



Cambridge International Examinations
Cambridge International General Certificate of Secondary Education

BUSINESS STUDIES

0450/12

Paper 1 Short Answer/Structured Response

March 2017

MARK SCHEME

Maximum Mark: 80

Published

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

Mark schemes should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

Cambridge will not enter into discussions about these mark schemes.

Cambridge is publishing the mark schemes for the March 2017 series for most Cambridge IGCSE[®], Cambridge International A and AS Level components and some Cambridge O Level components.

© IGCSE is a registered trademark.

This syllabus is approved for use in England, Wales and Northern Ireland as a Cambridge International Level 1/Level 2 Certificate.

This document consists of **11** printed pages.

| Question | Answer | Marks |
|----------|---|----------|
| 1(a) | <p>Identify <u>two</u> ways to measure the size of a business.</p> <p>Knowledge [2 × 1]: award 1 mark per measure.</p> <p>Points might include:</p> <ul style="list-style-type: none"> • Value of sales OR value of output OR revenue • Market share • Number of employees • Value of capital employed OR value of balance sheet <p>Do not accept profit or answers that refer to number of sales/ output, outlets</p> | 2 |
| 1(b) | <p>Identify <u>two</u> reasons why a Government might increase taxes.</p> <p>Knowledge [2 × 1]: award 1 mark per reason</p> <p>Points might include:</p> <ul style="list-style-type: none"> • Generate revenue / pay for government spending • Discourage purchase of harmful / demerit products • Manage demand or control / reduce inflation • Influence level of imports or exports • Make polluter pay • Influence location of businesses • Redistribute income | 2 |
| 1(c) | <p>Identify and explain <u>two</u> possible reasons why sales promotions might not have been successful for TXE</p> <p>Knowledge [2 × 1] – award 1 mark per reason identified Application [2 × 1] – award 1 mark for each explanation in context</p> <p>Points might include:</p> <ul style="list-style-type: none"> • Better offers / deals available [k] offered by the competition [app] • Wrong sales method used [k] e.g. don't want extra food [app] • Wrong (marketing) message used / customers not aware of offers [k] in its 200 shops [app] • Rewards not exciting / don't like the offers / not value for money [k] <p>Application marks may be awarded for appropriate use of the following: food (retailer), 200 or 50 shops, competition, profit fell by 10%, clothing, increased taxes</p> | 4 |

| Question | Answer | Marks |
|----------|---|----------|
| 1(d) | <p>Identify and explain <u>two</u> factors TXE should consider when deciding which shops to close.</p> <p>Knowledge [2 × 1] – award one mark for each factor identified Application [2 × 1] – award 1 mark for each relevant reference made to this business Analysis [2 × 1] – award 1 mark for each relevant explanation</p> <p>Relevant points might include:</p> <ul style="list-style-type: none"> • Rent / rates [k] as increased taxes [app] could make some sites too expensive to run [an] • Number/type of shops in area [k] as increased competition [app] could reduce sales [an] • Space / access [k] if decide to sell wider range of products [app] may not be room to display everything [an] • Level of demand/ where there customers are/ value of sales [k] • Economic state of area e.g. Is area in decline [k] • Local labour costs [k] • Profitability of each shop [k] <p>Application marks may be awarded for appropriate use of the following: food (retailer), 200 or 50 (shops), profit fell by 10%, clothing, increased taxes, competition, may decide to sell wider range of products</p> <p>Do not accept <u>shops</u> as application, as stated in question</p> | 6 |
| 1(e) | <p>Do you think TXE should sell a wider range of products? Justify your answer.</p> <p>Knowledge [1] – award 1 mark for identification of relevant issue(s) [max 1] Application [1] – award 1 mark if relevant reference made to this business Analysis [2] – award up to 2 marks for relevant development of point(s) Evaluation [2] – justified decision as whether TXE should sell a wider range of products. Either viewpoint is acceptable.</p> <p>Relevant points might include:</p> <ul style="list-style-type: none"> • Broaden target market/ increased sales [k] could help spread risk [an] so less reliant on food [app] • Cost of additional inventory [k] which will increase variable costs [an] • Space [k] as need to store / display the new clothing [app] • Reaction of competitors [k] could reduce revenue [an] • Size of market [k] • Lack of experience [k] as a food retailer [app] so workers may need training [an] increasing its costs [an] <p>Application marks may be awarded for appropriate use of the following: food (retailer), 200 or 50 shops, profit fell by 10%, clothing, sales promotion not successful, increased taxes, blames competition</p> | 6 |

