

# BUSINESS STUDIES

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Paper 9707/01  
Short Answer/Essay

## General comments

This paper appeared to be accessible to most candidates although **Question 4** posed a challenge to many. In the essay section **Question 5** was less well answered than the other two questions. Weaker candidates often chose **Question 5** without the appropriate conceptual knowledge base to effectively unpick and respond to the requirements of manpower planning and job re-design.

There were very few rubric infringements and most candidates seemed to effectively manage the time available.

Once again, it is important to recognise the opportunity in the essay questions to move to a level above that of sound description and analysis. There are marks available for evaluative comment that supports full understanding and interpretation of concepts and contexts. The phrase 'to what extent' for example, suggests that there might be positive and negative aspects to the implementation of a business/management initiative or technique. Many candidates failed to seize opportunities to complement sound discussion and analysis with an attempt to critically evaluate the appropriateness or feasibility of specific business studies solutions.

## **SECTION A (Short Answer)** **QUESTION 1**

- (a) Most candidates were able to identify and explain one objective of a public sector organisation recognising that they function for the welfare of the population and often provide essential goods and services at little or no profit. Common examples given were the provision of health, education services and transport.
- (b) Good answers identified features of a public limited company and then explained them. Common features were limited liability, continuity and a separate legal status. Weaker candidates merely listed such features while stronger candidates explained what each of these meant to shareholders and/or the business.

Unfortunately, a significant number of candidates misread or misinterpreted the question and assumed that a 'public limited company' was a public sector company.

## **QUESTION 2**

- (a) Most candidates were able to state the name and the formula of at least one profitability ratio, although some candidates offered liquidity ratios as their answer.
- (b) The majority of candidates were able to identify two factors that might affect profitability but in some cases, insufficient explanation was given. Relevant factors included changes in overhead costs, impact of competition and government policy changes.

### QUESTION 3

The majority of candidates were able to demonstrate a sound understanding of break-even analysis with most then able to outline how a business might find such analysis useful. Weaker candidates repeated that a business would be able to find out when it had broken even. Stronger candidates referred to being able, for example, to identify a specific level of output that would be required in order to achieve a target level of profit. Good candidates also referred to the ability to consider the impact of a change in fixed costs or the price of the product. (Many included a graph and a formula and related the technique to a specific context of a manufacturing company).

### QUESTION 4

- (a) This question posed a few more problems for candidates with a frequent lack of clarity in the answers given. Several candidates described the 'mean' as merely 'the average' of a group of data without recognising that to be precise, it is the 'arithmetic average'.

Several candidates described the median as the mid-point of a range of data but then gave an inaccurate example by using, for example, a set of random figures that were not in ascending or descending order or that did not consist of consecutive numbers.

- (b) Many candidates confused the Median with the Mode. Those few candidates who produced relevant responses recognised the potential value of the Median in being unaffected by extreme values. Examples of business situations relating to wages and salaries, and stock control were rewarded.

### SECTION B (Essays)

#### QUESTION 5

- (a) There were several good answers to this question that focused on the need for hotel managers to determine the amount of labour needed and that this might be influenced by the current rate of labour turnover, levels of absenteeism and the objectives of the business. Several answers went on to discuss the level and variety of skills required and this was sometimes in the context of an hotel, although many candidates discussed this point in a theoretical context only.

Many answers, however, failed to address either the manpower planning activity or the specific context of an hotel in any explicit way. These answers tended to focus on general HR issues, such as training, pay, motivation and recruitment, rather than on the specific demands for labour in an hotel.

- (b) Weak candidates concentrated on motivation techniques and tended to ignore the aspect of job re-design. Better answers mentioned the way that re-designing jobs could improve motivation and identified Herzberg as an appropriate theorist. Higher marks were awarded for those who used motivation theories to evaluate the constraints on motivating workers, using job enlargement, enrichment and job rotation. Those who talked about leadership styles and the attitude and perception of workers were able to evaluate further and produce coherent arguments.

