

**UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS**  
GCE Advanced Subsidiary Level and GCE Advanced Level

## **MARK SCHEME for the May/June 2008 question paper**

### **9707 BUSINESS STUDIES**

**9707/03**

Paper 3 (Case Study), maximum raw mark 100

This mark scheme is published as an aid to teachers and candidates, to indicate the requirements of the examination. It shows the basis on which Examiners were instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began.

All Examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes must be read in conjunction with the question papers and the report on the examination.

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1 (a)

[10]

	Knowledge	Application	Analysis	Evaluation
Level 2	2 marks Good knowledge shown e.g. 2 possible solutions	2 marks Well applied to case	4–3 marks Answer well explained by use of business theory or reasoned argument	2 marks Clear evaluation of proposal(s)
Level 1	1 mark Some knowledge shown e.g. 1 possible solution	1 mark Some application	2–1 marks Some analysis of answer	1 mark Some judgement shown

Answers might include:

- Negotiation, conciliation, arbitration, recognise union to improve communication and motivation, compromise. Increase pay, pay bonus to all workers, profit sharing scheme or other new payment methods.
- Sack and replace existing staff.
- Reduce existing work load on workers.
- BUT:
- Cost of compromise – business has high sales but retained profit not high – cut dividends instead?
- Recognition of union – will this strengthen union power and influence?

(b)

[10]

	Knowledge	Application	Analysis	Evaluation
Level 2	2 marks Good knowledge shown e.g. 2 possible suggestions or advantages or disadvantages	2 marks Well applied to case	4–3 marks Answer well explained by use of business theory or reasoned argument	2 marks Clear evaluation of a change in organisational structure
Level 1	1 mark Some knowledge shown e.g. 1 possible suggestion	1 mark Some application	2–1 marks Some analysis of answer	1 mark Some judgement shown

Answers might include:

- Definition of organisational structure/Research and Development
- Suggestions could include matrix structure or delayering.
- Advantages: (Based on matrix structure so be prepared for other approaches) Teamwork, improved communication between departments, could lead to better inventions as they would be geared towards market, production considerations.
- Disadvantages: Change whole structure for one department?
- Confused leadership, two bosses so unclear lines of authority/communication.
- Perhaps R and D department is just ineffective – or lacks funds. So organisational change might not make any difference.

EXAMINERS' NOTE: MAX. L1 FOR ANALYSIS AND EVALUATION IF JUST ONE-SIDED ANSWER

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	Knowledge	Application	Analysis	Evaluation
Level 2	2 marks Good knowledge shown e.g. definition plus one factor	2 marks Well applied to case	4–3 marks Answer well explained by use of business theory or reasoned argument	Level 2
Level 1	1 mark Some knowledge shown e.g. definition or suggestions	1 mark Some application	2–1 marks Some analysis of answer	Level 1

Answers might include:

- Define average total costs (AVC + AFC). Define capacity utilisation.
- Increased labour costs (night shift bonus), machine breakdowns, lack of factory space or other factors reducing efficiency/worker productivity.
- No reward for diseconomies of scale.

EXAMINERS' NOTE: MAX. L1 ANALYSIS FOR ONLY ONE REASON

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	Knowledge	Application	Analysis	Evaluation
Level 2	3 marks Good knowledge shown	3 marks Well applied to case	4–3 marks Answer well explained by use of business theory or reasoned argument	6–4 marks Clear evaluation in answer plus recommendation
Level 1	2–1 marks Some knowledge shown e.g. identifying 1–2 relevant pieces of information	2–1 marks Some application e.g. accurate calculations	2–1 marks Some analysis of answer e.g. accurate explanations of results (OFR)	3–1 marks Some judgement shown e.g. recommendation with some support.

Answers might include:

- Calculate B-E points and safety margins (either current output or max output). Profit levels can be compared too. Either option can be recommended.

	B-E	Safety margin (@ max output)	Profits (@ max output)	Payback period (@ max output)
Option 1	700,000	800,000	\$24m	Just over 1 year
Option 2	600,000	600,000	\$12m	1 year

- Is max output likely to be reached? Lower BE point for Option 2 could be advantage if there is economic downturn.
- Redundancies with Option 1. Social responsibilities with Option 1? Easier to operate on just one site? Would Government subsidies be short term, leaving the company in an uneconomic location?
- Recruitment of suitable trained staff for Option 1 could be a problem.
- Final decision might depend on economic and sales forecasts.
- Investment appraisal results would be vital before final decision – but how reliable would cash flow forecasts be?

