

# BUSINESS STUDIES

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**Paper 9707/01**  
**Short Answer/Essay**

The Paper proved accessible to most candidates and there were examples of excellent Business Studies knowledge over a range of topic areas.

The majority of candidates demonstrated sound understanding of Business Studies concepts and issues. However, many found difficulty in applying these concepts and issues to specific situations. Candidates need to practice applying their business studies knowledge to a variety of situations.

Some essays were rather brief and very descriptive. Such candidates need to develop the confidence to discuss, analyse and apply concepts and to construct a strong concluding section where an attempt is made to summarise and make some sort of evaluative comment.

## Question 1

- (a) Most candidates were able to state two objectives a business might set in the short run. Good candidates stated the expected objectives of profit maximization, sales maximization, survival or increased market share. Weaker candidates suggested that a business might aim for example to undertake market research or try to lower the price of their product without linking this to a clear business objective/desired outcome. A number wasted valuable time giving exhaustive explanations when the question only required them to state two objectives.
- (b) Most candidates were able to recognize that the importance of objectives is that it provided a sense of direction for the business that can be used to support departmental plans and that can then motivate the workforce to achieve any targets set. Better answers gave examples of how objectives can motivate, reduce uncertainty, focus different departments and coordinate activities via better communication and understanding.

## Question 2

- (a) Many candidates were able to define quality control as being related to working to pre-set standards in order to meet customer expectations. However, some candidates repeated the words quality and control without actually defining the term.
- (b) Strong candidates answered this in a clear manufacturing context. The majority of answers referred to the inspection and checking of products and some related these checks at varying stages of the production process or at the end of production when the product was complete. Good answers recognized that checking at the end of production was potentially more expensive than checking after each process, when correction might not prove quite so costly.

Total Quality Management was frequently discussed with reference to each stage of the production process being an internal customer of the previous stage.

The quality of inputs was correctly identified as another possible means of quality control. If workers were highly trained they would be more likely to produce goods of a consistently high quality. Similarly, if raw materials were not of the highest quality then the finished product was unlikely to be of satisfactory quality.

### Question 3

The best responses made reference to parts of the published accounts which would be of use to particular stakeholders. For example, a bank would use the P&L account and cash flow statement to determine whether loan repayments could be met and the Balance Sheet to determine what collateral was available to secure the lending in just-in-case. Weaker responses however were unable to identify specific stakeholder groups or explain the value of published accounts for such groups.

### Question 4

- (a) While there were many correct answers to this question, there were also several that referred to working capital as the money required to start up a business or that it was the machinery that was used in a business. Some candidates demonstrated their knowledge of working capital by giving the formula for calculation i.e. current assets minus current liabilities. There were a number of candidates who mistakenly included fixed assets in this formula. However, many candidates were able to identify working capital as the cash to pay day-to-day expenses in a business.
- (b) Some answers to this question seemed to be explaining how a business might increase its working capital rather than explaining how it might be managed. Good answers stressed such things as introducing tighter management of stocks or debtors and then went on to explain how this might be achieved together with any possible implications for the business. For example, if a business chose to reduce the debtor payment period in order to get cash into the business more quickly, then they might find that some of their customers moved to other businesses where they would still be able to enjoy extended credit periods.

### Question 5

- (a) While there were some candidates that could clearly distinguish between political and legal constraints, there were many that could not. Some candidates concentrated on either political or legal constraints and therefore were not able to obtain high marks for this section.

Better answers identified the difference between political and legal, gave examples and then explained how the operations or the decisions of a business could be affected. Candidates commonly discussed employment legislation and consumer legislation but did not always extend their answer to explain how a business might be affected for example through having to meet higher costs in order not to breach various laws. Often examples were given from the candidates' own country. A few answers used the activities of MNCs in a political context (import controls tariff avoidance etc).

- (b) The strongest responses recognized that ethical issues and business objectives are not mutually exclusive. Business objectives can incorporate ethical considerations and/or the business can benefit in the longer term from considering such matters.

The majority of candidates understood what is meant by 'ethical issues' and were able to discuss how they might impact on a business. This was often discussed in terms of increased costs or adverse publicity if the media published stories about what the business was doing. However, this was often not discussed in terms of business objectives. Good answers, however, identified an ethical issue, for example exploiting child labour, and explained how that might be helping a business to achieve its goal of sales maximization due to being able to sell goods more cheaply. This discussion was extended to consider the implications for the business of adverse media attention and how this might force them to use more ethical sources for their goods which might then prove to be more expensive, thus depriving them of their opportunity for sales maximization.

