

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
GCE Ordinary Level

**MARK SCHEME for the October/November 2010 question paper
for the guidance of teachers**

7100 COMMERCE

7100/02

Paper 2 (Written 2), maximum raw mark 80

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1 (a) (i) Direct services/personal services.

N.B. Tertiary services = 0 marks. [1]

(ii) Any four points × 1 mark including 1 mark each for examples of needs and wants:

Needs are things that people require for survival, such as food, water, clothing, shelter.
Wants are things that improve how people live/are not necessary for survival, such as entertainment, a car, television, a DVD player.
Wants are unlimited.

Any other relevant point. [4]

(b) Any four points × 1 mark each:

Primary production is obtaining raw materials/food from nature.
Secondary production then processes them into finished goods.
Without these resources, there would be no secondary production.
Without secondary production it would not be worthwhile developing primary production.
Secondary production adds value to raw materials.
Accept example, e.g. if rubber from trees is not extracted and sold to manufacturer, there would be no tyre production.

Any other relevant point. [4]

(c) (i) Any two points × 1 mark each:

Buying and selling/exchange.
To make a profit. [2]

N.B. 0 mark for example of trade.

(ii) Any three points × 1 mark each:

To help trade to function by providing finance/providing communication/moving goods and raw materials/making goods and services known to consumers/storing goods/providing insurance cover against the risks of trade (any three).

N.B. 0 marks for naming the aids to trade.

Allow up to 2 marks for concentrating on only one aid to trade. [3]

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(iii) Level 2 (4–6 marks)

Has shown how trade, both home and international, helps to satisfy human needs and wants, with reasoning.

(If candidate has considered either home or international trade – 4 marks max).

Trade is becoming important for the economies of most countries. Trade is necessary to provide human needs and also human wants as consumers become more demanding and want a better standard of living. Consumers want a wide choice of goods and services. Many of these can be provided by home trade, but many goods are imported into countries to satisfy consumers. Many countries are dependent on exporting to pay for the goods and services they import. Some countries cannot produce all the food they need and so have to import it. Without this trade people would starve.

Trade, both home and international, is therefore important if humans' needs and wants are to be satisfied.

Level 1 (1–3 marks)

Has indicated how trade, both/either home and international, helps to satisfy human needs and wants, with little or no reasoning.

Trade is important to most countries. Home trade is trade within a country. People sell and buy food. International trade is trade between countries, import and export. Many countries import goods such as electronics and cars to satisfy the wants of their populations. Other countries export surplus goods and raw materials that other people need. [6]

N.B. Answers that concentrate only on human wants and needs – award Level 1, (3 marks max).

- 2 (a)** Any three points for each section x 1 mark and up to 2 marks for a well-developed point. (To achieve full marks, a candidate must have considered both small-scale and large-scale retailers.)

- (i)** Small-scale retailers tend to be located near to the consumers they serve, such as in town centres or villages, and require a small area.
If they are speciality shops they may also be located in shopping centres.
Small-scale retailers can be located anywhere, e.g. hawkers, street traders.
Large-scale retailers tend to be located in the centres of large towns and cities or in out-of-town shopping centres/retail parks.
Any other relevant point. [3]

- (ii)** Small-scale retailers may offer a limited choice of goods. They may, instead, concentrate on one range of goods, e.g. jewellery, and offer a wide choice of one product.
Large-scale retailers usually offer a wide variety of goods, with several brands of the same item.
They may provide one-stop shopping, e.g. supermarkets for food or department stores selling many different kinds of goods.
They may concentrate on one range of goods, e.g. clothing, and offer a wide choice of that product, e.g. multiple chain stores.

N.B. Variety of goods = 1 mark only unless quantified.

Any other relevant point. [3]

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(b) (i) Any two actions × 1 mark each:

Offer products or services that the large-scale retailer does not offer.
 Try to cut costs – reduce labour.
 Advertise – introduce special promotions.
 Convert from personal service to self-service.
 Look for different/cheaper suppliers.
 Move to another location.
 Do nothing and wait and see.
 Use cash and carry.
 Join voluntary chain.
 Give credit (informal credit).
 Improve variety of goods.
 Provide after-sales service.

