

CAMBRIDGE
INTERNATIONAL EXAMINATIONS

June 2003

GCE AS AND A LEVEL

MARK SCHEME

MAXIMUM MARK: 40

SYLLABUS/COMPONENT: 9707/01

BUSINESS STUDIES
Paper 1 (Short Answer/Essay)



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1	(a)	Partial understanding of each type or full understanding of one only.	1
		Full explanation of difference between the two.	2
	(b)	Some understanding but benefits not explained.	1
		Substantially full but incomplete explanation of benefits.	2
		Full explanation of benefits.	3
2	(a)	Partial definition.	1
		Full definition of the term.	2
	(b)	Vague awareness of the benefits.	1
		Partially complete answer.	2
		Essentially full answer.	3
3		Limited understanding of role.	1
		Good understanding of some aspects of role.	2-3
		Full explanation of role in a contemporary context.	4-5
4	(a)	Full explanation of one only or partial explanation of both.	1
		Full explanation of difference.	2
	(b)	Superficial knowledge only shown.	1
		Partial explanation of need for short and long term finance.	2
		Full explanation of difference between need for short and long term finance.	3
5	(a)	Answers should focus on the need to motivate, good delegation, having a clear chain of command, span of control, good communication etc. Also the need to get the job done effectively.	

Knowledge and Application

Level Two: Outlines different styles in a context where they might be appropriate. 3-4

Level One: Outlines one or two different styles but without real discussion. 1-2

Analysis and Evaluation

Level One: Attempts to analyse factors affecting the choice and appropriateness of styles. 1-4

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- (b) Answers should examine two different styles, whether autocratic, democratic, paternalistic or laissez-faire, bearing in mind factors such as the quality of subordinates, the risk of failure, the ownership and nature of the business etc.

Knowledge and Application

Level Two: Outlines different styles in a context where they might be appropriate. 3-4

Level One: Outlines one or two different styles but without real discussion. 1-2

Analysis and Evaluation

Level Two: Evaluates strengths and weaknesses of different styles in particular circumstances. 5-8

Level One: Attempts to analyse factors affecting the choice and appropriateness of styles. 1-4

- 6 (a) Answers should include the influence of costs, competition, demand, market conditions and business objectives. Strategies could include penetration or skimming strategies, competition-based pricing and price discrimination.

Knowledge and Application

Level Two: Outlines strategies with some attempt to discuss when they might be used. 3-4

Level One: Outlines one or two strategies but without real discussion. 1-2

Analysis and Evaluation

Level Two: Evaluation of the risks as well as benefits of 2 different pricing strategies. 5-8

Level One: Attempts to analyse factors affecting the choice of strategies. 1-4

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- (b) Answers should show knowledge of the PLC and possible links between the stage in the cycle and pricing decisions. For example, in the development stage, different prices might be tried to establish PED and optimum price, in the growth stage special offers might be offered to entice new customers; in maturity price may be less significant in purchasing decisions; in decline, a product might be exploited as a cash cow or else discounts used to stimulate sales.

Knowledge and Application

Level Two: Answer shows full knowledge of PLC and some different pricing strategies applicable to different stages. 3-4

Level One: Some knowledge of PLC but not fully applied to pricing strategy. 1-2

Analysis and Evaluation

Level One: Analysis of the way in which pricing policy might change as a product moves through its PLC. 1-4

- 7 Answers should include factors such as type of business and need for stock of different types. Costs and benefits of stock holding and costs and benefits of not holding stock. Use of charts to illustrate answers are encouraged. Discussion of JIT, its benefits and appropriateness.

Knowledge and Application

Level Two: Answer demonstrates good understanding of the stockholding factors involved in a manufacturer. 5-8

Level One: Some awareness of the basic factors in stock management. 1-4

Analysis and Evaluation

Level Two: Good appreciation of the need to keep a tight balance between the benefits and costs of stock. 9-12

Level One: Awareness of the trade-off between benefits and costs. 1-8

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MARK SCHEME

MAXIMUM MARK: 60

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BUSINESS STUDIES
Paper 2 (Data Response)



