

# BUSINESS STUDIES

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Paper 9707/01  
Short Answer/Essay

## General comments

This Paper proved to be accessible to candidates of all abilities. There were very few examples of candidates scoring very low marks.

Most candidates demonstrated good time management in the response to the Paper. However there is a tendency for some to spend too much time on questions in **Section A** of the Paper. This was particularly significant in relation to **Question 3** where many candidates got so involved in describing a whole range of economy of scale examples that the application of the concept to the context of car manufacturing was either ignored or referred to in a very superficial way. Many candidates do not focus sufficiently on the particular context of a question (for example **Question 7(a)**), and therefore are unable to achieve all the marks available.

There were examples of attempts to present an overall judgement through evaluative comment and discussion though they remain very much a minority set of responses. Candidates should continue to look for opportunities to make these evaluative comments. In **Question 6** for example a candidate might have analysed the views of motivational theorists to suggest where the balance lies between the impact of financial and non financial rewards in current thinking and observation.

## SECTION A. (SHORT ANSWERS).

### Question 1

- (a) The majority of candidates were able to accurately define the term 'span of control' as the number of workers reporting directly to a manager. A relatively small number of candidates confused the term with 'chain of command', 'hierarchy' or 'organisation chart'.
- (b) Most candidates could demonstrate some knowledge of an organisation chart and discuss it in the context of an employee. Stronger candidates were then able to identify an advantage to an employee, such as a reference point for authority, advice or assistance. Weaker candidates discussed organisation charts either in very general terms or in terms of how they could be useful to managers rather than employees.

### Question 2

- (a) Most candidates were able to identify one factor other than price which could cause an increase in demand for mobile phones such as marketing activity or new technological product development features. Good answers identified a relevant factor and explained how that factor could cause an increase in demand whereas weaker candidates identified an appropriate factor but did not explain how that might cause an increase in demand.
- (b) The answers to this Section were more mixed. Better candidates were fully aware of the meaning of elasticity and inelasticity and were able to score 3 marks. Weaker answers wrote quite generally about the relationship between price and demand but did not discuss these in the context of elasticity at all. Better answers showed an understanding of elasticity and more specifically relatively price inelastic demand. These answers recognised the difference between perfect price inelasticity and relative price inelasticity. They understood that elasticity is measured on a continuum and is usually not at one extreme or other. Such answers identified that sales would fall but by proportionally less than the increase in price. Correct answers also stated that while sales would decrease sales revenue would increase due to the fall in demand being more than offset by the increase in price.

### Question 3

Most candidates were able to show some understanding of economies of scale though many simply described examples without initially giving a sound definition which related falling unit costs to increasing scale of operation. Many candidates were unable to apply the concept specifically to a manufacturer of cars and did not refer to the potential importance of such economies of scale such as bulk purchasing of components. Strong answers gave relevant contextualised examples and went on to outline their importance in terms of cost, profit margins, sales, or maintaining market share in a competitive market.

### Question 4

- (a) Most candidates recognised that short term sources of finance were the most appropriate to finance revenue expenditure and were able to accurately identify relevant sources such as short term loans and sale of assets. Some candidates failed to mention a specific source, or suggested very general solutions e.g. a loan, but did not identify the source of the loan.
- (b) Good candidates were able to give a clear explanation of capital expenditure in terms of the purchase of fixed assets that will be used for more than one year. Such candidates often continued to mention that often large sums of money were involved and that such purchases were often funded by long term sources of finance such as long term bank loans or the issue of shares or debentures.

Weaker candidates often wrote that capital expenditure was the expenditure to purchase capital at the start of business. Such answers did not demonstrate any real understanding of the term.

## **SECTION B. (ESSAY)**

### Question 5

- (a) There was a general appreciation of selling shares to the general public, of boosting finance and of gaining the advantages of larger size in the movement from a private limited company to a public limited company.

Good answers to this part of this question identified perceived benefits that a limited company might gain by becoming a public limited company and then discussed the process by which those factors might prove advantageous to the plc. Strong candidates offered detailed analysis and focused on the transition from Ltd to plc. Some weaker scripts thought that the company was being taken over by the government (public sector) but many of these still talked about shares being floated on the stock exchange.

Other weaker candidates listed characteristics of a private limited company and then simply listed some characteristics of a public limited company; some of these were overlapping factors e.g. limited liability for investors, continuity in the event of the death of the 'owner' and the fact that the business would be a separate legal entity. Stronger answers avoided this overlap and concentrated on the additional benefits that would be gained from such a transition.