#### QUESTION 6

Answers to this question, generally, demonstrated a good understanding of the various sources of finance that are available to businesses. Good answers considered that this was a 'large' business and that the finance was required for 'replacing machinery'; this led them to consider that perhaps it was a large sum of money that was required and that the sources of finance available would be different to that of a small business. This context was often seen in the stronger answers, while weaker candidates merely outlined various sources of finance without making any reference to the size of the business involved and the purpose for which finance was required.

Sources such as debt factoring were often suggested without any consideration being given to whether the sum obtained was likely to be sufficient for purchasing new machinery. The question also stated 'replacing' and did not specify purchasing and so one valid option was to lease the equipment.

The divide between the strong and weaker answers was also evident in terms of the suitability of sources of finance that were suggested. Weaker answers tended to explain many different sources without any reference to whether or not they might be suitable in the situation given. Stronger answers either made a judgement regarding each potential source throughout the answer, or by giving an overall judgement regarding the most suitable source of funds, given the size of the business and the purpose for which the money was required.

#### QUESTION 7

- (a) This part of the question saw a large number of answers demonstrating a thorough understanding of the main determinants of demand, with many of those relating to the context of 'consumer goods' in a particular country context. However, some candidates showed understanding of demand factors but did not attempt to relate any of those factors to consumer goods but presented their answer in a textbook, generic manner. Some presented the determinants of demand almost exclusively with concepts and frameworks drawn from the discipline of Economics. Others used the marketing mix as a base for their answers – both of these approaches were less successful than a more fundamental and generic discussion of demand factors.
- (b) There were many good answers to this part of the question with the majority of candidates showing a sound understanding of market segmentation. Good answers explained clearly how advertising, pricing and design might be influenced by the different segment that was being targeted. Strong answers also retained a strong link to 'a clothes retailer' throughout their answer and evaluated which type of segmentation would be successful in certain contexts.

Weaker answers simply included a list of possible segmented markets with an over-emphasis on market research required to identify such markets. They were also very descriptive responses.

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Paper 9707/02

Data Response

## General comments

Performance in this paper was consistent with previous sessions, with some continued improvement in the use of the context provided for the two questions but also evidence of too many “textbook” answers. The evidence provided in scripts of candidates demonstrated a good understanding of the data response material and there was no evidence of misunderstanding of questions. There remains a lack of evaluation skills in all but the most able candidates. Most candidates were able to attempt all of the questions and there was evidence that candidates were not penalised by a shortage of time. A few candidates only answered one question – this paper always has two compulsory questions and it is important that candidates read the instructions. The standard of use of English and business language remains pleasingly high for most candidates.

## Comments on specific questions

### Question 1

- (a) (i) Most candidates were able to define private limited company and were able to explain the key features that made them different from other types of legal structures. Some candidates erroneously stated that they had unlimited liability. Some candidates referred to size. While most private limited companies are smaller than public limited companies this is not necessarily the case so it is better to say that they are “usually smaller”.
- (ii) Most candidates were able to state that multinationals operate in several countries, but had difficulties explaining the concept further. Better answers gave examples of multinationals and either mentioned the benefits of operating on such a large scale (either to the business or to the host country) or the possible disadvantages there might be.
- (b) (i) Most candidates were able to use the data to calculate the percentage change. A few candidates used the wrong denominator. A minority of candidates seem unable to calculate percentages. Some candidates had the formula upside down.

### Teaching tip

It is important that candidates are comfortable with handling numerical calculations. They also need to reflect on whether the answer they obtain makes sense. They should also remember that the calculation that they have done may come in useful in subsequent answers as they usually point to a key feature of the business.

- (ii) Answers to this part of the question were, generally, particularly pleasing with very good use of the data provided. The best answers recognised the rapid fall in sales of computers, the rapid rise in sales of components and the need to generate revenue to cover the rapid increase in rents. A few candidates interpreted rents as an income rather than expenditure although it should have been clear that the rent related to their retail outlets. Weaker answers only focused on the decrease in sales of computers. Where incorrect answers were given in (i) the candidate was rewarded for carrying their own answer forward.

