CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education
Advanced Subsidiary Level and Advanced Level

BUSINESS STUDIES **9707/02**

Paper 2 Data Response

May/June 2003

1 hour 30 minutes

Additional Materials: Answer Booklet/Paper

READ THESE INSTRUCTIONS FIRST

If you have been given an Answer Booklet, follow the instructions on the front cover of the Booklet.
Write your Centre number, candidate number and name on all the work you hand in.
Write in dark blue or black pen on both sides of the paper.
Do not use staples, paper clips, highlighters, glue or correction fluid.

Answer **all** questions.
At the end of the examination, fasten all your work securely together.
The number of marks is given in brackets [ ] at the end of each question or part question.
The businesses described in this question paper are entirely fictitious.

This document consists of **3** printed pages and **1** blank page.

SP (NF) S37461/3

UNIVERSITY of CAMBRIDGE
Local Examinations Syndicate

1 **The Furniture Maker (TFM)**

TFM manufactures a range of furniture. It sells its products to large retailers who place orders on a weekly basis. The retailers achieve *economies of scale* due to the size of their orders. The market for furniture is increasing and TFM has increased its market share. It has done this by emphasising the high quality of its products. Customers have remained loyal, despite the existence of cheaper alternatives.

Furniture sales have increased because of significant economic growth. This has been caused by the government's *fiscal policy*. This has led to greater consumer spending and more business investment. The government has also encouraged foreign businesses to locate in its country. A multi-national furniture manufacturer called FMI has recently located a new production plant close to TFM's factory. TFM's management team is concerned about the impact such a large competitor might have.

Year	2002	2003 (forecast)
Market size ($ millions)	198	220
TFM sales ($ millions)	12.5	13.02

(a) Define the following terms:

(i) economies of scale (line 2) [3]

(ii) fiscal policy (line 7). [3]

(b) Explain **two** possible reasons why the government has encouraged foreign businesses to locate in its country. [4]

(c) Analyse the factors that the multi-national business might have considered when deciding to locate near to The Furniture Maker. [8]

(d) **(i)** Calculate the forecasted market share of The Furniture Maker for 2003. [2]

(ii) Discuss the possible reaction of TFM's management team to an increase in the level of competition. [10]

2 **The Tee Business Ltd.**

The Tee Business Ltd. manufactures and sells high quality branded T-shirts, at a price of $20 each. The business has a capacity of 35,000 units per month. The sales team is paid a fixed amount per month. A recent fall in sales volume has led Ratan Smith, the managing director, to consider introducing a new payment system. Each member of the sales team will be paid a lower fixed amount per month, plus a commission of $2 per T-shirt sold. Ratan believes this will result in the sales volume increasing to 30 000 units in June. If this level of sales is reached, the sales team will earn more money than before. Current costs are:

Variable Costs: $10 per T-shirt
Fixed Costs: $200,000 per month

Sales volume for recent months has been:

February	March	April	May	June (forecast)
28 000	27 600	27 200	27 000	30 000

An alternative way to increase sales volume is to reduce the price of each T-shirt by 10%. Ratan estimates this will increase sales by 12%.

Ratan would like to purchase new machinery in order to improve *productivity*. He is unsure whether this investment will be worthwhile.

(a) Define the following terms:

(i) fixed costs (line 9) [3]

(ii) productivity (line 16). [3]

(b) **(i)** Calculate break-even output, if the new payment system were to be introduced. [3]

(ii) Calculate the price elasticity of demand, following the price decrease from $20 to $18. [3]

(iii) Comment briefly on your answer to **(b)(ii)**. [2]

(c) Analyse **one** method of investment appraisal Ratan might use. [6]

(d) Discuss the possible reaction of the sales team to the new incentive scheme. [10]

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