Any other relevant action. [2]

(ii) Any two points × 1 mark each or one well-developed point × 2 marks:

Insufficient capital – difficult to raise capital and provide collateral.
 It may be too great a risk as the second shop may not be successful.
 She will incur more costs at a time when her sales revenue may be reduced.
 She will need to concentrate all her efforts on her existing shop so that it remains successful.
 Management reasons, e.g. additional staffing.

Any other relevant point. [2]

(c) (i) Any two ways described × 2 marks:

Use of bar-coding and scanners – to speed up transactions at the checkout and to aid stock control.
 Database – stock records.
 Computerised ordering of supplies and the accounts.
 Electronic point of sale with electronic tills to speed up customer payments.
 Use of security cameras to try to prevent shoplifting and employee theft.
 Intranet – computer network within the retail business to aid communication between staff.
 Communication between branches by means of email.
 Online ordering by customers with Internet catalogues and home delivery.
 Preparation of advertising and promotional materials using desktop publishing.
 Internet – for advertising.
 Use of credit card machines.

Any other relevant way. [4]

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(ii) Level 2 (4–6 marks)

Has shown that computerisation may benefit and/or may not benefit the large-scale retailer's customers, with reasoning.

Computerisation may benefit the customers in several ways. If the large-scale retailer uses bar coding and electronic tills, customers should find that there are fewer mistakes in their bills and that they move through the checkouts more quickly. If electronic point of sale is aiding stock control, it should mean that the retailer should not run out of supplies, but this does not always happen.

Computerisation may also mean that the large-scale retailer is more efficient. It can find out who supplies goods at the lowest prices. It may offer the customer online shopping and prices may be lower as the retailer saves costs, such as spending on employees. It may also mean that the large-scale retailer is able to offer customers more services (checking their shopping bills, loyalty schemes) and a wider range of goods with better promotions.

On the other hand, computerisation may not affect customers too much. They may not realise the implications of computerising operations. They may, however, not like the results of computers going down, e.g. non-functioning tills, or of the increasing impersonality of shopping in large-scale retailers.

It is likely, however, that for most customers the benefits outweigh the drawbacks.

Level 1 (1–3 marks)

Has shown ways in which customers may benefit/not benefit from the use of computers by the large-scale retailer, with no reasoning.

Customers find that visiting a shop is speeded up by the use of computers. The goods are barcoded and so time taken at the checkout is less. Customers may also like to order goods online without visiting the shop. They may take advantage of the large-scale retailer's loyalty scheme and also use credit or debit cards to pay for what they purchase. [6]

3 (a) (i) \$10 000. [1]

(ii) 20% [1]

(iii) \$10 [1]

(iv) Any two points × 1 mark each:

Payment of \$500 has been made.

Mr Brahmin has paid off the total amount from the previous month.

CR is written beside \$500 because it is a payment into the account/CR = credit.

Any other relevant point. [2]

(v) Any two points × 1 mark each:

No interest because Mr Brahmin has paid off all he owes before the date/17 October when it was due to be paid. [2]

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(b) (i) Any two advantages × 1 mark each:

Can postpone payment.
 Saves having to carry cash.
 Can use the credit card to make purchases by telephone/online.
 Credit card company may offer some insurance protection.
 Interest-free if paid off on time.
 Pay off debt in small amounts.

Any other relevant point.

[2]

Portable/quick/convenient/safe = 0 marks.

(ii) Any two reasons × 1 mark each:

There are dangers of Internet fraud and people obtaining details of the credit card holder's identity/credit card details.
 Theft of credit cards.
 Counterfeiting credit cards.
 Card may be rejected.

Lost cards = 0 marks.

An alternative approach may be:

Can lead to impulse buying so that you spend too much and so pay large amounts of interest/high interest.
 May be unable to meet the payments/bankruptcy.
 May lead to a false sense of security – feeling wealthier than you really are.
 May go over the limit.

Any other relevant point.

[2]

(c) Any three points × 1 mark each and up to three marks for a well-reasoned answer to justify the use of debit cards by traders:

Traders often encourage customers to use debit cards because they are a means of instant payment with little or no waiting to be paid.
 They enable the transaction to be computerised, so saving costs.
 The use of debit cards means that there are no bad debts to be chased up.
 Large amounts of cash are not held so there is less risk of theft.
 It also saves on the counting of cash and taking it to the bank.