- (c) Answers to this question were largely disappointing. E-commerce is an important development throughout the world and it is reasonable to expect candidates to apply the ideas in a specific situation. A significant number of candidates focused on “marketing” without putting the answer into context, while others looked at e-commerce without a marketing dimension. Many answers could have applied in any situation. Specific issues facing Technew included their lack of experience in this area, their relatively small size competing with multinationals and the possibility that e-commerce could solve the problem of their rapidly rising rents. The candidate who said “Technew could make their components pink so as to increase sales to females” brought a smile to the Examiners! Evaluation could have been achieved by discussing the factors that created the biggest difficulty or that were the most important in the decision.
- (d) This question produced a range of answers. There were many very good answers that discussed the appropriateness of stock control methods (usually JIT) to each of the products in the table. The answers observed that JIT required reliable suppliers and predictable demand, and that these conditions were not always met. Some answers suggested ways around these problems, such as changing suppliers or holding buffer stocks and gained high marks. A significant number of answers provided a textbook discussion of JIT which could have applied in any situation and therefore could not be rewarded above 4 marks. A few candidates discussed LIFO/FIFO. These are methods of stock valuation, not stock control.

#### Teaching Tip

Data in tables is there to be used. Candidates should also be encouraged to extract the key features of any business to provide context for answers. Before tackling questions of this sort it is worth training students to list the key features.

#### Question 2

- (a) (i) Most candidates were able to explain sole trader but many candidates talked about “running” rather than “owning” a business. A few candidates erroneously said that they had limited liability while weaker candidates did not mention liability.
- (ii) While there were many good answers to this question, a significant number of candidates did not understand that payback is an investment appraisal technique – they usually referred to the time taken to pay back a loan. Better answers differentiated payback from other investment appraisal techniques or referred to the idea of “the shorter the better”.
- (b) (i) Many candidates were able to calculate depreciation correctly from the data, although rather a large number omitted to state the units, thereby losing a mark. Many of the weaker candidates were able to select the correct data but not able to perform the calculation correctly. Because they showed their working it was possible to award some marks.
- (ii) Depreciation is very well understood by some Centres/candidates and there were many good answers to this question which referred to the dual impact on the balance sheet and profit and loss account. A significant number of candidates were unable to describe either effect even though they had been able to do the calculation correctly.

#### Teaching Tip

As well as learning and applying formula, candidates need to understand the meaning and uses to which their calculations can be put.

- (c) Answers to this question were generally disappointing as fewer candidates answered in context than was the case in other questions. While many candidates understood what constitutes internal sources of finance, few related that understanding to the data in the table. Only the best answers discussed whether the figures given would provide sufficient finance for the project. Very few candidates recognised that “retained profits” might have been used already and may not be a possible source. Better candidates linked the idea of renting the new premises and the need to buy new equipment with the possibility of selling some of her existing assets. Evaluation could have been achieved by proposing which were the most likely sources of finance having discussed

the advantages and disadvantages of each. A few candidates allowed their discussion to extend to external sources such as loans and mortgages which could not be rewarded.

- (d) This was a difficult question to answer as it is difficult to envisage how flow production could be applied to the production of meals. However, this difficulty was an opportunity for candidates to show evaluation skills by arguing that the change might not be in the best interests of the business. Although many candidates were able to discuss the differences between the two production systems, and clearly had ideas about the management of change, especially relating to the work force, fewer candidates “got into the minds” of people who actually owned the business or worked in it. Very few candidates, for example, appreciated that the firm had very few employees, and these were friends of the owner, so answers that referred to strikes and other industrial relations issues, for example, rather missed the reality of the situation.

**Teaching Tip**

If candidates can “picture” the business from the scenario presented in the material, they may be able to get more into the minds of the decision makers and those affected by decisions. This could help them extract the key features of the business and lead to more contextual answers.

