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## FOREWORD

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

<p>Paper 9707/01 Short Answer/Essay</p>
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### General comments

While the Paper proved to be accessible to the majority of candidates, **Section A** provided specific challenges to some candidates (notably **Question 2**). The result was an overall performance in **Section A** of a lesser quality than in previous years.

However candidates responded effectively to the essay questions in **Section B** although once again many responses while strong in knowledge, application and analysis failed to add evaluative comments.

The majority of answers showed that the candidates had the relevant knowledge but this was not always used in the context indicated in the question. Centres should remind candidates to look for the specific way in which their knowledge should be focused if top marks are to be obtained.

While many candidates are offering some good discussion of relevant points in their answers, fewer are offering strong evaluative comments. Candidates should be reminded that, at the end of their answers, they should reflect on perhaps 'how useful'; 'the extent to which' or perhaps 'whether it is desirable'. An overall reflection of this kind must, of course, be supported by arguments in the answer and should not be merely a throw away comment at the end.

### Comments on specific questions

#### **Section A**

#### **Question 1**

- (a) The majority of candidates were able to identify two valid reasons why the market might reduce in size with the most common answers being a change in the consumer tastes, the presence of a competitor product or the obsolescence of the product. Weak responses simply stated that demand for a product had changed, but gave no explanation or reason.
- (b) Weaker answers merely reversed the words 'market size' and offered the answer as being the 'size of the market' which was not giving a clear indication that they actually had an understanding of what the term meant precisely. Some candidates confused market share with shares in the stock market. Stronger candidates described market size in terms of the 'whole market' or the 'total number of consumers that firms might aim their products at'. Other answers that showed a clear understanding made reference to the total sales of all the businesses in a particular industry.

Candidates appeared to have found it slightly easier to describe 'market share' with many candidates identifying the key factors such as a proportion/percentage of the total market that is controlled by a firm. Many candidates further illustrated this understanding by including the formula:

$$\text{Market share} = \frac{\text{Total sales of the business}}{\text{Total sales of the industry}} \times 100$$

#### **Question 2**

Answers to this question varied substantially in their quality. Some candidates referred to 'ethnic' problems due perhaps to having misread the question and the word 'ethical'.

Other candidates started to discuss what appeared to be ethical issues (for example, environment and safety issues) but then began to discuss legal issues and regulatory environments.

Good answers made clear reference to ethical issues such as the use of child labour, the polluting of the area surrounding a business or the exploitation of the workforce. Such answers often went on to explain how the business might be adversely affected by either pressure group action or the action of consumers directly. The implications were also frequently put into a manufacturing context as required by the question with consequences such as an increase in the costs of production caused by the requirement to purchase more environmentally friendly machinery or to pay higher wages for example.

### Question 3

- (a) Weak answers confused added value with mark up and interpreted the concept in accounting terms rather than in product value terms. Some candidates confused the concept with value added tax. Good candidates answered using either an economic approach by explaining the adding of value by processing raw materials into a useful item or by taking a marketing approach and adding value by expensive/exclusive packaging or by adding new features to the product. Both answers were a valid approach to use.
- (b) Many candidates were able to identify such benefits as differentiating products from those of the competitors or of being able to charge a higher price due to the perceived higher value. Answers also often followed this idea through to the point of the business receiving higher profits and thus being in a better position to develop further products or perhaps finance expansion of the business.

Weaker answers mentioned more sales and more profit without indicating any real understanding of added value.

**Question 4**

- (a) Weak candidates confused work study with market research or drifted into a general definition of the 'study of work'. Some candidates understood that work was being analysed or researched and that a standard time was being established, however a precise definition was not given. Many candidates were able to gain some marks from this question. The stronger answers not only referred to an analysis of tasks but also wrote in terms of time and method study.
- (b) Candidates were sometimes restricting their answers to the fact that efficiency and productivity of a business should increase. However, strong candidates identified the elements of being able to set a standard time thus leading to the setting of pay rates. Other suggestions were that it would allow the business to improve/change its methods of production and that it could enable a business to rule out unnecessary movements thus improving efficiency.

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

- (a) The majority of candidates were able to demonstrate knowledge of the items that appear in both a profit and loss account and a balance sheet. The purposes of such documents were outlined in the stronger answers but were often omitted from the weaker answers. Purposes such as providing a financial view to interested people were common.

Some answers highlighted the difference between the two documents. They identified the profit and loss account as being the document that showed both the gross and the net profit and as such illustrated whether or not the business was controlling its expenses. The balance sheet, on the other hand, was identified as the document that showed the 'worth' of the business. Frequently the content of both documents was given a detailed description.

