



UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
International General Certificate of Secondary Education

CANDIDATE
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BUSINESS STUDIES

0450/01

Paper 1

October/November 2007

1 hour 45 minutes

Candidates answer on the Question Paper.
No Additional Materials 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	
1	
2	
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4	
5	
Total	

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

- 1 Carina had invested \$400 000 when she set up her computer manufacturing business. She was anxious to make a good return on this capital. She looked at the following break-even chart produced by her accountant.

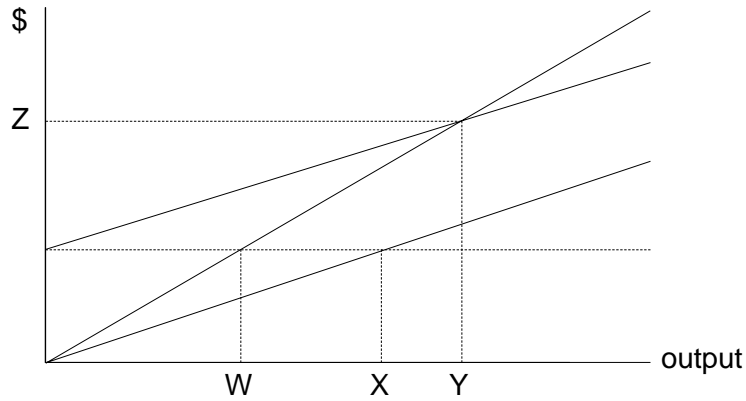


Fig. 1

- (a) (i) Label the Total Revenue and Total Cost lines on the chart. [2]

- (ii) Which of the letters W, X, Y, Z represents the break-even volume?

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.....[1]

- (b) The chart includes variable costs and fixed costs. Explain what is meant by a 'fixed cost'.

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(c) How useful is this break-even chart in making decisions in Carina's business?

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(d) In 2006 Carina's business made a profit of \$80 000.

(i) Calculate the rate of return on the capital that Carina originally invested.

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(ii) How might she decide if this return was acceptable?

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- (e) Carina's bank manager told her that a cash flow statement was more important than a profit and loss statement. Do you agree?

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2 General Plastics is a multinational company that has recently set up a factory in Country J. This General Plastics factory imports some of the raw materials that it uses and assembles them at the factory. The finished products are then exported from Country J.

(a) Identify and explain **two** reasons why this General Plastics factory might import its raw materials.

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

(b) Changes in currency exchange rates can cause problems for multinational companies. If the currency of Country J increased in value [appreciated], would this benefit General Plastics? Explain your answer.

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- (c) General Plastics expected to reduce its costs when it opened its new factory in country J. Identify and explain **three** ways by which the company hoped that its costs might be reduced.

Cost reduction 1:

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Cost reduction 2:

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Cost reduction 3:

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[6]

- (d) Country J had been enjoying an economic boom.

- (i) What is meant by the term 'economic boom'?

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[2]

- (ii) Do you think that the economic boom would be beneficial to General Plastics? Justify your answer.

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3 E and F are two manufacturing companies that reward their employees in different ways. Figs. 2 and 3 show how the two pay systems operate.

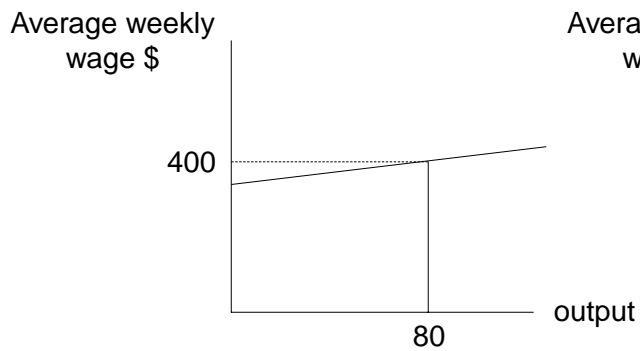


Fig. 2: Company E

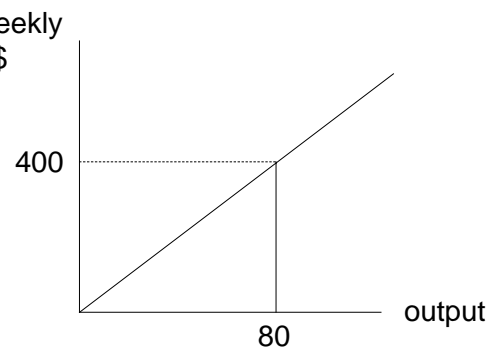


Fig. 3: Company F

(a) (i) Explain the main differences between the two pay systems.

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(ii) Which company would you prefer to work for? State your reasons.

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4 SuperDreams makes fashion clothes that it targets at teenage girls. It sells its products through its own chain of shops. The management knows that the market is very competitive with lots of other companies selling similar products. However the management believes that SuperDreams will continue to be successful because it decides what clothes to make after it has researched the market.

(a) (i) List **two** methods of market research that SuperDreams could use.

Method 1:

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Method 2:

.....[2]

(ii) Explain **two** benefits to SuperDreams of deciding what products to make after researching the market.

Benefit 1:

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Benefit 2:

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(b) Fig. 4 shows the recent relationship between advertising expenditure and sales for SuperDreams.

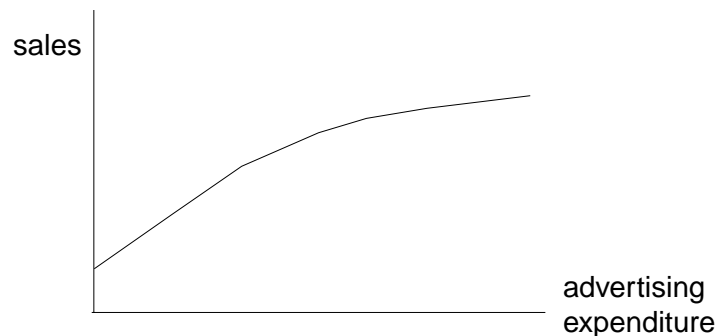


Fig. 4

(i) Describe the relationship between advertising expenditure and sales shown in Fig. 4.

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.....[2]

(ii) Is this relationship what you would expect? Explain your answer.

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(c) Companies often try to increase volume of sales by temporary price reductions. Would you advise the management of SuperDreams to introduce such reductions? Justify your answer.

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5 The management of Wang Electricals know that good internal communications within a business are important. They also know that sometimes communications break down. The company currently has factories in six different countries.

(a) (i) Explain **two** reasons why good internal communications are important to a business.

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

(ii) Outline **two** reasons why internal communications within Wang Electricals might break down.

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

(b) The management of Wang Electricals are thinking of expanding their business into another country. Two alternative methods are being considered, namely either to set up a franchise or to operate a joint venture.

(i) What is meant by a 'franchise'?

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.....[2]

(ii) Explain **two** advantages that a joint venture might offer Wang Electricals.

Advantage 1:

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Advantage 2:

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.....[4]

(c) The stakeholders of Wang Electricals are watching the expansion plans with interest.

(i) List **two** stakeholder groups.

Stakeholder group 1:

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Stakeholder group 2:

.....[2]

(ii) Do you think that these two stakeholder groups would benefit from the company's expansion? Justify your answer.

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