Counter-argument – may not increase sales because of limited funds in buyer's account.

Any other relevant point.

[3]

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(d) (i) Any three advantages × 1 mark each and up to 2 marks for a well-developed point:

Can access his bank account at any time of the day.
 Can administer his bank account in his own home/from anywhere.
 Can pay bills online.
 Can see his current balance and transactions online.
 Can apply for a loan/overdraft in private.
 Can obtain information on bank services.
 Can ask questions about the account.
 Can make transfers between accounts.
 Can print out a statement.
 Provides greater security than carrying cash to pay bills.
 Saves time/traffic problems/queuing at the bank = 2 marks max.

Any other relevant advantage.

[3]

(ii) Any three advantages × 1 mark each and up to 2 marks for a well-developed point:

Saves on staff costs.
 May save on premises and equipment, leading to branch closures.
 May help to reduce fraud – access to account details by giving security details.
 Can be used to market new services.
 Enables the bank to provide 24/7 banking.
 May reduce human error – a cost to the bank.
 May mean more satisfied customers as offering a variety of services.
 May be able to handle more customers in a shorter time.
 May mean that the bank can concentrate on other services and work.
 Competitive edge = 1 mark max.

N.B. More customers/more profit/less paper = 0 marks.

Any other relevant advantage.

[3]

4 (a) Any one advantage explained and any one disadvantage explained × 2 marks each:

Flexible so you can make decisions as and when you wish.
 Keep all the profits as there is only one owner.
 Easy to set up as no legal requirements to fulfil.
 Prestige and social status.

Unlimited liability so your personal possessions may be at risk if the business fails.
 No one to share the work, although you may have employees.
 May find it difficult to raise capital as banks regard small businesses as risky.
 Lack of continuity.

Any other relevant advantage or disadvantage.

[4]

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(b) Level 2 (4–6 marks)

Has considered all three suggestions and has shown whether or not any/all of them might help to sell the bicycles, with reasoning.

If a candidate has considered one/two only with reasoning = 4 marks max.

Vinjay may find it easier to sell well-known brands of bicycles than those that are less familiar. They can be advertised using the brand name and the brand name will help to identify the quality of the bicycles and enable customers to recognise the product.

Bicycles may need repair or servicing, so it is important for Vinjay to offer after-sales service such as repair and maintenance. This may give him a competitive edge over his rivals and he may be able to build up the repair and maintenance side of his business to provide more income.

Vinjay has a small business, so it may not be financially viable to buy the bicycles in bulk. If he does this and buys the wrong model, he may not be able to sell all his stock and so may make a loss. If he is able to buy in some quantity, however, he should be able to negotiate trade discount so that he can make good profits.

It is important that Vinjay sells well-known brands and provides after-sales service. Buying in bulk is less important than providing good service.

Level 1 (1–3 marks)

Has mentioned only one/two of the suggestions and shown whether or not they might help to sell the bicycles, with little or no reasoning.

OR has commented on all the suggestions.

Vinjay should sell well-known brands of bicycles. Many consumers like to buy branded goods. Vinjay should offer after sales services such as repair and servicing of bicycles. He should not offer delivery services. Vinjay should not buy the bicycles in bulk. He sells small quantities of bicycles. [6]

(c) Any four points × 1 mark each or two well-explained points × 2 marks each:

Vinjay will need to obey any consumer protection laws that exist in his country, such as any Sale of Goods Act – bicycles should be fit for the purpose.

He will need to describe his bicycles accurately and make sure that when he holds a sale, the bicycles are marked down in price.

Vinjay may offer guarantees with the bicycles he sells and may have to repair faulty bicycles free of charge if they break.

Vinjay will need to handle fairly complaints about any of the bicycles he sells so that he is not sued/no claims are made against him.

He will have to make sure his shop is clean and free from safety risks.

He may have to make refunds to dissatisfied customers.

Vinjay will have to make sure that he deals with reputable suppliers.

He will have to watch for new legislation and adapt his business as necessary.

Any changes he makes will add to costs.

He may take out product liability insurance/public liability insurance to protect his business against claims made by the public.

