

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Subsidiary Level and GCE Advanced Level

MARK SCHEME for the October/November 2006 question paper

9707 BUSINESS STUDIES

9707/01 Paper 1, (Short Answer/Essay) maximum raw mark 40

This mark scheme is published as an aid to teachers and students, 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.

The grade thresholds for various grades are published in the report on the examination for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level syllabuses.

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- 1 (a)** Assets are what the company owns, liabilities what it owes.
 Full explanation of one term or partial explanation of both terms. [1]
 Full explanation of both terms. [2]
- (b)** To spread cost of asset over useful life (matching principle) rather than take full amount in year of purchase.
 For saying assets wear out, or some understanding. [1]
 Substantially full but incomplete explanation of purpose. [2]
 Full explanation of reasons, explaining how it is a "fairer" way to treat assets. [3]
- 2 (a)** Range of different products/brands which a company offers in a given market as opposed to being a single-product company.
 Partial definition. [1]
 Substantially full definition. [2]
- (b)** Companies want products in different stages of life cycle to avoid problems such as funding many new products or expensive extension strategies, manpower planning, having too many products in decline.
 Some understanding of the product life cycle shown. [1]
 Some application of the PLC to planning a portfolio. [2]
 Substantially full explanation of the importance of the PLC in this situation. [3]
- 3** Achieving effective balance between cost and benefits of holding stock. Need to give maximum customer service and operational flexibility by holding adequate stocks, avoiding costly stock-outs. Recognising cost of holding stock: financial, physical, risk of damage/obsolescence. Beneficial effects of lean production/JIT.
 Limited understanding of factors. [1]
 Good understanding of some aspects of stock control or moderate explanation of several factors. [2-3]
 Generally full appreciation of importance of stock control. [4-5]
- 4 (a)** Layers of management responsibility from top to bottom of a business.
 Partial definition. [1]
 Substantially full definition. [2]
- (b)** Matrix is cross-functional network often used for projects, new product development etc. Enables workers from different functions to work together without constant need to refer up the hierarchy, so faster decision-making.
 Some knowledge of matrix structure. [1]
 Some explanation of advantages of matrix structure. [2]
 Substantially full explanation of advantages. [3]

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- 5 (a) Market orientation means business starts from the viewpoint of what the market requires and provides goods or services to meet this need. Contrasts to product-orientated firms which aim to maximise sales of what they produce. Could mention asset-led approach, based on skills/know-how of business. It is possible for a business which sells a necessity or a product with little competition to survive, but generally successful businesses in a competitive environment need to consider what the market needs and adapt their products accordingly.
- Analysis of the significance of market-orientation in consumer goods markets (e.g. sensitivity to changing needs and expectations of consumers, and to competition). [5-8]
- Shows good understanding of a market-orientated approach. [3-4]
- Shows understanding of a market-orientated approach. [1-2]
- (b) Pricing strategies will relate to the business's objectives, e.g. market penetration, niche marketing or "me-too" products. Price is key element of marketing mix and may well determine the success of a new product, dependent on PED. Penetration pricing would be appropriate for the first objective, even destroyer pricing, aiming to beat competition or drive them out of market. Skimming might apply to niche markets, whilst me-too products tend to be price takers. Cost-plus and market-based pricing are methods not strategies, but some credit should be given for indicating that firms would need to consider price in relation to cost and competition.
- Attempt to evaluate different pricing strategies in relation to business objectives and/or market conditions. [9-12]
- Analysis of different pricing strategies in context (new product). [5-8]
- Appropriate examples of pricing strategies given. [3-4]
- Limited attempt to define pricing strategy/strategies. [1-2]
- 6 Delegation is authority given to subordinates by managers to undertake tasks for which they themselves are responsible. It involves trust, is motivational and helps development. But it involves risk and if subordinate fouls up, his superior carries the can. It requires both the right subordinate and suitable training. But delegation meets subordinates' needs, prepares succession and frees up boss to concentrate on strategic matters. It is important for an expanding business because a manager may not have the time, with involvement in expansion. Or he may need to exploit subordinates' experience of situations the manager has not met before in a dynamic environment. In a growing business, wider spans of control may be needed, requiring more delegation.
- Some evaluative comment – e.g. comment on the benefits and risks of delegation and suggesting some possible managerial responses or theoretical options in context. [17-20]
- Analysis of advantages and disadvantages of delegation for an expanding business. [9-16]
- Descriptive discussion of delegation including reference to advantages and/or disadvantages. [5-8]
- Clear explanation of the principle of delegation. [1-4]

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- 7 (a) Batch means products move in batches from one process to another, appropriate in a situation where there are various processes taking different times or a wide variety of products are produced in different quantities. Flow means products move in synchronised fashion along a production line. It usually requires standardised products and dedicated machinery, lowering the cost, reducing handling and speeding up through-flow.

Analysis of the appropriateness and/or impact of the two types of production. [5-8]

Some developed discussion of the two production methods. [3-4]

Shows understanding of batch and flow production. [1-2]

- (b) Investment appraisal techniques help businesses make decisions based on objective, quantified information rather than guesswork or hunch. It makes managers estimate investment, running costs and expected returns in advance and use appropriate criteria to decide on whether to proceed, i.e. payback time and ARR. Payback gives measure of time taken to recover investment, but says nothing about profitability. ARR is all about profitability but takes no account of timing of cash flows. Singly they have limited value, but together give a fuller picture, even if the results are sometimes contradictory. Also it may be very difficult to estimate all figures, especially returns in the future, residual value etc. Also they only consider quantifiable factors and ignore qualitative factors such as the effect on workforce, problems of servicing, flexibility etc. Firms can over-rely on investment appraisal as a technique.

Some attempt at evaluative comment on the limitations of the techniques. [9-12]

Analysis of the way in which the techniques help management make informed investment decisions. [5-8]

Discusses the two techniques in the context of the investment requirement. [3-4]

Limited attempt to explain Payback and ARR. [1-2]