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## FOREWORD

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This booklet contains reports written by Examiners on the work of candidates in certain papers. **Its contents are primarily for the information of the subject teachers concerned.**

# BUSINESS STUDIES

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## GCE Advanced Level and GCE Advanced Subsidiary Level

Paper 9707/01

Short Answer/Essay

### General comments

The paper proved to be generally accessible giving an opportunity for candidates of all abilities to offer something in response to the questions set. Most candidates managed their time effectively and adhered to the instructions set out on the front of the examination paper. However a minority of candidates answered all three questions in **Section B** rather than one as instructed and spent too much time in **Section A** giving lengthy answers to questions worth just two or three marks.

### Comments on specific questions

#### **Section A**

##### **Question 1**

- (a) Many candidates were able to distinguish very clearly between the public sector and the private sector of the economy. Good answers compared and contrasted the sectors in terms of ownership, control and motive. Weaker candidates made some distinction between the sectors but lacked the detail or precision to gain full marks. A minority of weaker candidates wrote about the differences between a public limited company and a private limited company.
- (b) Strong answers included specific examples of the kinds of goods and services provided by the public sector together with reasons why - often explaining that they were not an attractive proposition for the private sector. Many candidates were able to relate their answer to specific examples in their own country recognising the need to provide merit goods regardless of the ability to pay. Candidates also identified such reasons as the prevention of monopoly power and the exploitation of the population through very high prices for essential goods and services.

##### **Question 2**

Most candidates were able to gain some marks on this question. Good candidates gave a clear and precise definition of segmentation and then described how the market for soft drinks might be divided up. They then explained what particular features each segment might expect from the soft drinks manufacturers/suppliers, thus making their answers highly focused. Strong answers explained how businesses might use segmentation to influence various aspects of the marketing mix or to develop a cost effective marketing strategy. Weaker answers identified some potential segments but failed to apply this information to the soft drinks market.

##### **Question 3**

- (a) The majority of candidates gained one or two marks for this part of the question. Good answers identified the Mean as the arithmetic average and in many answers a numerical example was also included. Some candidates struggled to define the Median. Good definitions explained the Median as the middle figure in a set of data arranged in ascending or descending order.
- (b) A precise definition of the Mode was given by the majority of candidates together with an appropriate business application. The most common example given was that of a shoe manufacturer or supplier who would find it useful to know which size shoe was most frequently purchased. Such information is used to ensure that appropriate stocks are available to meet customer demand and so maximize sales. Weaker candidates did not give a clear definition of the concept and thus struggled to make a link between the measure and its potential usefulness to a business.

**Question 4**

- (a) This was less well answered than the first three questions. Only a minority of candidates established a clear link between increased output and a rise in unit cost. Some answers adopted a more general approach and described diseconomies as problems or disadvantages experienced as businesses increased in size (such as poor communication, loss of control and low morale) - the link between an increase in scale of production and an increase in unit cost of production needs however to be made explicit to merit full marks.
- (b) Strong answers identified two appropriate economies of scale for a large retailer - such as purchasing, managerial, or financial economies. Many candidates however drifted from the context of a large retailer and simply referred to 'production' and 'output' in a manufacturing business. In particular, technological economies were frequently applied to a production situation. Better answers did however explain how computers and stock control software could secure economies in stock management.

**Section B****Question 5**

- (a) There were many good answers to this section. Benefits such as improved employment prospects, transfer of technology, infrastructure development, increased variety of goods available, increased tax receipts, improved balance of payments position, and a general increase in the economy and standard of living were advanced. Weaker candidates simply listed benefits such as these without explaining how they might affect the general economy. A few candidates impressively adopted a more critical approach and identified some potential problems with multinationals such as the problems of exploitation and the amount of power wielded by these companies.
- (b) The responses to this section were very variable in terms of both quality and relevance. Weaker candidates focused on various transport methods that could be employed to get goods from a producer to a final consumer without any reference to criteria or reasons for choice. Good candidates recognised the need to identify criteria for a choice of channels of distribution and focused on issues such as cost and time and the need to control the channel to ensure the final state of presentation to the consumer. Issues such as the nature of the consumer goods, the size of the new overseas market, the likely knowledge the exporter might have of the target market were contextual factors discussed by strong candidates.