Allow comment on pricing and also litigation/being sued.

Any other relevant point.

[4]

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(d) Any six points × 1 mark each or three well-explained points × 2 marks each:

Language difficulties – Vinjay may be buying from manufacturers who speak different languages.

He may not understand the instructions about the bicycles.

Problems of distance – deliveries may take a long time, greater costs involved such as transport.

Currency problems – different currencies involved with variable rates of exchange.

Different means of payment – may be letters of credit, bank drafts instead of cheques.

Different technical specifications – may not be such a problem as the bicycles will be made for a particular market.

Difficulties with communications – helped by the Internet and email but communication may fail or documents may be lost.

Transport problems – the bicycles may be transported in containers over long distances.

Dangers of theft and damage.

Use of intermediaries such as import agents and forwarding agents may add to costs, trade restrictions, e.g. quotas.

Any other relevant difficulty.

N.B. Answer does not have to be in context. [6]

5 (a) Any three points × 1 mark each:

A contract/between a person wishing to start a business or franchisee/and a large company or franchisor/with a well-known name/supplying goods or a service/for or the payment of royalties/worthwhile example.

Any other relevant point. [3]

(b) (i) Cheeky Chooks Snack Bars. [1]

(ii) Any two services from Fig. 3 × 1 mark each:

Regular supplies of quality products.

Fully-equipped retail unit.

Help and advice to start, N.B. just the word 'help' = 0 marks. [2]

(c) Any four points × 1 mark each or two well-explained points × 2 marks:

The franchisee invests money in the business – in this case \$30 000.

There is likely to be a saving in costs, e.g. labour costs, management costs, operational costs.

To expand, Cheeky Chooks may have to borrow and so incur interest charges.

As franchisees are motivated to make a success of their businesses, it may mean greater income for Cheeky Chooks that can be used within the business.

Any other relevant point. [4]

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(d) Level 2 (4–6 marks)

Has made a recommendation based on reasoning (which may include some calculations) and may/may not have commented on the other option.

Anna has \$40 000 available to invest in a business. If she rents the empty premises she will have a rent of \$5000 a year as well interest payments on the loan and will have to spend a great deal of money converting the empty premises to a retail outlet fit for selling food. She will also have to decide what to sell and how to sell it. She will, however, be able to make all her own decisions and keep any profit she makes but she will also run the risk of failure.

A safer option would be to consider the Cheeky Chooks franchise. She will invest \$30 000 so she will need to borrow at least \$10 000 but she will receive help and advice, a quality product and a retail unit that is fully equipped. As she will be linked to a well-known company, the brand should be well-known and there should not be competition in the area from any other Cheeky Chooks outlet. If this is the first business that Anna has set up, it is recommended that she takes a franchise and so has the protection of a larger organisation.

Level 1 (1–3 marks)

Has shown which option Anna should take, with little or no reasoning.

It is recommended that Anna takes a franchise. It is safer. She will be given help and advice and it may cost her less. She will be given regular supplies of a quality product and a fully-equipped retail unit. This will mean less work for Anna setting up her business. [6]

(e) Any four points × 1 mark each (may comment on one or both options):

Telephone – Immediate response/direct response.

- Can ask questions.
- Can discuss any problems.
- Can show interest.

Website – May obtain detailed information.

- Can print off the information to refer to later.
- May be able to ask questions.
- May have a frequently asked questions section.
- Should provide up-to-date information.
- Can make application online.
- Visit the website anytime.

Allow negative points, e.g. telephone does not provide any written record of what was discussed/may get only good points about taking a franchise if talk to Franchise Manager.

Award marks to the candidate who says Anna should use both means of communication as one will supplement the other.

Cheaper/easy/quick = 0 marks.

Any other relevant point.

[4]

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6 (a) Any three points × 1 mark each:

The fortunate helping the unfortunate.

Premiums are paid by many into a central pool from which the unfortunate who make claims receive compensation/compensation is paid to those who suffer.

So financial loss is shared among a large number.

Lowers the premium.

Shares risk.

Any other relevant point.

[3]

(b) \$20 000 × 1000 companies (1 mark) = \$20m premiums (1 mark).

OFR applies. Please award full marks for the correct answer without working.