Page 1	Mark Scheme	Syllabus	Paper
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- 1 The Furniture Maker**
- (a) Define the following terms**
- (i) economies of scale** [3]
- Content: the reduction in unit cost achieved due to increased size/scale of operation.
- Level Two: Good understanding of definition [2-3]
- Level One: Partial understanding of definition [1]
- (ii) fiscal policy** [3]
- Content: government policy on taxation levels and government spending. Method of intervention to control economic activity. NB. text mentions “greater consumer spending and more business investment” – only award mention of this if candidate explains how/why fiscal policy leads to this.
- Level Two: Good understanding of definition [2-3]
- Level One: Partial understanding of definition [1]
- (b) Explain two possible reasons why the government has encouraged foreign business to locate in its country.** [4]
- Content: Creation of wealth/jobs, to attract other foreign businesses, e.g. suppliers, to increase tax revenue, to encourage investment, to help the country recover from recession/encourage growth.
- Knowledge and Application**
- Level Two: Explanation of two possible reasons for government encouraging investment [3-4]
- Level One: Identification of one/two possible reasons [1-2]
- (c) Analyse the factors that the multi-national business might have considered when deciding to locate near to The Furniture Maker.** [8]
- Content: access to the market, level of government incentives, access to local labour market, access to local suppliers, cost of land/plant/machinery. Economies of concentration. NB. candidates interpreting the question as benefits and costs of locating in the same country can only be rewarded at Level One.
- Knowledge and Application**
- Level Two: Explanation of factor(s) affecting location of FMI [3-4]
- Level One: States the factor(s) affecting location [1-2]

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Analysis

Level Two: Good analysis of factor(s) in context [3-4]

Level One: Limited analysis of factor(s) [1-2]

(d)

- (i) **Calculate the forecasted market share of The Furniture Maker for 2003.** [2]

Market share = $13.02/220 = 5.9\%$ (1 mark if formula only or incorrect execution)

- (ii) **Discuss the possible reaction of TFM's management team of an increase in the level of competition.** [10]

Content: Answers might focus on the effect of extra competition such as: erosion of market share, reduction in capacity utilisation, employees moving to larger business – pressure on wages, etc.
Reaction: extra marketing, reduction of capacity, possibility of joint venture.

Knowledge and Application

Level Two: explains the possible reaction(s) in context [2]

Level One: States the reaction(s) [1]

Analysis and Evaluation

Level Two: Evaluates the reaction(s), based on analysis [5-8]

Level One: Analyses the reaction(s) [1-4]

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2

The Tee Business

(a)

Define(i) **fixed costs** [3]

Content: items of expenditure that do not change as output changes, in the short run.

Level Two: Good understanding of definition [2-3]

Level One: Partial understanding of definition [1]

(ii) **productivity** [3]

Content: ability of business to convert inputs into outputs. Measured by output/inputs – might be labour or capital productivity. Increased productivity leads to lower unit costs.

Level Two: Good understanding of definition [2-3]

Level One: Partial understanding of definition [1]

(b)

(i) **Calculate break-even output, if the new payment system were to be introduced.** [3]

$$\text{BEP} = \frac{\text{Fixed Costs}}{\text{Contribution}} = \frac{\$200,000}{\$20 - \$12} = \underline{\underline{25,000 \text{ units}}}$$

Alternative: TR = TC: $20x = 12x + 200,000$; $8x = 200,000$;
 $x = 25,000$

(1) for formula (2) for execution

ARA – allow reasonable assumptions, e.g. 20,000 units = (3)

(ii) **Calculate the price elasticity of demand, following the price decrease from \$20 to \$18.** [3]

PED = percentage change in demand/percentage change in price

$$12\%/10\% = (-)1.2 \text{ (no need for minus sign)}$$

(1) for formula, (1) for percentage change in price, (1) for execution

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(iii) **Comment briefly on your answer to (b) (ii).** [2]

Price elastic – is measurement accurate given nature of product?
Revenue should increase with a price reduction. Increase sales to increase capacity utilisation, but profit might fall.

Knowledge and Application

Level Two: Comments are in context of the business [2]

Level One: Identifies issues relating to answer [1]

(c) **Analyse one method of investment appraisal Ratan might use.** [6]

Could use payback or average accounting rate of return. Ratan is worried about falling sales, so there might be pressure on cash flow, meaning payback could be used. No recognition of cash flow after payback and it might be that as sales pick up, the profitability (due to lower productivity) increases, therefore AARoR more useful.