- (b) The majority of candidates were able to identify some relevant stakeholders and were able to discuss the possible views that might be held by the different groups. A small minority were still unable to distinguish between stakeholders and shareholders. However, most were able to quote several specific groups such as employees, managers, suppliers and customers and to say how the move affected them.

Candidates showed that they understood the possible conflict between the different groups and how they might view the transition differently. Stronger candidates discussed in detail the possible view of various stakeholders groups and arrived at an overall judgement about who might benefit most and which group would be likely to be most vehemently opposed to the move. A small number of candidates made a judgement about the relative views of the various stakeholders.

### Question 6

A significant number of candidates simply listed some financial reward methods with little analysis or comment and failed to address the extent to which such rewards motivate employees. Such candidates were usually unable to discuss motivation theorists other than a brief reference to Taylor.

Better answers identified several financial rewards and discussed why they might be used to motivate workers. Such answers often also discussed the possible drawbacks of various financial rewards e.g. that while piece rate might encourage work units to be produced there was a danger that quality would be sacrificed in order to produce more and thus get more pay. Stronger candidates discussed the relevance of financial reward in the theories of various motivational theorists.

Strong candidates focused on the word 'extent' in the question and discussed when and how financial rewards might motivate and when they might not. Some candidates identified the different stages of life when money might be more of a motivator and also that once people had a good standard of living that factors other than money should be used as motivators.

Good answers gave an overall judgement about the extent to which people are likely to be motivated by various incentives.

### Question 7

- (a) While most candidates were able to describe the essential features of a JIT system, not all were able to develop an explanation in terms of the technique being a means of control of the flow of stock in a business. Only a minority of candidates were able to explicitly relate their discussion to a manufacturing business.

Good answers linked their understanding of JIT to the manufacturing process and discussed the ordering of raw materials, through to delivery of the finished product to the final consumer. Such answers showed an appreciation of the fact that there would be less need for storage facilities for raw materials, semi-finished goods and finished items, This was often discussed in terms of the possible costs and savings involved in the storage of goods.

- (b) Many candidates were able to show an appreciation of the benefits to be gained if stock is well managed. This was often discussed in terms of over-stocking or stock outs and the possible costs to businesses. Some candidates introduced the concept of opportunity cost in their discussion.

Most candidates discussed the essential elements of an effective method of stock management but missed the opportunity to illustrate an answer with an example of how a specific method of stock management might contribute to business efficiency.

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Paper 9707/02

Data Response

## General comments

On balance candidates performed about the same as in previous sessions in the paper overall. However, unusually there was a clear distinction between the two questions in terms of candidates' performance. **Question 1** was done surprisingly and pleasingly well as was the break even task in **Question 2**. However, the remainder of **Question 2** was not generally tackled well. The strength in the answers to **Question 1** lay in the ability of the candidates to relate to the data response material. The weakness in the answers to **Question 2** was the opposite; there was far less evidence that candidates could relate to the issues faced by the business. Consistent performance across both questions would have improved the grades of many candidates. There was more evidence than usual of a lack of planning time effectively and this reflected adversely on latter parts of **Question 2**. There was more evidence of too much time spent on lower mark questions leaving insufficient time for the whole of **Question 2**. The other difficulty is more surprising: candidates seem better able to relate to an oil company than they are a school or college! It is important for candidates to realise that businesses can operate in a variety of situations including the provision of services and trading with other businesses.

### Teaching Tip

Effective time management is an essential skill at AS/A Level. Allocating sufficient time for higher mark questions should be encouraged as should practise at time management.

## Comments on specific questions

### Question 1

- (a) (i) Most candidates were able to explain the trading of shares for public limited companies. Fewer candidates were able to mention the important role of the stock market as a source of finance. It is worth mentioning that stock markets around the world are diverse in nature and Examiners were able to recognise and reward a variety of interpretations.
- (ii) Many candidates were able to explain accounting rate of return as a method of investment appraisal. Some candidates gave the formula which was helpful. A common mistake was to describe the method in terms of "profits" rather than "net cash flow". The best answers referred to the use of ARR in comparing projects.
- (b) This question was answered very well by many candidates who recognised the key pieces of relevant context – the previous very high profits, the impact of inflation on employees and the new oilfield with associated extra demands on workers. Particularly pleasing were those answers that related the impact of inflation on workers' demands for wages. A few answers focused on the benefits to the company rather than the workers. Poorer answers were generally weak in their use of context.
- (c) Of all the questions on this paper, this part gave the widest range of marks. The weakest answers confused the term "stakeholders" with "shareholders" so only covered part of the question and used little or no context. Some weaker answers provided a list without analysis. Stronger answers discussed several stakeholders, showed good understanding of their likely uses of the accounts and related these answers to the situation described in the data. Important issues in the case were the need for Zeta Oil (ZO) to raise finance in the future for their expansion (relevant to shareholders and financial institutions), the fact that they had solved working capital problems (relevant to both

customers and suppliers), and the development of the oilfield which might raise environmental concerns to the community and the government. Good answers also related the trend in profits to various stakeholders.