# BUSINESS STUDIES

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**Paper 9707/03**

**Case Study**

## **General comments**

This case study paper led to vastly differentiated responses from Centres. It also discriminated well between candidates from the same Centres. The full mark range was used, reflecting the fact that there were some quite outstanding scripts but also a few that demonstrated no relevant subject knowledge at all. It is satisfying to report that the case study text and quantitative data proved to be both accessible and sufficiently challenging to candidates of average ability. Weaker candidates were generally able to refer relevantly to some of the case material – if they realised that this was a necessary feature of their answers. More able candidates used the text and data very effectively and built their answers and evaluation around the particular circumstances that Craft Design was confronted with. This is the true purpose of this style of examination paper. Examiners could easily set a series of “stand alone” questions that tested the subject knowledge of candidates quite rigorously but these would neither reflect the real nature of Business Studies as an academic discipline nor would they mirror accurately the tasks and challenges that confront business managers every day. The aim of the case study is to put candidates into a realistic business situation with problems, constraints, objectives and decisions to make and to ask them to use the evidence provided to make and justify appropriate courses of action for the business, based upon detailed analysis using Business Studies concepts and techniques.

It is quite clear that many Centres are fully aware of the key features of case study examinations and they seem to prepare their candidates very thoroughly. This involves not just covering the syllabus material in adequate depth but also giving candidates frequent opportunities to suggest, recommend and challenge business decisions in a particular context. The use of past papers in mock examinations – with candidates’ answers marked by reference to the published mark schemes – is an essential part of the preparation for the final examinations. In certain instances, it was also clear that a few Centres are still too focused on just “covering the syllabus” without explaining to candidates the importance of using their knowledge in different business scenarios to justify different business options.

The increased entry for Business Studies A Level this summer is again very pleasing and it is great to see not only a rise in candidates being entered for Business Studies by some of the longest established Cambridge Centres around the world but also new Centres from a huge range of countries entering candidates for the first time. Internationally, Business Studies is one of the most popular and most rapidly growing A Level subjects.

## **Comments on specific questions**

### ***Section A***

#### **Question 1**

Surprisingly this question led to a huge range of quality of answers. It was designed to test the candidates reading of the case study and to apply the concepts of entrepreneurs’ “risks and rewards” to Ade’s particular situation. Unfortunately, some candidates answered the question without either reading the case study or with the belief that risks and rewards were the same as “strengths and weaknesses” of the business itself. Many answers also concentrated on the advantages and disadvantages of sole trader businesses when it was clearly stated that this was a private limited company business. Better responses were able to use the material in the case to put forward a convincing answer that often suggested that the freedom and independence gained by Ade and his considerable business success outweighed the risks and uncertainties created by his establishment of a business in a market he originally knew nothing about.

### Question 2

- (a) This is a contribution costing question and candidates from many Centres recognised it as such and scored maximum marks. By eliminating overhead costs and calculating only the contribution made by stone sculptures they were able to reach the correct result. In some Centres, this concept appeared not to have been covered in much detail at all and candidates therefore assumed that all overhead costs for the stone sculptures would be cancelled if production of these was halted. Some credit was awarded for calculating the profit difference based on this incorrect assumption.
- (b) The “own figure rule” was strictly applied by Examiners when marking answers to this question. This meant that even an incorrect result to 2 (a) could, if analysed and assessed correctly and with analysis of other factors, lead to full marks on this part. There were many outstanding answers to this question as the opportunity to discuss a realistic business decision with both the quantitative and qualitative data available was accepted gratefully by most candidates. A weakness of some answers was that although they contained a sound analysis of the key points they failed to give or even hint at a final recommendation on whether production should be stopped or not. Candidates are advised to read all questions carefully and ensure that a “recommend” question does lead to a clear and final judgement.

### Question 3

This question tested candidates’ understanding of the impact of macro-economic variables on one particular business. There was very little evidence of misunderstanding of the forecasted changes in the data and many candidates gained full marks for analysing the possible impact of these on consumer spending, import prices, export prices and the cost of financing investment projects. It was surprising how many answers stopped at this point and failed to develop the impact on Craft Designs. The scope to do this effectively was quite substantial. For example, the business was planning to import stone sculptures, it sold most of its products to foreign tourists and the switch to jewellery production could have involved capital expenditure. The best answers were able to both apply and analyse the economic forecasts and then continued by considering the likely extent of the impact on this business. So, evaluation was often demonstrated by considering the value of price and income elasticity of demand for the goods sold by Craft Designs or by assessing the possible causes of the increase in inflation and discussing the different impact these might have on the company’s profitability.