**Question 6**

- (a) The majority of candidates mentioned the Profit and Loss Account and the Balance Sheet and were able to explain what each of these contains (a few however spent too much time in giving too detailed a breakdown of these two accounts). Better answers also made reference to the Trading Account, Appropriation Account and the Cash Flow Statement. Strong answers were also able to indicate how and why the information included in the Accounts might prove useful.
- (b) Most candidates were able to distinguish between a private limited company and a public limited company and advanced the raising of additional finance as the main reason for conversion. The majority also recognised that it was the ability to offer shares to the general public that widened the shareholder base and this made funds readily available. Many were also able to explore the reasons for additional finance and explained how this might support the growth of the business. Some candidates also identified the additional benefits of increased prestige and the fulfillment of owner ambitions, while also recognising a potential loss of control and an increased susceptibility to take-over.

There was still some confusion about the status of private limited companies with regard to limited liability. Some candidates mistakenly stated that the conversion to a public limited company might be to secure limited liability and the continuity of the business.

## Question 7

There were some very impressive answers to this question. However some candidates wrote all they knew about delegation and only in a marginal way answered the question set. Some reinterpreted the question to read 'how do you ensure that delegation is effective?' Good answers focused on the benefits that delegation can bring to a business and to an individual employee (and also mentioned related issues such as problems that might result from delegation and the reluctance by many managers to delegate).

The majority of answers focused on the benefits of freeing up the time of managers to concentrate on more complex/strategic tasks - more effective communication patterns, and more motivated employees. Many candidates were able to inject and apply relevant motivation theory. There were several possible responses to this question, however in order to establish relevance it was vital that candidates addressed the issues of business/manager/employee benefit resulting from delegation.

**Paper 9707/02**

**Data Response**

## General comments

The data response material for both questions proved accessible to most candidates. However, as with previous sessions, the requirements of the questions were not fully understood by a significant number of candidates when evaluation was required (the higher mark questions). As with previous sessions, weaker candidates found difficulty applying business concepts in context. Apart from part **(a)** of each question, Examiners are looking for answers that relate directly to the business/situation in the data response material.

Marks for **Question 2** were as good as, and often better, than those for **Question 1**, suggesting that the time available for the examination was appropriate, and that candidates are generally allocating appropriate amounts of time to the various questions/sub-questions. A few candidates spent too long on part **(a)** of each question, writing up to a page when a few sentences would suffice. Generally, candidates showed their workings for calculation questions - a practice that is to be encouraged.

As emphasised in previous reports, Centres are encouraged to help candidates to develop the skills of answering questions in context (using the case scenario and data as fully as possible - part **(a)** excepted) and to identify ways in which evaluation skills can be demonstrated in their answers.

## Comments on specific questions

### **Section A**

#### **Question 1**

- (a)(i)** Many candidates were able to define *plc* (*public limited company*) effectively and outlined the key features (limited liability, ability to trade shares on the open market, private ownership). A disappointingly large number of candidates thought that plcs were owned by the government (presumably confusing the 'public' in plc with the 'public' in Public Sector). It is worth noting that plcs (sometimes called 'incorporated' or 'pty') take many forms in differing countries and the Examiners accept details from candidates that prevail in their own country.
- (ii)** Most candidates have an idea of the meaning of *market share*, but many definitions lacked precision, or provided a circular definition e.g. 'market share is the share of the market'. Candidates needed to recognise that there is a calculation involved, and the best definitions gave the formula of an individual company's sales (volume or value) expressed as a percentage of the total market. Some candidates developed their definition with reference to The Round Company. Although this was helpful, it was not necessary.

