or they need time off work to get better.

Appendix 3

MF plans to set a price of $5 per carton of ice cream and plans for a variable cost (VC) of $2.50 per carton.

Break-even chart to show the effect of charging a higher price of $7.50 per carton

Break-even chart to show the effect of reducing the variable cost (VC) to $2.00 per carton

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Queen Catering (QC)

QC is a private limited company. Jin and Neil set up QC 10 years ago in country Z. They are the only shareholders. QC provides catering for events such as business meetings and conferences. It provides both the food and the workforce to serve the food. Jin and Neil are proud of the quality of food and service they provide to businesses. This is a very competitive market and QC has a good reputation to maintain.

QC imports food ingredients because they are of higher quality than locally produced food. However, some locally produced food is available at a lower cost than imported ingredients.

QC is very successful. It started with 8 employees and now has 100. Most of the employees have part-time contracts and work only when they are needed for an event. There are only 10 full-time employees. Employees are well trained and experienced in catering for large business events. They do not have experience of catering for weddings and birthday parties. Competing catering businesses pay slightly higher wages to full-time employees than QC.

Jin and Neil want to continue to expand the business. They plan to start providing catering services either for weddings or for birthday parties. They are not sure which option will give QC the best opportunity to create added value. They have carried out market research into the market for birthday parties. They want to research the market for weddings.

Jin thinks that an autocratic leadership style should be used with part-time employees. He only communicates with them by placing notices on the company's notice board. Neil thinks that he should be able to delegate tasks to employees once they start operating the new service. Jin and Neil will not be able to carry out all management tasks once the business has expanded further.

Appendix 1

Daily News

Country Z - Our economy is booming!

Rising incomes are leading to increased spending on luxury goods and services. Some businesses report that the average total amount spent on weddings has risen to $20 000! Catering businesses are reporting a shortage of skilled workers. However, the average amount spent on birthday parties has not increased since last year.

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Appendix 2

To: Neil

From: Jin

Date: 1 October 2019

Re: Future problems?

We need to do something about our cash-flow problem or we will run out of working capital. We pay for food ingredients in cash but we offer trade credit to business customers.

We also need to consider the effects of the exchange rate changes and the recent increase in income tax.

Appendix 3

Price and cost information for the two options

	Option 1 - Weddings	**Option 2 - Birthday parties**
Price per person	$50	$20
Average number of people attending the event	500	250
Variable cost per person	$20	$10
Fixed costs for each event	$1 000	$500
Estimated number of events per month	10	100

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Richard's Restaurant (RR)

RR is a sole trader business started by Richard 5 years ago. RR is a restaurant that has a reputation for good quality food and excellent service. The restaurant has been very successful with high levels of customer loyalty. Richard does not promote his restaurant as customer recommendations help to keep the restaurant fully booked most evenings.

Richard has 20 part-time employees and 10 full-time employees. The full-time employees are skilled chefs and restaurant supervisors. The part-time employees serve in the restaurant or help in the kitchen.

Richard's main business objectives are to increase profit and market share. To achieve these Richard is planning to open a second restaurant. The new restaurant will also provide a delivery service for ready-made meals such as cooked food for garden parties. Richard knows that none of his competitors offer this service. He thinks it will appeal to high income consumers and people whose houses have gardens.

Richard has some important decisions to make as RR expands:

- Whether or not to remain as a sole trader
- How to make sure he has enough employees for the new restaurant
- Which building to buy for the new restaurant
- How to promote the new restaurant and delivery service

Appendix 1

Two potential locations for the new restaurant

Location 1

- The building will cost $20 000 to buy but needs $5 000 for decoration and equipment.
- There is easy access and free parking nearby.
- There is high unemployment in the area and many household incomes are low.
- It is located 5km away from the existing restaurant.
- It will take 6 months to prepare the building so it will not be ready to open until July 2020.

Location 2

- The building is already set up as a fully equipped restaurant, so no change is needed.
- The cost to buy is $50 000.
- There is no easy access for parking.
- It is a high income area and unemployment is low.
- It is 1km away from the existing restaurant and can be opened quickly.

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Appendix 2

Email to Richard from the Head Chef

To: Richard

From: Head chef

Date: 12 October 2019

Re: Competition

Hi Richard

Do you know that a new multinational company has opened a restaurant close to our existing business? This multinational advertises on television, which is encouraging more people to eat at restaurants. It has economies of scale and lower prices which makes it difficult for local restaurants like ours to compete. Two of our kitchen employees have been offered jobs by this company. It uses an online booking app which is something we could consider for our planned delivery service.

Appendix 3

RR's cash-flow forecast for 2020 before the location decision is made for the new restaurant ($000)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Sales	10	20	20	20	20	15	15	10	10	15	20	7
Total cash in	10	20	20	20	20	15	15	10	10	15	20	7
Wages/Ingredients	5	10	10	10	10	7	7	5	5	7	10	3
Other expenses	3	3	3	3	3	3	3	3	3	3	3	3
Total cash out	8	13	13	13	13	10	10	8	8	10	13	6
Net cash flow	2	7	7	7	7	5	5	2	2	5	7	1
Opening balance	(14)	(12)	(5)	2	9	16	21	26	28	30	35	42
Closing balance	(12)	(5)	2	9	16	21	26	28	30	35	42	43

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BUSINESS STUDIES **0450/11**

Paper 1 Short Answer/Structured Response **October/November 2019**

MARK SCHEME

Maximum Mark: 80

Published

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

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- the standard of response required by a candidate as exemplified by the standardisation scripts.

GENERIC MARKING PRINCIPLE 2:

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- marks are not deducted for omissions
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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.

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Question	Answer	Marks	Notes
1(a)	**What is meant by 'income statement'?** Clear understanding [2]: A financial document that records the revenue, costs and profit for a given period of time. Some understanding [1]: Shows revenue and costs / shows profit	**2**	Do not award 'shows income' on own as this is repetition. For 2 marks must have time element as well.
1(b)	**Identify the effect of an increase in the cost of materials on each of the following:** **Cost of sales:** increase costs **Gross profit:** decrease gross profit Award 1 mark per effect identified.	**2**	

Question	Answer	Marks	Notes
1(c)	**Identify and explain two ways in which BFF's managers could use information contained in the income statement.** Knowledge [2 × 1] – award 1 mark for each way. Application [2 × 1] – award 1 mark for each explanation in context. Points might include: • Able to calculate the profitability ratios [k] to see the effect of the increase in material costs [app] • Helps assess efficiency [k] to see benefit from advances in technology [app] • Able to compare performance with similar businesses [k] • Able to compare performance between different time periods [k] • Show shareholders / owners how business performed [k] • It is used to measure business success / decide if the business should continue trading [k] • Used to support an application for a loan [k]	**4**	Application marks may be awarded for appropriate use of the following: • screens • increase in material costs • computers • imports increased • need to remain competitive • technology • increase prices • manufacturers

Question	Answer	Marks	Notes
1(d)	**Identify and explain two ways changes in technology used in production could help BFF to remain competitive.** Knowledge [2 × 1] – award 1 mark for each relevant way. Application [2 × 1] – award 1 mark if relevant reference made to this business. Analysis [2 × 1] – award 1 mark for each relevant explanation. Points might include: • Machines replace labour [k] helping improve its income statement [app] so less wages need to be paid [an] • Wider range of products [k] such as screens [app] to appeal to more customers or markets [an] • Able to produce more / improved productivity / more efficient [k] so able to lower prices [an] and compete with imports [app] • Technology improves flexibility [k] so the business can react to changes in demand [an] for computers [app] • Reduces waste / less errors / consistent quality [k]	**6**	Application marks may be awarded for appropriate use of the following: • screens • increase in material costs • computers • imports increased • increase prices • manufacturers Accept Machines work 24/7 as either [k] or [an] of why output rises.

Question	Answer	Marks	Notes
1(e)	**Do you think BFF should increase its prices? Justify your answer.** Knowledge [1] – award 1 mark for identification of relevant point(s) Application [1] – award 1 mark for a relevant reference made to this business Analysis [2] – award up to 2 marks for relevant development of point(s) Evaluation [2] – justified decision made as to whether BFF should increase its prices. Points might include: • Could increase revenue [k] so more money available to cover costs [an] such as increase in material costs [app] • Could lead to fewer customers [k] as higher price could encourage customers to switch to competitors [an] so difficult to remain competitive [app] • They need to increase prices to cover cost [k] because of the increase in material costs [app] • Gives an impression of quality [k] • Keeping prices low may increase market share [k] because it is a competitive market [app] as lower price attracts customers [an]	**6**	Application marks may be awarded for appropriate use of the following: • screens • advances in technology • increase in material costs • computers • imports increased • need to remain competitive • manufacturers

Question	Answer	Marks	Notes
2(a)	**Identify two stages of the business cycle.** Award 1 mark for each stage identified. Stages: Growth, boom, recession, slump.	**2**	
2(b)	**What is meant by 'redundancy'?** Clear understanding [2]: e.g. job position has gone and so the employee is no longer required Termination of employment because the job is no longer needed Some understanding [1] e.g. loses job (through no fault of their own) [1] or job role has gone [1]	**2**	For 2 marks must clearly understand idea that it is the role that no longer exists Do not award reasons why the job may no longer exist

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Question	Answer	Marks	Notes
2(c)	**Identify and explain two ways a trade union could help WKN's employees.** Knowledge [2 × 1] – award 1 mark for each way identified Application [2 × 1] – award 1 mark for each explanation in context Points might include: • Negotiate or help improve pay [k] for shop employees [app] • Improved working conditions or health and safety [k] in head office [app] • Gives strength in numbers/collective bargaining so more likely to achieve demands [k] when dealing with head office [app] • Take action (strikes/protests) [k] to prevent redundancy [app] • Provides services such as insurance / training / social activities / discounts [k] • Resolve conflict between employer and employees [k] • Advice / legal support [k]	**4**	Application marks may be awarded for appropriate use of the following: • retailer • household goods OR plates OR brushes • challenging stage of business cycle • marketing department OR head office • 1800 OR redundancy • 200 OR shops • profit fell 80% OR $5m • 100 new jobs

Question	Answer	Marks	Notes
2(d)	**Identify and explain two advantages to WKN of maintaining customer loyalty.** Knowledge [2 × 1] –award 1 mark for each relevant advantage Application [2 × 1] – award 1 mark for each relevant reference made to this business Analysis [2 × 1] – award 1 mark for each relevant explanation Relevant points might include: • Increase sales [k] of its household goods [app] • Easier to match products to existing customer needs [k] so know what to stock in its shops [app] reducing wastage [an] • Maintain competitiveness [k] • Current customers recommend products [k] so less promotion needed [an] • Cheaper than trying to attract new customers [k] • Reputation / brand image improves [k] • May be able to increase prices and keep customers [k] • Provides a sense of security for owners [k]	**6**	Application marks may be awarded for appropriate use of the following: • retailer • sells household goods OR plates OR brushes • challenging stage of business cycle • marketing department OR head office • 1800 OR redundancy • 200 OR shops • profit fell 80% OR $5m • 100 new jobs • trade union Do not award ways to increase customer loyalty

Question	Answer	Marks	Notes
2(e)	**Do you think WKN should select all the workers for the new jobs from those about to be made redundant? Justify your answer.** Knowledge [1] – award 1 mark for identification of relevant point (s) Application [1] – award 1 mark if relevant reference made to this business Analysis [2] – award up to 2 marks for relevant development of point(s) Evaluation [2] – justified decision made as to whether WKN should select the workers for the new jobs from those facing redundancy Points might include: • Do not need to advertise jobs externally [k] so lower (recruitment) costs [an] • Know abilities and skills of employees [k] • Existing employees have good knowledge of customer requirements [k] as have experience of working in its shops [app] • Workers might not have skills [k] which could lead to poor work [an] reducing customer loyalty [app] • May not want or be able to move locations [k] to head office [app] so few employees will want to apply [an] • Recruitment of new workers will bring fresh ideas [k]	**6**	Application marks may be awarded for appropriate use of the following: • retailer • household goods OR plates OR brushes • challenging stage of business cycle • marketing department OR head office • 1800 • 200 OR shops • profit fell 80% OR $5m • 100 new jobs • trade union • customer loyalty The analysis must relate to the impact upon the business rather than the employee Do not award answers which discuss how the candidates are selected for redundancy

Question	Answer	Marks	Notes
3(a)	**What is meant by 'fixed costs'?** Clear understanding [2] e.g. costs that do not change [1] as the level of activity / output / sales changes [1] Costs which have to be paid whether the business produces any products or not Some understanding [1]: e.g. costs that stay the same	**2**	Do not award examples as this does not explain the term.
3(b)	**Calculate the forecast revenue per week for the new café.** Good application [2]: $1300 Some application [1]: 325 × 4 OR number of customers × average spend (price)	**2**	$ sign not needed to award full marks

Question	Answer	Marks	Notes
3(c)	**Identify and explain two advantages to Keila's business of using free samples as a method of promotion.** Knowledge [2 × 1] – award 1 mark for each advantage identified Application [2 × 1] – award 1 mark for each explanation in context Points might include: • Increases awareness of her products [k] with tourists [app] • Encourages customers to try her products [k] and visit the café [app] • Tempt customer to buy more [k] helping her remain successful [app] • Way to get feedback [k] so she improves her cakes [app] • Can test out new product ideas [k] identified from research [app] • Customers understand the quality of the product [k]	**4**	Application marks may be awarded for appropriate use of the following: • successful bakery • small shop • cakes / drinks OR related words e.g. taste • popular tourist location • correct use of numbers and information from Table 1 e.g. 325 • $1300 • café • (primary market) research

Question	Answer	Marks	Notes
3(d)	**Identify and explain one advantage and one disadvantage to Keila's business of using primary market research.** Knowledge [2 × 1] – award 1 mark for a relevant advantage / disadvantage Application [2 × 1] – award 1 mark for each relevant reference made to this business Analysis [2 × 1] – award 1 mark for each relevant explanation Relevant points might include: Advantages: • Up-to-date [k] so able to make more accurate decisions [an] such as whether to open the café [app] • Specific to her purpose [k] • Information is not available to other competitors [k] so may provide a competitive advantage [an] for this small shop [app] Disadvantages: • High cost [k] to find out views on her bakery [app] which will increase her expenses [an] • Takes long time to collect [k] • Can be bias in questions or how questions are asked [k] leading her to make the wrong decisions [an]	**6**	Application marks may be awarded for appropriate use of the following: • cakes / drinks OR related words e.g. taste • small shop • successful bakery • popular tourist location • correct use of numbers and information from Table 1 e.g. 325 • $1300 • free samples • café • expansion

Question	Answer	Marks	Notes
3(e)	**Do you think Keila should open the new café? Justify your answer using the information in Table 1.** Knowledge [1] – award 1 mark for identification of relevant point(s) Application [1] – award 1 mark for a relevant reference made to this business Analysis [2] – award up to 2 marks for relevant development of point(s) Evaluation [2] – justified decision made as to whether Keila should open the new café Points might include: • She expects to attract enough customers to cover her fixed costs [k] as she predicts 325 [app] • TR – TC [k] $1300 [app] – $1150 [an] leaving a profit of £150 [an] • TVC = VC x Output [k] $2 × 325 [app] = $650 [an + an] • TC = TFC + TVC [k] $500 + $650 [app + an] = $1150 [an + an] • Has relevant business experience [k] as runs a successful bakery [app] • Spreads risk [k] • Cost of shop and labour to run the café [k] • How reliable is the data gathered [k] from her primary research [app] • Does she have time / finance to run both businesses [k]	**6**	Application marks may be awarded for appropriate use of the following: • successful bakery • small shop • cakes / drinks • popular tourist location • free samples • primary market research • correct use of numbers and information from table 1 e.g. 325 • $1300 Application and analysis can be awarded for calculation of: • total variable costs $650 [app + an] • total costs $1150 [app + an + an] • gross profit $650 [app + an + an] • profit $150 [app + an + an] • break-even output 250 [app + an + an] • 75 more customers [app + an + an] OFR applies if candidate uses incorrect total revenue figure calculated in 3b to do subsequent calculations

Question	Answer	Marks	Notes
4(a)	**What is meant by 'span of control'?** Clear understanding [2]: Number of subordinates working directly under an individual OR manager Number of subordinates reporting to each supervisor / manager Some understanding [1]: E.g. number of subordinates working under an individual OR manager Who you are responsible for	**2**	
4(b)	**What is meant by 'uses specialisation'?** Clear understanding [2]: E.g. way in which work is divided so each worker concentrates on a specific task so become expert at it When people or business concentrate on what they are best at Some understanding [1]: E.g. workers only do one job	**2**	

Question	Answer	Marks	Notes
4(c)	**Identify and explain two possible reasons why VXH has grown quickly.** Knowledge [2 × 1] – award 1 mark for each reason identified Application [2 × 1] – award 1 mark for each explanation in context Points might include: • Closure / takeover of competitor [k] so fewer businesses making soft drinks [app] • Changes in customer tastes / fashion [k] • Spotted a new opportunity in the market [k] • Change in legal controls / rules [k] • Introduction of new technology [k] so able to take advantage of specialisation [app] • Increase in productivity [k]	**4**	Application marks may be awarded for appropriate use of the following: • fruit or related words e.g. flavours • soft drinks • batch production • specialisation • factory • 40 OR 80 (workers)/motivation problems • job rotation or financial bonus • 2 years • Span of control (increased)

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Question	Answer	Marks	Notes
4(d)	**Identify and explain two possible reasons why VXH uses batch production.** Knowledge [2 × 1] – award 1 mark for each relevant reason Application [2 × 1] – award 1 mark for each relevant reference made to this business Analysis [2 × 1] – award 1 mark for each relevant explanation Relevant points might include: • Allows variety of products to be made [k] • Flexible [k] as able to change product easily to meet changes in customer demand [an] for different flavours [app] • Provides some variety of jobs to workers [k] helping improve employee motivation [app] so fewer employees might leave [an] • Allows use of specialist skills [k] so able to take advantage of specialisation [app] to increase output [an] • Level of demand does not justify the use of flow production [k] • Since larger numbers are made [k] lower unit costs [an] • Production not affected if machinery breaks down [k] • Buying in bulk [k]	**6**	Application marks may be awarded for appropriate use of the following: • fruit or related words e.g. flavours • soft drinks • specialisation • factory • 40 OR 80 (workers) / motivation problems • job rotation or financial bonus • 2 years • Span of control (increased)