| Question | Answer | Marks |
|----------|--|----------|
| 2(a) | <p>What is meant by ‘batch production’?</p> <p>Clear understanding [2]: e.g. products are made in groups of items of a certain amount; OR a quantity of one product is made and then a quantity of another [2] Some understanding [1]: identifies one distinct feature of batch e.g.</p> <ul style="list-style-type: none"> • Made in (small) groups or sets • Usually to meet a specific order / as orders come in • Groups that move through production process together <p>Do not accept ‘batch’ as part of answer, as stated in question.</p> | 2 |
| 2(b) | <p>Calculate the following values in June.</p> <p>Application [2 × 1] award one mark per answer Net cash flow: 40 or 40 000 Closing balance: (10) or (10 000)</p> <p>Note: answer for closing balance must be shown as a negative value.</p> | 2 |
| 2(c) | <p>Identify and explain <u>two</u> advantages to QAC of having a high level of inventory.</p> <p>Knowledge [2 × 1] – award 1 mark per advantage identified Application [2 × 1] – award 1 mark for each explanation in context</p> <p>Points might include:</p> <ul style="list-style-type: none"> • Able to meet orders straightaway [k] to meet increased demand [app] • Benefit from economies of scale / bulk buy [k] as discounts reduce cash outflow [app] • Production does not stop [k] which is important if change to flow production [app] • Avoid supply problems [k] as some chemicals might be difficult to obtain [app] • Able to increase scale of production [k] for its 70 products [app] <p>Application marks may be awarded for appropriate use of the following: correct use of data in table 1, \$10m, batch or flow production, reference to soap or polish, 70 products, cleaning products, increased demand for two products</p> | 4 |

| Question | Answer | Marks |
|----------|---|----------|
| 2(d) | <p>Identify and explain <u>two</u> ways (other than reducing inventory) that QAC could use to improve its cash flow position.</p> <p>Knowledge [2 × 1] award 1 mark for each relevant way identified Application [2 × 1] – award 1 mark for each way if relevant reference made to this business Analysis [2 × 1] – award 1 mark for each relevant explanation</p> <p>Relevant points might include:</p> <ul style="list-style-type: none"> • Ask debtors to pay quicker/ reduce credit terms [k] if they pay sooner this will increase cash inflows [an] • Delay purchases [k] could decide not to buy as much equipment [app] so keeping cash in the business [an] • Delay inventory payments [k] as \$1 20 000 paid in May [app] lowering cash outflow [an] • Arrange a short term loan / overdraft [k] • Lower fixed costs [k] • Buy cheaper materials [k] • Sell (unwanted) non-current assets [k] so releasing cash tied up in the business [an] • Delay investment/ expansion plans [k] of \$10m [app] <p>Accept practical suggestions for example:</p> <ul style="list-style-type: none"> • Reduce range of products sold [k] this would reduce the cost of materials needed [app]; • Sell more products [k] <p>Application marks may be awarded for appropriate use of the following: correct use of data in table 1, \$10m, batch or flow production, reference to soap or polish, 70 products, cleaning products, increased demand for X and Y</p> | 6 |

| Question | Answer | Marks |
|----------|---|-------|
| 2(e) | <p>Do you think QAC should change its method of production? Justify your answer.</p> <p>Knowledge [1] – award 1 mark for identification of relevant issue(s) [max 1] Application [1] – award 1 mark if relevant reference made to this business Analysis [2] – award up to 2 marks for relevant development of point(s) Evaluation [2] – justified decision as to whether QAC should change its method of production. Either viewpoint is acceptable.</p> <p>Relevant points might include:</p> <ul style="list-style-type: none"> • More economies of scale [k] possible with flow [app] lowering average costs [an] • Improve efficiency [k] as less waste [an] • Able to increase output [k] so can meet increased demand for products X and Y [app] • Cost of investment/ high set up costs [k] with cash flow problems [app] can they afford repayments [an] • Impact on employee morale [k] • Need for retraining [k] • Level and type of demand [k] as only planned for 2 products (X&Y) [app] <p>Application marks may be awarded for appropriate use of the following: correct use of data in table 1, \$10m, batch or flow production, reference to soap or polish, 70 products, cleaning products, increased demand for two products/ X and Y, cash flow problems</p> | 6 |

