CAMBRIDGE INTERNATIONAL EXAMINATIONS
Cambridge International General Certificate of Secondary Education

MARK SCHEME for the October/November 2014 series

0450 BUSINESS STUDIES

0450/13	Paper 1 (Short Answer/Structured Response), maximum raw mark 100

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1 (a) What is meant by a 'limited company'? **[2]**

Clear understanding [2] – A limited company is a business that has been incorporated and whose owners have limited liability.
Some understanding [1] – identifies one feature e.g. has its own legal identity.
Do not accept examples.

(b) Identity two reasons why profits are important to CF. **[2]**

Application [2 × 1] – award one mark per reason.

Points might include:
- Return on capital for the owners/reward for risk taking
- Source of capital
- Main goal for a business
- Necessary for survival in the long run
- Attract investors/finance
- Measure of performance/success.

Do not accept 'expand' as this is too vague.

(c) Identify and explain two advantages to CF of its employee payment system. **[4]**

Knowledge [2 × 1] – award 1 mark for each advantage.

Application [2 × 1] – award 1 mark for each relevant explanation in context (show how, or why, it is an advantage to the company).

Points might include:
- Motivation/incentive for employees [k] as must more make to get bonus [app]
- Able to control costs [k] as labour costs directly linked to output [app]
- More workers can be hired [k]; CF can afford it due to low basic wage [app]
- Increase output [k] workers try to increase productivity to earn more money [app].

Do not accept points relating to employees as question states CF.

(d) Identify and explain two ways that CF could use to increase its sales. [6]

Knowledge [2 × 1] – award 1 mark for each way identified.

Application [2 × 1] – award 1 mark if relevant reference made to this type of business.

Analysis [2 × 1] – award 1 mark for each relevant explanation (show how the method increases sales).

- Lower prices [k] should encourage people to buy [an] as fences are more affordable [app]
- Increase range of products [k] such as locks/security systems [app] to appeal to more/new customers [an]
- Increase advertising [k] (allow only once) in building/gardening magazines [app] which will raise awareness of its products [an]
- Increase number of places sell it products [k] so closer for customers to reach [an]
- Target new markets [k] could sell gates overseas [app]
- Improve product quality [k] use stronger/better materials [app] can make them more competitive [an]
- Trade fairs/events [k]
- Improve quality [k]
- Sponsorship [k].

Accept practical suggestions such as Joint venture [k] with house builder [app].

(e) Do you think that it is important that CF reduces the number of employees leaving the company? Justify your answer. [6]

Knowledge [2 × 1] – award 1 mark for each issue identified.

Application [1] – award 1 mark if relevant reference made to the business.

Analysis [1] – award 1 mark for relevant development of point(s).

Evaluation [2] – justified decision made as to whether it is important that CF reduces the number of employees leaving the company.

Points might include:
- Higher recruitment costs [k] increasing expenses [an]
- Replacement workers available [k] as easy to recruit [app]
- Increase training costs [k] as workers might not have experience/skills needed [an]
- Reduce morale [k] so less/low quality fences made [app] which could damage company reputation [an]
- Bring new ideas and skills [k] so different gates made [app] so could increase sales [an]
- Who leaving/what job they do [k] as poor performing workers would not be missed [an] but if key worker this could reduce productivity [app] as lose expertise/knowledge [an]
- Reasons why leaving [k] if unmotivated could suggest bigger problem which if not resolved could mean it is difficult to recruit/retain other workers [an]
- Damage reputation [k] which could lead to lower sales [an].

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Developed example:
If more people leave, they will have to spend more on recruiting new workers [k] increasing their costs [an]. New employees may bring in new ideas [k] which may help boost productivity [app]. So it depends on who leaves. If they are poor workers, there is likely to be no bad effect on the business [eval], and the chance to replace them might actually be more beneficial, especially if the new employees' ideas/designs help increase sales. [eval]

2 (a) **Identify two features of a 'boom'.**   [2]

Knowledge [2 × 1] – award 1 mark per feature.