- (b) The better answers maintained a clear distinction between the managers and the shareholders while weaker answers tended to discuss the 'usefulness' of the documents in a more general manner. Many scripts were able to focus on the usefulness in decision-making with regard to the managers; for example that comparisons might be made to allow them to make decisions about the success of a recently introduced strategy or about the need to control one or more of their expenses.

Decisions might also be made about the ability to finance future projects based on the profitability and the level of retained profit in the business. Shareholders were identified as requiring some evidence that their investment was likely to yield dividends and that based on the evidence of these documents they might decide to sell their shares or to buy more. Many candidates also included potential shareholders in their answer and correctly identified the fact that this group would view the financial statements of any business in which they might be considering a purchase of shares.

**Question 6**

The majority of candidates who answered this question were able to identify most of the functions of a Human Resource Manager but only the stronger answers developed in a way that explored the 'importance' of such functions to the successful running of a business. The most common functions to be identified were the recruitment, selection and training of workers. In weaker answers candidates then saw the opportunity to give an answer based on recruitment and training rather than to consider the wider role/functions of an HRM.

However, there were many excellent answers that considered the HRM function in different situations; for example if the business was expanding then it is essential that the right staff were recruited and/or trained and were in the right place when required in order for the business to be efficient and productive. The reverse scenario was also explored – that of retrenchment – together with the HRM role in such a situation.

Stronger answers reflected on the other roles within any business that might be viewed as being equally and sometimes more important than the HRM, for example the marketing manager because without successful marketing of the product or service there would not be a business for the HRM to work in. Here was an opportunity for evaluative comment. Similar reflections were made regarding the size of a business and that in a small business the HR function is likely to be undertaken by other people such as the manager/owner.

**Question 7**

- (a) The majority of candidates were able to identify advantages and disadvantages of a small business but a smaller number of candidates related their answers to 'food retailing'. Many answers mentioned the word food but their answers remained very general while others introduced clear food related points such as the ability to stock specific foods to meet the tastes of the customers as a result of the closer relationship that small businesses are able to have with their customers.
- (b) The major weaknesses in responses to this question was the one-sided answer which gave little or no critical argument to sit alongside evidence for government support for small businesses. However many candidates showed a good knowledge of the government aid available to small businesses in their own country and were able to include many good reasons, often both for and against government support in their answers.

Most candidates recognised the impact on the level of employment that small businesses can have and that this then reduced the burden on the government of supporting the unemployed of the country. Good answers followed this line of argument through to reflect on the potential positive impact on the standard of living. Other positive impacts such as providing competition for the larger, perhaps multinational, business were uncommon along with the added advantage of perhaps a reduction in imported goods and a consequent improvement in the balance of payments. A smaller number of candidates were able to recognise the possibility that this would take a lot of the government's resources and that there would be an opportunity cost incurred. Strong answers questioned the use of such money to support businesses that might then be encouraged to stay small in order to continue to receive benefits from the government. There was the argument that continued support merely breeds inefficiency and that the government should use its resources to benefit the population more directly through spending on health, education and infrastructure perhaps.

<p><b>Paper 9707/02</b> <b>Data Response</b></p>
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**General comments**

Performance on this paper was generally pleasing compared with November 2004, and about the same as June 2005. Most candidates are now able to recognise the need to put answers into context, although there was still some evidence of 'textbook' answers, most notably for **Question 1 (d)**.

There was little evidence of lack of understanding of the data response material nor of the questions asked, although some candidates struggled with the phrase 'salary only based pay system'.

There was also little evidence of time being a problem, indeed a generally better performance on **Question 2** compared with **Question 1** provides a very good indication of this.

Some candidates waste time rewriting the questions on their answer paper which is not necessary. The quality of use of language remains generally good with very few instances of Examiners being unable to understand answers.

**Comments on specific questions****Question 1**

- (a)(i) Strictly, contribution is price minus unit direct costs, however some textbooks refer to variable rather than direct costs (particularly with reference to break even) so both definitions were allowed. Most candidates were able to define the term but fewer candidates were able to develop an explanation of its meaning in terms of the relationship with indirect (or fixed) costs and profit, or its uses such as for pricing, accepting special orders and so on.