[2]

(c) (i) Level 2 (4–6 marks)

Has shown that it is important for the companies to have fire insurance, with reasoning (or may have argued against having insurance – see below):

It is important for these 1000 companies to have fire insurance because their premises might catch fire. Any damage would cause heavy financial loss and they would need compensation. Although the risk of fire is relatively small, having insurance cover for fire gives many businesses confidence to continue.

Not only will these businesses need fire insurance but they will also need cover for other risks such as consequential loss – cover for the consequences of a fire and the loss of profits resulting from it. Having insurance gives financial protection. In order to reduce their premiums, these companies may have installed fire precautions such as sprinklers.

Some candidates may argue that it is not important to have fire insurance:

These insurance companies may decide to be their own insurers. They may consider the risk is low or that the premium is too large. They may decide that they need to spend money on other things and so put off taking out insurance cover.

Level 1 (1–3 marks)

Has made some comment on the need for fire insurance, with little or no reasoning.

Companies need fire insurance because their premises might burn down. This would mean that they had heavy losses. They might have to close down. They need compensation. Then they can repair the damage.

[6]

(ii) One mark for the insurance principle and two marks for an explanation of it:

Utmost good faith Must tell the truth and give all relevant facts when making a claim.

Insurable interest Must own the premises. Must have a financial interest in what you are insuring.

Indemnity No one can make a profit from a loss. The company making the claim will receive compensation up to (or a proportion) of the amount that was insured.

Also accept proximate cause, subrogation and contribution.

[3]

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(d) (i) Any two services × 1 mark each:

Buying what is produced by the manufacturers/clearing production lines.
 Giving information on what consumers want to manufacturers.
 Taking the risk of being left with unsold stock.
 Buying in bulk from manufacturers.
 Breaking bulk.
 Transport.
 Storage.
 Packaging.

Immediate payment to manufacturers/branding = 0 marks.

Any other relevant point.

[2]

(ii) Any two functions explained × 2 marks each – (allow repeats from (i)):

Storage of goods awaiting sale/transport/export.
 Protection of goods against weather/damage/theft.
 Maintaining price stability by providing a regular supply.
 Providing regular supplies or supplies when wanted, e.g. a particular season.
 Providing cold storage facilities for perishable goods.
 Providing cash and carry facilities for small-scale retailers.
 Displaying goods for retailers to select.
 Providing a place where a variety of goods from many manufacturers are shown.
 Breaking bulk.
 Packaging.

Any other function.

[4]

7 (a) Any two points × 1 mark each:

It exports a wide range of goods.
 And so **adds** to the Balance of Trade (contribute = 0 marks).
 With the foreign currency it earns.

Any other relevant point.

[2]

(b) Any two reasons × 1 mark each:

May have to pay export duty on some products.
 May require a licence to export certain products.
 Customs officials will want to obtain statistics of goods exported.
 Goods may be containerised and so will be inspected by customs officials before the container is sealed.
 Checking for smuggling, e.g. guns, illegal emigrants.

Any other relevant point.

[2]

N.B. collect revenue = 0 marks.

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(c) Level 2 (4–6 marks)

Has shown it is better to hire trucks/own its trucks, with reasoning.

It may be better for Wahab Enterprises to hire trucks because it may not be able to afford to buy trucks. It may not have sufficient business to justify owning trucks that must be kept busy so that they save transport charges. It may have a reliable transport firm that it can call upon at short notice as and when required. It may not want to set up a transport fleet with all the additional costs in labour taxes, maintenance, depreciation and fuel as well as the time taken to administer it. It may also have insufficient room to garage trucks.

Level 1 (1–3 marks)

Has given some advantages of hiring trucks/owning its trucks.

Wahab Enterprises should consider owning trucks. The advantages are that there is better supervision of cargoes. The trucks can be used when and where needed. They may be cheaper than hiring trucks. They can make deliveries. [6]

(d) Any three reasons × 1 mark each and up to 2 marks for well-developed point:

Its customers may require goods quickly.
 Its customers may be at a long distance.
 The goods moved are able to bear the high cost of air transport.
 The goods moved are lightweight.
 The goods moved are perishable.
 The goods are moved in small quantities.
 There is an airport near.
 Sea/road/rail transport is not suitable (1 mark only).
 Safe form of transport.
 Simpler documentation.