Features might include: high GDP, low/falling unemployment/shortage of skilled workers, increased number of business start-ups, business costs increase, high consumer demand, higher incomes, rising inflation, growth in company profits.

(b) **What is meant by a 'pressure group'?**   [2]

Clear understanding [2]: e.g. group formed by people with a common interest [1] who take action to change/influence business decisions/government policies. [1]
Some understanding [1] – e.g. group formed by people with a common interest. [1]

Do not accept examples.

(c) **Identify and explain two external (social) costs that might be created by building new factories.**   [4]

Knowledge [2 × 1] – award 1 mark for each point.

Application [2 × 1] – award 1 mark for each relevant explanation in context (how this might be created).

Points might include:
• Air pollution [k] as smoke from chimneys affect air quality [app]
• Visual eye sores [k] as large chimneys will stand out in the area/unwanted old buildings left derelict [app]
• People give up homes/loss of green fields or nature [k] as a large area needed for the site [app]
• Congestion/extra traffic [k] as lots of workers will need to get to work there/as lorries will need to bring lots of materials to the site [app].

Note: accept different types of pollution if explained.

(d) **Identify and explain two ways that a Government could use to encourage new businesses to start up (other than removing controls on where factories can be built).** **[6]**

Knowledge [2 × 1] – award 1 mark for each way identified.

Application [2 × 1] – award 1 mark if relevant reference made to this type of business.

Analysis [2 × 1] – award 1 mark for each relevant explanation (i.e. show how these help businesses).

Points might include:
- Financial assistance e.g. grants/subsidies/low interest rates [k] as new business are less likely to have a lot of finance [app] so provide them with free/cheap capital that they need [an]
- Tax concessions [k] this will help reduce the expenses [an]
- Advice [k] as new entrepreneurs [app] to help them make better decisions/more chance of survival [an]
- Training [k] so that they have the skills needed [an] to operate in a unknown market [app]
- Reduced legislation/regulations [k] so simpler to set up [an]
- Training courses [k] providing the expertise they don't have [app]
- Low rent from government [k].

Accept points which focus on the protection of infant industry from overseas competition e.g. tariffs, quotas.

(e) **'All new businesses will be successful during a boom'. Do you agree? Justify your answer.** **[6]**

Knowledge [2 × 1] – award 1 mark for each issue identified.

Analysis [2] – award up to 2 marks for relevant development of point(s).

Evaluation [2] – justified decision made as to whether all new businesses will be successful during a boom.

Points might include:
- If they do not sell the right products [k] customers will not want to buy it [an]
- People have more income [k] so are more willing to buy goods [an]
- Existing competition/people might be brand loyal [k] so it is difficult to gain customers [an]
- Easier to gain finance [k] as banks are likely to feel more confident lending [an]
- Cost/Problems of gaining employees [k] as employment levels high [an] so might have to offer higher wages to attract workers/increasing their labour costs [an].

Developed example:
Businesses must make goods that people want [k] especially in boom when people have more money to spend [an]. However, if it's not advertised [k] people might not be aware of it [an]. Success is not guaranteed if the marketing mix is not right [eval] or there is a lot of competition especially for new businesses that are likely to have limited experience [eval].

3 (a) What is meant by 'the maturity stage' of a product life cycle'? **[2]**

Clear understanding [2]: e.g. when rate of increase of sales falls and perhaps absolute sales show signs of falling. It is usually associated with the peak level of sales.
Some understanding [1]: identifies one feature e.g. sales start to peak, rate of growth slows, rivals enter market, prices/profits start to fall, positive cash flow.

(b) Identify two costs to Kruger of launching a new product. **[2]**

Application [2 × 1] – award 1 mark per point.

Points might include: promotional costs, initial production costs, research and development, market research.

Do not accept general expenses such as electricity, rent unless clearly linked to a new product.

(c) Identify and explain two ways Kruger could increase consumers' brand awareness of its mobile phones. **[4]**

Knowledge [2 × 1] – award 1 mark for each way.

Analysis [2 × 1] – award 1 mark for each relevant explanation (show how creates awareness).