- (ii) Most candidates recognised the role of a wholesaler in the link between producer and retailer. However, many candidates needed to develop the concept by explaining that the role brought benefits of economies of scale (buying and communications) to the supply chain. While some candidates recognised that there were benefits of bulk buying from suppliers a significant number focused on bulk selling to retailers, which is likely to be much less significant.
- (b)(i) Most candidates who knew the formula for price elasticity were also able to calculate it correctly. A disappointing number of candidates got the formula 'upside down' while other candidates seem to have difficulty calculating percentages. Some candidates used the wrong years' figures.
- (ii) Many candidates stated that the calculated figure showed that travel books were elastic, however, fewer candidates recognised that the responsiveness to price would be close to proportional. A few candidates are still under the misapprehension that the PED relates to changes in profit rather than revenue. Examiners used the 'own figure rule' in assessing (b)(ii) when the answer to (b)(i) was incorrect.

*Teaching tip*

It is important that candidates understand the meaning of ratios as well as the formulae. An understanding that PED attempts to measure the responsive of sales when prices change should tell the candidate that '% change in sales' goes on the top in the calculation. Such understanding would also avoid the confusion between 'sales' and 'profit'.

- (c) Nearly all answers used the context of the data which was very pleasing. Also pleasing was the fact that most candidates developed their ideas rather than simply giving a list of relevant points. Most answers referred to the trends in book sales, while better answers introduced the concept of risk, usually noting the certainty that travel books provided a positive contribution. The answers that gained the highest marks provided sufficient discussion/analysis of the issues that it would have been a small step to make a reasoned judgement about the choice.

*Teaching Tip*

Most business decisions have influences from each of the key areas of the syllabus (marketing, hrm, finance, external factors and production). It is useful for candidates to have this mental checklist when selecting relevant ideas from the 'data' and using them in their answers to this type of question.

- (d) This was probably the most difficult question on the paper and this was reflected in candidates' answers. Most candidates were able to comment on the product life cycle in general terms and demonstrate understanding of the concept of a product portfolio. Some candidates discussed these concepts in pure 'textbook terms' without reference to the data in the case (either in terms of using the sales data, or the variety of products currently sold by the shop). A few candidates attempted to apply the concepts to the shop rather than the range of products it sold, which created difficulties for the candidate. A small number of candidates confused issues by introducing a third concept – The Boston Matrix. Better candidates were able to comment on individual products within the shop. They used the sales data to illustrate how, for example, extension strategies might be used for products seemingly in decline, and different pricing strategies could be used for products that seemed to be at the introduction or growth stages of their cycles. Very few candidates were able to evaluate the usefulness of the concepts, either in terms of developing the concept that a portfolio of products at different stages could reduce risk and that Sophia had a good mix, or that any marketing decisions would have to be made on the strength of a range of considerations, not just that of the product life cycle. An answer anticipated by Examiners, but rarely seen, was that the sales data given was for only one small shop and, at best, an indication of products in their life cycle. It is worth mentioning that many candidates drew a typical product life cycle, and it is acceptable to do so if it helps the candidate's explanation.

*Teaching Tip*

If candidates are tempted to use a question to show 'everything they know' about a topic (e.g. those candidate that tried to develop the Boston Matrix) remind them that they should answer the question that is set and not the one they wished had been set!

**Question 2**

- (a)(i) Most candidates stated that delegation involves passing authority to perform a task or make a decision from a manager to a subordinate, but asserted, incorrectly, that responsibility/accountability is also passed down. Better answers related delegation to decentralisation or democratic styles of management. Other useful explanations included the impact it could have on motivation. A few weaker candidates confused delegation with 'telling workers what to do'.
- (ii) The explanation of working capital was generally well done. Most candidates defined the term as current assets less current liabilities. Many better answers developed the idea through explaining that the finance was needed for the day-to-day running of the business, often described as the lifeblood.
- (b)(i) Surprisingly and pleasingly most candidates calculated the correct answer of 3. Some candidates spoil their answer by attributing units to their answer (e.g. \$, %) and lost a mark, although 300% was allowed as this is acceptable in some textbooks.
- (ii) Some candidates simply repeated that the ratio had the value of 3, without interpreting the figure. A few candidates described the result as 'good', and that it showed that the firm was profitable, which is an incorrect interpretation. A pleasing number of candidates observed that the answer was above the guideline range of  $1\frac{1}{2}$  to 2, and hence the firm had idle working capital leading to inefficiencies.
- (iii) Many candidates gave a 'textbook' answer to improving the management of working capital which usually presumes a shortage. So, there were many answers that referred to using debt factors, reducing credit to customers, increasing credit with suppliers and so on. Introducing JIT was frequently mentioned but seems inappropriate for a hotel. None of these answers related to the situation described which was that there was an excess of cash, that cash was managed in a haphazard way, and that the business was a hotel. Better answers developed ideas for employing the surplus productively, and introducing better cash and stock management systems. For example, it seemed odd having excess cash and an overdraft. Those answers that did recognise the context generally gained full marks.

