

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
GCE Ordinary Level

MARK SCHEME for the October/November 2007 question paper

7115 BUSINESS STUDIES

7115/01

Paper 1 (Short Answer/Structured Questions),
maximum raw mark 100

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.

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.

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- 1 (a) (i) 1 mark for each of the Total Revenue and Total Cost lines correctly identified and labelled.
- (ii) Y= 1 mark [nothing else acceptable].
- (b) Fixed cost is a cost that is unrelated to output and is incurred as a result of the existence of a business [2]. Some understanding of the concept for example costs that stay the same [1]. An example of a fixed cost e.g. rent [1].
- (c) Break-even chart shows the relationship between revenue and costs at different levels of output. Thus potentially very useful as it allows a prediction of the level of profit that can be expected at different output levels. However its usefulness in practice is much reduced because of the underlying assumptions that it is based upon. However it is an aid to decision making.
 Identifications of value of the technique [2–1] Pros of the technique.
 Identification of limitations [2–1] Cons of the technique.
 Judgement showing evaluation [1].
- (d) (i) 20% [3] 1 mark for method. 2 marks for accuracy.
 Rate of return = profit/capital employed %. $\$80000/\$400000 \% = 20\%$.
 If % left out then [2] marks for 20. Also for [2] marks 0.2 or 1/5. If answer is $\$80000/\400000 [2]. If profit /capital alone then [1].
- (ii) Compare with last year/other businesses/own targets/opportunity cost.
 Identification of yardsticks [2–1] Explanation [1] so if opportunity cost of funds is 10% then clearly 20% is highly acceptable.
- (e) Cash flow statement is a forecast of the timing and amounts of money in and out of a business. P/L account is a statement of revenue and allocated costs during a specific time period, based upon given accounting conventions. Recognition of the differences between the two [2–1]. Evaluative judgement [2–1]. Cash is necessary for survival in the short run and hence the cash flow statement is of great importance. However profit is a measure of performance so the P/L account indicates the degree of success achieved by the business.

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- 2 (a) Reasons might include – cheaper/better quality/not available locally. 1 mark for idea plus 1 mark for explanation. [Twice]
- (b) The change in the exchange rate would affect General Plastics in two ways as it is both an importer and exporter. The appreciation in the currency would mean that the imports into J become cheaper but the exports out of J become more expensive. On balance the impact likely to be damaging to the company as only some of its costs become cheaper while all its exports become more expensive.

2–1 for identification of impact.

2–1 for evaluation of impact.

- (c) Costs might be reduced because of lower variable costs such as labour wage rates/lower overhead costs such as rent of land/availability of subsidies and grants from government reducing capital outlay costs and the need to borrow. Statements like a tax holiday acceptable but not tax on profits [this is not a cost].

Answers like cheap raw materials or lower distribution costs to markets are not acceptable because of the context [raw materials imported and all markets elsewhere].

1 mark per valid point identified [max 3].

1 mark per explanation [max 3].

- (d) (i) Boom refers to upturn in economic activity and is associated with prosperity and high levels of consumer spending and business profitability. Period of time when GDP rising rapidly.

2 marks for identification of two main characteristics of a boom/or for accurate use of technical vocabulary.

1 mark for simple idea such as economy doing well.

- (ii) Boom in an economy is potentially beneficial to businesses. This is because it tends to lead to higher sales and increased profits. However it can lead to rising costs and hence put pressure on profits. In the case of General Plastics its markets are in other countries and hence the boom in its country may prove of limited advantage.

Link with business [2–1] e.g. sales and profits should rise.

Evaluation in context [2–1] including qualifying statement such as impact might be limited.