Points might include:
- Effective advertising (allow only once) [k] which will make customers know about its products [an]
- Widen distribution [k] so customers do not have to travel so far to see what they sell [an]
- Display products prominently in shops [k] so that customers cannot miss seeing them [an]
- Sponsorship [k] so products viewed positively by potential customers [an]
- Use a logo [k] so customers automatically know it is made by Kruger [an]
- Attend events/fairs [k]
- Celebrity endorsements [k] as followers want to copy what famous people do/buy [an].

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(d) Identify and explain two ways of segmenting the mobile phone market. [6]

Knowledge [2 × 1] – award 1 mark for each way identified.

Application [2 × 1] – award 1 mark if relevant reference made to this type of business.

Analysis [2 × 1] – award 1 mark for each relevant explanation (i.e. show how this works).

Points might include:
- Age [k] population might be broken down into groups such as 18–30/65+ [an] different age groups may prefer different models [app]
- Socio economic/income groups [k] People with high income will spend more [an] to have branded devices [app]
- Gender [k] girls might want a different colour to boys [an]
- Location [k] if people live in the city they might want different functions [app] compared to people who live in rural areas [an]
- Tastes/interests/lifestyle [k] people who are active might want different features [app].

(e) Recommend an appropriate pricing strategy to Kruger for a new mobile phone. Justify your answer. [6]

Knowledge [1] – award 1 mark for identification of relevant strategy.

Application [1] – award 1 mark if relevant reference made to business.

Analysis [2] – award up to 2 marks for relevant development of point(s).

Evaluation [2] – justified decision made as to why this is an appropriate pricing strategy.

Points might include:
- Competitive based pricing [k]
- Market penetration pricing [k]
- Price skimming (as it is a new mobile phone) [k]
- Cost plus pricing [k].

Developed answer:
They should use price skimming [k]. It is a very competitive market [app], rivals are always bringing out different models [an]. It is possible to charge a high price because there might be no other products like it [an]. This is their only chance to make lots of money, so they should take it [eval]. They can always change to a more competitive price later, depending on what their rivals do [eval].

4 (a) Calculate (i)   Cost of sales (X)
(ii) Fixed costs (Y)

Application [2 × 1] – award 1 mark per correct answer. $ not required.

(i) X= $200 000 [1]
(ii) Y= $80 000 [1]

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(b) Calculate the net profit margin of the business in 2013. [2]

Application [2]: 20% [note % needed for 2 marks]
Some application [1] e.g. net profit/sales*100 OR 70 000 / 350 000*100 or 20

(c) (i) What is meant by 'fixed costs'? [2]

Clear understanding [2] e.g. costs that do not change [1] as the level of activity changes [+1]
Some understanding [1]: e.g. costs that stay the same.
Note: Must link answer to level of activity/output to gain full marks.

(ii) Identify two examples of fixed costs of Juta's business. [2]

Application [2 × 1] – award 1 mark for each relevant explanation in context.

Points might include: electricity/gas, water, rates, rent, insurance, salaries.

Do not accept taxes or dividends.

(d) Identify and explain two problems that Juta might have when buying stock from suppliers in other countries. [6]

Knowledge [2 × 1] – award 1 mark for each problem identified.

Application [2 × 1] – award 1 mark if relevant reference made to this type of business.

Analysis [2 × 1] – award 1 mark for each relevant explanation (show why it creates a problem).

Problems might include:
• Exchange rate movements [k] an appreciation of other countries currency could increase variable costs [app] reducing profit margin [an]
• different legal requirements [k] so materials of different quality [app] might not appropriate to use/meet standard needed [an]
• Delays due to distances involved [k] so stock arrives late [an] so not able to meet toy orders [app]
• Communication problems [k] as different languages spoken [an] so there are mistakes made in the fabrics sent [app]
• Quotas [k] so not able to get enough stock [an]
• Import duties [k]
• Difficult to check quality [k].

Note: points must be linked to buying stock from overseas.

(e) In 2014 sales of the business increased by $150 000 and net profit increased by $10 000. Do you think that the business was more successful in 2014 than in 2013? Justify your answer. **[6]**

Knowledge [2 × 1] – award 1 mark for each issue identified.