| Question | Answer | Marks |
|----------|---|-------|
| 3(a) | <p>What is meant by a ‘business plan’?</p> <p>Clear understanding [2] e.g. a document containing the business aims/objectives and important details about the operations, finance and owners of a business</p> <p>OR states aims/objectives and shows how business aims to achieve them</p> <p>Some understanding [1] states one element of plan e.g. shows marketing strategy/production costs</p> | 2 |
| 3(b) | <p>Identify <u>two</u> possible methods of primary market research that Ravi might have used.</p> <p>Knowledge [2 × 1] award one mark per method</p> <ul style="list-style-type: none"> • <u>(Postal)</u> Questionnaires • <u>Online</u> survey • Interviews • Observation • Focus group • Testing / trials /product samples | 2 |

| Question | Answer | Marks |
|----------|---|----------|
| 3(c) | <p>Identify and explain <u>two</u> benefits to Dipta and Ravi of acting in an ethical way.</p> <p>Knowledge [2 × 1] – award 1 mark for each benefit identified Application [2 × 1] – award 1 mark for each explanation in context</p> <p>Points might include:</p> <ul style="list-style-type: none"> • Higher revenue / demand [k] in local markets [app] • Improved brand image / reputation / customer loyalty [k] for this new business [app] • Better supplier relations [k] so able to obtain the best possible cocoa beans [app] • Investors more likely to invest [k] in this chocolate business [app] • Improve employee motivation / help retention OR help recruit [k] <p>Application marks may be awarded for appropriate use of the following: chocolate, local markets, \$500, primary market research, business plan, little experience, start-up / new business, ingredients or cocoa beans,</p> <p>Do not accept 'better quality' or 'legal' as these are different concepts.</p> | 4 |
| 3(d) | <p>Identify and explain <u>two</u> possible advantages of importing for Dipta and Ravi's business.</p> <p>Knowledge [2 × 1] – award 1 mark for advantage identified Application [2 × 1] – award 1 mark for each way if relevant reference made to this business Analysis [2 × 1] – award 1 mark for each relevant explanation</p> <p>Relevant points might include:</p> <ul style="list-style-type: none"> • Resources not available /grown in own country [k] as must be ethical [app] in order to make its products [an] • Access to exclusive resources [k] for new business [app] helping it be competitive [an] • Access to cheaper resources [k] of cocoa beans [app] could help improve profit margin / lower costs [an] • Wider choice [k] of ingredients [app] could attract more customers / sales [an] • Access to better quality materials [k] for its chocolates [app] so could charge higher prices [an] <p>Application marks may be awarded for appropriate use of the following: chocolate, local markets, \$500, primary market research, business plan, no business experience, new business, cocoa beans or ingredients, ethical (sources of supply)</p> | 6 |

| Question | Answer | Marks |
|----------|---|----------|
| 3(e) | <p>Explain <u>two</u> sources of finance Dipta and Ravi could use. Recommend which source Dipta and Ravi should choose. Justify your answer.</p> <p>Knowledge [1] – award 1 mark for identification of relevant source(s) Application [1] – award 1 mark for a relevant reference made to this business Analysis [2] – award up to 2 marks for relevant development of point(s) Evaluation [2] – award up to 2 marks for a justified decision as which is the best option to choose</p> <p>Relevant points might include:</p> <ul style="list-style-type: none"> • Bank loan [k] would have time to repay [an] the \$500 [app] but would have to pay interest on amount borrowed [an] • Own savings [k] no need to repay [an] but may not have sufficient funds [an] • Leasing or hire purchase [k] as have no business experience [app] could return equipment in case of need [an] • Micro finance [k] as new start up [an] • Government grants/ subsidies [k] • Ask family/ friends for finance [k] <p>Do not accept issue shares, debentures, retained profits or sell existing assets as not appropriate for a <u>start up</u> business.</p> <p>Application marks may be awarded for appropriate use of the following: chocolate, \$500, equipment, primary market research, business plan, no business experience, new business, ingredients or cocoa beans, ethical (sources of supply)</p> | 6 |

| Question | Answer | Marks |
|----------|--|----------|
| 4(a) | <p>Identify <u>two</u> stages in recruitment.</p> <p>Knowledge [2 × 1] – award 1 mark per stage identified</p> <p>Points might include:</p> <ul style="list-style-type: none"> • Job analysis /identify a vacancy • Job description • Person / job specification • Advertising • Shortlisting • Interview • Selection <p>Note: Answer must be from the business viewpoint not the applicant e.g. CV or letter of application</p> | 2 |