- (b)(i) Most candidates were able to perform the depreciation calculation effectively, and gave the correct answer of \$56,000. Those who gave an incorrect answer, but showed their working, were able to be rewarded a method mark.
- (ii) Most candidates were able to explain that there would be a reduction of fixed assets on the balance sheet, but few mentioned that there would also be an impact on capital employed (via retained profit).
- (iii) A significant number of candidates were unable to recall the formula for capital employed (average return expressed as a percentage of the initial investment). Of those that did recall it, many calculated the answer correctly (28%), but some either did not deduct the capital cost to obtain the average return, or did not divide by five years to get the average return *per year*. Some candidates attempted, incorrectly, to calculate an 'average investment'. Some candidates attempted to explain their answer simply by repeating the answer. The best candidates explained that annual profits would be 28% of the investment and that this figure could be used to compare the investment with other uses of the money e.g. interest rates.
- (c) There were many 'textbook' answers given to this question about just-in-time, which without reference to JPB or its situation, could only gain a maximum of three marks. Clearly, most Centres have taught this aspect of the syllabus well, as most candidates understand the concept and its general implications. However, the Examiners were looking for the application of the concept to JPB in particular. The important features contained in the case data were that there would be implications for Round plc, one of their suppliers, that the product was bicycles which may or may not be suited to a JIT approach, and that the introduction of new technology gave JPB an opportunity to review many policies including stock control. Well rewarded answers included these points in their analysis as well as referring to lower stock costs, employment and quality issues.
- (d) Generally, the topic of stakeholders was well understood, and the question well answered, but there was a significant number of candidates who limited their answer to shareholders. Some candidates chose management and employees as their two stakeholder groups, although these, strictly, fall into the single group of 'employees'. Most answers were in the context of the introduction of new technology. Weaker answers tended to list simply the impact without developing consequences by means of analysis. Very few answers attempted to evaluate the various impacts. The evaluation could have been achieved, for example, by comparing the relative importance of impacts between the chosen stakeholders. So, for example, some employees might lose their jobs - a critical factor in their, and their families, well-being, while customers might simply notice a better quality or cheaper product, which while important, will not have a great impact on them.

## Question 2

- (a)(i) Definitions of *capacity utilisation* were generally weak. Good answers either gave the formula for capacity utilisation or stated that capacity utilisation was the ratio between current/planned output compared with the maximum output possible. Some answers referred to capacity utilisation of 98% for TAC without interpreting the figure. Many candidates were unable to provide a satisfactory definition.
- (ii) Most candidates appreciated that *legal constraints* were impositions on businesses by government, but a surprisingly large number of answers referred, inappropriately, to the economic impacts on businesses (exchange rates, interest rates, taxes etc.), rather than the impact of government laws (such as in the areas of employment, health and safety, marketing). Better candidates made reference to the likely increases in business costs.
- (b)(i) Many candidates correctly recognised that the question was about choosing a sampling method, but a considerable number misinterpreted it as a question about market research methods, incorrectly discussing questionnaires etc. Few candidates put their answers into context, in that the information sought was for electronic products (suggesting that the sample might be limited to those likely to buy/sell electronic products). Context could also have been achieved through recognising that this was information on a different market for the business in a foreign country and recognising that this could have implications on the choice of sampling method.
- (ii) Good candidates observed that since the information sought was for a different market in a developing country, secondary data might be the best source to begin with as the firm would not have much knowledge of the market. Candidates' answers were generally limited to general issues relating to secondary data and therefore, did not recognise the particular importance of this source in this situation.

- (c)(i) Candidates who attempted the calculation of ROCE, generally achieved the right answer of 31%, by expressing the return (net profit of \$40million) as a percentage of capital employed (\$130million). A few candidates got the wrong answer without showing any calculations, so it was not possible to award a method mark. A small but significant number of candidates calculated capital employed divided by sales, which demonstrated both a lack of understanding of the formula and of the meaning of the concept.
- (ii) This question gave candidates a great deal of scope to use the data presented in the case material, and it was generally answered well. Most candidates commented on the result of the calculation in (c)(i), with a few simply repeating the result without any interpretation. Many candidates also mentioned other ratios such as gross and net profit margins. Stronger candidates recognised the different patterns and attempted to explain these differences. For example, a decline in gross profit margin suggests possibly falling prices, or increased costs of goods sold, whereas the increased net profit margin suggests improvements in controlling expenses. The best answers made judgements on the performance of the business (generally considered to be improving), but this was not required either by the question (which was 'analyse' rather than 'evaluate') nor the six marks available.
- (d) Ten mark questions on this paper will always require candidates to demonstrate evaluation skills, and this question was no exception. The intention of the Examiners was that candidates would analyse the positive and negative impacts of HRM on the new factory and then draw conclusions as to whether the function was important or not. Many candidates analysed the function but then did not evaluate, i.e. draw conclusions as to the importance of it. A large number of candidates did not answer the question in the context of the data that was given, but wrote general essays on the importance of HRM that would apply in almost any situation. At most these candidates could be awarded four marks because their answers were not in context even though they demonstrated good understanding of HRM issues. Context that was critical to the discussion was that a totally new and complete workforce would have to be recruited as the new factory was to be in a developing country in which this business had no experience. Planning and start up issues would have to be addressed, and training and management would be very important, particularly as the product, electronics, would require a highly skilled work force. The best answers concluded that HRM was critically important in this situation, more so than at their existing factory. A few candidates answered in terms of the Human Resource Manager (a person) as opposed to Human Resource Management (a general management approach). However, this unexpected interpretation of the question was suitably rewarded where knowledge of HRM techniques was demonstrated.