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- 3 (a) (i) Differences in guaranteed minimum [1] and different rates of financial incentive [1] guarantees a higher minimum wage but with less incentive to produce more. F has the opposite impact.
Neither company uses a time based system and both systems are variations on piece rate so these are not acceptable differences between them.
Identification of differences [2–1].
Explanation of differences [2–1].
- (ii) Discussion of issues [2–1] to include ability to earn more/greater security of earnings etc. Much depends upon how much can be produced. If output exceeds 80 units then F is better company financially to work for. Less than 80 units then E is more attractive. Reasoned judgement showing evaluation in arriving at a conclusion [2–1]. This may include reference to fact that money only factor influencing where you might like to work.
- (b) Motivation is a complex process and no single form of incentive will always work. If people basically work for money then praise alone will not be effective. Clearly praise makes the working situation “better” and thus it must help. However if other factors are not present, by itself it will not work.
2–1 for consideration of why praise matters/doesn’t matter.
2–1 for evaluative comment on its impact i.e. to what extent praise works.
- (c) (i) Training improves performance/increase labour efficiency/makes employees adaptable/increases motivation.
Knowledge of reasons why training might be used by a company [2–1].
Development of points showing understanding of reasons by indicating how a company benefits from training [2–1].
Since the question asks why a company might use training and does not require an explanation as such, 4 points identified also will gain 4 marks.
- (ii) External methods have the advantage when wider issues need addressing/skills not available within the business. However they tend to be more expensive and often not focused on the specific skills that an employee needs.
Identification of advantages /disadvantages of external training [2–1].
Evaluative comments leading to recommendation [2–1].

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- 4 (a) (i) 1 mark per method identified [max 2]. To include generic methods such as primary/secondary as well as specific methods such as interview customers/questionnaire. To gather data concerning pattern and level of sales/identify trends/use secondary data. Answers like the internet are not acceptable as these are a means not a method.
- (ii) Benefits include – closer match between what is produced and what is required/ability to anticipate future needs and current trends – very important in the fashion trade. Other benefits to be judged on merits.
2–1 for identification of benefits.
2–1 for explanation of benefits.
- (b) (i) As advertising expenditure increases so do sales.[1] However the rate of increase in sales diminishes.[1] 1 mark for each feature identified – positive correlation/comment on strength of relationship.
- (ii) Reasoned justification 2–1 showing understanding of issues Yes because increased advertising expenditure should increase sales by generating awareness/interest. However the impact will diminish as market saturation starts to occur. Both features need to be commented upon to gain full marks.
- (c) Price discounts help shift stock at the expense of reduced profit margins. Therefore there are some advantages but gains not entirely clear e.g. sales rise which is useful when stock is old or going out of fashion. Clearly better to generate some revenue than no revenue. However margins are lower and customers might wait for sales next year causing long term problems. Discussion of pros and/or cons of method [2–1].
Evaluative recommendation 2–1.
- (d) Identification of ways consumer spending might have changed. E.g. don't visit shops/widens potential market/costs relatively low. However people usually want to see and try on clothes so internet might not be very suitable /might reduce sales in existing shops. Probably a good idea as it is likely to be cost effective and will increase the profile of the business.
Identification of a few key points [3–1].
Application in context of Superdreams [2].
Evaluative recommendation [1].

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- 5 (a) (i) Communications matter because – implementation of policies easier/avoid confusion/motivational impact /increased co-ordination and efficiency.
Identification of reasons [2–1].
Explanation of reasons [2–1].
- (ii) Breakdown in communication because of barriers/ineffective methods used/personal resistance or inadequacies/language barriers/time zones.
2–1 for reasons.
2–1 explanation of reasons.
- (b) (i) A franchise exists when the right to operate a business under the brand name of a company is given or bought.
Clear understanding focusing on key features [2].
Some understanding e.g. allows someone else to sell their products [2].
An example of a franchise is neither required nor rewardable.
- (ii) Joint venture might create benefits because risks are shared/more capital is made available/greater range of expertise becomes available.
Identification of ads [2–1].
Explanation of ads [2–1].
- (c) (i) One mark per correctly identified stakeholder group. This may include shareholders/management/employees/customers/suppliers/creditors/society.
- (ii) Growth usually benefits stakeholders because it creates opportunities for employees/leads to higher sales and profits [good for shareholders] creates jobs for the community etc. However if the new venture failed then all stakeholders would lose out. So some risk attached.
The stakeholders used in the answer must be the same as identified in part (i).
Understanding of the objectives of different stakeholders [2–1].
Evaluation of likely impact on stakeholders leading to judgement [2–1].