Better answers analysed the links between increased concern to develop ethical policies and improve image or profit in the long term. Good answers evaluated the trade off with costs to introduce ethical policies, and long term achievements of specific objectives. Weaker answers to this question wrote about some of the issues that they had dealt with in **part (a)** and referred to illegal rather than unethical activities.

### Question 6

Most candidates that answered this question had some understanding of 'qualities' rather than just management roles.

Better answers analysed how different qualities would be appropriate in different situations and why these qualities were important. The effects on motivation, delegation and market focus and growth were the most commonly quoted influences of leadership qualities. Such answers concentrated on the actual personal qualities that a good business leader should have such as an incisive mind, the ability to communicate well, the ability to motivate workers etc. These qualities were then often related to the various leadership styles and were made relevant to each.

Weaker answers did not focus on actual qualities but more frequently discussed the functions of management. A focus on managers rather than leaders was not unusual.

However, there were many excellent answers to this question that retained focus on leadership qualities but only a small number that offered any evaluative comment either within or at the end of their answer. This is something that Centres need to stress to their candidates; the essay question requires an overall evaluation of the points discussed.

### Question 7

- (a) Most candidates were unable to show knowledge of the product life cycle in this very popular question. Generally the various stages of the product life cycle were explained and occasionally were also linked to cash flow with some candidates adding the cash flow line to a life cycle diagram. Good candidates explained at which stages there were likely to be high levels of expenditure and minimal levels of cash inflow and that the finance manager would be responsible for ensuring that adequate finance would be available for the various activities. Weaker candidates asserted that the finance manager would be the person who set the prices at the various stages and that it would also be s/he who would decide when to remove the product from the market or when to introduce a new product. Such answers were not showing a clear appreciation of the functions of a finance manager.
- (b) The weakest responses were very descriptive and simply narrated a PLC/promotion story with little reasoning. The best responses coherently connected each stage, explaining the reasons for the change of promotional method as the PLC progresses and why such methods need to develop with the PLC. Better answers identified different types of promotions and discussed how these might change at the different stages. Issues such as competition, profit levels, customer awareness, different market segments, market share and growth (Boston Matrix) were evident in good answers. Strong answers explained which tactic might be most effective at a particular stage of the cycle along with whether promotional activity would be high or low.

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Paper 9707/02

Data Response

## General comments

Performance of candidates was similar in this session to other sessions at this time of the year. However, performance showed a greater variation between questions and parts of questions in this session. Generally **Question 1** was done better than **Question 2**, with **1(b)** and **2(b)** done particularly well whereas answers to **2(c)** and **2(d)** were disappointing. Although there was little evidence of time being a difficulty, there was evidence of too much time spent on **Question 1** with insufficient time left for **Question 2**. Some candidates spend too much time on **part (a)** of each Question – 2-3 succinct sentences should do rather than a whole page of writing.

While there was evidence of continued improvement in the use of context, the general lack of use of context in **2(c)** and **(d)** demonstrated that this skill still needs significant development for many candidates. As in previous sessions, most candidates seem reluctant to take the final step into evaluation skills through recognising the importance of factors, making justified recommendations, prioritising issues and so on.

Most candidates continue to show very good language skills both in terms of understanding the case material and in writing their answers. The case material was generally accessible. Many answers are a pleasure to read.

## Comments on specific questions

### Question 1

- (a) (i)** The term ‘partnership’ was generally well understood. Weaker candidates tended to either only give a definition without explanation or the explanation referred to ‘running’ a business rather than ‘owning’ a business or referring to ‘shareholders’ rather than partners.
- (ii)** The term ‘Internal sources of finance’ was generally well understood and explained although some answers incorrectly gave the example of the issue of shares. The best answers said that internal sources often came at lower cost than external sources and that the impact on liabilities was different.
- (b)** Candidates generally answered this question well, recognising and using the relevant pieces of context to try and solve the labour turnover problems. Most answers suggested that improving wages would help motivation but few developed analysis/evaluation skills by discussing whether this was appropriate for a small, partnership business such as EFWP. The best answers further developed the context to suggest different management styles, how job rotation/enrichment/enlargement could be implemented and so on. One answer made the Examiner smile: “Job rotation might be a good idea, but it might upset the animals as they get used to one person feeding them”. Very few candidates showed evaluation skills.

### Teaching Tip

Evaluation skills can often be shown by considering the appropriateness of a course of action for the business in question. This can lead to convincing statements as to which is the best course of action.