Knowledge and Application

Level Two: Brief explanation of method(s) in context [2]

Level One: One or two methods of IA mentioned [1]

Analysis

Level Two: Good analysis of method, in context [3-4]

Level One: Limited analysis of method [1-2]

(d) **Discuss the possible reaction of the sales team to the new incentive scheme.** [10]

Content: much depends on whether the sales achievable will meet the drop in salary. Herzberg suggests that commission-based work does not motivate, Maslow suggests that it might force employees to worry about security. Taylor suggests it will act as a motivator. Much depends on the individual and their own attitude to achieving sales and commission related pay systems. They might be demotivated by the insecurity or increase effort due to the incentive.

Knowledge and Application

Level Two: application of the reaction (in context) [2-3]

Level One: possible reaction(s) identified [1]

Analysis and Evaluation

Level Two: Evaluation, based on analysis [4-7]

Level One: Analysis of reaction of the sales team [1-3]

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BUSINESS STUDIES
Paper 3 (Case Study)



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- (a) (i) **Analyse the advantages and disadvantages of Rashid's and Shivani's decision to take out a franchise.** [8]

Content:

Advantages – gives them support and advice from franchisor, training programmes, promotional support, supply of products. Particularly helpful as Rashid has no experience of this business and Shivani seems to have no management experience OR advantages of setting up their own business.

Disadvantages – licence fee and revenue % costs, less independence – this is NOT what Shivani wanted anyway. The additional costs of taking out a franchise might prove to be too much for a new business to bear OR the disadvantages of setting up their own business.

Knowledge and Application

Level Two: Application of relevant points regarding franchising (or setting up own business) to this particular business. [3-4]

Level One: References made to relevant subject content regarding franchise operations (or setting up own business). [1-2]

Analysis

Level Two: Analyses both advantages and disadvantages to this business using appropriate theory. [3-4]

Level One: Analyses, using some theory, these points to business. [1-2]

- (ii) **Discuss the likely impact of economic constraints on the future success of this business.** [8]

Content: Economic – exchange rate movements – they are importing equipment and supplies, inflation might add to costs, boom might lead to corrective government action and this might involve higher interest rates which could prove to be expensive to this business.

BUT current boom conditions are good for this business and exchange rates could move favourably.

Overall effect depends on how income elastic demand for this type of product is and how much interest rates rise by.

Knowledge and Application

Level Two: Relevant application of points made to this business. [3-4]

Level One: References to appropriate content issues in the chosen subject area. [1-2]

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Analysis and Evaluation

Level Two: The analysis is used as a basis for some judgement about the likely impact of economic changes on this business. [3-4]

Level One: Use of theory to support the explanations of how these constraints are likely to impact on success of business. [1-2]

- (b) **Examine how Rashid and Shivani might try to establish good relations between management and workforce in their business.** [10]

Content: Clues given in paragraphs 2 and 8. Young staff need training – this will build confidence and skills. Show them trust. Enrichment. Feedback on performance – appraisal. Permanent and full time contracts. Opportunities to participate in decisions that affect staff.

BUT: Opportunities for enrichment/participation in this type of business? Need for central control to ensure consistent standards, e.g. health and safety. Workers tend to want part time/temporary contracts. Therefore, might be difficult to establish good relations.

Knowledge and Application

Level Two: Application of relevant suggestions to this business. [3-4]

Level One: Suggestions made regarding how good relations might be established. [1-2]

Analysis and Evaluation

Level Two: Evaluation made, in the context of this business, on the likely chances of measures succeeding in establishing good relations. [4-6]

Level One: Theory used to support explanations of how the measures suggested might operate in business. [1-3]

(c) (i)

Cash Flow Forecast for new Fast Food Factory franchise: First 4 months of trading. (\$)