Question	Answer	Marks	Notes
4(e)	**Do you think VXH should use job rotation or financial bonuses to increase employee motivation? Justify your answer.** Knowledge [1] – award 1 mark for identification of relevant point(s) Application [1] – award 1 mark for a relevant reference made to this business Analysis [2] – award up to 2 marks for relevant development of point(s) Evaluation [2] – justified decision made as to whether VXH should use job rotation or financial bonuses to increase employee motivation Points might include: Job rotation: • Prevents workers becoming bored doing the same task repeatedly [k] which could increase output [an] • Need to provide training [k] to the 80 employees [app] which increases cost [an] • Helps improve flexibility [k] as workers can switch if someone is absent [an] • Workers may not be good at the new task [k] so productivity decreases [an]	**6**	Application marks may be awarded for appropriate use of the following: • fruit or related words e.g. flavours • soft drinks • batch production • specialisation • factory • 40 OR 80 (workers) motivation problems • 2 years • Span of control (increased)

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Question	Answer	Marks	Notes
4(e)	Financial Bonus: • Increases costs to the business [k] • Some employees may not be motivated by money [k] • Can lead to conflict / demotivation if some workers don't get this [k]		

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BUSINESS STUDIES **0450/12**

Paper 1 Short Answer/Structured Response **October/November 2019**

MARK SCHEME

Maximum Mark: 80

Published

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Question	Answer	Marks	Guidance
1(a)	**What is meant by 'public corporation'?** Clear understanding [2]: A business that is owned and controlled by the government/state Some understanding [1]: E.g. run by government/state	**2**	**Do not award** answers that refer to public companies
1(b)	**Identify two economic objectives of country X's government.** Knowledge [2 × 1] award 1 mark per economic objective Points include: • Low(er) unemployment/full employment/create jobs • Economic growth OR increase in GDP OR improve standards of living • Low inflation/price stability • Improve balance of payments	**2**	**Do not award** answers which refer to other government objectives such as increase investment, protect the environment/reduce greenhouse gases **Do not award** examples of methods to improve balance of payments, e.g. reduce imports

Question	Answer	Marks	Guidance
1(c)	**Identify and explain two ways a pressure group might try to influence the actions of GOP.** Knowledge [2 × 1] – award 1 mark for each way identified Application [2 × 1] – award 1 mark for each explanation in context Points might include: • create negative publicity OR publish information OR write to newspaper [k] about the pipeline [app] • organise customer boycotts [k] of its oil [app] • demonstrations or protests OR rally opposition [k] against this public corporation [app] • lobby OR petition OR send letters to government [k] to prevent planning permission [app] • demand interview with company [k] • take legal actions [k]	**4**	Application marks may be awarded for **appropriate** use of the following: • public corporation • oil • 200 km OR pipeline • planning permission • 2000 OR skilled/construction jobs • less need for businesses to import • private sector Note: can award responses which refer to trade unions asking for higher pay or better conditions **Do not award** references to strikes unless in context of trade unions

Question	Answer	Marks	Guidance
1(d)	**Identify and explain two ways in which the objectives of GOP might be different if it was in the private sector.** Knowledge [2 × 1] – award 1 mark for each relevant way Application [2 × 1] – award 1 mark for each relevant reference made to this business Analysis [2 × 1] – award 1 mark for each relevant explanation Relevant points might include: • May look to maximise profit [k] from its pipeline [app] whereas in public sector the objective may be social/to provide social welfare/to offer services/products for free or at a low price [an] • May look to increase market share [k] making it difficult for other businesses to survive [an] which could conflict with government economic objectives [app] • May look to increase revenue [k] for its oil [app] whereas the public sector may offer subsidised prices [an] • Protecting jobs may be more important in the public sector [k] whereas private sector firms may look to reduce costs [an]	**6**	Application marks may be awarded for **appropriate** use of the following: • public corporation • oil • 200 km OR pipeline • planning permission • 2000 OR skilled/construction jobs • less need for businesses to import • pressure group • economic objectives of country X's government Note: Analysis can be awarded either for comparing the difference in objectives between the two sectors OR relevant development of a private sector objective Note: Due to the wording of the question, private sector objectives on own can be accepted as [k]

Question	Answer	Marks	Guidance
1(e)	**Do you think the Government should allow GOP to build the pipeline? Justify your answer.** Knowledge [1] – award max 1 mark for identification of relevant point(s) Application [1] – award 1 mark for a relevant reference made to this business Analysis [2] – award up to 2 marks for relevant development of point(s) Evaluation [2] – justified decision made as to whether the Government should allow GOP to build the pipeline • Creates jobs [k] as 2000 jobs created [app] helping reduce unemployment [an] but jobs may disappear after work finished [an] • Protect vital industry [k] reducing the number of imports [app] helping country become self-sufficient [an] • Could help develop infrastructure/build new roads [k] • Pollution [k] which is why pressure groups are concerned [app] • Uses up natural resources [k] as produce oil [app] meaning fewer resources available for future generations [an] • Could conflict or help Government with other objectives [k] as this is a public corporation [app] • Reduce the need for oil imports [k] so a positive balance of payments [an]	**6**	Application marks may be awarded for **appropriate** use of the following: • public corporation • oil • 200 km • planning permission • 2000 OR skilled/construction jobs • less need for businesses to import • pressure group **Do not award** pipeline as application as stated in question Note: the answer should be focused on the impact to the country, not GOP

Question	Answer	Marks	Guidance
2(a)	**What is meant by 'franchise'?** Clear understanding [2]: A business based upon the use of the brand names, promotional logos and trading methods of an existing successful business. The franchisee buys the licence to operate this business from the franchisor. A business system where entrepreneurs buy the right to use the name, logo and product of an existing business. Some understanding [1]: Using the name or logo of another business	**2**	For both marks must have idea of payment and using the name/products of existing business **Do not award** examples
2(b)	**Calculate Samira's forecast weekly revenue if she lowered the price of her products.** Good application [2]: 900 Some application [1]: 300 × 3 OR price times number of customers	**2**	

Question	Answer	Marks	Guidance
2(c)	**Identify and explain two reasons why revenue is important for Samira's business.** Knowledge [2 × 1] – award 1 mark for each reason identified Application [2 × 1] – award 1 mark for each explanation in context Points might include: • Pay its day to day expenses [k] of producing/selling (fried) food [app] • Measure of success/size of business [k] against increased competition [app] • Need it to generate profit OR breakeven [k] for her takeaway [app] • Steady amount can help gain credit/support loan application [k]	**4**	Application marks may be awarded for **appropriate** use of the following: • franchise • takeaway • successful business • (fried) food • delivery service • increased competition • lower prices • revenue fell • 2 OR part time workers • market research OR secondary research OR focus group • correct use of data from table, e.g. 200 OR 300 customers

Question	Answer	Marks	Guidance
2(d)	**Identify and explain two factors Samira should consider before starting a delivery service.** Knowledge [2 × 1] – award 1 mark for each relevant factor Application [2 × 1] – award 1 mark for each relevant reference made to this business Analysis [2 × 1] – award 1 mark for each relevant explanation Relevant points might include: • Cost OR finance OR examples, e.g. have to buy/hire vehicle for deliveries [k] of takeaways [app] as may not be able to afford it [an] • Labour issues, e.g. access to workers [k] as she only has 2 part time employees [app] would they be willing or able to do the extra work [an] • Demand issues, e.g. as are there enough customers interested in the service [k] from her market research [app] otherwise may not generate sufficient extra revenue [an] • Does she have capacity/space/equipment to provide for the new service [k] • Actions of competitors, e.g. how many competitors offer this service [k] as already facing increased competition from the franchise [app]	**6**	Application marks may be awarded for **appropriate** use of the following: • franchise • takeaway • (fried) food • 2 OR part time workers • increased competition • revenue fell • successful business • lower prices • market research OR secondary research OR focus group • correct use of data from table, e.g. 200 OR 300 customers Note: can accept two different costs if they are clearly different and explained

Question	Answer	Marks	Guidance
2(e)	**Do you think Samira should use secondary research or a focus group to gather market research information? Justify your answer.** Knowledge [1] – award max 1 mark for identification of relevant point(s) Application [1] – award 1 mark for a relevant reference made to this business Analysis [2] – award up to 2 marks for relevant development of point(s) Evaluation [2] – justified decision made as to which of the two methods of market research Samira should use. Points might include: Secondary market research: • Low cost way to gain information [k] so money saved can be used for other purposes [an] • Readily available [k] so decisions can be made quickly [an] about whether to increase prices [app] • May be out of date [k] which means the information may not be relevant [an] Focus group • Highly detailed responses OR chance to ask for explanations/follow up questions [k] which could allow her to make more informed decisions [an] such as whether to offer the delivery service [app] • Competitors do not have access to this information [k] • Some group members can influence what others say [k] leading to unreliable results [an] • High cost [k] which is not helpful at a time when revenue has fallen [app] • Time consuming to set up/carry out [k]	**6**	Application marks may be awarded for **appropriate** use of the following: • franchise • takeaway • (fried) food • delivery service • 2 OR part time workers • revenue fell • increased competition • lower prices • correct use of data from table, e.g. 200 OR 300 customers

Question	Answer	Marks	Guidance
3(a)	**What is meant by 'induction training'?** Clear understanding [2]: Introduction given to new employees explaining the businesses activities, customs and procedures and introducing them to other workers A training programme to help new recruits become familiar with their workplace, the people they work with and the procedures they need to follow Some understanding [1]: Training for new employees OR give introduction about the business to employees OR training given to employees before they are employed so they know what to do	**2**	**Do not accept** answers which refer to training in general
3(b)	**Identify two reasons why it is important for LBM to satisfy customer needs.** Application [2 × 1] – award 1 mark per reason Points might include: • increase sales OR increase revenue OR increase customers OR increase market share • build customer relations OR way to build customer loyalty OR maintain sales • help it remain competitive • reduce complaints • improve brand image OR reputation	**2**	

Question	Answer	Marks	Guidance
3(c)	**Identify and explain two problems for LBM of having a wide range of products available to customers.** Knowledge [2 × 1] – award 1 mark for each problem identified Application [2 × 1] – award 1 mark for each explanation in context Points might include: • Lack expertise OR unable to focus on single product OR less specialised [k] which could damage customer service [app] • Increased warehouse space OR increased cost of storage [k] for the new styles [app] • Lots of competitors [k] as others may focus on specific age groups between 18–35 [app] • Additional cost of purchasing items [k] • Increased risk of obsolescence [k] especially as trends in clothing can change quickly [app]	**4**	Application marks may be awarded for **appropriate** use of the following: • online retailer OR (no) shops • clothing OR examples • revenue increased OR 25% OR $600 m • customer service • induction training • 3500 OR new styles (a week) • 18–35 years OR target market • social media networks **Do not award** answers related to production as this is a retail business Answers must be linked to the business and not customers

Question	Answer	Marks	Guidance
3(d)	**Identify and explain one advantage and one disadvantage to LBM of opening its own shops.** Knowledge [2 × 1] – award 1 mark for each relevant advantage/disadvantage Application [2 × 1] – award 1 mark for each relevant reference made to this business Analysis [2 × 1] – award 1 mark for each relevant explanation Relevant points might include: Advantages • Able to attract passing trade OR increase sales [k] for its clothing [app] to increase revenue [an] • Can help advertise/promote [k] its new styles [app] increasing awareness OR interest in the business [an] • Able to have personal contact with customers [k] so able to provide a better customer service [app] which can help maintain customer loyalty [an] Disadvantages • Increase costs OR requires additional finance [k] for this online retailer [app] as need to pay rent [an] • No guarantee of additional sales [k] as promotion is through social media [app] • Increased number of employees needed [k] to provide the customer service [app] increasing labour costs [an]	**6**	Application marks may be awarded for **appropriate** use of the following: • online retailer • clothing OR examples • revenue increased OR 25% OR $600 m • customer service • induction training • wide range of products OR additional inventory • 3500 OR new styles (a week) • 18–35 years OR target market • social media networks **Do not award** shops as application as stated in question **Do not award** answers which refer to advantages and disadvantages to customers

Question	Answer	Marks	Guidance
3(e)	**Explain two suitable sources of finance that LBM could use to purchase additional inventory. Recommend which source of finance LBM should use. Justify your answer.** Knowledge [1] – award max 1 mark for identification of relevant point(s) Application [1] – award 1 mark for a relevant reference made to this business Analysis [2] – award up to 2 marks for relevant development of point(s) Evaluation [2] – justified decision made as to which source of finance LBM should use for the additional inventory. Points might include: • Overdraft or short-term loan [k] which will have to pay interest on [an] increasing its expenses or cash outflows [an] • Ask suppliers for trade credit [k] for the 3500 styles [app] which will allow them time to sell its products before need to repay [an] • Cash reserves [k]	**6**	Application marks may be awarded for **appropriate** use of the following: • online retailer OR (no) shops • clothing OR examples • revenue increased OR 25% OR $600 m • customer service • induction training • wide range of products • 3500 OR new styles (a week) • 18–35 years OR target market • social media networks Retained profit can be accepted as [k] in this instance as the question does not specifically refer to short-term sources of finance **Do not award** answers such as sale of assets, bank loan (on own), mortgage, share issue or owners savings as these are not appropriate as short-term finance **Do not award** sources such as factoring, asking customers to pay quicker as not appropriate

Question	Answer	Marks	Guidance
4(a)	**What is meant by 'exchange rate'?** Clear understanding [2]: Value/price of one currency in terms of another Accept textbook definition [2]: The rate at which one country's currency can be exchanged for that of another Some understanding [1]: The change OR buying of one country's currency with another country's currency	**2**	
4(b)	**What is meant by 'capital employed'?** Clear understanding [2]: Value of shareholders' funds OR equity + non-current liabilities Accept textbook definitions [2]: Total value of capital used in the business OR value of all long term finance invested in a business Some understanding [1]: Money invested in the business	**2**	

Question	Answer	Marks	Guidance
4(c)	**Identify and explain two ways NBV's managers could use its financial accounts to help make decisions.** Knowledge [2 × 1] – award 1 mark for each relevant way Application [2 × 1] – award 1 mark for each explanation in context Possible points might include: • Help measure financial performance OR profit over time [k] to see how business achieved $144 bn [app] • Help compare its performance with its competitors [k] who also make bricks [app] • Help decide which source of finance to use OR whether to borrow money or able to afford to borrow [k] • Help make investment decisions [k] such as the new factory [app] • Decide how much dividend to pay [k]	**4**	Application marks may be awarded for **appropriate** use of the following: • multinational company • capital employed OR $144 bn • 18 countries • 400 000 (workers) • diseconomies of scale • building products OR bricks • raw materials (are bought in country of operation) • factory Note: candidates can be credited for both profitability and liquidity as separate points as they relate to different financial statements **Do not award** answers which refer to operational decisions, whether to stop production, increase price, etc.

Question	Answer	Marks	Guidance
4(d)	**Identify and explain two diseconomies of scale that NBV might experience.** Knowledge [2 × 1] – award 1 mark for each diseconomy of scale 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 Points might include: • Low morale/motivation/lack of commitment [k] for its 400 000 employees [app] leading to higher labour turnover/more workers leaving [an] • poor communication [k] in factory [app] leading to the wrong products being made [an] • lack of/weak co-ordination/control [k]	**6**	Application marks may be awarded for appropriate use of the following: • multinational company • capital employed OR $144 bn • 18 countries • 400 000 (workers) • building products OR bricks • raw materials (are bought in country of operation) • factory Accept slow decision making as [k] as stated in textbook

Question	Answer	Marks	Guidance
4(e)	**Do you think NBV's decision to set up a factory will only bring drawbacks to other businesses in country B? Justify your answer.** Knowledge [1] – award max 1 mark for identification of relevant point(s) Application [1] – award 1 mark for a relevant reference made to this business Analysis [2] – award up to 2 marks for relevant development of point(s) Evaluation [2] – justified decision made as to whether NBV's decision to set up a factory will only drawbacks for other businesses in country B Points might include: Drawbacks • Use up scarce resources [k] to make bricks [app] so fewer resources available for other uses [an] • Increased competition [k] so local businesses may make a loss OR be forced out of business [an] as local businesses cannot compete against (possible) lower prices [an] • Could lead to a potential shortage of suitable applicants for other businesses [k] as people may prefer to work for a multinational company [app] reducing the competitiveness of local businesses [an] Benefits • Lead to improvements in infrastructure/better transport links [k] which can also speed up delivery times for other businesses [an] • Increased sales for local suppliers [k] as all raw materials are purchased from the country [app] leading to higher revenue [an] • Access to wider range of materials for other local businesses [k]	**6**	Application marks may be awarded for **appropriate** use of the following: • multinational company • capital employed OR $144 bn • 18 countries • 400 000 (workers) • diseconomies of scale • building products OR bricks • raw materials (are bought in country of operation) Note: answers should refer to the impact on other businesses, not the country or NBV Note: increased competition [k] can also create benefits to other businesses so relevant development of advantages of this for other businesses can be credited

Cambridge Assessment International Education
Cambridge International General Certificate of Secondary Education

BUSINESS STUDIES **0450/13**

Paper 1 Short Answer/Structured Response **October/November 2019**

MARK SCHEME

Maximum Mark: 80

Published

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

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

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

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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.

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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.