- (c)** It was relatively easy to gain full marks for this question and quite a few candidates did. Those that did not gain full marks either identified a limited range of information (e.g. only focussing on financial information) or did not contextualise their answer – their answer could have related to almost any investment decisions. The best answers covered a range of information in context. A

few candidates gave definitions of market research and missed out completely the kind of information that was needed.

Teaching Tip

Answer the question that is asked!

- (d)(i)** The data for the ARR calculation was presented in a less convenient way than in previous sessions and the answers were generally not as good as on previous occasions. However, many candidates extracted and used the data appropriately to get the answer of 5%. Some candidates showed confusion between the 4 year payback figure and the 5 year life of the project. A significant number of candidates obtained the answer of 25% by only using cash inflows in the denominator while others obtained 75% by taking one year's worth of inflows rather than 5. While these are the kind of mistakes that are easy to make under examination conditions, a moment's thought would have told the candidate that a lower cash inflow could not give a higher ARR when the investment remained \$1 m. Often incorrect answers did not show workings or the formula so that method marks could not be rewarded.

Teaching Tip

A moment's thought following a calculation should help the candidate avoid making mistakes. The Examiner is always prepared to award method marks when mistakes are made but only when the method is shown! Candidates should get practice at extracting relevant data even when not presented in the most convenient form.

- (ii)** Candidates were allowed to carry forward any incorrect answer to **(i)** to this part of the question. Many candidates answered this question solely from the point of view of the investment appraisal information while others focused only on the best factors. Few candidates actually came to a decision based on their analysis. The best answers referred to the difficulty of such a small business finding \$1 m finance and the risk that this then involved for the partnership with unlimited liability – with the concept of risk being tied into the two scenarios presented. They also questioned the validity of the data. Outstanding answers also referred to the falling visitor numbers and profits as well as staffing issues to conclude that these issues needed to be sorted out before taking such a high risk. A few candidates misinterpreted the scenarios as options but they were still able to be rewarded as they discussed relevant issues.

Teaching Tip

'Advise' as a prompt word requires a decision to be made and justified.

**Question 2**

- (a)(i)** 'Multinational' was generally well defined and usually explained with an example. Better answers usually gave a brief explanation of either the advantages of being a MNC or possible advantages/disadvantages to the host country.
- (ii)** There were a variety of responses to this question. Some answers gave a definition of 'economies of scale' without explanation, others gave an example (usually bulk buying) without a definition or explanation. Weak definitions referred to 'reductions in cost', rather than referring to falling average costs.

Teaching Tip

Examiners are looking for precision in answers to **part (a)** of each question.

- (b)** There were many pleasing answers to this question. Candidates generally related well to the data in the response material and had a good grasp of the role of governments in issues such as the environment, support for businesses and so on. The best answers discussed how Ganmor could both benefit from government support and could be hindered through taxation and influencing

consumer behaviour. They then balanced these two opposing forces into a conclusion. Weaker answers tended to show knowledge of the likely involvement of the government without developing the possible impact on GC. Answers were often from the perspective of the candidate's own country (often in the area of the *extent* to which governments do or do not control businesses or take an interest in the environment) and this was particularly pleasing to see. Also pleasing was the way many candidates linked together ideas such as:

- Taxes might not have too much of an impact on the niche market if elasticity was low with wealthy people;
  - Family cars are a completely different market where ethical buying might be more important;
  - Petrol/diesel are complementary goods to cars;
  - There might be government publicity/subsidies for environmentally cars and so on.
- (c) The pleasing aspect of the answers to this question was that many candidates have a very good understanding of what constitutes 'lean production'. However, disappointingly, very few candidates were able to contextualise their answers. Better answers linked lean production with the move away from job production or developed the benefits of the outcome of lean production in a highly competitive market (e.g. ensuring high quality cars were brought on the market at lower cost). Poorer answers talked about aspects of lean production (e.g. TQM, JIT, Kaizen, simultaneous engineering) without actually saying what lean production is about.
- (d) As is often the case with marketing questions, answers to this question were generally disappointing. There were many answers that had 'good ideas' for a marketing mix. These ideas were often not supported through evidence/analysis. These answers often only indirectly answered the question that was asked. Many of these answers described the 4Ps but did little to develop these ideas in context. Good answers addressed the **factors** that needed to be taken into account in making decisions about the mix, not the mix itself. Answers that took the right approach often had insufficient context to be rewarded highly. Relevant factors included the highly competitive market for cars, the likely response of customers in the niche market compared with those in the wider small car market, the key features of the product (e.g. environmentally friendly) that could be emphasised in a promotion campaign. Few candidates demonstrated evaluation skills through grasping what the key factors are and their likely impact on the mix.