- (d) Candidates, on the whole, have a good understanding of the influences of the government on businesses. However, a disappointing number of answers had little or no relevance to ZO. There were some outstanding answers that recognised that the government plans to research more environmentally friendly sources of energy which meant the potential for increased competition in the future for ZO and other oil companies. With consumers likely to want environmentally friendly products, this might be a major threat to ZO. Good answers also mentioned likely environmental controls on the company and the new oilfield, and the possible impact of macro economic policies on ZO's need to raise finance. Price and wage controls were also mentioned, which might be a reality in some countries but not others – Examiners were able to accommodate the differing circumstances that might apply internationally. There was little attempt to evaluate the impact of government on ZO. This could have been achieved either by identifying the critical impacts or through balancing the likely negative impacts with the positive ones.

#### Teaching Tip

Candidates should be encouraged to analyse questions to enable them to recognise how evaluation skills can be demonstrated. They should then be given opportunities to make judgements, prioritise and assess the importance of issues.

#### Question 2

- (a) (i) Most candidates understood the term “limited liability”. Better answers mentioned the impact of liability on partners and gave examples of circumstances in which partnerships are likely.
- (ii) Most candidates had some understanding of the term “variable cost” however there were a few candidates who confused variable costs with fixed costs and others who thought that they were costs that varied over time rather than in relation to output. Better answers gave examples, although these were sometimes wrong (e.g. rents) and sometimes more likely to be semi-variable such as salaries. It is better to choose the less controversial examples such as raw materials.

#### Teaching Tip

Examples are a very good way of explaining terms. For part (a) of each question they do not need to be drawn from the data response material, although sometimes this can be useful. Examples should be chosen carefully. For example, wages are not a very good example for variable costs as they may be fixed (e.g. salaries) or variable (e.g. piece rates).

- (b) (i) Most candidates calculated break even correctly. The most common mistake was to overlook variable costs in the calculation and calculate fixed costs/ price by mistake. A few candidates gave the answer as \$10 rather than 10 people.
- (ii) Most candidates calculated profit correctly. The most common error was in the calculation of costs, calculating fixed costs + unit variable costs rather than fixed cost + total variable costs. Some candidates omitted the units and simply wrote the answer as 300.

#### Teaching Tip

It is important to encourage candidates to show their workings, and to ensure that units are always stated.

- (iii) The best answers recognised that the results could be used for “what if” analysis, for example, changing prices. Good answers also referred to the margin of safety. Some weaker answers did not refer to the calculations or simply repeated the results in words.

- (c) Answers to this question were generally disappointing. There were many answers given that could have applied to any business. Examiners were looking for marketing ideas that were relevant to **this** particular business. That involves two aspects: first, using the data in the case; second, developing a marketing mix appropriate to this business (a small partnership). Relevant case data included the fact that customers (schools and colleges) have very limited budgets, that the “product” was a service, that the business itself had limited resources. Many answers suggested advertising the service on TV – not really appropriate for such a small business with a tightly defined customer base. A common misconception was that the people taking the courses would be children rather than teachers and other staff. There were many candidates who mistakenly interpreted “place” as the location at which training should take place, rather than the intended meaning of channel of distribution, which in this case is likely to be a direct business to school relationship without intermediaries. In this instance, the location for training was part of “product”. Few answers demonstrated evaluation skills. These could best be demonstrated by arguing which were the critical or most important marketing factors in this instance. A few answers avoided marketing issues altogether, focusing instead on HRM or financial issues which could not be rewarded.
- (d) This question was the least well done on the paper. In part this is a reflection of the fact that it is the last question, but in this instance candidates seemed not to have thought through what the case data was telling them. Many answers provided a list of the recruitment/selection procedures in very general terms. While there was some explanation – very detailed in some instances – few answers referred to the context facing the business. Good answers showed recognition that recruitment was going to be difficult because of the circumstances faced by the business, most notably that: the firm was small and needed to compete with larger firms who were also recruiting; that unemployment was low meaning that there may be few applicants; there was a shortage of trainers; trainers are skilled workers. In these good answers there was recognition that the critical factor was going to be to attract applicants, and that the procedure was secondary to ideas for attracting, such as: better conditions of employment, working for a small firm, possibly higher pay and so on.