**Paper 9707/03**

**Case Study**

### **General comments**

The overall performance of candidates was very varied on this paper. Although there were some very strong performances from some Centres and a pleasing number of outstanding scripts there was considerable evidence that many candidates had not prepared themselves adequately for this examination. There were some significant gaps in many candidates' grasp of important subject material. Although it is expected that, in any examination of this standard, there will be a few candidates who have not revised across the whole syllabus, the results of this paper indicated that a higher proportion than on previous occasions had really important gaps in knowledge of Business Studies concepts and techniques. The previous Principal Examiner Reports on 9707/03 have tended to focus on weak skills of application and evaluation. These weaknesses tend to prevent even well informed candidates of Business Studies from gaining access to the higher levels of the mark scheme. In the case of this examination it was the significant gaps in knowledge that prevented many candidates from attempting meaningful answers to several of the questions.

It is strongly recommended that all candidates, especially, perhaps, those who are preparing for A Level examinations through independent study, obtain a copy of the syllabus and tick off each important topic as it is studied and understood. The support material on the CIE website and the texts that are available for this syllabus should help to provide the required level of understanding of all of the important syllabus areas.

**Comments on specific questions**

- (a) This question covered a topic that is well understood by most candidates. In most of the answers there was a copious list of factors that could influence location decisions. Many of the clues contained in the case study were also referred to and this was encouraging as application to the business in the case is a key skill on this paper. Higher mark levels were not gained, however, in many cases due to rather weak analysis and no evaluation. Analysis marks were available if candidates explained a locational factor in detail. For example, "if a site is chosen with lower labour costs then this would reduce the direct costs of the business and help to make the firm more competitive". One candidate analysed correctly that "lower fixed site costs would reduce the break-even level of output of the new machine". "Discuss" is a prompt word that requires candidates to weigh up issues and to demonstrate judgement. In this question, this could have been effectively achieved by identifying those factors that the candidate considered to be most important in this case – and then explaining why.
- (b)(i) Many candidates were completely unaware of this concept. There were many incorrect references to profit and appraising the returns from the new product but only a few candidates - and these tended to be clustered in certain Centres – were able to identify the three main constraining factors that influence value analysis. These candidates demonstrated that this question was not difficult as long as there was sufficient understanding of the knowledge involved.
- (ii) This question led to some very good answers. It was noticeable how candidates were able to develop their answers in ways that allowed for full application of the mark scheme in two or three relatively short paragraphs. Many candidates identified the "price skimming" strategy as being appropriate in this case. They then explained how this strategy worked, why it was relevant to the Autotrac - given its unique design and high research costs - and evaluated it by dismissing one or two other possible pricing strategies. Weak candidates wrote in very general terms about price or the marketing mix without demonstrating a genuine grasp of pricing strategies and their possible relevance in this case.
- (c)(i) Again, the correct approaches to this question tended to be clustered in certain Centres that had taught this decision making technique comprehensively. Without working through similar examples of decision trees it is very difficult for candidates to manipulate examination questions on the topic successfully. There were several candidates who were aware of the need to multiply the probabilities by the economic outcomes but who failed to either add up their results or, having added them, failed to subtract the \$3m of initial cost. Nevertheless, these candidates were well rewarded for their efforts as they had, generally, shown clear workings for the Examiner to credit.
- (ii) Clearly, no experience or knowledge of the technique again prevented the majority of candidates from making a realistic attempt at this question. It is important for candidates to recognise that many more questions such as this - about decision trees and other quantitative techniques - can be expected on future Case Study Papers. The Principal Examiner believes that it is very important for candidates to be able not just to work through a numerical question but also to evaluate both the result and the technique used.
- (d) This question allowed candidates to demonstrate a good knowledge of ratios - not all of them relevant! Many answers included liquidity ratios and the results of these allowed an analysis of the availability of internal sources of finance. Calculating the gearing ratio also gave an opportunity to discuss the suitability of external finance for this project. Although analysis marks were frequently awarded, evaluation marks were much harder to award. Candidates needed to justify, in the context of the case, the most suitable method of finance. The use of the prompt word "recommend" really does require candidates to justify the source of finance that they consider to be most suitable for this business.
- (e) Many candidates seemed surprised by this question and had little relevant knowledge to offer in response. There were quite a few answers that concentrated on forms of business organisation - not organisational structure. Some answers tended to produce a very hierarchical organisational chart and tried to justify this – when the case study suggested that it was just this kind of structure that was causing problems for the business. Better answers concentrated on a flatter, more decentralised structure and a few really good answers analysed the application of a matrix organisational structure for this business, especially if it was going to expand with new products and divisions. Again, evaluation marks were rarely awarded unless candidates were able to support and justify their proposals for this specific business.