#### Teaching Tip

10 mark questions on this paper must always take a contextual approach and opportunities for evaluation should be identified. Time and effort should be spent analysing questions to avoid answering a different question.

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Paper 9707/03

Case Study

## General comments

There was a further significant increase in the number of entries for this “A” level examination which again reinforces the status and popularity of this subject and the CIE syllabus. There was a very substantial range proving that the Case Study paper discriminated well. There is some pleasing evidence that many Centres are giving more attention to the skill of application in preparing their candidates for this paper but there were two questions in particular on this particular paper that led to many non-applied textbook type responses. The case study gave every opportunity for well prepared candidates to demonstrate not just their grasp of the full range of “A” level subject content but also their skills of analysis and evaluation within the context of a detailed business context. Weaker candidates, unless they were very under prepared, were able to show knowledge in answering some of the questions set.

Common weaknesses were failing to manage time effectively so that the answer to **1(b)** was sometimes longer and more detailed than the answer to the essay question. Candidates are advised to allocate time sensibly between each question, roughly calculating how much time they should give “per mark”. So, an essay question worth 20 marks should have twice as much time devoted to it as an earlier question carrying only 10 marks. The important skill of evaluation is still a problem for many candidates although some Centres are clearly preparing their own cohort very effectively for decision making type questions such as **Question 3** and **Question 6**. This style of question forces candidates to make a recommendation and when this is well supported by the analysis of the evidence selected, then marks for evaluation will always be awarded. As will be explained in comments to individual questions, evaluation or judgement in an answer is never awarded credit by Examiners unless it is clearly contextualised. Candidates and their teachers in some Centres are advised to gain experience at developing these skills by referring to as many past case study papers as possible and analysing the mark schemes for them in detail to identify the ways in which each answer should be focused on the business context detailed in the case.

## Comments on specific questions

### *Section A*

#### **Question 1**

- (a) The quality of answers varied widely to this question but, on average, it resulted in marks above 5 out of 10. Most answers focused on increasing pay and negotiating a settlement with the Trade Union. Many answers stressed the need to settle quickly – so a compromise would probably be essential. Good contextual awareness was shown by candidates who discussed the profit sharing option and considered both the low profit margins and the future need to finance an expansion project. Some answers suggested that all of these possible solutions should be used to solve the dispute but this was not good, selective judgement. The best conclusions stated a clear preference for one method of resolving the dispute over others and justified it.
- (b) The great majority of candidates were aware of the matrix organisational structure and there were also many references to delayering and the possible consequences of this strategy. Most answers made attempts to analyse both advantages and disadvantages, as required by the question, and this allowed them access to Level 2 marks for analysis. There was often quite weak application and this could have been demonstrated by considering the potential benefits to a TV manufacturer, in a fast changing technological market, of researching and developing new products with input and suggestions from other members of the “matrix project team” taken from other functional departments. When candidates did make this attempt to put their answer into context it was generally well done. Evaluation was often weak – and, remember, that if the answer has no hint of being rooted in the context of the case then it cannot gain any marks for evaluation. Again, when

this was attempted in context it was often good – for example, several candidates suggested that with the full capacity problem and with the need to expand production facilities, perhaps this was not the best time to make substantial organisational changes.

### Question 2

This question was designed to test candidates ability to recognise why short run average variable costs – i.e. not long run situations when economies and diseconomies of scale come into operation – might increase as full capacity is reached. There were several clues in the case study such as additional shift payments to production workers, lack of maintenance of machinery, which can cause breakdowns and lack of accurate quality production and low worker motivation as staff seemed to suggest they were being over worked! An answer containing any two of these points, analysed in some detail as to how and why they would cause average variable costs to increase, was rewarded with full marks.

### Question 3

Taking decisions in business is a most important management skill and there are always questions on the Case Study paper that encourage candidates to demonstrate their aptitude for making reasoned recommendations. It is pleasing to report that more and more candidates are becoming accustomed to this challenging examination requirement as was evident in many of their answers to this question. Weaker responses tended to just repeat data from the case and the table and make simple statements about which was “larger” or “greater”. This type of response invariably gains only “content” marks. Better answers – and there were many of them – undertook calculations based on the data such as break-even output levels and profit levels. These results were often then analysed in terms of their importance to the company and this analysis was used to support a final recommendation. Good answers not only included calculations – such as profit forecasts at the new maximum capacity levels – but also questioned whether these maximum output levels would ever be reached and wondered if the cash flow forecasts could be relied on. A few candidates, frustratingly for the Examiners, made quite detailed and analytical observations but then failed to give a clear recommendation as to which project they would recommend the business should go ahead with.