*Teaching Tip*

Many financial ratios are calculated mechanically without thought either to their meaning or their usefulness. Candidates should look for additional 'data' in the text to help with their interpretation (in this instance the comments that managers have authority over their own budgets and that managers decide what to do once a year with surplus cash).

- (c) Some candidates misunderstood the phrase 'salary only based pay system' and referred to a 'based pay system', however, most of these answers demonstrated some understanding of pay systems and their relevance to The Sun Hotel. A few candidates thought that pay would be the same for everyone at the hotel, which was a misinterpretation. The better answers related to the facts that some staff were unhappy, a competitor was offering a better pay structure, that this business is in the service sector and that a variety of staff, not just those in contact with the public, need to be effective for the business to be successful. Many candidates discussed related issues such as fairness, motivation or the importance of job security. The best answers, of which there were few, made a justified recommendation having identified the key factors. Weaker answers used the question as a platform for describing motivation theories without linking the theories either to pay or the situation in the text. There was often much discussion of non-financial motivators which needed to be more strongly linked with the question which was about pay systems – this could have been achieved by demonstrating that they might be useful complements.

*Teaching Tip*

Questions relating to pay and/or motivation lend themselves to candidates going 'overboard' with theories. Get candidates to focus on the question, extract the relevant information and work their way towards an answer to the question asked. The theories are a means to an end and not the end in itself.

- (d) Many candidates made this question more difficult than it needed to have been. The simple issues were that the hotel relied on foreign tourists, and that it might use products that are imported. A higher exchange rate would make the hotel less attractive to tourists, because their currency would now buy less of the local currency, but that materials may become cheaper. These would both have an impact on The Sun Hotel's profits. A few candidates saw the relationship the wrong way round, while others were clearly discussing interest rate changes. Some candidates confused hotel prices with the costs to tourists in their own currency.

*Teaching Tip*

The 'economics' part of the syllabus can be misconstrued as a short course in economics. The intention in this syllabus is to focus on 'what is the impact on a business of.....', and detailed teaching of economics concepts should be avoided.

**Paper 9707/03**

**Case Study**

**General comments**

It is pleasing to report a further increase in the numbers of candidates taking this A Level examination. Despite this substantial increase in candidate numbers, overall standards have been maintained and there is further evidence that many established Centres are becoming more expert at teaching the course effectively and preparing their candidates very well for the challenges presented by this three hour paper.

The switch to one A Level paper has been very smooth. There is no indication at all that candidates are unfairly compromised by having to display their knowledge and other examination skills in just one paper rather than two. There is virtually no evidence of a serious time constraint on this paper and any gaps that did exist in scripts seemed to have been the result of a lack of knowledge rather than time.

The demonstration of the skill of application is improving but there is still substantial room for further improvement. The importance of this skill to the case study paper cannot be over-emphasised. When candidates clearly place their answers in the context of the case study there is real evidence that they have been able to use their knowledge to address problems faced by a particular business. This is so important, not just to their final A Level result but also to their effectiveness as potential managers and directors. Sheer knowledge, without the ability to select and apply it to a one-off situation, is of limited use in the real world of business.

The skill of evaluation must be demonstrated in context too. Examiners are instructed not to award marks to answers that merely demonstrate pre-learned 'off the shelf' evaluation. Judgement, to be worthy of credit at A Level, must be applied to the business situation of the case study. This point is made more clearly in the question reports that follow.

**Comments on specific questions**

**Question 1**

Candidate knowledge of the main issues and arguments concerned with decentralisation was, generally, excellent. Most answers started with an effective definition of the concept – always a good starting point as it tends to give the whole answer real focus. The potential advantages and disadvantages of decentralisation were also effectively discussed with very few answers failing to consider both pros and cons.



The main problem that prevented even some able candidates from scoring more marks on this question was the failure to apply to Mercado. There were several opportunities to do this. The geographical dispersion of the business, the plans to open a new factory in another country, the growth of the business in recent years – these were just some of the opportunities that candidates could have taken advantage of to apply their knowledge of the concept to this business. Final evaluation was often weak. One of the best answers referred to the 'problems of introducing a policy of decentralisation in an organisation with an established centralised and autocratic culture without substantial training of the inexperienced junior managers'. This demonstrated a genuine grasp of the concept in the context of Mercado.