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Question	Answer	Marks	Notes
1(a)	**What is meant by 'limited liability'?** Clear understanding [2]: Liability of shareholders in a company is only limited to the amount they invested OR shareholders in a limited liability company which fails only risk losing the amount they have invested in the company and not any of their personal wealth Some understanding [1]: Cannot lose personal assets or only lose amount invested	**2**	For both marks must understand that limited liability is a benefit for shareholders
1(b)	**Identify two ways S&V can increase added value.** Award one mark for each way identified. Points might include: • increase prices (for herbs and spices) • reduce material / input costs (of ingredients)	**2**	Examiners note: only award the first two responses given Accept following examples as stated in textbook: • branding / improve brand image • excellent quality service • add additional product features • convenience **Do not award** higher quality ingredients as this will increase rather than decrease costs

Question	Answer	Marks	Notes
1(c)	**Identify and explain two possible barriers to communication between S&V and its suppliers.** Knowledge [2 × 1] – award 1 mark for each relevant barrier Application [2 × 1] – award 1 mark for each explanation in context Points might include: • inappropriate medium used [k] as chosen method may not be used in some countries so not arrive on time [app] • no opportunity for feedback [k] about availability of herbs [app] • language problems/jargon [k]may use wrong names when ordering spices [app] • Suppliers do not have enough time / machines to check for messages [k] so not able to respond at short notice [app] • Technical issues, e.g. no internet connection [k] without electricity cannot send emails [app] • Message too long [k] • Wrong message sent [k] • Overload of information [k]	**4**	Application marks may be awarded for appropriate use of the following: • high quality • spices OR herbs, • restaurants OR shops, • imported OR other countries, • partnership • not arriving on time OR the wrong items are sent, • short notice, • up-to-date information, • in season, • added value Do not accept answers such as 'message not understood' OR message not clear' OR 'not read correctly' as this is too vague. To award, candidates must identify a reason why this is the case

Question	Answer	Marks	Notes
1(d)	**Identify and explain one effect on S&V of each of the following changes:** Knowledge [2 × 1] – award 1 mark for each effect 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 Points might include: 10% increase in import tariffs: • Will increase cost (of imported items) [k] such as herbs [app] reducing its profit margin [an] • May need to increase prices charged [k] to restaurants [app] which could lead to a fall in sales / revenue [an] • May start buying more of its supplies locally [k] limiting the effect of the increase [an] and can help with its communication barriers [app] Legal controls over food quality: • May change which items they stock [k] depending on the season [app] which could reduce the range of products available [an] • Increase costs (to comply with laws) [k] which could lower its profit margin [an] so there is less added value [app] • May have to change suppliers [k] • No effect [k] as already sell high quality items [app]	**6**	Application marks may be awarded for appropriate use of the following: • high quality • spices OR herbs, • restaurants OR shops, • partnership • supplies not arriving on time or the wrong items are sent, • communication barriers, • up-to-date information, • in season, • email • added value Do not award reference to 10% or food quality or imported as application as words used in the question

Question	Answer	Marks	Notes
1(e)	**Do you think using e-mail is the best way for S&V to inform customers about its products? Justify your answer.** Knowledge [1] – award max 1 mark for identification of relevant point(s) Application [1] – award 1 mark for a relevant reference made to this business Analysis [2] – award up to 2 marks for relevant development of point(s) Evaluation [2] – justified decision made as to whether email is the best way for S&V to inform customers about its products Points might include: • Can send to multiple people at same time [k] which is important as customers demand up-to-date information [app] • Low cost method of communication [k] which is important for a business with unlimited liability [app] • Can include a lot of information [k] about its herbs [app] • S&V may not have all customers email details [k] leading to missed sales opportunities [an] • Customers may not have time to read emails [k] so may not be aware of updates [an] Other methods can be discussed including: Text [k], letter [k], website[k], phone [k], face-to-face meeting [k], social media[k]	**6**	Application marks may be awarded for appropriate use of the following: • high quality, • spices OR herbs, • restaurants OR shops, • partnership • supplies are not arriving on time or the wrong items are sent, • up-to-date information, • in season, Candidates can discuss other methods of external communication. However to access the evaluation marks answer must focus on whether email is the best way for the business to communicate with its customers

Question	Answer	Marks	Notes
2(a)	**What is meant by 'sustainable development'?** Clear understanding [2], e.g. development / activity which does not put at risk the living standards of future generations OR ability to meet needs of present population without compromising ability of future generations to meet their own needs OR Business activity that has a positive overall impact on the environment and its stakeholders ensuring its survival for the future Some understanding [1] e.g. able to maintain output for ages OR no impact on surroundings or production which does not damage (or pollute) the environment	**2**	
2(b)	**What is meant by 'business cycle'?** Clear understanding [2]: The variation in national output over a period of time Some understanding: e.g. shows GDP OR pattern of boom, recession and slumps in an economy [1]	**2**	Do not accept answers such as trade cycle as this is an alternative name for the term Do not award answers which refer to product life cycle or individual businesses

Question	Answer	Marks	Notes
2(c)	**Identify and explain one advantage and one disadvantage to HBN of using job enrichment as one way to motivate its employees.** Knowledge [2 × 1] – award 1 mark for an advantage / disadvantage Application [2 × 1] – award 1 mark for each explanation in context Points might include: Advantages: • Business able to make most use of employees skills [k] when making steel rods [app] • Better skilled workforce / better reputation [k] help ensure high quality [app] Disadvantages: • High cost of training [k] its 40 employees [app] • Lower productivity / lower output (as not all employees able or want to do more complex work) [k] • Conflict with some employees (as may not be possible to offer opportunities to all) [k] especially as use flow production [app]	4	Application marks may be awarded for appropriate use of the following: • steel rods, • construction, • flow production, • high quality, • demand increase, • looking to increase output, • correct use of information in Table 1, • 40 employees • Factory Do not award may demotivate / motivate as this is in the question Note: Response should focus on the advantage/ disadvantage to the business not the employee

Question	Answer	Marks	Notes
2(d)	**Identify and explain two ways in which HBN could maintain high quality.** Knowledge [2 × 1] – award 1 mark for each way Application [2 × 1] – award 1 mark for each relevant reference made to this business Analysis [2 × 1] – award 1 mark for each relevant explanation Points might include: • Use quality control [k] so ensure that all finished products are up to standard [an] • Quality assurance [k] so errors are prevented before they happen or spotted earlier in the process [an] so finished product is suitable to be used in construction [app] • Buy better quality materials [k] to make the steel rods [app] • Training employees [k] so that all 40 employees [app] make less mistakes / more efficient [an] • Hire skilled workers [k] • Increase motivation OR examples, e.g. use job rotation (allow only once) [k]	**6**	Application marks may be awarded for appropriate use of the following: • steel rods, • construction, • flow production, • demand increase, • sustainable development, • looking to increase output, • correct use of information in Table 1, • 40 employees • job enrichment • factory Do not award increased automation as [k] as business already uses flow production

Question	Answer	Marks	Notes
2(e)	**Which option for increasing output do you think HBN should choose? Justify your answer using the information in Table 1.** Knowledge [1] – award max 1 mark for identification of relevant point(s) Application [1] – award 1 mark for a relevant reference made to this business Analysis [2] – award up to 2 marks for relevant development of point(s) Evaluation [2] – justified decision made as to which option for increasing output HBN should choose Points might include: • Option 1 costs less money (than Option 2) [k] by $750000 [app+an] • Higher additional output from Option 2 [k] by 16000 tonnes [app +an] • HBN may not have sufficient funds to buy another business [k] • May depend on expected demand [k] as may not need to produce more than 10000 tonnes each month [app] • When is additional output required [k] as will take 6 months to extend factory [app] so may lose potential sales during this time [an] • Level of control required [k] as other business has a different leadership style [app] this could lead to disagreements [an] Practical issues such as • Impact on existing operations if expand on current site, e.g. is there space to expand [k] the factory [app] • Impact on current employees, e.g. could demotivate workers [k] if they cannot still be offered job enrichment [app] leading to more mistakes/ lower output [an] which is the opposite effect to what they want to achieve	**6**	Application marks may be awarded for appropriate use of the following: • steel rods, • construction, • flow production, • high quality, • demand increase, • sustainable development, • correct use of information in Table 1, • 40 employees • factory • job enrichment Other relevant calculations include: • Cost per extra unit for option 1 £75; • option 2 £57.69 or £58 • Option 2 is £17 per extra unit cheaper

Question	Answer	Marks	Notes
3(a)	**What is meant by 'customer loyalty'?** Clear understanding [2]: Likelihood of existing customers to continue to buy from a business OR customers keep buying from a particular shop, business or buy one particular product, rather than use other shops or buy products made by other businesses Some understanding [1]: E.g. keep customers OR choose your business rather than competitors (even if cheaper)	**2**	
3(b)	**Identify two advantages to RGO of being a large business.** Award 1 mark per advantage Points might include: • Benefit from economies of scale OR lower unit costs, • Less risk of being taken over • (Perceived) better reputation OR status • May be able to dominate market • Specialisation of roles possible	**2**	

Question	Answer	Marks	Notes
3(c)	**Identify and explain two possible problems to RGO of reducing prices.** Knowledge [2 × 1] – award 1 mark for each problem identified Application [2 × 1] – award 1 mark for each explanation in context Points might include: • Reduce profit margin [k] of each flight [app] • Could reduce revenue (if demand is not price elastic) [k] as sell fewer tickets [app] • Create bad image OR seen as too cheap OR low quality [k] so customers choose other businesses for their holidays [app] • May not be able to reduce costs [k] • Less added value [k]	**4**	Application marks may be awarded for appropriate use of the following: • large airline OR flights OR other airline related words • 120 countries, • holiday, • 80% OR tickets OR website, • competitive market, • maintaining customer loyalty (is important) • market share increased • latest OR up-to-date (planes)

Question	Answer	Marks	Notes
3(d)	**Identify and explain two ways (other than lower prices) that RGO could use to increase its market share.** Knowledge [2 × 1] – award 1 mark for identification of each way Application [2 × 1] – award 1 mark for each relevant reference made to this business Analysis [2 × 1] – award 1 mark for each relevant explanation Points might include: • takeover rival business [k] as this is a competitive market [app] so able to gain customer base of the other business [an] • offer new routes [k] in addition to 120 countries [app] so able to attract customers to use their services rather than competitors [an] • spot new trends or market gaps quicker than rivals [k] • enter new markets [k] • offer better customer service (to maintain customer loyalty) [k] • get existing customers to buy more [k] • sell through new channels [k] such as travel agents [app]	**6**	Application marks may be awarded for appropriate use of the following: • large airline OR flights OR other airline related words • 120 countries • holiday, • 80% of tickets OR website, • competitive market, • maintaining customer loyalty is important, • 8% to 10%, • latest OR up-to-date (planes) Accept promotional methods e.g. competitions, BOGOF, advertising [allow only once] [k]

Question	Answer	Marks	Notes
3(e)	**Explain two ways in which RGO could reduce its costs. Recommend which way RGO should choose. Justify your answer.** Knowledge [1] – award max 1 mark for identification of relevant way(s) Application [1] – award 1 mark for a relevant reference made to this business Analysis [2] – award up to 2 marks for relevant development of point(s) Evaluation [2] – justified decision made as to which is the best way for RGO to lower its costs Relevant points might include: • Employ fewer people [k] so less wages to pay [an] • Cut number of locations [k] from 120 countries [app] so do not have as many planes [an] • Less advertising [k] but this could lead to less awareness of its business [an] • Use cheaper, more remote airports [k] to cut landing fees charged [app] but could lead to fewer customers as may be difficult to get to the actual location they want to go to [an]	**6**	Application marks may be awarded for appropriate use of the following: • large airline OR flights OR other airline related words • 120 countries • holiday, • 80% of tickets OR website, • competitive market, • maintaining customer loyalty (is important), • increase market share • lower prices, • latest OR up-to-date (planes)

Question	Answer	Marks	Notes
4(a)	**What is meant by 'non-current liabilities'?** Clear understanding [2]: Debts of a business which will be payable after more than 1 year OR items owed by the business for more than one year Some understanding [1]: E.g. long-term debts or money owed	**2**	Do not award examples
4(b)	**Calculate PBG's current ratio for 2019.** Clear application [2]: 1.3 or 1.3:1 Some application [1]: 390 /300 OR identifies correct formula = current assets / current liabilities	**2**	Award only 1 mark if 1.3 is written as part of the answer, but is not given as the final answer

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Question	Answer	Marks	Notes
4(c)	**Identify and explain one way each of the following stakeholder groups might use PBG's financial accounts.** Knowledge [2 × 1] – award 1 mark for each way identified Application [2 × 1] – award 1 mark for each explanation in context Points might include: Creditors: • Check able to repay its debts/ current liabilities [k] of $256 m / $300 m [app] • Help decide credit terms [k] • Help decide whether to lend money [k] Shareholders: • Know level of profit (to see possible dividend) [k] • Help make investment decisions [k] such as the possible joint venture [app] • Want to know if business performance has improved [k] when selling cars [ap]	**4**	Application marks may be awarded for appropriate use of the following: • cars or manufacturer • new legal controls, • electric (cars), • find new markets, • develop new models, • joint venture, • correct use of data from Table 2, • worries about liquidity,

Question	Answer	Marks	Notes
4(d)	**Identify and explain one advantage and one disadvantage to PBG of forming a joint venture.** Knowledge [2 × 1] – award 1 mark for an advantage / disadvantage Application [2 × 1] – award 1 mark for each relevant reference made to this business Analysis [2 × 1] – award 1 mark for each relevant explanation Points might include: Advantages: • Access to new markets [k] increasing brand awareness [an] of its cars [app] • Access to local knowledge/ expertise [k] so help them select correct new market [app] to increase its market share [an] • Wider range of contacts / better access to resources [k] so might be able to obtain cheaper materials / lower costs [an] • share costs / Increased capital [k] which is important as have concerns about liquidity [app] • Increased capacity [k] as want to develop new models [app] so able to meet potential demand [an] • Way to avoid government restrictions [k] such as new legal controls [app] • Risks are shared [k]	**6**	Application marks may be awarded for **appropriate** use of the following: • cars or manufacturer, • new legal controls, • electric (cars), • find new markets, • develop new models, • correct use of data from Table 2, • concerns about liquidity

Question	Answer	Marks	Notes
4(d)	**Identify and explain one advantage and one disadvantage to PBG of forming a joint venture. [continued]** Disadvantages: • Different management styles or objectives / culture [k] could lead to conflict or problems with decision making [an] • Skills and expertise of partners differ [k] so might have to spend more time or money than other company [an] • Any mistakes might damage reputation [k] lowering revenue [an] • Have to share any profit with joint venture partner [k] • Disagreements over important decisions might occur [k]		

Question	Answer	Marks	Notes
4(e)	**Do you think the Managing Director is right to be worried about PBG's liquidity position? Justify your answer by referring to appropriate ratios.** Knowledge [1] – award max 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 whether the Managing Director is right to be worried about PBG's liquidity position Points might include: • Current ratio has improved [k] from 1.25 [app +an] showing that business is able to repay its current liabilities from its current assets [an] • Acid test has fallen [k] by 0.1 [app +an] so less able to pay its short-term creditors without using stock [an] • Need to compare against liquidity ratios for industry [k] • Need to know the reason why inventories have increased [k] as if the cars [app] are unsuitable for sale the business will become insolvent [an] • Value of current assets increased [k] by $70 m [app] • Value of current liabilities increased [k]	**6**	Application marks may be awarded for appropriate use of the following: • cars or manufacturer • new legal controls, • electric (cars), • find new markets, • develop new models, • joint venture, • correct use of data from table 2 Relevant calculations that can access analysis marks are: Current ratio in 2018: 1.25 Current ratio improved by 0.05 in 2019

Cambridge Assessment International Education
Cambridge International General Certificate of Secondary Education

BUSINESS STUDIES **0450/21**

Paper 2 Case Study **October/November 2019**

MARK SCHEME

Maximum Mark: 80

Published

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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.

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Question	Answer	Marks
1(a)	**Identify and explain one benefit and one cost to MF of developing the new product.** Knowledge [2 × 1] – award one mark for each relevant benefit/cost Analysis [2 × 1] – award one mark for a relevant explanation for each benefit/cost Application [2 × 2] – award two application marks for each benefit/cost Answers are likely to include: Benefit: • Provides a USP • Allows diversification/spreads risk • Allows the business to expand into new markets/attracts new customers/accommodates changing customer needs • Allows the business to expand into existing markets/increases market share/improved competitive advantage • Increase revenue/increased sales Cost: • Costs of carrying out market research/product trials • Increased production costs – new equipment/training/recruitment costs/high cost of raw materials/high cost of waste removal • Increased marketing costs – to build customer awareness • If target market wrong, the company reputation may be damaged Indicative response: Provides a USP (1) if there are no other sugar-free ice creams in the market (ap). This will allow MF to increase sales revenue of the ice cream (1). This is a new market and MF is taking advantage of the trends for healthier foods (ap). Possible application marks: Sugar free ice-cream; MF has a large market share of the food markets; large variety of food products; objectives are growth and increased market share; new automated production line required; new skilled workers need recruiting; existing workers need to be retrained. There may be other examples in context that have not been included here.	**8**

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Question	Answer	Marks
1(b)	**Consider how the following three elements of the marketing mix could help to make the new product successful. Which do you think is the most important element for the success of the new product? Justify your answer.** Relevant points might include: • Price — • Penetration pricing into existing dessert market; • Cost-plus pricing as need to recoup development costs • Place — • Distribute through wholesalers or large supermarkets to reach a mass market; • Distribute through gyms or health food outlets to reach health conscious market • Promotion — • Advertise in health and fitness magazines for the health conscious consumers; • TV advertising as aimed at large market; • Free samples to ensure potential consumers try the new dessert Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below. Knowledge/Analysis/ Evaluation Level 3: At least 2 × Level 2 + 9–10 mark for well justified conclusion of which element of the marketing mix will contribute the most to the success of the new product and why the other elements will contribute less. 7–8 mark for some limited judgement shown in conclusion of which element of the marketing mix will contribute the most to the success of the new product Level 2: 4–6 marks Detailed discussion of how each element of the marketing mix can contribute to the success of the new product. A clear strategy needs to be explained, e.g. pricing method named and explained as to why it would be effective Level 1: 1–3 marks Outline of how each element of the marketing mix can contribute to the success of the new product. Simple statement made, e.g. reduce the price to gain more customers	**12**

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Question	Answer	Marks
1(b)	Level 1 – 1 mark for each L1 statement (max of 3 marks), e.g. place can be through wholesalers and supermarkets as they can sell a lot of the products to this large market. 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. Place can be through wholesalers and supermarkets as they can sell a lot of the products to this large market. These outlets are where the most customers will buy desserts and so it will increase the chance of the new ice-cream being seen on the shelves and then purchased (L2 + application for referring to ice-cream in the answer). Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a justified conclusion of which element of the marketing mix will contribute most to the success of the new product. **Award up to 2 additional marks for relevant application.** Possible application marks: Sugar free ice-cream; MF has a large market share of the food markets; objectives are growth and increased market share; 10% of adults should not be eating sugary foods; 40% of adults are overweight; other food businesses are planning the introduction of low sugar food products; health conscious consumers. There may be other examples in context that have not been included here.	

