

**Location Entry Codes**

From the June 2007 session, as part of CIE's continual commitment to maintaining best practice in assessment, CIE has begun to use different variants of some question papers for our most popular assessments with extremely large and widespread candidature. The question papers are closely related and the relationships between them have been thoroughly established using our assessment expertise. All versions of the paper give assessment of equal standard.

The content assessed by the examination papers and the type of questions are unchanged.

This change means that for this component there are now two variant Question Papers, Mark Schemes and Principal Examiner's Reports where previously there was only one. For any individual country, it is intended that only one variant is used. This document contains both variants which will give all Centres access to even more past examination material than is usually the case.

The diagram shows the relationship between the Question Papers, Mark Schemes and Principal Examiner's Reports.

Question Paper	Mark Scheme	Principal Examiner's Report
Introduction	Introduction	Introduction
First variant Question Paper	First variant Mark Scheme	First variant Principal Examiner's Report
Second variant Question Paper	Second variant Mark Scheme	Second variant Principal Examiner's Report

**Who can I contact for further information on these changes?**

Please direct any questions about this to CIE's Customer Services team at: [international@cie.org.uk](mailto:international@cie.org.uk)



UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS  
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**BUSINESS STUDIES**

**0450/01**

Paper 1

**May/June 2007**

**1 hour 45 minutes**

Candidates answer on the Question Paper.

No Additional Materials are required.

**READ THESE INSTRUCTIONS FIRST**

Write your Centre number, candidate number and name on all the work you hand in.  
Write in dark blue or black pen.  
Do not use staples, paper clips, highlighters, 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.

For Examiner's Use	
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**P**

This document consists of **14** printed pages and **2** blank pages.



1 Country X has a mixed economy. It also has businesses in the primary, secondary and tertiary sectors.

(a) Give an example of a business in:

(i) The primary sector

.....  
.....

(ii) The tertiary sector

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.....[2]

(b) Explain what is meant by the term 'mixed economy'.

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(c) All public limited companies have to hold an Annual General Meeting. Explain **two** functions (purposes) of such a meeting.

Function 1: .....  
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Function 2: .....  
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.....[4]

(d) A number of public limited companies in country X have recently failed and stopped trading.

(i) Why do some companies fail?

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(ii) Do you think that the government of country X should provide financial help to failing companies? Explain your answer.

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2 Biograph is a business that manufactures cosmetics. Table 1 gives data concerning its sales, market share and advertising expenditure.

Table 1

Year	Sales [\$m]	Market share [%]	Advertising expenditure [\$m]
2005	300	10	25
2006	350	8	35

(a) (i) Calculate the value of the **total** market sales for cosmetics in 2005.

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(ii) Explain why Biograph's market share has fallen in 2006 even though the value of its sales has increased.

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(iii) Recommend **one** way in which Biograph could increase its market share, other than by spending more on advertising.

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**(b)** Biograph's Marketing Director wants to increase advertising spending in 2007. The Board of Directors of the company want to see a detailed advertising budget as they do not think that past advertising spending has been very cost effective.

**(i)** What is meant by an 'advertising budget'?

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**(ii)** Do you think that Biograph's advertising expenditure was cost effective in 2006?

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**(c)** Some members of Biograph's Board of Directors think that the business needs to segment its market more effectively. Explain how market segmentation might help increase sales for a business manufacturing cosmetics.

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- 3 Puregloss is a public limited company that manufactures paint. Table 2 shows an incomplete Profit/Loss Account for the business in 2006.

**Table 2**

Profit/Loss Account Puregloss 2006	
	\$m
Sales	?
Cost of Sales	350
Gross Profit	150
Overheads	?
Net Profit	40

(a) Calculate the value of:

(i) Sales

.....  
 .....

(ii) Overheads

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

(b) Explain **two** reasons why profit is important for a company like Puregloss.

Reason 1: .....

.....  
 .....

Reason 2: .....

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..... [4]

- (c) The Managing Director of Puregloss thought that if the company made a net profit of \$40m in 2006 then its cash in the bank would also rise by \$40m. Explain why she might be wrong.