| Question | Answer | Marks |
|----------|--|----------|
| 4(b) | <p>Identify <u>two</u> possible reasons why the owners of a business might want it to expand.</p> <p>Knowledge [2 × 1] award 1 mark per reason</p> <p>Points might include</p> <ul style="list-style-type: none"> • Spread risk • Increase sales revenue • Increase profits • Increase customer base • Increase market share • Prestige/ reputation • Personal goal • Economies of scale <p>Accept any reasonable answer</p> | 2 |
| 4(c) | <p>Identify and explain <u>two</u> advantages to BGN of being a private limited company.</p> <p>Knowledge [2 × 1] – award 1 mark for each advantage identified Application [2 × 1] – award 1 mark for each explanation in context</p> <p>Points might include:</p> <ul style="list-style-type: none"> • Limited liability [k] compared to when it was a partnership [app] • Easier to raise money / capital [k] as business is expanding quickly [app] • More credibility with suppliers [k] could get better terms when buying furniture [app] • Continuity [k] • No need to publish (detailed) accounts [k] of its 10 shops [app] • Separate legal identity/ incorporated [k] • Control over who can buy shares/ less risk of takeover [k] <p>Application marks may be awarded for appropriate use of the following: furniture or similar references such as tables, 10 shops, different cities, (increase in) customer complaints, decisions over recruitment and / or inventory, started as a partnership, expanded <u>quickly</u></p> | 4 |

| Question | Answer | Marks |
|----------|--|----------|
| 4(d) | <p>Identify and explain <u>one</u> advantage and <u>one</u> disadvantage of the Managing Director's leadership style.</p> <p>Knowledge [2 × 1] – award one mark for an advantage and one mark for disadvantage Application [2 × 1] – award 1 mark for each relevant reference made to this business Analysis [2 × 1] – award 1 mark for each relevant explanation</p> <p>Relevant points might include:</p> <p>Advantages:</p> <ul style="list-style-type: none"> • Encourages loyalty / motivation [k] as managers can run own shops [app] so less likely to leave [an] • Maximise skills of employees [k] could help reduce number of complaints [app] increasing sales [an] • MD has time to focus on strategic/other issues [k] such as expansion to more cities [app] <p>Disadvantage:</p> <ul style="list-style-type: none"> • No real direction / different opinions [k] of shop managers [app] leading to wrong decisions/ disputes [an] • Employees may not have skills / experience to make decisions [k] leading to mistakes [an] when doing recruitment [app] • Higher costs [k] as shops arrange own inventory [app] so no economies of scale [an] • Work might not get done in time [k] so customer complaints [app] leading to poor reputation [an] <p>Application marks may be awarded for appropriate use of the following: furniture or similar references such as tables, chairs; 10 shops, different cities, (increase in) customer complaints, decisions over inventory and / or recruitment, partnership or private limited company, <u>expanded quickly</u>, monthly report</p> | 6 |

| Question | Answer | Marks |
|----------|--|----------|
| 4(e) | <p>Explain <u>two</u> ways BGN could try to improve internal communication. Recommend which way BGN should choose. Justify your answer.</p> <p>Knowledge [1] – award 1 mark for identification of relevant issue(s) [max 1] Application [1] – award 1 mark for relevant reference made to this business Analysis [2] – award up to 2 marks for relevant development of point(s) Evaluation [2] – award up to 2 marks for a justified decision as to which option BGN should choose</p> <p>Relevant points might include:</p> <ul style="list-style-type: none"> • Email [k] as have copy to refer to [an] but may not open when needed [an] • Text [k] can only send a short message [an] • Video conference [k] as also able to see non-verbal signs [an] • Phone calls [k] allows for feedback / two way communication [an] • Meetings [k] rather than monthly reports [app] • Change leadership style [k] from laissez faire [app] • Changes to organisation structure e.g. change chain of command [k] <p>Application marks may be awarded for appropriate use of the following: furniture or similar references such as tables, 10 shops, different cities, (increase in) customer complaints, decisions over inventory and / or recruitment, partnership or private limited company, expanded <u>quickly</u>, monthly report</p> <p>Do not accept answers that discuss external methods of communication, as this does not answer the question. Do not accept one way or two-way communication as these are classifications not ways</p> | 6 |