#### Teaching Tip

In all data response papers, the data is intended to be used. Before answering a question it is essential that candidates identify to themselves all of the data in the material that is relevant to that particular question. They should then ensure that they incorporate that data into their answer. “Generic” answers, answers that could apply in many situations, cannot be highly rewarded, indeed are unlikely to achieve half marks except in part (a).

# BUSINESS STUDIES

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Paper 9707/03

Case Study

## General comments

This paper resulted in candidates scripts that varied greatly in quality. It allowed those who understood the importance of applying knowledge to the business in the case study and could show some skills of judgement to gain marks that were considerably above average. Candidates who had relevant subject knowledge and could explain or analyse their answers were also quite well rewarded. However, those candidates whose knowledge was lacking or who answered every question in a list format were often struggling to gain many marks at all. As always, there were some outstanding scripts that combined all of the important skills covered by the assessment objectives. Generally, candidates found it quite easy to gain access to this case study and the issues and problems that the restaurant business was faced with. There were very few errors involving misreading or misinterpretation of the questions which is encouraging as it is never the aim of the Principal Examiner to set questions that exclude candidates from answering effectively due to the complicated wording of the task. Perhaps due to this, there were fewer really poor scripts in this session as nearly all candidates were able to demonstrate relevant knowledge in answer to some of the questions set.

Surprisingly some Centres have reported back on this examination and commented on the lack of a question “focused on Operations Management” when **Question 5** was directed towards the appropriateness of batch production methods for this business. In addition, another comment suggested that fewer marks had been awarded for quantitative work in this paper yet the total marks allocated for calculations was similar to the average percentage aimed for over several years.

The essay questions brought forward responses of rather different quality. Whereas **Question 6** led to a good range of responses, **Question 7** was often misunderstood by candidates as being a question that required a developed marketing plan for the take-away meal project rather than a discussion of the value of such a plan.

There is clear evidence that candidates are improving their management of time during this lengthy examination. This proved to be true in both the amount of time devoted to each question - with less time allocated to the lower mark questions – and in being able to complete all questions in the time available.

## Comments on specific questions

### **Section A**

#### **Question 1**

Discuss the strengths and weaknesses of Chas and Ling’s original business start up. (14)

This was a very accessible question with many clues and hints given in the case study. Most candidates were able to gain full marks for knowledge and application to the case and many went on to explain why the points they had raised were specific strengths and weaknesses. Evaluation was often present too, either in the form of suggesting which strengths and weaknesses were of most significance to this business and why or in evaluating the relative importance of total strengths compared to weaknesses. Better answers contained this form of judgement in both the main body of the answer and in the final conclusion. A few weak answers just focused on the partnership form of legal structure.

## Question 2

- (a) Analyse TWO possible problems that might result from the approach to managing staff used within the Asian Experience kitchen. (6)

This was the only question apart from **Question 7** that caused some confusion in a few students' minds as occasionally answers focused on the Curry Cuisine restaurant and not the Asian Experience. Given the clarity of both the case study and the question, this was not considered to be an acceptable response. The great majority were able to identify problems of motivation, labour turnover, absenteeism and moves to join trade unions as being the likely consequences. Most answers explained two of these briefly but only some candidates were able to effectively put the problems caused by the management of staff into a kitchen/restaurant context.

- (b) Evaluate the appropriateness of Ling's approach to managing staff within the Curry Cuisine restaurant. (14)

The general level of understanding about motivational theories and how the findings of them might be put into effect by a business is very high. Many candidates gained full marks for subject knowledge and analysis in this question. This desire to demonstrate knowledge and analytical skills often clouded the remainder of the answer, however. The question required candidates to apply their understanding of the staff management approach adopted by Ling to a restaurant context and a surprisingly high proportion of answers failed to do this. Is team work and delegated authority appropriate in a busy restaurant? Some of the better answers were able to discuss the benefits of involving staff more in decision making within a kitchen and restaurant and illustrated this approach with some good examples of how decision making might be improved in the areas of customer service and menu choice, for example. On the other hand, it was argued by candidates who understood the importance of evaluation in context, that matters such as health and safety and standards of cleanliness in a kitchen and restaurant were just two instances when a more democratic approach to decision making might be inappropriate.