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- (d) Companies such as Puregloss have to produce financial statements each year including Balance Sheets and Profit and Loss accounts.

- (i) Give an **example** of each of the following that would be found in the Balance Sheet of Puregloss:

A current asset.....  
.....  
A fixed asset.....  
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- (ii) The Balance Sheet of Puregloss also showed that the business had **creditors** valued at \$2m. Explain what this means.

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4 'The number of managers in our business seems to grow every year. If there were fewer of them the business would be able to pay us more' said Jimba, a shop assistant in ColourYarn clothing retailers. 'I don't think they contribute much to the business. All they do is to criticise everything the employees do! This makes us all feel very demotivated. They are only interested in profits.'

(a) Explain **two** functions (purposes) that the management of ColourYarn should carry out.

Function 1: .....  
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Function 2: .....  
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(b) (i) Explain what is meant by 'demotivated'.

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5 Abioli is the Managing Director of a company that makes batteries for cars. Abioli wants the business to grow so that it can benefit from economies of scale. He thinks that the business needs to become more efficient.

(a) State and explain **two** economies of scale that Abioli's business could achieve if the business grows larger.

Economy of scale 1: .....

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Economy of scale 2: .....

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.....[4]

(b) What is meant by 'to become more efficient'?

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.....

.....[2]

(c) Abioli gathered data concerning the productivity of his workforce. Use Table 3 to help answer the questions that follow.

**Table 3**

Year	Total labour-hours worked per week	Output per week [units]	Output per employee per week [units]
2005	80 000	240 000	?
2006	100 000	270 000	108

The factory employees each worked **40 hours per week** in both years. Calculate:

(i) The number of employees in 2005

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

(ii) The output per employee in 2005

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

(iii) State and explain **two** possible reasons why the productivity of the workforce changed in 2006.

Reason 1:.....  
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Reason 2:.....  
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.....[4]

(d) Abioli has recently heard of a production method known as lean production.

(i) Explain what is meant by 'lean production'.

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(ii) Do you think lean production methods would help improve efficiency in the factory?  
Explain your answer.

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2 Superbrek is a business that makes a range of breakfast cereals. 2006 had been a good year for the business with total sales value growing by 20% from the 2005 value of \$300m. Its best selling product is Crunchy Flakes which accounted for 25% of the total sales of this business in 2006.

(a) Calculate the value of the sales of Crunchy Flakes in 2006.

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Crunchy Flakes is reaching the maturity stage of its product life cycle.

(b) State and explain **two** extension strategies that the business could use to help increase sales of this product.

Strategy 1: .....  
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Strategy 2: .....  
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Superbrek wanted to add a new product to its range. The management thought it would be useful to carry out some market research.

(c) (i) Explain what is meant by 'market research'.

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- (ii) Outline **two** reasons why market research data might **not** be useful to the management of Superbrek.

Reason 1: .....

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Reason 2: .....

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- (d) One of the Directors of Superbrek felt that the business was spending too much money on marketing. 'Good products sell themselves' he said.

To what extent do you agree with this statement?

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4 Happy Dreams is a luxury hotel situated in the tourist holiday resort of Cape City. Its management want to recruit extra staff to work in the hotel's kitchen and restaurant. The Human Resources Manager produced a job description for the vacancies as she felt that it would help in recruitment.

(a) (i) Explain what is meant by a 'job description'.

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(ii) Explain how a job description might help in the recruitment of new staff.

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- (b) Some of the management thought that the existing staff should be given more training. However the hotel's General Manager disagreed saying 'training is a waste of money that simply reduces our profits.'

Do you think that training staff 'simply reduces profits'? Justify your answer.

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- (c) Recently the hotel had an outbreak of food poisoning.

How would you advise the management of the hotel to react to this problem?

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- (d) A number of the staff complained that they did not like working in the hotel because of the style of management.

Explain how the style of management might affect the level of staff motivation.

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..... [4]

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