## Conclusion

The following advice is offered to Centres as a consequence of this Case Study examination. Firstly, the complete syllabus needs to be covered - AS as well as A Level extension topics – for Paper 3. The Principal Examiner will attempt to ensure that, over a period of time, all major topics and techniques will feature on this paper and it is unwise for Centres to attempt to question “guess” on the basis of past papers. This particularly applies to the quantitative techniques which proved to be the major problem experienced by some candidates with this paper. Secondly, the importance of applying answers to the business within the case study must be continually stressed. It is considered that candidates from some Centres would benefit from more extensive experience of working through past case studies and their mark schemes so that the significance of the marks awardable for application is made clearer. Thirdly, many marks are being lost by candidates - some of them very well prepared in terms of subject knowledge – who fail to spot the questions asking for evaluation. Some extra guidance on the key prompt words that demand evaluation is advisable as well as more detailed guidance on how evaluation marks may be gained. The CIE specimen papers and marking schemes would be a very useful starting point for Centres and Teachers that wished to obtain further guidance on how this very important A Level skill is assessed by Examiners.

**Paper 9707/04**

**Essays**

## General comments

Most candidates were able to answer the required number of questions in the time given. However, some candidates continue to spend too much time on the first question and too little on the second. This sometimes resulted in a list approach which does not achieve high marks at this level. Centres should remind candidates that the command words in each part of the question should be identified and the correct level of response given.

Overall, the level of knowledge was encouraging, with many candidates showing evidence of current knowledge such as benchmarking and satisfying. However the majority of candidates are still failing to achieve higher marks for evaluation, and this remains a skill which Centres should aim to develop. In particular, candidates need to look at all aspects of the question and come to a balanced conclusion. Lack of this skill was evident, particularly in some of the answers to **Question 4** and **Question 2**, where candidates exhibited knowledge but were unable to use that knowledge to answer the question.

## Comments on specific questions

### **Question 1**

This was a very popular question and the best answers were excellent. However many papers only concentrated on the importance of objectives, rather than the different types of objectives and their advantages and disadvantages to the firm.

- (a) The key word in this part of the question is ‘evaluate’. Few candidates displayed knowledge of the different types of objectives, e.g. profit maximisation, growth, survival, market share and even less were able to classify the objectives into strategic/tactical or long/short term. Hence, many papers were purely descriptive and were unable to evaluate in terms of the importance of the different types of objective. The best answers were able to gain evaluation credit by discussing how objectives change due to external factors such as the environment and legislation.
- (b) This part of the question was generally well answered with most candidates gaining marks for the identification of different stakeholders. A few candidates are still confusing stakeholders with shareholders and therefore limited their ability to gain high marks. Although most candidates were able to describe why there is conflict, those who could refer to conflict resolution and/or ownership and control issues achieved higher marks.