## Question 3

- (a) Draw up a forecasted Profit and Loss Account for 2008 using the data in Appendix A and the management consultant's estimates. (8)

As always when marking answers to questions such as this the Examiner is asked to apply the "own figure rule" and there were many candidates who gained high marks on this question even though the completed account was not 100% correct. The main problems were in calculating the new gross profit figure and not adding the additional interest costs to the existing interest charge.

- (b) Briefly assess TWO ways in which the gross profit margin could be raised for the take-away products. (8)

The question was quite clear in asking candidates to refer specifically to gross profit *margin* – not just gross profit. Candidates who were aware of the important distinction often started their answers with a definition or formula for the gross profit margin which helped them focus on appropriate suggestions. Answers that merely focused on "increasing sales or revenue" or "reducing costs" were not rewarded. Good answers focused on raising prices for take-away meals and reducing variable costs per unit, for example by using cheaper packaging. These points were then analysed and evaluated. For example, would cheaper packaging have a negative impact on the quality image and hence the sales of the take-away meals?

## Question 4

To what extent do you agree with Ling that the business would have problems raising the capital needed for the "ready made meals" project either from internal sources or from a loan? The use of relevant accounting ratios to support your judgement will be rewarded. (14)

Some candidates struggled to think of or calculate any "relevant accounting ratios" whilst many others tried to focus their answer entirely on the calculation of many ratios, quite a few of them of doubtful relevance to the issue of raising finance. A compromise was clearly required to earn high marks and, pleasingly, many candidates used both a liquidity ratio and the gearing ratio to help support their judgements on the most suitable forms of finance for this project. The analysis of ratio results was often good but tended to be rather



rigid with statements such as “any current ratio result less than 1 means the business is in a liquidity crisis and will be unable to raise internal finance”. Balance is often needed when discussing ratio results and this was certainly the case with the results from this business. Quite a few answers suggested that both internal finance and loan capital might be difficult to obtain for this business, especially for the sums involved, and evaluated the possible impact on Ling and Chas’ control over the business of its conversion to a limited company to raise equity finance.

### Question 5

Evaluate the advantages and disadvantages to Curry Cuisine of using batch production methods for the “ready made meals” project. (16)

This was a question that was clearly asking for candidates to start with a good definition of batch production but how these varied! Many attempted definitions resorted to stating that batch production is “producing goods in batches” without explaining the key features of the process involved. There was also quite a lot of confusion between batch production and flow production. Many candidates who clearly understood the process of batch production and had understood the context in which it was being applied in this case were able to give an outstanding analysis of the consequences of it for this business – both positive and negative. Many answers then went on to weigh up these points and give a recommendation or conclusion suggesting what the overall impact would be likely to be. The best answers recognised the operational benefits of this method but queried whether the traditional food image that the business had built up would be damaged by this switch away from “hand made” job production.

### Question 6

Discuss the extent to which the successful expansion of a business such as Curry Cuisine is helped or constrained by the external factors of technological change and the legal environment. (20)

This was well answered by most candidates who attempted it although a few just concentrated on either technology or legal changes. Some candidates chose to focus on “expanding businesses” in general and this was acceptable as application but most answers made specific references to the case study business. The better answers were able to develop arguments both for and against changes in technology and new laws. For example, the legal system is likely to constrain many decisions taken by a catering business from health and safety to the accuracy of advertising of ingredients used in the meals. Although these legal limits impose responsibilities and restrictions on the business, which can add considerably to costs, the additional assurance offered to both staff and customers by the business openly adopting these legal standards could lead to substantial benefits too.

### Question 7

Assume that Chas and Ling decide to go ahead with the “ready made meal” proposal. Evaluate the arguments for and against developing a marketing plan for this project. (20)

The misreading of this question by many candidates has already been referred to in the introduction. Writing about the marketing plan that the business could use for this new project did not prevent candidates from gaining some credit for their answer as references were frequently made to the need for marketing objectives and market research, both of which are very good reasons for developing a marketing plan. However, the key point of the question which some candidates understood and responded to very well concerned whether this business should commit the time and resources to developing a marketing plan for the new business proposal. These answers focused on the potential benefits of a clear set of objectives, a well thought out budget and an integrated marketing mix. This was often balanced by considering the resources needed and whether this business could afford these or the time needed to prepare the plan. Really good answers questioned the need for one as the ready made meals were not *that* different from the products the restaurant business was already supplying. In addition, some answers continued, could not the business model of existing successful ready made meal firms be copied which would save both time and money? The key point demonstrated by answers to this question was the importance of a gaining a really clear understanding of the demands of the question.