### Question 4

- (a) It was clear from candidate responses that not all accounting ratios are covered or explained by some Centres. This is an important omission and the Examiners feel that it is quite reasonable to ask questions that require knowledge of the ratio formulae contained in the syllabus, especially as, in this case, the actual ratios to be used were stated in the case. The debtor days ratio was correctly calculated by the majority of candidates and those who used “credit sales” rather than just “sales revenue” by using the other information contained in the case also received full marks. Comment on this ratio was often in the form of suggesting that the result was too high and that this would be having a negative impact on the working capital needs and liquidity of the business. Stock turnover was calculated accurately less frequently with almost a majority of candidates seeming to be unaware of the correct formula.
- (b) This question aimed to discover if candidates were aware of any of the common limitations of ratio analysis such as the risk of window dressed accounts, the lack of other data to compare results with and the need to consider qualitative information as well if a fuller analysis of the company’s financial efficiency was to be fully judged. Many candidates could not suggest or apply a relevant point.
- (c) Most candidates were able to suggest two relevant ways in which financial efficiency might be improved with calling in debtors more speedily and using JIT being the most common suggestions. Often these suggestions were well explained but there were very few candidates who assessed them in the context of this business. For example, if the tourist gift market is very competitive, would it be advisable for Ade to insist on quicker payment by customers, who would mainly be retail shops in this case?



### **Question 5**

The best answers to this question all started off with a very clear definition of the key term of market segmentation and supported this with the most common forms of segmentation. The benefits to Craft Design were often well explained as the potential for breaking the gift market into particular segments was clearly referred to in the case. Analysis of the benefits of market segmentation tended to focus on increased profit and revenue resulting from ensuring that different marketing strategies were used to appeal to the different requirements of the various groups of tourists identified in the case. Evaluation was often quite weak and judgement could have been shown by assessing some of the drawbacks and potential costs of market segmentation such as the need for market research to be kept updated and the possible loss of economies of scale from no longer making “one product to suit all”.

### **Question 6**

The two essay questions proved to be of equal popularity with candidates. Very few referred only to economic factors – an area that was precluded by the wording of the question. Weak answers tended to repeat some of the points made in previous answers, such as the need to segment the market and achieve better financial efficiency. Better responses considered both internal factors – such as Ade’s ability to control and manage an expanding business – and external non-economic ones such as social responsibility issues and changes in government legislation. Judgement or evaluation is a key skill with the essay questions and yet some candidates appear not to realise this. Too many answers concentrate on giving up to seven or eight different “factors” rather than focusing on a smaller number and trying to assess the relative importance of them. It is advised that Centres set more essay style questions throughout the course, based on a clearly defined business context. Candidates should be shown the essay marking scheme and asked to ensure that approximately half of their essay responses should be focused on judging and assessing the significance of the points that they have made. Evaluation in context is not an easy skill to teach or to acquire yet it is the main discriminating factor between an average answer and a really good one. In addition, as candidates later in life make their way in business careers, they will realise the importance of not just making statements or asserting points but justifying them and arguing forcefully in support of one course of action or another.

### **Question 7**

The Human Resource issues were much more effectively discussed than those relating to Operations Management. It is clear that too many candidates are not too sure of what “Ops Man” is really concerned with and some answers incorrectly focused on financial or marketing issues. To gain a good mark on this essay, candidates had to analyse and evaluate both HR and OM issues related to the decision to outsource stone sculpture production and to start jewellery production. Quality, stock ordering and stock management and methods of production appropriate to jewellery production could have been discussed and the quality issue related to outsourced supplies was another potential area for effective evaluation. It was pleasing to note that there was very little evidence of time constraints impinging on candidates’ performance on this final question, or indeed, on the examination paper as a whole. There were many very long and detailed essay answers. Time management is clearly being well drilled into Business Studies candidates!