		April	May	June	July	
Cash Inflows:						
	Capital injection	60000				
	Cash sales	18000	27000	36000	36000	1
	Cash received from debtors	0	2000	3000	4000	1
	Total	78000	29000	39000	40000	
Cash Outflows:						
	Franchise licence	5000				
	Franchise fee	2000	3000	4000	4000	1
	Purchase of food and drink	10000	15000	20000	20000	1
	Labour costs	7000	7000	7000	7000	
	Rent	10000	10000	10000	10000	
	Equipment purchases		20000		20000	1
	Total	34000	55000	41000	61000	
	Opening cash	0	44000	18000	16000	1 OFR
	Net cash flow	44000	(26000)	(2000)	(21000)	1 OFR
	Closing balance	44000	18000	16000	(5000)	1 OFR

(ii) **Evaluate the usefulness of a cash flow forecast to the owners of the business.** [6]

Particularly useful for new business to aid financial planning, planning loans and overdrafts, taking corrective action to improve cash flow, using cash surpluses wisely – could be of particular use in this case due to the inexperience of the owners and the rapid decline in cash balance BUT based on forecasts and rather than market research.

Knowledge and Application

Level One: Some suggestions made, not in context, of how cash flow forecasts might assist managers. [1-2]

Analysis and Evaluation

Level Two: Evaluation shown of the usefulness of this cash flow forecast to this business. [3-4]

Level One: Explanation of how such a forecast might be of use to business. [1-2]

- (d) (i) **Suggest two reasons why the bank manager considered the market research undertaken by Rashid and Shivani to be inadequate.** [2]

No secondary and poor quality primary research, only asked friends and used telephone enquiry for primary research, unscientific sampling method.

Knowledge and Application

1 mark for each point made.

- (ii) **Advise Rashid and Shivani how they might conduct further market research.** [8]

Content: Need stratified sampling of the specified market segment they are aiming for, questionnaires or interviews of an appropriately large sample to give reasonable accuracy, more secondary data – numbers of restaurants, consumer spending on meals out, economic data, etc. BUT time may be short and as a new business finance for market research might be limited.

Knowledge and Application

Level Two: Suggestions made are clearly in the context of this business. [3-4]

Level One: Suggestions made regarding market research methods but no clear context. [1-2]

Analysis and Evaluation

Level Two: Evaluation of the methods suggested for this business. [3-4]

Level One: Use of theory to examine how suggestions made might improve the accuracy of market research data. [1-2]

- (e) **To what extent would JIT be appropriate for the management of stocks in this business?** [10]

Content: Good – keep stocks low and reduce working capital needs – good for new businesses in particular. Fresh food stocks need to be kept to minimum. Space may be limited.
 Bad – overseas supplies could be held up, no bulk discounts, frozen food can be kept, need to ensure ability to meet consumer demand – demand forecasts may be under-estimates.
 Customers will not wait for supplies to arrive.
 May depend on the reliability of the franchisor as a supplier.

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Knowledge and Application

Level Two: Points made are in context and appropriate to this business. [3-4]

Level One: Accurate points made about JIT but not in context. [1-2]

Analysis and Evaluation

Level Two: Evaluation of this method for this business – in context. [3-6]
Max 3 marks if only benefits or limitations considered.

Level One: Use of theory to support explanation of points about JIT. [1-2]

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BUSINESS STUDIES
Paper 4 (Essay)



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- 1 (a) Content should include a discussion of the benefits of having a well trained workforce, e.g. reference to quality, motivation, health and safety issues, productivity benefits, flexibility, etc., whilst recognising that there are costs of training, e.g. financial costs of the training itself, loss of production whilst worker is being trained, etc.
- Knowledge and Application**
- Level One: Simple listing of points for and/or against training [1-2]
- Level Two: Attempts to develop points but with no evidence of analysis or evaluation [3-6]
- Analysis and Evaluation**
- Level One: Evaluates a range of points for and/or against training [1-4]
- (b) Content should include a description and evaluation of on-the-job and off-the-job training. Candidates should discuss the appropriateness of different methods to different groups within the workforce, e.g. production workers vs management.
- Knowledge and Application**
- Level One: Distinguishes between on-the-job and off-the-job training [1-2]
- Analysis and Application**
- Level One: Explains the main features of different types of training with some appreciation of their usefulness [1-4]
- Level Two: Attempts to evaluate different methods of training [5-8]
- 2 (a) Answers should discuss a range of methods that might be used to segment a market for shoes e.g. age, sex, purpose, income, etc.
- Knowledge and Application**
- Level One: Describes the process of market segmentation [1]
- Level Two: Outlines the different methods of segmentation that a shoe manufacturer might use [2-5]
- Analysis and Evaluation**
- Level One: Discusses the appropriateness of different methods of segmentation for a shoe manufacturer [1-3]

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- (b) Answers should consider a range of factors such as: better targeting of consumer, different marketing mix may be required, to increase profitability, more efficient use of resources, identify 'gaps' in the market, to assess the level of competition, etc.