EXAMINERS' NOTE: MAX. L1 FOR ALL ASSESSMENT OBJECTIVES IF NO RELEVANT CALCULATIONS

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(a)

[8]

$$YED = \frac{\% \text{ change in demand}}{\% \text{ change in income}}$$

PT = 1 and Competitors' = 2

$$PSED = \frac{\% \text{ change in demand}}{\% \text{ change in promotion spending}}$$

PT = 0.4 and Competitors' = 0.8

- Accurate formula 1 mark each (max 2) if no correct results
- Some attempt to use formula(e) (max 4 marks)
- Correct results 2 marks each × 4 = 8 marks
- Inverted or incorrect formulae = no marks

(b)

[14]

	Knowledge	Application	Analysis	Evaluation
Level 2	3 marks Good knowledge shown e.g. 2 possible suggestions	3 marks Well applied to case	4–3 marks Answer well explained by use of business theory or reasoned argument	4-3 marks Clear evaluation of the changes that might be made
Level 1	2–1 marks Some knowledge shown e.g. definition of marketing strategy or 1 possible suggestion	2–1 marks Some application	2–1 marks Some analysis of answer e.g. understanding of either YED results or PSED results. OFR	2–1 marks Some judgement shown

Answers might include:

- Definition of marketing strategy: Plan that includes marketing objectives, budget and mix factors. Allow credit for references to changes to these components.
- Ties in with other information about low prices and high PED for PT's products. Need to offer more advanced products to appeal to higher income groups – low income elasticity suggests products are not highly valued by consumers.
- Need more effective advertising/promotion as PSED is lower than competitors – may not be focused on the most appropriate market segments. Other data from other companies would have been useful as well as break down for different types/sizes of TVs.
- BUT:
- Developing new products is expensive and takes time. Advertising is also expensive – retained profits are not high. New products may be matched or bettered by competitors. Control over shops needed for complete control over marketing mix?
- No change necessary – they are selling all they can make.
- Change essential – maximum output and sales yet retained profits not high, possibly suggesting low profit margins.
- How accurate and useful are elasticity estimates?

OFR applies

EXAMINERS NOTE: MAX. L1 FOR ANALYSIS/EVALUATION IF NO USE OF ELASTICITY RESULTS

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	Knowledge	Application	Analysis	Evaluation
Level 2	3 marks Good knowledge shown e.g. 2 possible suggestions	3 marks Well applied to case	4–3 marks Answer well explained by use of business theory or reasoned argument	4–3 marks Clear evaluation of the data/ratios that would be necessary
Level 1	2–1 marks Some knowledge shown e.g. or 1 possible suggestion	2–1 marks Some application	2–1 marks Some analysis of answer e.g. understanding of what a ratio result might indicate	2–1 marks Some judgement shown

Answers might include:

- Profit and loss and balance sheet.
- Investment appraisal results.
- Gearing and acid test results especially. Explain the importance of these before giving loan. Accept other ratios too.
- Accept non-accounting ratios that are relevant e.g. market share.
- Ratios – inter-firm plus trend analysis.
- Cash flow forecasts – how quickly would these options become self financing?
- BUT: Pros and cons of ratio analysis. Not much use if just for one year. Could accounts have been distorted/window dressed?
- Investment appraisal results – but how accurate would forecasts be? Dividend levels – should these be cut?
- Which would be the most useful information/ratios in this case?

**Section B Questions 6 and 7 use this mark grid:**

	Knowledge	Application	Analysis	Evaluation
Level 3				8–5 marks Very good evaluation in answer and conclusion, well focused on question set.
Level 2	4–3 marks Good knowledge shown e.g. 2 possible suggestions	4–3 marks Well applied to case	4–3 marks Answer well explained by use of business theory or reasoned argument	4–3 marks Clear evaluation shown in text and/or conclusion
Level 1	2–1 marks Some knowledge shown e.g. or 1 possible suggestion	2–1 marks Some application	2–1 marks Some analysis of answer	2–1 marks Some judgement shown

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6 [20]

Answers might include:

- Definition – vertical forward integration.
- Yes: control over marketing mix, take PT up market, absorb profits of retailers. Evidence suggests that PT need to focus on marketing more.
- No: Cost – especially if committed to either Option 1 or 2. Have they got the management know how? Would other retailers decide not to stock PT products? Would consumers visit TV4U if only PT products were sold there?
- BUT:
- May depend on cost of the takeover and how it is to be financed. Needs financial/investment appraisal analysis.
- Is it right to be so heavily involved just in TV production/retailing. Better to diversify? Would expansion into another country be a wiser investment?

EXAMINERS' NOTE: MAX. 3 MARKS FOR ANALYSIS/EVALUATION FOR ONE SIDED ANSWER

7 [20]

Answers might include:

- Define terms.
- External:
- Economy – will low interest rates and high domestic sales continue? Exchange rate may start to appreciate and cut foreign demand and make imports cheaper.
- Competition – seems to be very effective and more technologically advanced. Technology – may develop more quickly than PT can cope with.
- Social/environmental – redundancies may damage reputation and laws may limit manufacturing activities e.g. waste disposal.
- Internal:
- Structure – may limit success as it seems to be hierarchical with possibly poor internal communication.
- R and D – may need to spend more or buy in new technology and components. Labour issues – could be a major factor if concerns of the workforce are not addressed.
- Evaluation: Most important? Combination of factors? Need an organisation that is much quicker to adapt to change – could be crucial factor in future success. Accept other conclusions if supported.

EXAMINERS NOTE: MAX. 3 MARKS FOR ANALYSIS/EVALUATION FOR ONLY EITHER INTERNAL OR ONLY EXTERNAL FACTORS