

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
GCE Ordinary Level

MARK SCHEME for the May/June 2011 question paper
for the guidance of teachers

7100 COMMERCE

7100/21

Paper 2 (Written), maximum raw mark 80

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1 (a) Level 2 (4–6 marks)

Candidate has shown to what degree Ahmad is concerned with trade (in context) with reasons (no mention of profit = 5 marks max).

Trade is buying and selling for profit. Ahmad is somewhat concerned with trade. He feeds his family with the vegetables and this is not trade. However, once a week he sells the surplus in a market, which is a place for trade, and he also buys groceries and so he is trading. He does not take part in any import/export trade; he is only concerned with one aspect of home trade i.e. retail. By bartering he is swapping goods rather than trading for profit.

Level 1 (1–3 marks)

Candidate has commented on how Ahmad is concerned with trade or listed some ways in which he is concerned with trade.

Ahmad is concerned with trade because he buys groceries and he sells fish. [6]

(b) Any four actions × 1 mark each and up to two marks for a well-explained point:

- check the receipt carefully to find out where the overcharge occurred
- return to the self-service store
- take the receipt
- ask to see the manager
- take goods in lieu
- ask for the overcharge to be corrected/refund
- receive a credit note
- or do nothing.

Any other relevant point.

NB sue, go to police, consumer protection agency/association = 0 marks. [4]

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(c) (i) Any two points × 1 marks:

- credit given by small-scale retailers
- sometimes called lay-by
- to customers who are known to them
- amount owed may be settled weekly/monthly
- usually involves only small amounts of money
- no contract/letter/paperwork
- to encourage customer loyalty.

Any other relevant point.

[2]

(ii) Any two advantages × 1 mark each:

- may be able to buy when has no cash available/delay payment
- will be able to postpone payment
- safer than carrying cash/no need to carry cash
- simple/quick to use (1 mark max)
- free credit for a period of time
- generally accepted.

Any other relevant point.

[2]

(iii) Any **one** disadvantage explained:

- danger of fraud – stolen credit cards but losses usually borne by the credit card company; may spend time checking for stolen cards or credit limits
- increased paperwork – records and communicating with credit card company
- payment of commission to credit card company so loss of income
- delays in receiving payment from credit card company may mean cash flow problems
- purchase equipment + example.

Any other relevant point.
(bad debts = 0 marks)

[2]

(d) Any four advantages × 1 mark each or two advantages explained × 2 marks:

- flexibility – can go when or where he wants
- better supervision of goods carried/less damage
- can advertise his business on the side of the van
- can undertake deliveries
- can transport his family/use for own needs
- undertakes regular journeys to the market so cheaper than hiring other transport
- better than using a bicycle for heavy vegetables
- can take unsold produce to another town
- can use the van to sell from (mobile van)
- can hire himself and his van to others
- resale value of an asset.

Any other relevant point.

[4]

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2 (a) Any two reasons explained **in context** × 2 marks each:

- storage of the raw materials/finished products/canned meat/to keep food fresh
- food may be displayed – awaiting sale/transport/export to Japan
- protection of the food against damage/theft/weather
- provides cold storage – needed for some food products/before food is processed
- can regulate supply so that there are always sufficient goods to fulfil orders
- can even out price fluctuations especially of some foods which may be seasonal
- some of the foods can be prepared for sale e.g. packing, bottling.

Any other relevant point.

[4]

(b) Any three difficulties **explained in context** × 2 marks (not in context = 1 mark only):

- difficulties of language – different languages in NZ and Japan
 - difficulties of distance – need for container ship
 - difficulties about transport – air transport may be too expensive
 - difficulties of currency – payment in yen
 - difficulties of communication – may be difficult to confirm order/delivery arrangements
 - difficulties about health regulations – Japan may have health rules that the company has to follow
 - difficulties about delay in payment – may be using a method of payment that is slow and so cash flow problems may arise
 - difficulties with documentation – more complex documents, different documents from home trade e.g. bill of lading
 - difficulties with protectionist policies e.g. tariffs, quotas and embargoes.
- (NB if three protectionist policies given as difficulties award 4 marks max.)

Any other relevant difficulty.

[6]

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

- freight forwarders are expert at transporting goods
- because there is considerable distance and Latrite Ltd is unlikely to have its own delivery system
- needs to arrange transport e.g. container in ship
- needs to arrange the documentation
- needs to arrange customs clearance in NZ and in Japan
- may need to arrange delivery to the customer in Japan
- may need to arrange storage in Japan
- saves time arranging transport
- provides reassurance in overcoming transport problems
- freight forwarders have vehicles/branches in many countries
- cheaper/safer/quicker = 0 marks unless qualified.