### Question 4

- (a) There were many completely correct answers to this question. Clearly, the topic of elasticity is well taught in many Centres. The main reason for incorrect answers was inverting the two elasticity formulae.
- (b) Using the results obtained (OFR applied) candidates were asked to recommend a suitable marketing strategy and for many this meant listing the 4Ps and then explaining why all of these should be changed. This is not necessarily an effective way of approaching this type of “strategic” question. A better approach would be to explain that a strategy requires a clear objective and this could be, in this case, to target new market segments with more technologically advanced products. This then gives some framework around which candidates can make reasoned suggestions about the major changes that need to be made to support this objective. There was good analysis of the elasticity results from many candidates – the value of further promotion expenditure without a new product to advertise was questioned and the low income elasticity was linked in with the “low tech” image of the company’s TVs.

### Question 5

Surprisingly, this question was often the lowest scoring one on candidates’ scripts. The reasons for this were very clear. Too many candidates were brimming over with textbook knowledge regarding accounting data and ratios and they were determined to demonstrate this to Examiners over several pages. The Principal Examiner marked one answer – and this was not untypical – in which no fewer than 18 different ratios or pieces of accounting data were suggested by the candidate, none of them applied directly to PT, and they were all said to be “very important”! This shows very poor examination technique. Teachers are recommended to go through past examination papers and mark schemes carefully with their candidates and point out that most questions carry 3-4 marks maximum for just content knowledge. So, 3 relevant ratios or 3 accounts records, could have been suggested by a candidate and ALL of these content marks would have been awarded – to list 18 of them is to waste the time it took to outline 15 of them. The other major problem with many candidates’ answers was the lack of application to the case. Why are the profit margin ratios useful to the bank manager? In *this case* it says that profitability is quite low so the bank manager would want to see how low and whether the trend had existed for some time. Why is the gearing ratio important to the bank manager *in this case*? With low profitability, it might be necessary to borrow most if not all of the



substantial sums of capital needed – hence knowing the current gearing ratio and possible future gearing ratio after the loan would be very useful. Those candidates who demonstrated the skill of evaluation in their answer to this question – and there were few of them – did so by explaining which accounting information was likely to be *most significant and why* in this case.

### **Question 6**

This was by far the more popular of the two essay questions. Once again, candidates like making decisions! This question worked very well as many candidates were able to use their wide ranging knowledge of forward vertical integration and apply it to the TV manufacturer. There was often very good two-sided analysis of the main features of vertical integration and this is another topic which seems to be well taught in many Centres. Evaluation often just took the form of a final recommendation, supported by evidence from the answer but there was scope to show judgement at other stages of the answer too. Perhaps the ability to control the marketing of its TVs was the most significant advantage in this case – both income and promotion elasticity are low so control over product image and promotional activity focus might have been a real advantage to this business. Some of the weaker answers just tended to concentrate on economies and diseconomies of scale and the points made were not applied well to the case. So, explaining the benefits of bulk buying is just not relevant to vertical integration and this type of answer showed a lack of focus and selectivity.

### **Question 7**

Around 20% of candidates answered this question and there were some very good answers – but not many. Again, selectivity was the main problem. Examiners expect “A” level candidates to be able to give a list of 20 internal and external factors likely to influence the success of a business – but this is not the key skill that was being examined. Selecting one or two factors that might have a genuine impact on this company’s survival and future success and analysing why these are likely to be important would have been a much more effective examination style for most candidates. Some good answers contained clear references to the future importance of Research and Development for this business (internal) and explained clearly why the stages of the business cycle would be a most important external factor for this type of product.

### **Final comments**

Once again it was very pleasing to read many of these scripts. The quality of language is often exceptional and the ability of some candidates to cope with such a wide ranging examination paper with good time management skills never ceases to surprise and impress Examiners. On the other hand, it is always frustrating to read a script from a candidate who clearly has great knowledge of the subject and can analyse in detail but who has failed to appreciate the importance of both application and evaluation skills. If only these candidates had been shown past Principal Examiner’s reports and past mark schemes – how much more effective their examination techniques would have been!

The growing reputation of this syllabus and this examination in particular as being both a challenging but fair test of candidates’ knowledge and skills is very pleasing and the Principal Examiner would like to thank all teachers in all Centres for preparing candidates for this Paper. I hope that this report will assist you in your efforts to ensure that future candidates gain the highest marks possible.