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Question	Answer	Marks
2(a)	**Identify and explain how the following two stakeholder groups of MF will be affected by the production of this new product.** Knowledge [2 × 1] – award one mark for how each stakeholder group is affected Analysis [2 × 1] – award one mark for a relevant explanation of how each stakeholder group is affected Application [2 × 2] – award two application marks for how each stakeholder group is affected Answers are likely to include: **Employees** • increased production – output per worker increase • increased job security – more skills acquired • new production methods used – workers may not like change • more training required – feel more motivated – gain more • job satisfaction – gain higher wages **Customers** • more choice of products/ help to reduce weight for some consumers • may not buy the new product – as customers are unhappy with the effect on the environment • better meets the needs of some customers – makes customers feel more loyal to the company • will have to pay a higher price if customers want the new ice cream Indicative response: Increased production (1) as the new sugar free ice cream will be produced (ap). This will require further training for employees as the new equipment is different to the original equipment in the factory (1) and the new automated equipment that has been installed to produce the new ice cream will require quite different skills (ap). Possible application marks: Sugar free ice-cream; MF has a large market share of the food markets; objectives are growth and increased market share; new automated production line required; new skilled workers need recruiting; increasing trends of people being overweight in country X. There may be other examples in context that have not been included here.	**8**

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Question	Answer	Marks
2(b)	**Consider how each of the following might use MF's financial statements as shown in Appendix 1. Which user would find the information most helpful? Justify your answer.** **Relevant points might include:** Government: • Helps to see/calculate the amount of tax due • Increased profitability means higher tax revenue • May need to support failing business with grant or subsidy Bank: • Helps establishes if MF can repay any outstanding loans – or if any further loans might be required – shows liquidity of MF – shows profitability of MF – can be used to assess risk to the bank from loans or overdraft • Improved liquidity is good as more likely to repay debts Shareholders: • See whether dividends are likely to be paid – judge likely direction of share price – consider whether further investment should be made • Increased profitability should lead to increased dividends	**12**

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Question	Answer	Marks
2(b)	Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.	

	Knowledge/Analysis/Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified conclusion as to which user would find the information most helpful and why the other two users will find the information less helpful. 7–8 for limited conclusion as to which user of the accounts will find the information most helpful
Level 2	4–6 marks Detailed discussion of how each user might find the accounts helpful.
Level 1	1–3 marks Outline of how each user might find the accounts helpful.

Level 1 – 1 mark for each L1 statement (max of 3 marks), e.g. the bank might want to see if MF is making a profit to see if they can repay any loans.

Level 2 – 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks), e.g. the bank might want to see if MF is making a profit to see if it can repay any loans otherwise the bank may not have the loan repaid. This would cause problems for the bank as it would risk losing its money. Also MF might need an overdraft and the bank could also see that the overdraft is likely to be repaid after seeing that the liquidity of the business is good (L2).

Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a conclusion as to which user of the accounts will find the information most helpful.

Award up to 2 additional marks for relevant application.

Possible application marks:
Sugar free ice-cream; MF is a public limited company established 30 years ago; MF has a large market share of the food markets; objectives are growth and increased market share; new automated production line required; increasing trends of people being overweight in country x; increased government costs to treat overweight people. Reference to data in Appendix 1.

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

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Question	Answer	Marks
3(a)	**Identify and explain how the following four departments of MF are likely to be affected by the development of its new product.** Award one mark for an explanation of a likely way each department will be affected (max 4) Award one mark for applying an explanation **in context** of how each department will be affected (max 4) Answers are likely to include: • Marketing department will have increased workload from carrying out market research/promoting the new product • HR will need to recruit additional workers/training requirements • Operations will need new automated equipment – to produce the new ice-cream • Finance will need to raise the funds necessary for the investment in the new equipment – and working capital for the purchase of new ingredients/produce financial statements, e.g. income statement Indicative response: The Marketing department will have an increased workload from carrying out market research (1). This is because the sugar-free ice cream is new and MF will not know if consumers are interested in buying it (1). Possible application marks: Sugar free ice-cream; MF has a large market share of the food markets; objectives are growth and increased market share; new automated production line required; new skilled workers need recruiting; waste produced causes pollution if thrown into local landfill; increasing trends of people being overweight in country X. There may be other examples in context that have not been included here.	**8**

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Question	Answer	Marks
3(b)	**Using the information provided in Appendix 3, consider the following two options for MF's new product. Recommend which option MF should choose to ensure the highest profit for the new product. Justify your answer.** **Relevant points might include:**	**12**

	Level 1	Level 2
Option 1 –raise price from $5.00 to $7.50	May put off potential customers/demand may fall Revenue at $5 for 5000 units = $25 000 Fixed costs = $10 000 Total cost at 2000 units of output = $15 000 Higher price will give impression of higher quality product May increase profit	B/E identified at 4000 and now fallen to 2000 Profit is $15 000 at maximum capacity (or profit at alternative output) Margin of safety increases by 2000 Increased price leads to increased gross profit per unit however, revenue might not increase if sales fall
Option 2 – lower VC fall from $2.50 to $2.00	May be lower quality product Found cheaper raw materials/found cheaper ways to dispose of waste Total cost will be lower Fixed costs remain at $10 000 Total cost at 3334 units of output = $16 668 (or $16 500)	B/E identified at 4000 and now 3334 (accept 3200 up to 3500) Profit is $5000 at maximum capacity (or profit at alternative output) Margin of safety increases by 666 (accept OFR)

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>3(b)</td><td>
Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.

<table>
<tr><th></th><th>Knowledge/Analysis/ Evaluation</th></tr>
<tr><td>Level 3</td><td>Only given if 2 × L2 correct break-even or profit figures
9–10 marks for well justified recommendation as to the best way to increase profit compared to other option.
7–8 marks for some limited judgement shown in recommendation as to the best way to increase profit.</td></tr>
<tr><td>Level 2</td><td>4–6 marks
Explanation of the effects of higher price and/or lower variable cost as a way to increase profit.
Calculations of break-even or profit at relevant levels of output</td></tr>
<tr><td>Level 1</td><td>1–3 marks
Outline of the effects of higher price and/or lower variable cost as a way to increase profit.
Basic statements related to revenue or costs figures</td></tr>
</table>

Level 1 – 1 mark for each L1 statement (max of 3 marks), e.g. increasing the price will lead to higher profit.

Level 2 – 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks), e.g. the new break-even output is 2000 whereas the original break-even output was 4000 (L2).

Level 3 – For level 3 to be awarded there must have been 2 × L2 correct break-even or profit figures, then a well justified recommendation as to the best way to increase profit to choose compared to other option.

Award up to 2 additional marks for relevant application

Possible application marks:
Sugar free ice-cream; MF has a large market share of the food markets; objectives are growth and increased market share; new automated production line required; new skilled workers need recruiting; increasing trends of people being overweight in country X.

There may be other examples in context that have not been included here.
</td><td></td></tr>
</table>

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Question	Answer	Marks
4(a)(i)	**Identify and explain two differences between MF and unincorporated businesses:** Award one mark for each difference (2 max) plus one additional mark for explaining why it is a difference in context. Answers are likely to include: • MF has limited liability • There is continuity with MF • MF has a separate legal identity • MF is able to sell shares Note: Do not accept MF is an incorporated business Indicative response: MF has limited liability whereas an unincorporated business has unlimited liability (1). This protects the shareholders of MF (1). Context is from recognising that MF is an incorporated business – shareholders; MF is a public limited company; MF is not a sole trader or partnership; MF competitors are partnership businesses	**4**
4(a)(ii)	**Identify and explain two differences between MF and public sector organisations:** Award one mark for each difference (2 max) plus one additional mark for explaining why it is a difference in context. Answers are likely to include: • MF is not owned by the government • Different objectives such as private sector aim to make profits whereas public sector aim to provide a service to the public/different pricing strategies • Investment from the shareholders whereas public sector investment by the government Note: Do not accept MF is an incorporated business Indicative response: MF has profit and increased market share as objectives whereas public sector organisations will have different objectives such as public provision of a service (1) Context is from recognising that MF is a private sector business – MF objective is to increase profit; MF objective is to increase market share; MF is in the private sector; MF may fund investment by selling shares	**4**

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Question	Answer	Marks
4(b)	**Consider the possible external costs and external benefits resulting from MF's new product. Recommend whether the Government should encourage MF to produce this new product. Justify your answer.** **Relevant points might include:** External costs: • Waste thrown into the landfill causes pollution for local people – farmers lose some of their land – reduces locally produced food – increased spending on buying food • High cost to the government to clean up the waste – raise taxes or reduce spending elsewhere • Environmental damage when rainforest is cut down External benefits: • Healthier population – employees have less time off work – more efficient – increased output in the economy • Government spending on health provision falls – can spend money elsewhere • Recruitment of new workers will reduce unemployment in the local area Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below. Knowledge/Analysis/ Evaluation Level 3: At least 2 × Level 2 + 9–10 marks for well justified recommendation as to whether or not the government should encourage the production of this new product. 7–8 marks for some limited judgement shown in recommendation as to whether or not the government should encourage the production of this new product. Level 2: 4–6 marks Detailed discussion of external costs and/or benefits. Level 1: 1–3 marks Outline of external costs and/or benefits.	**4**

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Question	Answer	Marks
4(b)	Level 1 – 1 mark for each L1 statement (max of 3 marks), e.g. waste thrown into the landfill causes pollution. 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. waste thrown into the landfill causes pollution and the farmers will lose their land meaning less food will be produced locally. Local people will have to pay more for food and this will leave them with less income to spend on other goods and services, therefore lowering their standard of living (L2). Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation as to whether or not the government should encourage the production of this new product. **Award up to 2 additional marks for relevant application.** Possible application marks: Sugar free ice-cream; waste produced causes pollution if thrown into the local landfill; farmers may lose their land; sugary foods cause health problems; increasing trends of people being overweight in country x; increased government costs to treat overweight people. There may be other examples in context that have not been included here.	

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Paper 2 Case Study **October/November 2019**

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Question	Answer	Marks
1(a)	**Identify and explain two ways QC can create added value for its new service.** 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 Answers are likely to include: • Reward ways of how to set higher prices such as – Improve quality – Provide extra services – Improve brand image • Reward ways of how to reduce input costs such as – Buy cheaper ingredients by changing supplier/buying in bulk to gain a discount/negotiating cheaper price – Source cheaper ingredients from home country instead of importing ingredients Indicative response: Set a higher price (1) so that there is a larger difference between the input costs and price. (1) QC could add additional services to the catering such as silver service (ap) so that it provides a USP that makes the catering service better than competitors and therefore clients will be willing to pay a higher price. (ap) Possible application marks: Catering services; 100 employees; rising incomes; well trained and experienced employees; good reputation; provides catering for businesses such as for conferences; imports food ingredients; birthday parties; wedding services; buy locally produced ingredients; increased spending on luxury goods. There may be other examples in context that have not been included here.	**8**

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Question	Answer	Marks
1(b)	**Consider the advantages and disadvantages of the following three ways QC could research the market for wedding catering. Which way will give the most accurate results about the market? Justify your answer.** **Relevant points might include:** • Questionnaire about the wedding catering market carried out by QC • Primary research so original research • Gathered for QC specific purpose • QC is a small business and therefore could not afford a large sample • Not experienced in carrying out primary research so may be less accurate • Questionnaire about the wedding catering market carried out by a market research agency • Large size sample size • Carried out by experts in market research • May include information not thought about by Neil and Jin • Not specifically about QC target market • The whole market might be very different to QC specific target market • Expensive for QC to use • Government statistics on the number of weddings in country Z • Cheap and quick to carry out • Easily accessible • Gain an idea of overall trends in the market for weddings • May be out of date • May not be helpful as not specific about wedding catering and may only gain numbers etc. Conclusion might include: • Up to date information • Expertise used/skill of researchers • Sample size • Effective questions on questionnaire • Specific to QC target market	**12**

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1(b)</td><td>
Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.

<table>
<tr><td>Level 3</td><td>At least 2 × Level 2 +
9–10 marks for well justified conclusion of which way will give the most accurate results for the wedding catering market and why the other ways will be less accurate.

7–8 marks for some limited judgement shown in conclusion of which way will give the most accurate results for the wedding catering market.</td></tr>
<tr><td>Level 2</td><td>4–6 marks
Detailed discussion of the advantages and/or disadvantages of each method of research.</td></tr>
<tr><td>Level 1</td><td>1–3 marks
Outline of the advantages and/or disadvantages of each method of research.</td></tr>
</table>

Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Questionnaire research is first-hand information gathered for the specific purposes of QC.

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. Questionnaire research is first-hand information gathered for the specific purposes of QC. This makes the information gathered about food requirements for weddings more useful as the questions set will be to find out exactly the information required by QC. However, Jin and Neil are not skilled in carrying out research and they may not phrase the questions very well leading to less accurate information. (L2)

Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a justified conclusion of which way will give the most accurate results for the wedding catering market.

Award up to 2 additional marks for relevant application.

Possible application marks:
Established 10 years ago; two shareholders; wants to expand; caterers; birthday parties; events; provides catering for businesses such as for conferences; 90 part-time employees; 10 full-time employees; has a cash flow problem; young couples getting married.

There may be other examples in context that have not been included here.
</td><td></td></tr>
</table>

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Question	Answer	Marks
2(a)	**Neil and the part-time employees are both stakeholders in QC. Identify and explain:** • **one objective that will be the same for both these stakeholders** • **one objective for Neil that will conflict with an objective of the part-time employees.** Knowledge [2 × 1] – award one mark for stakeholder objectives that are the same/are conflicting Analysis [2 × 1] – award one mark for a relevant explanation of why the objective is the same/why it is conflicting Application [2 × 2] – award two application marks for explanation of each stakeholder objective in context Answers are likely to include: • Owners and employees both want the business to make profits – to pay higher wages and higher dividends/ more likely to survive and employees more likely to keep their jobs. • Owner wants to keep costs lower and may reduce wages but employees want higher wages that will put costs up. Likely shareholder/Owner objectives: • To increase profit/make a profit • To expand/grow the business • To increase sales • To maintain brand image/high reputation/customer satisfaction • To reduce costs • To increase productivity/efficiency • To survive Likely employee objectives: • To receive higher wages • To have job security • To have improved working conditions • To work sociable hours • To be motivated and happy at work Indicative response: Owner wants to make a high profit (1) but this could keep down the wages of the employees. (1) There are 90 part-time employees and they may feel unhappy about this. (ap) These employees may be less willing to work additional catering jobs when QC is busy. (ap) Possible application marks: Catering services; two shareholders; wants to expand; Weddings; Birthday parties; events; provides catering for businesses such as for conferences; 90 part-time employees; 10 full-time employees; maintain good reputation. There may be other examples in context that have not been included here.	**8**

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Question	Answer	Marks
2(b)	**Consider the advantages and disadvantages of the following three leadership styles Jin and Neil could use. Recommend which one they should use as QC expands further. Justify your answer.**	**12**

	Advantages	Disadvantages
Autocratic	• Clear direction given to employees • Employees know what is expected from them • Decisions can be made quickly	• Communication is only one way • Cannot know the views or suggestions of employees • May be demotivating as employees are not included in any decision making
Democratic	• May be motivating as employees may be asked before decisions made • Feel as though can contribute to the business – feel valued	• May take a long time to consult employees • Decisions may need to be made quickly and this leadership style is too slow
Laissez-faire	• Give decision making to employees • Motivating as employees feel they have control over their work • Managers have more time for other tasks as can delegate more • Employers feel more trusted	• Employees may make bad decisions • May lead to lower productivity or lower profit from bad decisions • Difficult to have a clear direction for the business • Managers may lose day to day control of decision making

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>2(b)</td><td>
Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.

<table>
<tr><th></th><th>Knowledge/Analysis/Evaluation</th></tr>
<tr><td>Level 3</td><td>At least 2 × Level 2 +
9–10 marks for well justified recommendation of which leadership style should be used for the new service and why not the alternative leadership styles.

7–8 marks for limited recommendation of which leadership style should be used for new service.</td></tr>
<tr><td>Level 2</td><td>4–6 marks
Detailed discussion of the advantages and/or disadvantages of each leadership style.</td></tr>
<tr><td>Level 1</td><td>1–3 marks
Outline of the advantages and/or disadvantages of each leadership style.</td></tr>
</table>

Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Laissez-faire leaves decision making to the employees.

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. Laissez-faire leaves decision making to the employees. This will make the employees feel more important and valued and they will work harder as they are more motivated. However, Jin and Neil only give them broad objectives and the employees may not carry out these objectives as the owners want. Leading to the service not being delivered as required due to lack of experience of the part-time employees. (L2)

Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation of which leadership style should be used for the new service.

Award up to 2 additional marks for relevant application

Possible application marks:
Catering services; two shareholders; weddings; birthday parties; events; provides catering for businesses such as for conferences; 90 part-time employees; 10 full-time employees; noticeboard; food.