Application [1] – award 1 mark if relevant reference made to the business/use of data.

Analysis [1] – award 1 mark for relevant development of point (s).

Evaluation [2] – justified decision made as to whether the business was more successful in 2014.

Points might include:
- Sales increased [k] by 43% [app]
- Profit increased [k] by 14% [app]
- Net profit margin fell [k] by 4% [app] less control of its costs [an]
- What is criteria for success [k].

Note: Answers that state Sales now $500 000 and profit $80 000 award knowledge only.

Do not credit as application a response, which says sales, increased by $150 000, profit up by $10 000 as this is stated in question.

Developed answer:
Sales rose [k] and so did profit [k] which would suggest that 2014 was a better year [eval]. However net profit margin decreased [k] by 4% [app]. This implies the business had less control of its costs [an], which would suggest that the business performance was worse in 2014 [eval].

5 (a) Identify two features of flow production methods. **[2]**

Knowledge [2 × 1] – award 1 mark per feature.

Points might include: Goods are made in large volumes, identical products produced, production line methods used, continuous production, capital intensive, low skilled labour, repetitive tasks, inflexible.

(b) What is meant by 'inefficient'? **[2]**

Clear understanding [2]: e.g. input output ratio is low/not maximise productivity.
Some understanding [1]: waste resources.

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(c) **Identify and explain two problems to Salters of not responding quickly to changes in customer demand.** **[4]**

Knowledge [2 × 1] – award 1 mark for each problem.

Application [2 × 1] – award 1 mark for each relevant explanation (i.e. show *how or why* these represent a problem).

Points might include:
- Loss of sales/order [k] which could lead to higher losses [app]
- Reduced reputation [k] as not seen as a reliable supplier [app]
- Fall in market share [k] as customers will choose to buy from rival manufacturers [app]
- Risk of obsolete stock [k] as size of cans made might not be appropriate/as flow produces large volumes [app].

(d) **Identify and explain two effects on Salters of holding a high level of stock.** **[6]**

Knowledge [2 × 1] – award 1 mark for each effect identified (positive or negative points allowed) could refer to raw materials or finished product.

Application [2 × 1] – award 1 mark if relevant reference made to this type of business.

Analysis [2 × 1] – award 1 mark for each relevant explanation (show how they affect the business).

Points might include:
- No delays in production [k] as stock always available [an] so able to maintain its flow production [app]
- Able to meet orders [k] as always cans ready to be sent out [app] so able to offer better customer service [an]
- Increased insurance/security costs [k] as need to be protected against damage [an]
- Increased storage and handling costs [k] as will need more space/increases business expenses [an] which will not help reduce its loss [app]
- cash flow/liquidity problems [k] as money held as stock [an] at a time when need to find money for new machinery [app]
- risk of obsolescence/wastage [k] because customer requirements might change [an] so new designs of packaging wanted [app].

5 (e) Do you think Salters should invest in new machinery? Justify your answer. **[6]**

Knowledge [2 × 1] – award 1 mark for each issue identified.

Application [1] – award 1 mark if relevant reference made to the business.

Analysis [1] – award 1 mark for relevant development of point(s).

Evaluation [2] – justified decision made as to whether Salters should invest in new machinery.

Points might include:
- Reaction of employees/fear of unemployment [k] as threatened strike action [app] which could damage the reputation/lead to lower production [an]
- Cost of investment [k] as capital costs expected to be high [app] and with the loss made in 2013 banks might not want to lend them money [an]
- Need to retrain workers [k] which will increase expenses [an]
- Need to update [k] as existing equipment often breaks down [app] so new machines can help them lower its maintenance costs [an]
- Increase productivity [k].

Developed answer:
New machines are more reliable [k] so less breakdowns [app] reducing maintenance costs [an]. While they might need to retrain workers [k] which will increase its short-term costs [an]. However, the cost of investment and retraining should be paid overtime through the lower unit costs of production, so it is worthwhile [eval].