Knowledge and Application

Level One: Identifies reasons for segmentation, without any explanation of usefulness [1-3]

Analysis and Evaluation

Level One: Explains why a business might segment its market [1-5]

Level Two: Evaluates the usefulness to businesses of market segmentation [6-9]

- 3 Answers should briefly outline the process of flow production techniques and then discuss the strengths and weaknesses of the technique within the context of the question, i.e. a bakery. Answers might include reference to size of business, demand, capital requirements, multi-product vs a bakery with a smaller product mix, HRM considerations, etc.

Knowledge and Application

Level One: Outlines the nature of flow production techniques [1-4]

Level Two: Outlines the factors a bakery will consider when deciding on whether or not to employ flow production methods, but without any attempt to evaluate these factors [5-8]

Analysis and Evaluation

Level One: Explains the factors within the context of a bakery [1-8]

Level Two Evaluates the appropriateness of flow production methods to a bakery [9-12]

- 4 (a) Answers might include references to the matching principle, spreading cost over useful life, sinking fund provision, etc. Candidates should recognise in their answer that not all fixed assets are depreciated, e.g. land, and why this is the case.

Knowledge and Application

Level One: Simple understanding of depreciation [1-2]

Level Two: Well developed understanding of depreciation [3-4]

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Analysis and Evaluation

Level One: Explains why a business should/should not depreciate fixed assets [1-4]

- (b) Candidates will probably discuss the straight-line method and the declining (reducing) balance method. Answers should outline the essential features of each method – calculations are not necessary, although they might help to clarify understanding. There must be some attempt to explain the pros and cons of each method with some attempt at explaining why one method might be preferred over the other.

Knowledge and Application

Level One: Identifies methods of depreciation [1-2]

Level Two: Demonstrates an understanding of the difference between different methods of depreciation [3-4]

Analysis and Evaluation

Level One: Explains the arguments for and against different methods of depreciation [1-4]

Level Two: Attempts to evaluate the different methods of depreciation [5-8]

- 5 (a) Answers might include: to plan production, to forecast profit and cashflow positions, to decide on whether to enter a new market/introduce a new product, manpower planning needs, etc.

Knowledge and Application

Level One: Identifies possible reasons [1-2]

Level Two: Displays understanding of the reasons for forecasting demand [3-6]

Analysis and Evaluation

Level One: Explains the importance of forecasting demand using the given context [1-4]

- (b) Answers should outline the main features of time series analysis, e.g. use of moving averages, identification of the trend, cyclical variation etc., and explain how the technique might be used by the computer manufacturer, e.g. forecasting sales. A discussion of advantages and disadvantages of the technique should be explored within the context of computer manufacture, e.g. short-term vs long-term forecasting.

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Knowledge and Application

Level One: Displays understanding of the main components of time series analysis [1-2]

Analysis and Evaluation

Level One: Discusses the usefulness of time series analysis to a manufacturer of computers [1-4]

Level Two: Attempts to evaluate the usefulness of time series analysis to a manufacturer of computers [5-8]

6

Explanation of the nature of a budget and how budgets are constructed, e.g. zero budgeting, flexible budgets, etc. Recognition that budgets are an important part of the planning process. Usefulness of budgets in terms of resource allocation, motivation of managers, monitoring and control of business activity, etc. Discussion of problems associated with budgeting if flexible budgets are not used. Some evaluation of how different types of budgets might be used to improve business performance, e.g. cash budgets. Also how variance analysis might be used to help control and improve performance.

Knowledge and Application

Level One: Simple understanding of the budgeting process [1-4]

Level Two: Clear understanding of the nature of budgets and how they might be used [5-8]

Analysis and Evaluation

Level One: Explains how budgets might be used to improve business performance [1-8]

Level Two: Attempts to evaluate the role of budgeting in improving and maintaining business performance [9-12]