There may be other examples in context that have not been included here.
</td><td></td></tr>
</table>

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Question	Answer	Marks
3(a)	**Neil and Jin need to tell employees about the new service.** **Identify and explain one advantage and one disadvantage of using email for this communication.** 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 Answers are likely to include: Advantage: • Written record – can refer back to the details • Cheap to send to all employees • Quicker to send to large number of people at once • Able to provide detailed information Disadvantage: • Message may not have been understood/language barriers • No chance for clarification by employees • No internet access • No body language/cannot see the reaction • Not sure if the message has been received Indicative response: Emails are cheap to send (1) and can easily be sent to all employees. (1) They can be told about the new catering service (ap) and the email can include all the details about offering catering for weddings or birthday parties. (ap) Possible application marks: Catering services; two shareholders; weddings; birthday parties; events; provides catering for businesses such as for conferences; 90 part-time employees; 10 full-time employees; noticeboard; food. There may be other examples in context that have not been included here.	**8**

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Question	Answer	Marks
3(b)	**Using Appendix 3 and other information provided, consider the costs, revenue and profit of the <u>two</u> options. Which is the best option for QC to choose? Justify your answer.**	**12**

	Level 1	Level 2
Option 1 – (Weddings)	Growing market as increased spending on weddings Price is higher for Option 1 events Variable costs are higher for weddings than birthday parties Price per event is $30 higher for weddings 250 more people attending each event than birthday parties	TR per event = $25 000 Variable costs per event = $10 000 Gross profit per event = $15 000 TC per event = $11 000 Profit per event = $14 000 TR per month = $250 000 Gross profit per month = $150 000 TC per month = $110 000 Profit per month = $140 000
Option 2 - (Birthday parties)	Spending on birthday parties has remained the same 90 more birthday parties per month than weddings Fixed costs lower by $500 for birthday parties Variable cost $10 cheaper than weddings per person	TR per event = $5000 Variable cost per event = $2500 Gross profit per event = $2500 TC per event = $3000 Profit per event = $2000 TR per month = $500 000 Gross profit per month = $250 000 TC per month = $300 000 Profit per month $200 000 per month

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Question	Answer	Marks
3(b)	*Note: Do not reward an answer that is just copied from the table in Appendix 3 without any comment* Recommendations might have points that include: • Total cost of Option 2 is $8000 per event less than Option 1 so Option 2 is easier to finance • Option 2 – the profit for birthday parties per month is $60 000 higher than Option 1 – weddings • Option 2 has the highest profit per month • Option 1 has the highest profit per event • Birthday parties have the highest profit per month but the market appears to be not increasing • Option 1 has the higher growth in sales and the highest profit per event	

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>3(b)</td><td>Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.
<table>
<tr><th></th><th>Knowledge/Analysis/Evaluation</th></tr>
<tr><td>Level 3</td><td>There must be at least 2 × L2 correct calculations of profit before L3 awarded
9–10 marks for well justified conclusion of which option to choose compared to the other option.

7–8 marks for some limited judgement shown in conclusions as to the best option to choose.</td></tr>
<tr><td>Level 2</td><td>4–6 marks
Calculations of costs, revenue and/or profit for each option.</td></tr>
<tr><td>Level 1</td><td>1–3 marks
Limited statements comparing the costs, revenue and/or profit for each option.</td></tr>
</table>
Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Weddings are $30 higher per person.

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. Weddings will give a profit per event of $14 000. (L2)

Level 3 – For level 3 to be awarded there must be 2 × L2 correct calculations of profit then a well justified conclusion of which option to choose.

Award up to 2 additional marks for relevant application

Possible application marks:
Catering services; two shareholders; wants to expand; weddings; birthday parties; events; provides catering for businesses such as for conferences; 90 part-time employees; 10 full-time employees; has a cash flow problem; imports food ingredients.

There may be other examples in context that have not been included here.</td><td></td></tr>
</table>

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Question	Answer	Marks
4(a)	**Identify and explain two ways Neil and Jin could improve QC's cash flow.** 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 Answers are likely to include: • Arrange trade credit for ingredients – delay outflows of cash for payments of ingredients so improves cash flow as money held in account for longer. • Reduce trade credit for clients – speeds up inflow of money as payment for catering services are made more quickly so increases speed at which cash flows into account. • Arrange an overdraft facility / short term bank loan • Change to local supplier as ingredients are cheaper • Get deposits from customers before the events • Sell off unwanted non-current assets/Sell unused capital asset • Increase cash inflows • Reduce cash outflows *Note: Do not reward advertising unless part of an explanation* *Note: Bank loan is TV - should be short-term bank loan* Indicative response: Neil can arrange trade credit (1) for ingredients purchased from abroad. (ap) This will delay outflow of cash for payments of ingredients so improves cash flow as money held in account for longer. (1) So QC will keep money in its account for longer and make it easier to pay the wages of the 90 part-time employees. (ap) Possible application marks: Catering services; wants to expand; weddings; birthday parties; events; provides catering for businesses such as for conferences; 90 part-time employees;10 full-time employees; imports food ingredients; offers trade credit; pays cash for ingredients; plans to expand; two shareholders; may run out of working capital. There may be other examples in context that have not been included here.	**8**

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Question	Answer	Marks
4(b)	**Consider the possible effects on QC of the following three changes. Which change is likely to have the biggest effect on QC's profit? Justify your answer.** **Relevant points might include:**	**12**

• Increase in income tax	• Increase tax – lower disposable income – reduce amount spent on weddings and birthday parties – lower demand for catering services • May need to reduce prices to attract customers • Employees may ask for an increase in wages as disposable income has gone down
• Appreciation of country Z's currency	• Local ingredients may still be cheaper than imported ingredients – difference is narrowed • Imported ingredients are cheaper – effect is lower prices of services or improved profit margins
• Country Z's business cycle enters the boom stage.	• Boom leads to increased economic growth – increased incomes from higher employment levels – increased demand for catering services – easier for employees to find alternative jobs – may experience increased competition

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>4(b)</td><td>Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.

<table>
<tr><th></th><th>Knowledge/Analysis/Evaluation</th></tr>
<tr><td>Level 3</td><td>At least 2 × Level 2 +

9–10 marks for well justified conclusion which change is likely to have the biggest effect on QC profit and why the other changes will have less effect.

7–8 marks for some limited judgement shown in conclusion which change is likely to have the biggest effect on QC profit.</td></tr>
<tr><td>Level 2</td><td>4–6 marks

Detailed discussion of the effect of the change on QC.</td></tr>
<tr><td>Level 1</td><td>1–3 marks

Outline of the effect of the change on QC.</td></tr>
</table>

Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Increased income tax will lower disposable income and reduce spending.

Level 2 – 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. Increased income tax will lower disposable income and reduce spending. This is because people will have less money to spend on essential items and will reduce the amount they spend on luxury items such as birthday parties. Hence QC will probably have a reduction in sales. (L2 plus application for referring to luxury items such as birthday parties)

Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a conclusion of which change is likely to have the biggest effect on QC's profit

Award up to 2 additional marks for relevant application.

Possible application marks:
Catering services; established 10 years ago; two shareholders; wants to expand; weddings; birthday parties; events; provides catering for businesses such as for conferences; 90 part-time employees; 10 full-time employees; has a cash flow problem; imports food ingredients; increased spending on luxury goods; competitors paying higher wages.

There may be other examples in context that have not been included here.</td><td></td></tr>
</table>

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Cambridge Assessment International Education
Cambridge International General Certificate of Secondary Education

BUSINESS STUDIES **0450/23**

Paper 2 Case Study **October/November 2019**

MARK SCHEME

Maximum Mark: 80

Published

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

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

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

Cambridge International is publishing the mark schemes for the October/November 2019 series for most Cambridge IGCSE™, Cambridge International A and AS Level components and some Cambridge O Level components.

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

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

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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.

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Question	Answer	Marks
1(a)	**Identify and explain two possible reasons why Richard wants to expand RR.** Knowledge [2 × 1] – award one mark for each relevant reason Analysis [2 × 1] – award one mark for a relevant explanation of each reason Application [2 × 2] – award two application marks for each reason Answers are likely to include: • To possibly increase profit/Increase revenue • Higher status and prestige for owner • Lower average costs/Benefit from economies of scale • Larger share of the market/Increase market share • Spread risk Indicative response: To possibly increase profit (1) because if the restaurant is bigger it will have more customers and more revenue (ap). With higher revenue, if costs can be kept lower, then profit should increase (1). If customers are interested in the new delivery service then sales should increase and so will profit (ap). Possible application marks: Sole trader business; set up 5 years ago; restaurant; good reputation for quality food; reputation for excellent service; main objectives to increase profit and increase market share; opening new restaurant offering a delivery service; food; meals; customer loyalty. There may be other examples in context that have not been included here.	**8**

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Question	Answer	Marks
1(b)	**Consider the advantages and disadvantages of the following three types of business organisation. Recommend which type of business organisation Richard should choose for RR as it expands. Justify your answer.**	**12**

Sole trader	• Owner in complete control • No sharing of profit • Incentive to work hard as everything kept for himself	• Unlimited liability • No continuity • No one to help share decision making
Partnership	• Partners can specialise in different tasks • Share decision making • More ideas/experience • Able to raise more capital from partners	• Unlimited liability • Each partner responsible for the actions of other partners • No continuity
Private limited company	• Raise capital from sale of shares • Limited liability • Separate legal identity • Continuity	• Can only sell shares to family and friends • Accounts not private • Legal formalities when setting up and running the company.

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1(b)</td><td>
Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.

<table>
<tr><th></th><th>Knowledge/Analysis/Evaluation</th></tr>
<tr><td>Level 3</td><td>At least 2 × Level 2 +
9–10 marks for well justified recommendation of which type of business organisation to choose and why not the other types.

7–8 marks for limited recommendation of which type of business organisation to choose.</td></tr>
<tr><td>Level 2</td><td>4–6 marks
Detailed discussion of the advantages and/or disadvantages of each type of business organisation.</td></tr>
<tr><td>Level 1</td><td>1–3 marks
Outline of the advantages and/or disadvantages of each type of business organisation.</td></tr>
</table>

Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Sole trader has unlimited liability.

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. Sole trader has unlimited liability and this means that the owners personal possession are at risk if the business goes bankrupt and Richard is personally liable for all debts of the restaurant. However, he is his own boss and makes all the decisions (L2 + application for reference to the restaurant).

Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation of which type of business organisation to choose.

Award up to 2 additional marks for relevant application.

Possible application marks:
Set up 5 years ago; restaurant; good reputation for quality food; good reputation for excellent service; main objectives to increase profit and increase market share; opening new restaurant offering a delivery service; customer loyalty; meals.

There may be other examples in context that have not been included here.
</td><td></td></tr>
</table>

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Question	Answer	Marks
2(a)	**Identify and explain two possible reasons why Richard needs a well-motivated workforce.** Knowledge [2 × 1] – award one mark for each relevant reason Analysis [2 × 1] – award one mark for a relevant explanation of each reason Application [2 × 2] – award two application marks for each reason Answers are likely to include: • Encourages workers to work more efficiently/higher productivity/lower unit costs for the business/Increased output • Lower labour turnover – saves recruitment and training costs/lower absenteeism • Happier employees give better customer service/good quality meals/improved reputation • Employees feel valued – willing to contribute to ideas Indicative response: Motivated employees give better customer service (1) that leads to food deliveries arriving on time (ap). The customers feel cared for by the business and so maintain customer loyalty (ap). These satisfied customers may also tell friends about the service and so sales increase for RR (1). Possible application marks: Restaurant; good reputation for quality food; good reputation for excellent service; new multinational restaurant chain set up; 20 part-time employees; 10 skilled full-time employees; waiters; chefs; customer loyalty; meals; plates. There may be other examples in context that have not been included here.	**8**

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>2(b)</td><td>Consider the following three ways Richard could use to make sure he has enough workers for the new restaurant. Recommend which would be the best way. Justify your answer.
<table>
<tr><th></th><th>Benefits</th><th>Drawbacks</th></tr>
<tr><td>Move some part-time employees from the existing restaurant</td><td>• Cheap to arrange
• Saves time recruiting – quick to fill the vacancies at the new restaurant
• No training required</td><td>• Need to replace the existing employees – still have recruitment costs
• Not enough employees to fill all jobs at the new restaurant</td></tr>
<tr><td>Ask part-time employees to work full time so they can work at both restaurants</td><td>• Already trained – no training costs
• Already know what is required at the new restaurant – quicker to open it</td><td>• May not want to work longer hours
• Might have to pay higher wages</td></tr>
<tr><td>Recruit additional unskilled employees that Richard can train</td><td>• Workers trained in the way Richard wants for RR
• More likely to stay at the new restaurant</td><td>• Training costs
• Costs of recruitment
• Takes time to recruit and train workers</td></tr>
</table></td><td>12</td></tr>
</table>

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>2(b)</td><td>
Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.

<table>
<tr><th></th><th>Knowledge/Analysis/Evaluation</th></tr>
<tr><td>Level 3</td><td>At least 2 × Level 2 +
9–10 marks for well justified recommendation of the best way to choose and why the other ways will be less effective.

7–8 marks for some limited judgement shown in the recommendation of the best way to choose.</td></tr>
<tr><td>Level 2</td><td>4–6 marks
Detailed discussion of the benefits and/or drawbacks of each way.</td></tr>
<tr><td>Level 1</td><td>1–3 marks
Outline of the benefits and/or drawbacks of each way.</td></tr>
</table>

Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. It is cheap to arrange moving some employees over to the new restaurant.

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. It is cheap to move existing employees over to the new restaurant and they will already know the quality requirements of RR service. It will maintain the quality of service at the new restaurant and build up a reputation there. However, Richard will still need to recruit employees for the existing restaurant so unlikely to save recruitment costs (L2).

Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a justified recommendation of which way to choose.

Award up to 2 additional marks for relevant application.

Possible application marks:
Sole trader business; good reputation for quality food; good reputation for excellent service; new multinational restaurant chain set up; 20 part-time employees; 10 skilled full-time employees; opening new restaurant offering a delivery service; customer loyalty; meals; chefs; waiters; expansion.

There may be other examples in context that have not been included here.
</td><td></td></tr>
</table>

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Question	Answer	Marks
3(a)	**Identify and explain two ways Richard could promote the new restaurant.** 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 Answers are likely to include: • Posters • Billboards • Leaflets • Discount coupons • Local newspapers • Social media • Special appearance of celebrity **Note:** Internet/online on its own is too vague and television is not suitable for a small business. Indicative response: Advertise by handing out leaflets (1) this can be done outside the new restaurant to highlight the food served as well as the new delivery service (ap). Potential customers can keep a copy of the leaflet to remind them of the contact details and opening times (1) which may encourage them to try the new service next time they have a party at home (ap). Possible application marks: Good reputation for quality food; good reputation for excellent service; new multinational restaurant chain set up; main objectives to increase profit and increase market share; offering a delivery service; customer loyalty; garden parties; appeal to high income customers; meals. There may be other examples in context that have not been included here.	**8**

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Question	Answer	Marks
3(b)	**Consider the following three factors that will affect Richard's decision on the location of the new restaurant. Which factor is the most important to Richard? Justify your answer.**	**12**

Near to existing restaurant	• If near to existing restaurant then it is easier to move employees between the two • Easier for Richard to manage the two restaurants • Existing restaurant fully booked so not a problem for the new restaurant • May not increase sales as customers already go to the existing restaurant
The level of income of local restaurant	• The level of income will affect the potential demand for the new restaurant and the new delivery service • High income residents in Location 2 might have houses with gardens which mean they are more likely to have parties in the garden • Lower income residents are less likely to spend money on takeaways/eating at restaurants as they would cook food themselves • High unemployment in location 1 so lower demand
Cost of building	• If lower cost then may be more affordable for Richard • Leaves more working capital especially as cash flow may not be good to start with • High cost may mean Richard has to borrow large amount of capital • As a sole trader Richard may have only a limited amount of capital

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Question	Answer	Marks
3(b)	Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.	

	Knowledge/Analysis/Evaluation
Level 3	At least 2 □ Level 2 □ 9–10 marks for well justified conclusion as to which factor is most important relative to the other factors. 7–8 marks for some limited judgement shown in the conclusion as to which factor is most important.
Level 2	4–6 marks Detailed discussion of the benefits and/or drawbacks of each factor.
Level 1	1–3 marks Outline of the benefits and/or drawbacks of each factor.

Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. If near to existing restaurant then it is easier to move employees between the two.

Level 2 – 1 □ L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. If near to existing restaurant then it is easier to move employees between the two restaurants and it is easier for Richard to move between the two businesses and manage them. If Richard had to keep travelling a long way then this will take time and he will find it harder to keep an eye on the employees to make sure everything is going well (L2).

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

Award up to 2 additional marks for relevant application

Possible application marks:
Good reputation for quality food; good reputation for excellent service; new multinational restaurant chain set up; opening new restaurant offering a delivery service; customer loyalty; meals; food; eat out; information from Appendix 1; new restaurant is aimed at high income customers.