### Question 2

- (a) The investment appraisal calculations were meant to be accessible and so they proved to be. Most candidates gained substantial marks on this question with the ARR calculation, as expected, turning out to be more challenging than the NPV one. Candidates should be encouraged to lay their workings out carefully and to indicate clearly their final answer. In some cases it was very difficult to pick out from the calculations what the final answer was.
- (b) This question was designed to allow candidates to show an understanding of their results. Answers were often just theoretical – explaining what these two investment appraisal methods measure – or were just applied to the case – indicating whether Option A or B had achieved a 'better' result. The most complete answers – which were not necessarily long – did both of these things as well as recognising that the cash flows were only forecasted and/or qualitative factors should be considered by managers too.
- (c) A few candidates wrote their entire answer from the viewpoint of the benefits and drawbacks to the country – not to the business – and this was not acceptable. The majority of answers were well focused, however, and often applied to this manufacturer of electrical goods. Final evaluation was often weak, again, and only occasionally was reference made to an overall judgement about the suitability of the country for this firm's factory.

### Question 3

- (a) Again, most candidates gained many marks on this part. Some ingenuity was required for calculating ratios other than the 'debtor days' ratio as the data given was not as complete as some candidates were expecting. This could be considered quite a normal situation for managers to cope with and answers that attempted ratio calculations based on stocks and sales turnover received full credit.
- (b) It was expected that the focus of this answer would be on how to reduce debtors and stock levels – and most candidates spotted this and gave a good account of how Mercado might achieve just this. For application and evaluation marks to be awarded there had to be some direct reference to the business and this could have taken various forms. One way was to comment on the actual results obtained in (a). Another approach was to discuss the problems of being uncompetitive with other firms in a competitive industry if debtors were pushed for quick payment too fiercely. Likewise, the drawbacks of cutting stocks in an industry where consumer choice and quick delivery might be crucial factors were discussed by some candidates.

### Question 4

- (a) This question was answered more effectively than a similar one on a previous paper so Centres are teaching this more effectively. Good knowledge was often demonstrated but many candidates had problems either analysing the benefits or applying to this business.
- (b) This proved to be an accessible question that led to some well applied answers. Clearly, the main marketing issues were not difficult to spot but evaluation was often not strong. The key prompt word was 'evaluate' and this required candidates to select the most important factors that were likely to affect the success of this product. The approach of too many candidates was to suggest that 'everything is very important' but this lacks selectivity and judgement. Centres are encouraged to give candidates practice at making choices and selecting and justifying the most significant issues in decision making case studies rather than just listing and explaining all relevant subject knowledge.

**Question 5**

This question led to some of the most disappointing answers. Many answers overlooked the key word 'economic' so a large number of candidates considered legal and social issues at great length. For many candidates who correctly read and understood the question, the analysis was straightforward but, again, it was the skill of evaluation that often deserted them. Which economic factors are likely to be the most significant and why? Why might this business be able to protect itself from many of these economic changes or, on the other hand, why might Mercardo's future depend so much on a few significant external economic factors?

**Question 6**

This was less popular than **Question 7** but it often led to better answers. It may have been the nature of the question which demanded that candidates make a clear choice between continuing production or not but, pleasingly, most answers were able to demonstrate all four examination skills. Only better responses, however, really got to the real heart of the issue of whether the long term future and profitability of this business would be better served by ceasing production as soon as possible – with the resulting loss of short term profits – or whether it was worth the business taking the risk to continue operating from the factory for as long as possible. The role of pressure groups, bad publicity and possible government action all needed to be fully discussed and, in a few outstanding answers, they were.

**Question 7**

Unsurprisingly, this question led to some very long answers but they were not all well applied to this case and the problems faced by Mercardo. Knowledge of motivational theory and financial and non-financial methods of motivation was extensively demonstrated by most candidates. What was often lacking was any attempt to apply these to the particular motivation and alienation problems faced by this business. Evaluation was often weak too. This common problem was highlighted by one candidate who, at the end of a four page answer detailing around twenty possible motivational strategies stated at the end that 'so all of these are very important for Mercardo'. This lack of selectivity and justification for one course of action or another was a common weakness and prevented many well detailed answers from gaining the marks that their writers may have been expecting. The best approach was exemplified by another candidate who, after considering a number of options, recommended the adoption of a job evaluation exercise together with TQM – but recognised the cost and training implications of adopting this advice at Mercardo.

**Final remarks**

Most Centres are to be congratulated on equipping the majority of their candidates with the detailed subject knowledge that forms the basis of all A Level answers. Hopefully, this report indicates clearly the other aspects of examination technique that now need to be focused on in normal class room teaching and assessments during the A Level course.