## Question 2

This was a popular question which unfortunately produced very few good answers. Although most candidates could describe communication, very few answered the question set in either part.

- (a) Most candidates had good understanding of the factors which contribute to effective communication. Unfortunately, this only gained knowledge marks. The question required the candidates to 'assess the *effectiveness* of communication', which on the whole was neglected by the candidates. Criteria such as labour turnover, motivation, productivity, industrial disputes and absenteeism should have been discussed in the context of the business and its managers.
- (b) Some candidates had a good understanding of informal communication, but far too many talked about friendship, Theory Y and personal problems. Best answers included discussion about extra channel interaction in order to achieve objectives such as higher productivity and sales. Far too few attempted to analyse how informal communication affected the efficiency of the business and hence most were unable to achieve the higher level of response.

## Question 3

This too was a very popular question. However, it was one that provided Examiners with the greatest evidence of the candidates' inability to apply their knowledge in a given context. The best answers looked at strategy in terms of the marketing mix, including the appropriateness of the strategy to the conditions prevalent in their own country, and in particular to the product, digital cameras. The question also required an approach directly to do with the launch of the camera and not a long discussion about the whole life cycle of the product. This question was a good differentiator of those who could answer the question with selectivity and those who could not. Centres should discourage candidates from writing everything they know about the marketing mix, as this approach will gain few marks if not applied to the context of the question.

Answers should have considered the specific nature of digital cameras, market segmentation, niche marketing, branding and pricing strategy, in order to assess and evaluate the possibility of a successful launch in their own country.

## Question 4

Once again, many candidates chose to answer this question with variable degrees of success. Many candidates disadvantaged themselves by dwelling on the many methods of quality control that could be used and therefore, only achieving knowledge marks. The best answers gave examples of a variety of businesses e.g. Levis, where quality standards may be secondary to brand loyalty. Other good answers included discussion of different types of products e.g. potatoes where quality is less important than availability. Other key issues which could have been discussed were costs versus benefits of quality, inelastic demand and number of complaints/rejects. Candidates who failed to use examples were unable to evaluate the extent to which quality is essential to a successful business.

It is important that Centres emphasise the difference between those questions with a context and those without. In this case, the question was open and therefore, Examiners were looking for the candidates' own interpretation of the business.

## Question 5

This was a popular question on the paper, which produced some good answers from candidates who had a clear understanding of the need for proper cash management.

- (a) Generally, sound answers about why a business could have cashflow problems, with many candidates discussing debtors, overstocking, payment of creditors and fixed asset purchase. However, in order to gain higher marks candidates needed to explain how these factors would result in higher profit and lower cash. There was a lack of reference to profit throughout the scripts.
- (b) This question was also answered successfully, with a significant number of candidates approaching evaluation and many showing good knowledge of this part of the course. Better candidates discussed overdraft facility, short-term loans, factoring and discounts for debtors and delaying payment to creditors in relation to *both* cash and profit. However, some candidates neglected the time scale implicit in the question and spent too much time explaining the issue of different types of shares which a company could use to solve cash problems and as a result failed to attract the marks available for analysis.

**Question 6**

This was probably the least popular question on the paper. Although most candidates had a reasonable understanding of methods of production, application in context was poor and evaluation was rarely seen by Examiners.

- (a) Almost all candidates understood flow production, but explanations were vague in terms of the advantages and disadvantages to car manufacturing. Answers should have considered issues such as high capital costs, constant demand, standardisation of product and the effects on workers of this type of production. Other methods were explained but once again there was little application to the context. Best answers gave examples of niche markets and high quality requiring job production, different models using batch production and the relative advantages and disadvantages of each in different circumstances.
- (b) Most candidates were able to explain the nature of lean production, however too many answers simply outlined its features such as JIT and kaizen without considering the appropriateness to a food manufacturer.

Answers should have considered a range of situations in which lean production could be used by a food manufacturer. The very best answers included discussion about the nature of the product, raw materials required, production and delivery techniques with appropriate evaluation of the relative advantages and disadvantages of using lean production rather than *other production methods*.