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

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Question	Answer	Marks
4(a)	**Identify and explain one opportunity and one threat to RR from a multinational company opening a restaurant nearby.** Knowledge [2 × 1] – award one mark for each opportunity/threat Analysis [2 × 1] – award one mark for a relevant explanation of each opportunity/threat Application [2 × 2] – award two application marks for each opportunity/threat Answers are likely to include: Opportunities • TV advertising increases demand for restaurant meals – increases demand for all restaurants so RR benefits • Learn new techniques from seeing how multinational operates – improves efficiency at RR – copy idea of online booking App Threats • Lower costs for multinational as benefit from economies of scale – RR will find it harder to compete on price • May lose employees – as multinational may pay higher wages • Increased competition – lower RR sales/lose customers Indicative response: May lose employees (1) as multinational may pay higher wages and is more attractive to work for (1). This could cause a lot of problems for the restaurant if it becomes short of staff such as chefs (ap). This will make it hard to continue to provide an excellent service and maintain a good reputation (ap). Possible application marks: Sole trader business; good reputation for quality food; good reputation for excellent service; 20 part-time employees; 10 skilled full-time employees; main objectives to increase profit and increase market share; offering a delivery service; chefs; kitchen staff; customer loyalty; expansion; meals; 2 kitchen employees have been offered jobs by the multinational business. There may be other examples in context that have not been included here.	**8**

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Question	Answer	Marks
4(b)	**Appendix 3 shows the cash-flow forecast for RR's business before the location decision for the new restaurant is made. Assume Richard chooses location 1.** **Consider how the decision to choose location 1 could affect RR's cash-flow forecast. Recommend to Richard how he could try to make sure that RR does not have a cash-flow problem. Justify your answer.** Relevant points might include: Examples of L1 statements: • Cash inflows will increase from July • Cash outflows will increase from the purchase of the building • Additional cash outflow of $25 000 • Large cash outflows at the start of the year • Negative effect on net cash flow Examples of L2: • Closing negative balance in January ($37 000) • Positive closing balance of $1000 achieved by July • By December positive closing balance of at least $18 000 but also inflows and outflows from the new restaurant that will now be trading • Large cash outflow initially from the purchase, decoration and equipping of the new restaurant and delay in cash inflows for 6 months until new restaurant starts trading causing negative effect on closing balance for the first 6 months Possible recommendation to avoid a cash flow problem: • Capital financed by long term sources such as bank loan or take on a partner so avoid large cash outflow at the start of the year • Working capital financed by trade credit or overdraft to avoid a cash flow problem caused from the delay in the revenue from the new restaurant **Note:** No mention of cash flow no marks. Reference to location 2 or profit is not valid.	**12**

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>4(b)</td><td>
Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.

<table>
<tr><th></th><th>Knowledge/Analysis/Evaluation</th></tr>
<tr><td>Level 3</td><td>At least 2 × Level 2 +
9–10 marks for well justified recommendation as to the best way for Richard to ensure the cash flow does not become a problem as RR expands.

7–8 marks for some limited judgement shown in the recommendation as to the best way for Richard to ensure the cash flow does not become a problem as RR expands.</td></tr>
<tr><td>Level 2</td><td>4–6 marks
Detailed discussion of how cash flow forecast may be affected.</td></tr>
<tr><td>Level 1</td><td>1–3 marks
Outline of how cash flow forecast may be affected.</td></tr>
</table>

Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Cash inflows will increase from restaurant customers after June.

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. Cash inflows will increase from restaurant customers but these may be delayed inflows as location 1 has been chosen. This may cause cash flow problems if the outflows from expenditure on purchasing the new restaurant building go out straight away (1 × L2).

Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and a recommendation as to the best way for Richard to ensure the cash flow does not become a problem as RR expands.

Award up to 2 additional marks for relevant application.

Possible application marks:
Sole trader business; good reputation for quality food; good reputation for excellent service; new multinational restaurant chain set up; 20 unskilled part-time employees; 10 skilled full-time employees; main objectives to increase profit and increase market share; opening new restaurant offering a delivery service; customer loyalty; take 6 months to prepare building; meals, figures from Appendix 3; new restaurant aimed at high income customers.

There may be other examples in context that have not been included here.
</td><td></td></tr>
</table>

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BUSINESS STUDIES **0450/11**

Paper 1 **October/November 2019**

1 hour 30 minutes

Candidates answer on the Question Paper.

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1 BFF makes a range of computer screens that it sells to other manufacturers. The Managing Director has been looking at BFF's income statement. She is worried about the effects of an increase in the cost of materials. She said: 'Changes in technology have improved our production methods. BFF needs to remain competitive as imports of computer screens are increasing.' The Managing Director has to decide whether BFF should increase its prices.

(a) What is meant by 'income statement'?

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..... [2]

(b) Identify the effect of an increase in the cost of materials on each of the following:

Cost of sales: .....

.....

Gross profit: .....

..... [2]

(c) Identify and explain **two** ways in which BFF's managers could use information contained in the income statement.

Way 1: .....

.....

Explanation: .....

.....

Way 2: .....

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Explanation: .....

..... [4]

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(d) Identify and explain **two** ways changes in technology used in production could help BFF to remain competitive.

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 BFF should increase its prices? Justify your answer.

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2 WKN sells household goods such as plates and brushes. Last year sales in WKN's 200 shops increased but profit fell by 80% to $5m. WKN's Human Resources Director said: 'All retailers are finding this stage of the business cycle challenging. WKN has to reorganise the business. This will mean redundancy for 1800 shop workers. WKN plans to create 100 new jobs in the marketing department at head office to help maintain customer loyalty. The company is working with trade unions to carry out these changes.' WKN has to decide whether to select the candidates for the new jobs from the workers being made redundant.

(a) Identify **two** stages of the business cycle.

Stage 1: .....

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Stage 2: .....

..... [2]

(b) What is meant by 'redundancy'?

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..... [2]

(c) Identify and explain **two** ways a trade union could help WKN's employees.

Way 1: .....

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Explanation: .....

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Way 2: .....

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Explanation: .....

..... [4]

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(d) Identify and explain **two** advantages to WKN of maintaining customer loyalty.

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 WKN should select all the workers for the new jobs from those about to be made redundant? Justify your answer.

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3 Keila owns a successful small bakery shop. Keila would like to expand her business. She could open a café selling cakes and drinks in a popular tourist location. Keila plans to give out free samples as her main method of promotion. She has prepared some customer and cost information as shown in Table 1. Keila used primary market research to find out some of the information.

Table 1: Forecast customer and cost information for the new café

Average amount spent per customer	$4
Average number of customers per week	325
Variable costs per customer	$2
Fixed costs per week	$500

(a) What is meant by 'fixed costs'?

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..... [2]

(b) Calculate the forecast revenue per week for the new café.

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..... [2]

(c) Identify and explain **two** advantages to Keila's business of using free samples as a method of promotion.

Advantage 1: .....

.....

Explanation: .....

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Advantage 2: .....

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Explanation: .....

..... [4]

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(d) Identify and explain **one** advantage and **one** disadvantage to Keila's business of using primary market research.

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 Keila should open the new café? Justify your answer using the information in Table 1.

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4 VXH produces a range of soft drinks made from fruit using batch production. VXH uses specialisation in its factory. The business has grown quickly over the last two years. VXH has increased the number of production workers from 40 to 80. This has increased the span of control for each manager. It has been difficult for VXH to keep workers motivated. The Human Resources Manager has to decide whether it is better to use job rotation or financial bonuses to improve employee motivation.

(a) What is meant by 'span of control'?

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..... [2]

(b) What is meant by 'uses specialisation'?

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..... [2]

(c) Identify and explain **two** possible reasons why VXH has grown quickly.

Reason 1: .....

.....

Explanation: .....

.....

Reason 2: .....

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Explanation: .....

..... [4]

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(d) Identify and explain **two** possible reasons why VXH uses batch production.

Reason 1: .....

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Explanation: .....

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Reason 2: .....

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Explanation: .....

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..... [6]

(e) Do you think VXH should use job rotation or financial bonuses to increase employee motivation? Justify your answer.

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CANDIDATE NAME	

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BUSINESS STUDIES **0450/12**

Paper 1 **October/November 2019**

1 hour 30 minutes

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1 GOP is an oil producer based in country X. It is a public corporation. GOP plans to build a 200km pipeline across the country using retained profits to pay for it. The pipeline will need planning permission from the Government. Environmental pressure groups are concerned. A spokesperson for GOP said: 'GOP's objectives are different to businesses in the private sector. This pipeline will create 2000 skilled construction jobs and reduce the need for other businesses to import oil.'

(a) What is meant by 'public corporation'?

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..... [2]

(b) Identify **two** economic objectives of country X's government.

Objective 1: .....

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Objective 2: .....

..... [2]

(c) Identify and explain **two** ways a pressure group might try to influence the actions of GOP.

Way 1: .....

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Explanation: .....

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Way 2: .....

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Explanation: .....

..... [4]

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(d) Identify and explain **two** ways in which the objectives of GOP might be different if it was in the private sector.

Way 1: .....

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Explanation: .....

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Way 2: .....

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Explanation: .....

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(e) Do you think the Government should allow GOP to build the pipeline? Justify your answer.

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2 Samira owns a successful business selling takeaway fried food. She employs 2 part-time workers. Last year revenue fell for the first time in 10 years. This was because of increased competition from a well-known franchise. To respond to this, Samira could lower her prices, as shown in Table 1. Another option is to start a delivery service. Samira plans to do some market research. She has to decide whether to use secondary research or set up a focus group with some of her customers.

Table 1: Price and variable cost information for Samira's business

	Current price	New price
Average price per item	$4	$3
Average variable cost per item	$2	$2
Forecast average number of customers per week	200	300

(a) What is meant by 'franchise'?

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..... [2]

(b) Calculate Samira's forecast weekly revenue if she lowered the price of her products.

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..... [2]

(c) Identify and explain **two** reasons why revenue is important for Samira's business.

Reason 1: .....

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Explanation: .....

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Reason 2: .....

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Explanation: .....

..... [4]

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(d) Identify and explain **two** factors Samira should consider before starting a delivery service.

Factor 1: .....

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Explanation: .....

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Factor 2: .....

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Explanation: .....

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..... [6]

(e) Do you think Samira should use secondary research or a focus group to gather market research information? Justify your answer.

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3 LBM is an online fashion clothing retailer. LBM's target market is 18-35 year olds. Last year revenue increased by 25% to $600m. The Marketing Director said: 'All businesses have to satisfy customer needs. Customer service is important which is why all employees receive induction training. LBM offers customers a wider range of products than its competitors. Promotion is through social media networks. Is there any reason to open our own shops?' LBM plans to add 3500 new styles each week and will need to arrange finance for the additional inventory.

(a) What is meant by 'induction training'?

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..... [2]

(b) Identify **two** reasons why it is important for LBM to satisfy customer needs.

Reason 1: .....

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Reason 2: .....

..... [2]

(c) Identify and explain **two** problems for LBM of having a wide range of products available to customers.

Problem 1: .....

.....

Explanation: .....

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Problem 2: .....

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Explanation: .....

..... [4]

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(d) Identify and explain **one** advantage and **one** disadvantage to LBM of opening its own shops.

Advantage: .....

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Explanation: .....

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Disadvantage: .....

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Explanation: .....

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..... [6]

(e) Explain **two** suitable sources of finance that LBM could use to purchase additional inventory. Recommend which source of finance LBM should use. Justify your answer.

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4 NBV is a multinational company. It makes building products such as bricks. Last year NBV's financial accounts showed capital employed as $144 billion. NBV has operations in 18 countries and a total workforce of 400 000. NBV experiences some diseconomies of scale. All raw materials are purchased from the countries it operates in to avoid problems with exchange rates. NBV plans to open a factory in Country B for the first time. Some people think this decision will only bring drawbacks for other businesses in country B.

(a) What is meant by 'exchange rate'?

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..... [2]

(b) What is meant by 'capital employed'?

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..... [2]

(c) Identify and explain **two** ways NBV's managers could use its financial accounts to help make decisions.

Way 1: .....

.....

Explanation: .....

.....

Way 2: .....

.....

Explanation: .....

..... [4]

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(d) Identify and explain **two** diseconomies of scale that NBV might experience.

Diseconomy of scale 1: .....

.....

Explanation: .....

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Diseconomy of scale 2: .....

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Explanation: .....

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..... [6]

(e) Do you think NBV's decision to set up a factory will only bring drawbacks to other businesses in country B? Justify your answer.

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BUSINESS STUDIES **0450/13**

Paper 1 **October/November 2019**

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1 S&V imports high quality spices and herbs and sells them to local restaurants and shops. S&V wants to increase added value. It is a business partnership so its owners do not have limited liability. One of the partners, Serena, is worried that supplies from some countries do not arrive on time or the wrong items are delivered. She said: 'S&V cannot have communication barriers with its many suppliers. In addition, our customers demand up-to-date information about spices and herbs that are in season.' Serena has to decide whether e-mail is the best way to communicate with S&V's customers.

(a) What is meant by 'limited liability'?

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..... [2]

(b) Identify **two** ways S&V can increase added value.

Way 1: .....

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Way 2: .....

..... [2]

(c) Identify and explain **two** possible barriers to communication between S&V and its suppliers.

Barrier 1: .....

.....

Explanation: .....

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Barrier 2: .....

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Explanation: .....

..... [4]

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(d) Identify and explain **one** effect on S&V of each of the following changes:

Effect of a 10% increase in import tariffs: .....

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Explanation: .....

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.....

Effect of new legal controls over food quality: .....

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Explanation: .....

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..... [6]

(e) Do you think using e-mail is the best way for S&V to inform customers about its products? Justify your answer.

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..... [6]

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2 HBN makes steel rods for the construction industry, using flow production. HBN uses job enrichment as one way to motivate its 40 employees. HBN has experienced an increase in demand for steel rods as a result of changes in the business cycle. Businesses, such as HBN, are expected to have a policy on sustainable development. The Operations Director is considering ways to increase output of steel rods whilst maintaining high quality. The options are outlined in Table 1.

Table 1: Options for HBN to increase output

	Option 1: Extend existing factory	**Option 2: Buy another steel business**
Cost	$750 000	$1 500 000
Additional output	10 000 tonnes per month	26 000 tonnes per month
Other information	Will take 6 months to complete extension	Other business has different leadership style and organisation structure to HBN

(a) What is meant by 'sustainable development'?

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.....

..... [2]

(b) What is meant by 'business cycle'?

.....

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..... [2]

(c) Identify and explain **one** advantage and **one** disadvantage to HBN of using job enrichment as one way to motivate its employees.

Advantage: .....

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Explanation: .....

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Disadvantage: .....

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Explanation: .....

..... [4]

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(d) Identify and explain **two** ways in which HBN could maintain high quality.

Way 1: .....

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Explanation: .....

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Way 2: .....

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Explanation: .....

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..... [6]

(e) Which option for increasing output do you think HBN should choose? Justify your answer using the information in Table 1.

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3 RGO is a large airline business. It provides flights to 120 countries using the latest up-to-date planes. Most of RGO's customers are people travelling on holiday. RGO sells 80% of its tickets through its website. It operates in a competitive market so maintaining customer loyalty is important. One of RGO's objectives is to increase market share from 8% to 10%. The Managing Director said: 'One option is to lower ticket prices but to do this we will have to reduce costs.'

(a) What is meant by 'customer loyalty'?

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..... [2]

(b) Identify **two** advantages to RGO of being a large business.

Advantage 1: .....

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Advantage 2: .....

..... [2]

(c) Identify and explain **two** possible problems to RGO of reducing prices.

Problem 1: .....

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Explanation: .....

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Problem 2: .....

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Explanation: .....

..... [4]

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(d) Identify and explain **two** ways (other than lower prices) that RGO could use to increase its market share.

Way 1: .....

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Explanation: .....

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Way 2: .....

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Explanation: .....

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..... [6]

(e) Explain **two** ways in which RGO could reduce its costs. Recommend which way RGO should choose. Justify your answer.

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4 PBG makes cars in country A. The Managing Director has been looking at PBG's financial accounts. He is worried about PBG's liquidity position. An extract from the balance sheet is shown in Table 2. The Managing Director said: 'New legal controls mean that all cars sold in country A will have to be electric by 2025. PBG has to find new markets for its existing cars while we develop new models.' One option for PBG is to form a joint venture with a car manufacturer in another country.

Table 2: Extract from PBG's balance sheet

	2018	**2019**
Current assets $m	320	390
Current liabilities $m	256	300
Non-current liabilities $m	480	520
Acid test ratio	0.4	0.3

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

.....

.....

..... [2]

(b) Calculate PBG's current ratio for 2019.

.....

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..... [2]

(c) Identify and explain **one** way each of the following stakeholder groups might use PBG's financial accounts.

Trade Payables (Creditors): .....

.....

Explanation: .....

.....

Shareholders: .....

.....

Explanation: .....

..... [4]

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(d) Identify and explain **one** advantage and **one** disadvantage to PBG of forming a joint venture.

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 the Managing Director is right to be worried about PBG's liquidity position? Justify your answer by referring to appropriate ratios.

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BUSINESS STUDIES **0450/21**

Paper 2 **October/November 2019**

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1 **(a)** Identify and explain **one** benefit and **one** cost to MF of developing the new product.

Benefit: .....

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Explanation: .....

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Cost: .....

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Explanation: .....

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..... [8]

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(b) Consider how the following **three** elements of the marketing mix could help to make the new product successful. Which do you think is the most important element for the success of the new product? Justify your answer.

Price: .....

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Place: .....

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Promotion: .....

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Conclusion: .....

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..... [12]

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2 **(a)** Identify and explain how the following **two** stakeholder groups of MF will be affected by the production of this new product.

Employees: .....

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Explanation: .....

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Customers: .....

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Explanation: .....

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..... [8]

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(b) Consider how each of the following might use MF's financial statements as shown in Appendix 1. Which user would find the information most helpful? Justify your answer.

Government: .....

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Bank: .....

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Shareholders: .....

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Conclusion: .....

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3 **(a)** Identify and explain how the following **four** departments of MF are likely to be affected by the development of its new product.

Marketing: .....

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Human Resources (HR): .....

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Operations: .....

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Finance: .....

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..... [8]

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(b) Using the information provided in Appendix 3, consider the following **two** options for MF's new product. Recommend which option MF should choose to ensure the highest profit for the new product. Justify your answer.

Option 1 - raise the price per carton from $5 to $7.50: .....

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Option 2 - reduce the variable cost per carton from $2.50 to $2.00: .....

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Recommendation: .....

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..... [12]

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4 **(a)** Identify and explain **two** differences between:

(i) MF and unincorporated businesses:

Difference 1: .....

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Difference 2: .....

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..... [4]

(ii) MF and public sector organisations:

Difference 1: .....

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Difference 2: .....

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..... [4]

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(b) Consider the possible external costs and external benefits resulting from MF's new product. Recommend whether the Government should encourage MF to produce this new product. Justify your answer.