Any other relevant point. [3]

N.B. Flexible = 0 marks unless explained.

(e) (i) Any two points × 1 mark each:

The number of times Wahab Enterprises sells the average stock held.

Formula = $\frac{\text{Cost of goods sold}}{(\text{Cost of}) \text{ average stock}}$

The higher the rate of turnover the more the business changes its stock. [2]

Definition of turnover = 0 marks.

(ii) Cost of Stock held = \$40m – Gross Profit.

Gross Profit = \$40m × 0.25 = \$10 (1 mark).

Cost of Stock held = \$40m - \$10m (1 mark) = \$30m (1 mark).

Rate of turnover = \$30m ÷ \$6m (1 mark) = 5 times (1 mark). [5]

OFR applies. Please award full marks for the correct answer without working.

N.B. if answer expressed in dollars, e.g. \$5, award no marks for that stage, i.e. 4 marks.

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- 8 (a) Any four points × 1 mark each, including 1 mark max for an example:

A company that has its headquarters in one country and bases such as factories and offices in many other countries.

Different stages of production may take place in different countries.

It may produce parts in several different countries and assemble them in another country.

Example such as Ford, Toyota, Dunlop, Motorola, Pepsi Cola, Sony.

Any other relevant point.

[4]

N.B. large public limited company = 0 marks.

(b) Level 2 (4–6 marks)

Has considered the arguments for the motor manufacturer building a factory in a developing country and has given an opinion with reasons (can be one-sided):

The motor manufacturer may bring several benefits to the developing country. It may provide employment for many people. It may bring increases in income and economic growth to the country. It may contribute to the infrastructure of the country such as building roads. It may provide orders for small businesses located in the country. It may train its local employees, so adding to the skills base of the country. It may also be making cars that are then sold to people within the country, so adding to the population's standard of living.

On the other hand, the motor manufacturer will be a powerful company. It may not obey the laws and regulations of the country, e.g. about working hours in its factory, health and safety laws and control of pollution. It may be careless about the disposal of waste products. It may move any profits from the sale of cars out of the country and may also decide to close down the factory and leave the country if conditions are not to its liking.

It is important that multinationals locate in developing countries. If a country does not have multinationals based there, it is not participating in the global economy. The motor manufacturer should consider locating its factory in a developing country.

Level 1 (1–3 marks)

Has given some advantages and/or disadvantages for the motor manufacturer building a factory in a developing country.

The motor manufacturer will bring employment to the country. It will help to train the workforce and may give business to small firms who will supply components. It will contribute taxes to the economy. There are some disadvantages. The multinational may take advantage of a country with few rules and regulations. It could cause pollution. It may not have safe working practices.

[6]

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(c) Two suitable advertising media × 1 mark each and up to 2 marks each for reasons:

Television	Mass media, colour, can show car in action, can use various methods of appeal.
Motor magazine	Targeted at motorists and garages, colour, reasonably cheap, can give detailed information, (allow magazines).
Newspapers	Widely read, can give detailed information, show pictures of cars.
Brochures/leaflets	Read by those interested in buying cars, colour, reasonable cost, can give detailed information.
Internet website	Can give detailed information, cheap, worldwide coverage, can be updated easily.
Billboards	Many people pass by, colour.
Digital billboards	Advert can change, placed in busy streets where many people pass.

N.B. Do not accept any advertising media that have local coverage, e.g. posters, local radio, local newspapers.

Any other relevant medium. [6]

(d) Any two ways explained × 2 marks each – N.B. 0 marks for advertising.

Sales promotion – competitions with the car as a prize, sponsorship, offer gifts with every car sold (or accept two methods of sales promotion explained).
 Offer a wide range of extras on the car to attract a wide range of customers.
 Offer incentives to dealers to introduce the car to their customers.
 Explore the possibility of the car being used by car hire firms/companies using fleets of cars.
 Offer discounts for cash payment or payment within a certain period.
 Offer attractive credit terms to people interested in buying the car.
 Trade shows/exhibitions.
 Test driving.
 After sales service, e.g. delivery/warranty (2 marks max).
 Better displays in showrooms.
 Any other relevant way. [4]