External costs: .....

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External benefits: .....

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Recommendation: .....

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CANDIDATE NAME	

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BUSINESS STUDIES **0450/22**

Paper 2 **October/November 2019**

1 hour 30 minutes

Candidates answer on the Question Paper.

No Additional Materials are required.

READ THESE INSTRUCTIONS FIRST

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Answer **all** questions.
The Insert contains the case study.
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.

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1 **(a)** Identify and explain **two** ways QC can create added value for its new service.

Way 1: .....

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Explanation: .....

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Way 2: .....

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Explanation: .....

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..... [8]

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(b) Consider the advantages and disadvantages of the following **three** ways QC could research the market for wedding catering. Which way will give the most accurate results about the market? Justify your answer.

Questionnaire about the wedding catering market carried out by QC: .....

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Questionnaire about the wedding catering market carried out by a market research agency:....

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Government statistics on the number of weddings in country Z: .....

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Conclusion: .....

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2 **(a)** Neil and the part-time employees are both stakeholders in QC.

Identify and explain:

- **one** objective that will be the same for both these stakeholders
- **one** objective for Neil that will conflict with an objective of the part-time employees.

Same objective: .....

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Explanation: .....

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Conflicting objective: .....

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Explanation: .....

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(b) Consider the advantages and disadvantages of the following **three** leadership styles Jin and Neil could use. Recommend which one they should use as QC expands further. Justify your answer.

Autocratic: .....

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Democratic: .....

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Laissez-faire: .....

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Recommendation: .....

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3 **(a)** Neil and Jin need to tell employees about the new service.

Identify and explain **one** advantage and **one** disadvantage of using email for this communication.

Advantage: .....

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Explanation: .....

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Disadvantage: .....

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Explanation: .....

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(b) Using Appendix 3 and other information provided, consider the costs, revenue and profit of the **two** options. Which is the best option for QC to choose? Justify your answer.

Option 1: .....

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Option 2: .....

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Conclusion: .....

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4 **(a)** Identify and explain **two** ways Neil and Jin could improve QC's cash flow.

Way 1: .....

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Explanation: .....

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Way 2: .....

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Explanation: .....

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(b) Consider the possible effects on QC of the following **three** changes. Which change is likely to have the biggest effect on QC's profit? Justify your answer.

Increase in income tax: .....

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Appreciation of country Z's currency: .....

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Country Z's business cycle enters the boom stage: .....

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Conclusion: .....

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BUSINESS STUDIES **0450/23**

Paper 2 **October/November 2019**

1 hour 30 minutes

Candidates answer on the Question Paper.

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1 **(a)** Identify and explain **two** possible reasons why Richard wants to expand RR.

Reason 1: .....

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Explanation: .....

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Reason 2: .....

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Explanation: .....

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..... [8]

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(b) Consider the advantages and disadvantages of the following **three** types of business organisation. Recommend which type of business organisation Richard should choose for RR as it expands. Justify your answer.

Sole trader: .....

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Partnership: .....

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Private limited company: .....

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Recommendation: .....

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2 **(a)** Identify and explain **two** possible reasons why Richard needs a well-motivated workforce.

Reason 1: .....

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Explanation: .....

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Reason 2: .....

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Explanation: .....

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(b) Consider the following **three** ways Richard could use to make sure he has enough workers for the new restaurant. Recommend which would be the best way. Justify your answer.

Move some part-time employees from the existing restaurant: .....

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Ask part-time employees to work full-time so they can work at both restaurants: .....

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Recruit additional unskilled employees that Richard can train: .....

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Recommendation: .....

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..... [12]

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3 **(a)** Identify and explain **two** ways Richard could promote the new restaurant.

Way 1: .....

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Explanation: .....

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Way 2: .....

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Explanation: .....

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..... [8]

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(b) Consider the following **three** factors that will affect Richard's decision on the location of the new restaurant. Which factor is the most important to Richard? Justify your answer.

Near to existing restaurant: .....

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The level of income of local residents: .....

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Cost of building: .....

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Conclusion: .....

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..... [12]

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4 **(a)** Identify and explain **one** opportunity and **one** threat to RR from a multinational company opening a restaurant nearby.

Opportunity: .....

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Explanation: .....

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Threat: .....

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Explanation: .....

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..... [8]

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(b) Appendix 3 shows the cash-flow forecast for RR's business before the location decision for the new restaurant is made. Assume Richard chooses location 1.

Consider how the decision to choose location 1 could affect RR's cash-flow forecast. Recommend to Richard how he could try to make sure that RR does not have a cash-flow problem. Justify your answer.

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Recommendation: .....

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BUSINESS STUDIES **0450/01**

Paper 1 Short Answer and Data Response **For examination from 2020**

SPECIMEN PAPER **1 hour 30 minutes**

You must answer on the question paper.

No additional materials are needed.

INSTRUCTIONS
- Answer **all** questions.
- Use a black or dark blue pen. You may use an HB pencil for any diagrams or graphs.
- Write your name, centre number and candidate number in the boxes at the top of the page.
- Write your answer to each question in the space provided.
- Do **not** use an erasable pen or correction fluid.
- Do **not** write on any bar codes.
- You may use a calculator.

INFORMATION
- The total mark for this paper is 80.
- The number of marks for each question or part question is shown in brackets [ ].

This document has **10** pages. Blank pages are indicated.

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1 UDig is a large mining company based in country B. UDig is in the private sector. It supplies businesses in country B with 30% of the coal they need and the rest is imported.

UDig now has eight mines but plans to close two of them. This will threaten 1800 employees with redundancy. The Managing Director said: 'I blame the appreciation of country B's exchange rate and new legal controls, including those to protect the environment. The Government should help private sector businesses.'

(a) Define 'private sector'.

.....

..... [2]

(b) Define 'redundancy'.

.....

..... [2]

(c) Outline how the appreciation of country B's exchange rate might affect UDig.

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..... [4]

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(d) Explain **two** factors UDig should consider when deciding which mines to close.

Factor 1: .....

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Explanation: .....

.....

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.....

Factor 2: .....

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Explanation: .....

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..... [6]

(e) Do you think government should help private sector businesses? Justify your answer.

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..... [6]

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2 Izaak owns a small fish restaurant. He employs two chefs (cooks) and three workers who serve in the restaurant.

Izaak has been trying to increase added value to improve profits. Izaak has been looking at the financial performance of his business. An extract is shown in Table 2.1. Izaak has received a number of complaints about food and service. He knows he must improve quality but cannot decide on the best way to do this.

Table 2.1

Extract from income statements ($000)

	Last year	Current year
Revenue	**X**	300
Cost of sales	180	150
Gross profit	120	150
Expenses	90	**Y**
Profit	30	15

(a) Define 'revenue'.

.....

..... [2]

(b) Calculate the values of **X** and **Y**.

X .....

Y ..... [2]

(c) Outline **two** ways Izaak could increase added value.

Way 1: .....

.....

Explanation: .....

.....

Way 2: .....

.....

Explanation: .....

..... [4]

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(d) Explain **two** problems that low quality might cause Izaak's business.

Problem 1: .....

.....

Explanation: .....

.....

.....

.....

Problem 2: .....

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Explanation: .....

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..... [6]

(e) Do you think the profitability of Izaak's fish restaurant has improved since last year? Justify your answer using appropriate ratios.

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..... [6]

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3 ReBag is a social enterprise. ReBag employs 30 people in four small towns in different parts of the country. They work from home and make a range of bags from pieces of old fabric (cloth).

Asha started the business three years ago using micro-finance. Last year ReBag's revenue was $700. Asha said: 'Our external stakeholders want ReBag to employ people in five more towns. Getting a bank loan to expand the business will be a problem. What will I do about management? How will I inform workers about possible expansion?'

(a) Define 'social enterprise'.

.....

..... [2]

(b) Identify **two** functions of management.

Function 1: .....

.....

Function 2: .....

..... [2]

(c) Identify **four** external stakeholder groups.

Stakeholder group 1: .....

.....

Stakeholder group 2: .....

.....

Stakeholder group 3: .....

.....

Stakeholder group 4: .....

..... [4]

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(d) Explain **two** possible reasons why it might be difficult for ReBag to get a bank loan.

Reason 1: .....

.....

Explanation: .....

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.....

Reason 2: .....

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Explanation: .....

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..... [6]

(e) Explain **two** possible methods of internal communication that a small business could use to inform workers about a possible expansion. Justify which method should be chosen.

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..... [6]

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4 GBU is a public limited company. It makes a range of beauty products including shampoo and soaps for the mass market.

Last year GBU's revenue fell. The Marketing Director has been looking at some results from its primary market research. It was based on a sample of 2000 people, see Fig. 4.1. She believes maintaining customer loyalty is more important than attracting new customers.

Fig. 4.1

(a) Define 'mass market'.

.....

..... [2]

(b) Calculate the percentage (%) of people who buy beauty products online. Show your working.

.....

..... [2]

(c) Identify **four** methods of primary market research that a business could use.

Method 1: .....

.....

Method 2: .....

.....

Method 3: .....

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Method 4: .....

..... [4]

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(d) Explain **two** advantages to GBU of using shops as a channel of distribution.

Advantage 1: .....

.....

Explanation: .....

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Advantage 2: .....

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Explanation: .....

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..... [6]

(e) Do you think maintaining customer loyalty should be more important to a business than attracting new customers? Justify your answer.

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..... [6]

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BUSINESS STUDIES **0450/02**

Paper 2 Case Study **For examination from 2020**

SPECIMEN PAPER **1 hour 30 minutes**

You must answer on the question paper.

You will need: Insert (enclosed)

INSTRUCTIONS

- Answer **all** questions.
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- Write your answer to each question in the space provided.
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- You may use a calculator.

INFORMATION

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- The number of marks for each question or part question is shown in brackets [ ].
- The insert contains the case study.

This document has **10** pages. Blank pages are indicated.

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1 **(a)** Explain **two** possible reasons why Bethany wants the business to remain small.

Reason 1: .....

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Explanation: .....

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Reason 2: .....

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Explanation: .....

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..... [8]

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(b) Explain why the following **three** factors are important to Bethany when choosing a business partner:

- knowledge of new technology
- experience in managing a health spa
- capital to invest.

Which factor do you think is most important? Justify your answer.

Knowledge of new technology: .....

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Experience in managing a health spa: .....

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Capital to invest: .....

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Conclusion: .....

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..... [12]

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2 **(a)** Explain **two** reasons why it is important to Bethany to identify changes in customer preferences.

Reason 1: .....

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Explanation: .....

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Reason 2: .....

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Explanation: .....

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..... [8]

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(b) State the advantages and disadvantages of the following **three** ways to achieve good quality service at the health spa:

- only employ highly trained workers
- record all customer complaints
- buy only the best quality materials to use in the health spa.

Which do you think is the most important way? Justify your answer.

Only employ highly trained workers: .....

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Record all customer complaints: .....

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Buy only the best quality materials to use in the health spa: .....

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Conclusion: .....

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..... [12]

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3 **(a)** Explain **four** reasons why effective communication between the owner and employees in a business is important.

Reason 1: .....

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Explanation: .....

.....

Reason 2: .....

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Explanation: .....

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Reason 3: .....

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Explanation: .....

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Reason 4: .....

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Explanation: .....

..... [8]

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(b) Consider the weekly forecasts in Appendix 2 for the **two** additional services Bethany could choose:

- hair cuts
- steam room.

Include calculation of profit for the two services in your response.

Which additional service should Bethany choose to offer? Justify your answer.

Hair cuts: .....

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Steam room: .....

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Recommendation: .....

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4 **(a)** Explain **four** ways the new technology identified in Appendix 3 could help Bethany improve her business.

Way 1: .....

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Explanation: .....

.....

Way 2: .....

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Explanation: .....

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Way 3: .....

.....

Explanation: .....

.....

Way 4: .....

.....

Explanation: .....

..... [8]

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(b) Explain how the following **two** changes are likely to affect The BB Health Spa:
- lower income tax in country X
- increase in interest rates in country X.

Which change is likely to have the most effect on profit? Justify your answer.

Lower income tax in country X: .....

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Increase in interest rates in country X: .....

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Conclusion: .....

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..... [12]

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BUSINESS STUDIES **0450/01**

Paper 1 Short Answer and Data Response **For examination from 2020**

MARK SCHEME

Maximum Mark: 80

Specimen

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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.

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Question	Answer	Marks
1(a)	**Define 'private sector'.** Award 2 marks for full definition. Award 1 mark for the partial definition. Businesses owned by/part of the national economy (1) individuals/not under direct state control. (1)	**2**
1(b)	**Define 'redundancy'.** Award 2 marks for full definition. Award 1 mark for the partial definition. Job position no longer needed (1) worker loses job. (1)	**2**
1(c)	**Outline how the appreciation of country B's exchange rate might affect UDig.** Award 1 mark for each relevant point. Award 1 mark for each relevant reference to this business. Answers might include: • Imported products cheaper/have lower prices (1) making UDig less competitive (1) so local businesses might go elsewhere for the 30% (1) leading to lower sales for its coal. (1) • Not as competitive (1) so UDig may have to cut costs (1) by closing mines (1) and making people redundant. (1) • Not as competitive (1) so may have to reduce its profit margin (1) by lowering the cost of coal (1) so not as much money to reinvest in the business. (1) Other appropriate responses should also be credited.	**4**
1(d)	**Explain <u>two</u> factors UDig should consider when deciding which mines to close.** Award 1 mark for identification of each relevant factor (maximum of 2). Award 1 mark for each relevant reference made to this business (maximum of 2). Award 1 mark for each relevant explanation (maximum of 2). Relevant points might include: • Level of output (1) where UDig extract the least amount of coal (1) could be closed as it will make less sales revenue. (1) • Number of employees (1) as 1800 jobs threatened (1) if close sites with fewer employees the business may be able to save some of the jobs. (1) • Ease of access (1) of the eight locations (1) as sites difficult to reach could help lower transport costs. (1) • Pollution levels (1) as new legal controls have been introduced (1) so high polluting sites might be forced to close anyway. (1) Other appropriate responses should also be credited.	**6**

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Question	Answer	Marks
1(e)	**Do you think government should help private sector businesses? Justify your answer.** Award up to 2 marks for identification of relevant issues. Award up to 2 marks for relevant development of points. Award up to 2 marks for justified decision as to whether government should help private sector businesses. Answers might include: • Protect jobs (1) which help government meets an economic objective. (1) Protect vital industry (1) otherwise local businesses will need to find alternative supply. (1) Private sector business problems may only be temporary (1) so money could be better spent elsewhere. (1) • Government support reduces incentives (1) for private sector businesses to be successful. (1) This could result in businesses being less efficient (1) and government wasting money. (1) However, some start-up private businesses might fail (1) without government support at the beginning. (1) Other appropriate responses should also be credited.	**6**

Question	Answer	Marks
2(a)	**Define 'revenue'.** Award 2 marks for full definition. Award 1 mark for the partial definition. Price × Quantity sold. (2) Income of the business (1) from the sale of goods or services. (1)	**2**
2(b)	**Calculate the values of <u>X</u> and <u>Y</u>.** Award 1 mark per correct calculation: **X** 300 000 or 300 **Y** 135 000 or 135	**2**
2(c)	**Outline <u>two</u> ways Izaak could increase added value.** Award 1 mark for each relevant way. Award 1 mark for each relevant reference to this business. Ways to increase added value are: • Increase price (1) greater margin per meal served. (1) • Reduce costs of materials (1) so buy cheaper fish. (1) Other appropriate responses should also be credited.	**4**

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Question	Answer	Marks
2(d)	**Explain <u>two</u> problems that low quality might cause Izaak's business.** Award 1 mark for identification of relevant problem (maximum of 2). Award 1 mark for relevant reference made to this business (maximum of 2). Award 1 mark for each relevant explanation (maximum of 2). Relevant points might include: • Loss of existing customers/loyalty (1) as food does not taste right (1) leading to lower revenue. (1) • Cost of replacement (1) which increases his cost of sales (1) but he is trying to improve profits. (1) • Cost of fines (1) as poor quality fish (1) may break laws. (1) • Damage to reputation/image (1) of restaurant (1) so customers may go elsewhere. (1) Other appropriate responses should also be credited.	**6**
2(e)	**Do you think the profitability of Izaak's fish restaurant has improved since last year? Justify your answer using appropriate ratios.** Award up to 2 marks for identification of relevant issues or relevant ratios. Award up to 2 marks for calculation of relevant ratios. Award up to 2 marks for justified decision as to whether the profitability has improved or not. Answers might include: • Gross profit margin improved (1) from 40% to 50% (1) showing better control of variable costs. (1) However, profit margin down (1) from 10% to 5% (1) shows less control of expenses. (1) Relevant calculations are: Profit Margin: 10% in 2015, 5% in 2016 Gross Profit Margin: 40% in 2015, 50% in 2016 Other appropriate responses should also be credited.	**6**

Question	Answer	Marks
3(a)	**Define 'social enterprise'.** Award 2 marks for full definition. Award 1 mark for the partial definition. Business with social objectives (1) and not just aiming to make a profit. (1)	**2**

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Question	Answer	Marks
3(b)	**Identify <u>two</u> functions of management.** Award 1 mark per function: • coordinate • control • organise • planning • command. Other appropriate responses should also be credited.	**2**
3(c)	**Identify <u>four</u> external stakeholder groups.** Award 1 mark per stakeholder group: • Government • Suppliers • Local community • Customers • Lenders/banks • Pressure groups. Other appropriate responses should also be credited.	**4**
3(d)	**Explain <u>two</u> possible reasons why it might be difficult for ReBag to get a bank loan.** Award 1 mark for identification of each relevant reason (maximum of 2). Award 1 mark for each relevant reference made to this business (maximum of 2). Award 1 mark for each relevant explanation (maximum of 2). Relevant points might include: • Low revenue (1) only $700 (1) so can they afford to repay. (1) • No security/no buildings to secure the loan on (1) as people work from home (1) so increased risk for lenders. (1) • Limited experience (1) only operated for 3 years (1) so no guarantee that business will last. (1) • Already has existing debt (1) used micro-finance (1) so the bank might not be willing to lend any more. (1) Other appropriate responses should also be credited.	**6**

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Question	Answer	Marks
3(e)	**Explain <u>two</u> possible methods of internal communication that a small business could use to inform workers about a possible expansion. Justify which method should be chosen.** Award up to 2 marks for identification of relevant methods. Award up to 2 marks for relevant explanation of method(s). Award 2 marks for justified decision as to which is the most appropriate method. Relevant points might include: **Meeting (1)** • So able to see reactions to ideas/comments. (1) • Will increase costs for travel. (1) • Will take people away from work. (1) **Email (1)/Internal social media (1)** • Allows people to read information in own time/have copy for future reference. (1) • Must have access to internet so may have to pay cost of computer for staff. (1) **Justification might include:** • Meeting difficult to arrange if people are based in different places (1) so not everyone might be able to attend. (1) • People might not have access to internet (1) so are not able to respond. (1) Other appropriate responses should also be credited.	**6**

Question	Answer	Marks
4(a)	**Define 'mass market'.** Award 2 marks for full definition. Award 1 mark for the partial definition. Selling the **same** product (1) to the whole market. (1)	**2**
4(b)	**Calculate the percentage (%) of people who buy beauty products online. Show your working.** • method, e.g. (700/2000) × 100 (1) • 35% (1) If correct answer given with no working shown, award 2 marks.	**2**

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Question	Answer	Marks
4(c)	**Identify <u>four</u> methods of primary market research that a business could use.** Award 1 mark per method. **Four** from: • focus groups/consumer panels • (postal) questionnaires • online survey • interviews • observations.	**4**
4(d)	**Explain <u>two</u> advantages to GBU of using shops as a channel of distribution.** Award 1 mark for each relevant advantage (maximum of 2). Award 1 mark for each relevant reference made to this business (maximum of 2). Award 1 mark for each relevant explanation (maximum of 2). Relevant points might include: • Contact with customers, giving advice on beauty products such as type of shampoo to use (1) helps to build customer loyalty (1) so maintain market share/current customers. (1) • Attract people passing a shop (1) if people run out of shampoo (1) they will want to buy it straightaway. (1) • Sales might increase (1) as 1100/2000 people still buy beauty products from shops (1) as people want to see before they buy. (1) Other appropriate responses should also be credited.	**6**

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Question	Answer	Marks
4(e)	**Do you think maintaining customer loyalty should be more important to a business than attracting new customers? Justify your answer.** Award up to 2 marks for identification of relevant issues. Award up to 2 marks for relevant development of point(s). Award up to 2 marks for justified decision as to whether it is more important to maintain customer loyalty than to attract new customers. Relevant points might include: **Customer loyalty:** • Spread word/free advertising (1) as existing customers might recommend product to others. (1) • Keep reputation (1) leading to a competitive advantage. (1) • Able to match products to existing customer needs (1) so they know what to produce. (1) **New customers:** • Widen target market (1) as 80% like their products. (1) • Customer tastes change (1) so may be cheaper to find new customers rather than develop existing products. (1) **Justification might include:** • Attracting new customers is more expensive than keeping existing customers. (1) However, attracting new customers is a good way of increasing market share. (1) Other appropriate responses should also be credited.	**6**

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BUSINESS STUDIES **0450/02**

Paper 2 Case Study **For examination from 2020**

MARK SCHEME

Maximum Mark: 80

Specimen

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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.

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Question	Answer	Marks
1(a)	**Explain <u>two</u> possible reasons why Bethany wants the business to remain small.** Award 1 mark for each relevant reason (maximum of two reasons): Relevant reasons might include: • to stay as her own boss • to make all the decisions • no one to fall out with • no one to share the profits with • size of the market – not able to expand • better communication with customers and employees • easier to control • lack of capital to expand • satisficing/happy with level of profit. Award a maximum of 3 additional marks for **each** explanation – **one of which must be applied to this context** – of the reasons why the owner wants the business to remain small. For example: To stay as her own boss (1) as Bethany has run the business successfully for 10 years (1) and she does not want anyone telling her what to do or disagreeing with her decisions. (1) The business idea is all her own and so she does not want any conflict which might cause important decisions to be delayed giving problems for the business. (1)	**8**

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Question	Answer	Marks
1(b)	**Explain why the following <u>three</u> factors are important to Bethany when choosing a business partner:** • **knowledge of new technology** • **experience in managing a health spa** • **capital to invest.** **Which factor do you think is most important? Justify your answer.**	**12**

Level	Description	Marks
3	Sound application of knowledge and understanding of relevant business concepts using appropriate terminology. Detailed discussion of **two** or more factors. Well-justified conclusion/recommendation. Candidates discussing all three factors in detail, in context and with well-justified conclusion/recommendation including why the alternative points are rejected should be rewarded with the top marks in the band.	9–12
2	Sound application of knowledge and understanding of relevant business concepts using appropriate terminology. Detailed discussion of at least **one** factor. Judgement with some justification/some evaluation of choices made. Candidates discussing two or more factors in detail and applying it to the case should be rewarded with the top marks in the band.	5–8
1	Limited application of knowledge and understanding of relevant business concepts. Limited ability to discuss factors with little/no explanation. Simple judgement with limited justification/limited evaluation of choices made. Candidates outlining three factors in context should be rewarded with the top marks in the band.	1–4
0	No creditable response.	0

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Question	Answer	Marks
1(b)	Relevant points might include:	

Knowledge of new technology	• Know how to use new machines for treating clients – can operate new machines without training – so less training required – less costs. • Can train other staff in the spa – reducing training costs for all staff – can introduce new treatments more quickly. • Has more knowledge than Bethany – may feel like partner is more important than Bethany – started the business 10 years ago – wants to feel in control.
Experience in managing a health spa	• More efficient – knows what to do in running the spa – may have additional skills to Bethany in managing a spa. • Frees up time for Bethany – each specialise in different parts of the business such as ordering inventory – this is what Bethany wants from a partnership. • May make decisions Bethany does not like – as they may do things differently – may not understand the ways Bethany runs the spa and could cause conflict between them leading to less efficiency.
Capital to invest	• Provides capital to buy the latest equipment – no need for loans – less interest payments so lower costs. • More capital can be raised than possibly borrowing alone – as a small business it might be difficult to expand to compete with other spas – so making it easier to expand and compete with larger spas providing more up-to-date treatments. • But new partner will expect to share profit – have a say in how the business is run such as which new service to introduce – Bethany loses some control of how the spa is run.
Conclusion	• Bethany wants more free time – if chooses partner with experience in managing a spa allows Bethany to achieve this – but may have to borrow capital increasing costs. • Knowledge of new technology best choice – increases competitiveness – speeds up training and delivery of new treatments in spa – increases prices – increases profit – but lack of capital – needs to borrow – may not save Bethany time – still needs to carry out all tasks in managing spa. • Capital to invest – lower costs from no interest to pay – but increased costs of training on new treatments – may not free up time for Bethany which is what she wants from taking on a partner.

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Question	Answer	Marks
2(a)	**Explain <u>two</u> reasons why it is important to Bethany to identify changes in customer preferences.** Award 1 mark for each relevant reason (maximum of two reasons). Relevant reasons might include: • to meet customer needs • to remain competitive • keep a good reputation • keep customer loyalty/maintain demand. Award a maximum of 3 additional marks for **each** explanation – **one of which must be applied to this context** – of the reasons why it is important to identify changes in customer preferences. For example: To meet customer needs (1) as Bethany wants to run the business successfully to make a profit (1) and she needs to offer the services her clients want otherwise she will lose customers to competitors. (1) She will need to know if certain treatments are wanted and if she doesn't offer them at the moment she will need to learn how to provide them in order to retain existing customers. (1)	**8**

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Question	Answer	Marks
2(b)	**State the advantages and disadvantages of the following <u>three</u> ways to achieve good quality service at the health spa:** • **only employ highly trained workers** • **record all customer complaints** • **buy only the best quality materials to use in the health spa.** **Which do you think is the most important way? Justify your answer.**	**12**

Level	Description	Marks
3	Sound application of knowledge and understanding of relevant business concepts using appropriate terminology. Detailed discussion of **two** or more ways. Well-justified conclusion/recommendation. Candidates discussing all three factors in detail, in context and with well-justified conclusion/recommendation including why the alternative points are rejected should be rewarded with the top marks in the band.	9–12
2	Sound application of knowledge and understanding of relevant business concepts using appropriate terminology. Detailed discussion of at least **one** factor. Judgement with some justification/some evaluation of choices made. Candidates discussing two or more factors in detail and applying it to the case should be rewarded with the top marks in the band.	5–8
1	Limited application of knowledge and understanding of relevant business concepts. Limited ability to discuss factors with little/no explanation. Simple judgement with limited justification/limited evaluation of choices made. Candidates outlining three factors in context should be rewarded with the top marks in the band.	1–4
0	No creditable response.	0

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>2(b)</td><td>Relevant points might include:
<table>
<tr><th></th><th>Advantages</th><th>Disadvantages</th></tr>
<tr><td>Only employ highly trained workers</td><td>• Ensures customer satisfaction with treatments.
• Treatments carried out correctly.</td><td>• Highly trained staff expect higher wages.
• May find it difficult to recruit new staff.</td></tr>
<tr><td>Record all customer complaints</td><td>• Identify problems with treatments and try to correct them.
• Clients know Bethany cares about their treatments being carried out correctly.</td><td>• Takes time to do this.
• Not all clients will tell you when they are not happy with their treatments.</td></tr>
<tr><td>Only buy the best quality materials to use in the health spa</td><td>• Helps establish an image of high quality treatments.
• Ensures good results of treatments.</td><td>• High price for treatments may deter potential customers.
• High quality image may put some customers off, i.e. exclusivity.</td></tr>
<tr><td>Conclusion</td><td colspan="2">• The best materials will not give the best results if performed by poorly trained staff.
• Recording customer complaints will not ensure problems do not persist if poor quality materials are used.
• Highly trained staff may still make mistakes and complaints need to be monitored to ensure all customers are happy and mistakes are avoided in the future.</td></tr>
</table></td><td></td></tr>
</table>

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Question	Answer	Marks
3(a)	**Explain <u>four</u> reasons why effective communication between the owner and employees in a business is important.** Award 1 mark for each relevant reason (maximum of four reasons). Relevant reasons might include: • to ensure instructions are understood • to ensure employees carry out the instructions correctly • to ensure mistakes are not made • to ensure the business works efficiently • to ensure customers are given correct information • to find customer preferences from employees • inaccuracy causes poor reputation • collaboration is better between worker and owner • motivation is better between worker and owner. Award a maximum of 1 additional mark for **each** explanation of the reason why effective communication between the owner and employees is important. For example: To ensure mistakes are not made by employees (1) as employees may not have much experience and only know how to carry out a few tasks therefore they need to be told what to do. (1)	**8**

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Question	Answer	Marks
3(b)	**Consider the weekly forecasts in Appendix 2 for the <u>two</u> additional services Bethany could choose:** • **hair cuts** • **steam room.** **Include calculation of profit for the two services in your response.** **Which additional service should Bethany choose to offer? Justify your answer.**	**12**

Level	Description	Marks
3	Sound application of knowledge and understanding of relevant business concepts using appropriate terminology. Detailed discussion of **both** services. Well-justified conclusion/recommendation. Candidates discussing both services in detail, in context, with appropriate calculations, and with well-justified conclusion/recommendation including why the alternative points are rejected should be rewarded with the top marks in the band.	9–12
2	Sound application of knowledge and understanding of relevant business concepts using appropriate terminology. Detailed discussion of at least **one** service. Judgement with some justification/some evaluation of choices made. Candidates discussing at least one service in detail and applying it to the case, with appropriate calculations, should be rewarded with the top marks in the band.	5–8
1	Limited application of knowledge and understanding of relevant business concepts. Limited ability to discuss factors with little/no explanation. Simple judgement with limited justification/limited evaluation of choices made. Candidates outlining both services in context should be rewarded with the top marks in the band.	1–4
0	No creditable response.	0

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Question	Answer	Marks
3(b)	Relevant points might include:	

	Basic statements	Appropriate calculations
Steam room	• $1000 • –$500 • This has 150 more customers than hair cuts. • The price charged is $20 lower and should gain more customers.	• Profit = $500 • NPM = 50% • GPM = 96% • Gross profit = $960
Hair cuts	• $1250 • –$700 • The cost of sales are $85 more than the steam room. • The lease costs are $225 less than the steam room.	• Profit = $550 • NPM = 44% • GPM = 90% • Gross profit $1125
Conclusion	• Hair cuts has $50 more profit than steam room. • However, the net profit margin is 6% higher for steam room. • The gross profit is $165 higher for hair cuts but the gross profit margin is 6% lower. • Suggests in absolute terms that hair cuts is better and the one to choose. • However, in profitability terms the steam room is better and the one to choose.	

Question	Answer	Marks
4(a)	**Explain <u>four</u> ways the new technology identified in Appendix 3 could help Bethany improve her business.** Award 1 mark for each way (maximum of four ways). Relevant ways might include: • improve communications with customers – text (sms) messages can be sent as reminders of appointments • improve service provided for customers – new equipment used in the spa improves treatments to customers • improve efficiency – accounting software is faster way to carry out tasks • improve effectiveness of advertising – App improves marketing as available to many more people. Award a maximum of 1 additional mark for **each** explanation of the way **which must be applied to this context**. For example: Improve communication with customers (1) as they can be reminded of appointments by using the automated text (sms) service that sends a message of the date and time of the treatment. (1)	**8**

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Question	Answer	Marks
4(b)	**Explain how the following <u>two</u> changes are likely to affect The BB Health Spa:** • **lower income tax in country X** • **increase in interest rates in country X.** **Which change is likely to have the most effect on profit? Justify your answer.** Relevant points might include:	**12**

Level	Description	Marks
3	Sound application of knowledge and understanding of relevant business concepts using appropriate terminology. Detailed discussion of **both** changes. Well-justified conclusion/recommendation. Candidates discussing both changes in detail, in context and with well-justified conclusion/recommendation including why the alternative points are rejected should be rewarded with the top marks in the band.	9–12
2	Sound application of knowledge and understanding of relevant business concepts using appropriate terminology. Detailed discussion of at least **one** change. Judgement with some justification/some evaluation of choices made. Candidates discussing at least one change in detail and applying it to the case should be rewarded with the top marks in the band.	5–8
1	Limited application of knowledge and understanding of relevant business concepts. Limited ability to discuss changes with little/ no explanation. Simple judgement with limited justification/limited evaluation of choices made. Candidates outlining both changes in context should be rewarded with the top marks in the band.	1–4
0	No creditable response.	0

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Question	Answer	Marks
4(b)		

Lower income tax in country X	• Higher income for customers – increased demand for luxury services. • However, customers may go to higher quality competitors that offer the latest equipment giving better results on the skin – reducing revenue.
Increase in interest rates in country X	• Less income to spend on luxuries – less demand for treatments such as those offered by the health spa. • Higher cost of loans and overdrafts if Bethany wants to purchase the latest equipment – higher costs for the business – because it is small it has few sources to raise finance.
Conclusion	• If Bethany does not need a loan higher interest rates may have little effect on the business but lower income tax will have an effect on most of her customers. • If the increase in income tax is not too high very few customers may be affected and there will be little effect on demand. • Customers may be unwilling to forego treatments even if their disposable income falls as they may not see them as a luxury. • Customers will not take out loans for treatments and so the higher interest rates will have little or no effect on demand for treatments.

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BUSINESS STUDIES **0450/02**

Paper 2 Case Study **For examination from 2020**

SPECIMEN INSERT **1 hour 30 minutes**

0123456789

INFORMATION

- This insert contains the case study.
- You may annotate this insert and use the blank spaces for planning. **Do not write your answers** on the insert.

This document has **4** pages. Blank pages are indicated.

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The BB Health Spa (BB)

Bethany owns The BB Health Spa in Main City in country X. Economic growth has been high for the last few years. The government of country X wants this growth to continue so it has reduced income tax. However, it is also worried about inflation becoming a problem so it has increased interest rates.

The BB Health Spa is very busy and Bethany is considering taking on a partner to help manage the business and give her more free time. However, she has been a sole trader for 10 years and wants the business to stay small.

The customers of The BB Health Spa are people of all ages who are interested in their health. Bethany employs two qualified workers to provide the treatments for customers. Bethany herself also provides customers with treatments. In addition, she does all the administration such as ordering inventory, accounts and paying invoices when the spa is closed.

The BB Health Spa still uses the original treatment equipment which was purchased when the business started. Some spas nearby have the latest equipment but these spas charge much higher prices than The BB Health Spa. Bethany records all the financial transactions by filling in accounts books by hand. This takes her a long time. Customers book appointments using the telephone and Bethany later telephones them to remind them when an appointment is due.

Appendix 1

Advert for treatments at The BB Health Spa

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Appendix 2

Weekly forecasts for two possible additional services

	Steam room	Hair cuts
Additional customers	200	50
Average price charged per customer	$5	$25
Wages	$60	$400
Cost of sales	$40	$125
Lease of equipment	$400	$175

Appendix 3

Daily News **September**

New equipment now available in many health spas to make skin look younger

There have been a number of changes in technology for health spas which allow the treatments to be much more effective in making skin look younger. Many people are keen to try these treatments using the latest equipment to get younger looking skin. This equipment is very expensive for health spas to buy or lease.

The news of these treatments has appeared on social media sites and on mobile phone Apps leading to higher demand. ‘Some customers will pay high prices for such treatments’, said a local health spa owner who is keen to promote his health spa as being one of the first to use the new equipment.

There have also been developments in software which make customer bookings and accounts much easier, quicker and with fewer mistakes. Automatic text (sms) messages are used to remind customers of their appointments – so no need to miss an appointment again.

Look out for these changes in health spas near you!

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