Any other relevant point.

[4]

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(d) Level 2 (4–6 marks)

Candidate has discussed the advantages and disadvantages of using both email and telephone and has given a reasoned choice. (If a candidate has omitted advantages/disadvantages/considered only one method of communication/not made a choice = award 4 marks max.)

Email is a fast electronic service that Latrite could use at any time of day so overcoming difficulties because of time zones. It enables written information to be given and so this may assist understanding for the Japanese buyer who may need a translation. It can be forwarded by the buyer if someone else needs the information. Although Latrite may request an acknowledgement of the email, it is possible that the email may not be received or that the buyer takes time to access the email. If the matter is urgent this may cause problems.

Telephone is a direct form of communication. If contact can be made, Latrite can discuss the problem with the buyer and an immediate solution may be found. On the other hand, it may be difficult to contact the buyer as he may not be available or there are problems of time zones. It may be difficult also for the buyer and the seller to understand one another.

I would recommend telephone if the problem is very urgent and if an immediate solution needs to be found. If, however, the problem is complex, email may be better as thought can be given to finding a solution and there may be greater understanding between the two parties.

Level 1 (1–3 marks)

Candidate has listed some advantages/disadvantages of one or both methods of communication with/without a recommendation.

I would use email. It is fast and it is written. You need a computer. Telephone is also fast but the person may not be available. There may be misunderstandings. The language is not the same in New Zealand and in Japan. [6]

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3 (a) (i) Any two points × 1 mark each:

- shopping online
- using websites
- payment by credit card/debit card
- e-commerce
- buying and selling using computers = 1 mark.

Any other relevant point.

[2]

NB any 'play on words' such as shopping on the Internet = 0 marks.
Shopping from home/anywhere = 0 marks.

(ii) Level 2 (4–6 marks)

Candidate has discussed the advantages and/or disadvantages of Internet shopping for residents of a town and has given a reasoned opinion. (No opinion given = 4 marks max.)

(NB accept a one-sided argument.)

Many shoppers shop online. Internet shopping attracts consumers who do not have much time to go shopping. Goods and services can be paid for by credit card and goods are delivered by post. Internet shopping is available 24/7. It enables shoppers in the town to buy from all over the world. It saves on travel and parking costs and so has appeal for many people. Sometimes prices are lower for online shopping than in town centres to attract customers to online shopping.

On the other hand Internet shopping would not be used by some shoppers who are afraid of credit card fraud. If customers have no Internet access, this form of shopping is not available to them. There may be delays in the delivery of some goods as they are coming from a distance. The goods may not be as they appear on the website and you cannot inspect them. Goods may be more expensive because of delivery charges. It is likely that many of the residents will use a mixture of shopping options. They may use the town centre, they may use the shopping centre and they may use the Internet especially when it is cheaper to shop online. They may view goods in shops and then purchase them online.

Level 1 (1–3 marks)

Candidate has commented on Internet shopping with/without reference to the residents of the town.

Internet shopping is shopping by computer. Prices may be lower. Many shoppers like to use their computers to shop. Many goods and services can be bought online. Goods can be bought at any time.

[6]

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(b) Any three reasons explained × 2 marks or two reasons explained × 3 marks or six points × 1 mark:

- many shops grouped together so a wide selection of goods
- can do their household shopping and at the same time make use of the facilities
- likely to be a large car park so easy to load goods
- likely to be under cover with covered car park
- good road links so easily accessible/less traffic congestion
- new building so likely to be attractive and modern
- can obtain other services there e.g. bank, post office, restaurant
- pleasant place to spend some part of a day
- it is new
- shopping under one roof so may be quicker shopping
- may have access to cheaper goods/discounts.

(Allow negative comments about town centre shopping.)

Any other relevant point.

[6]

NB beware comment on hypermarkets.

(c) Any three actions **explained** × 2 marks each:

- close down and move to the shopping centre
- stage special events or promotions
- group together to offer shoppers discounts when using several stores
- lobby the town council to tidy up the town centre so that it looks more attractive
- make sure that the town centre is safe to visit
- try to offer free parking in the town's car parks
- offer attractive window displays to catch people's attention
- advertise themselves both in the town and in nearby places
- offer online shopping
- introduce loyalty cards/trading stamps to persuade shoppers to return
- make sure that shopping in their shops is as efficient as possible – better/personal service
- offer specialist goods/services that the shopping centre does not offer
- improve the range of goods offered/offer different goods – may be need for some market research
- offer after-sales service + example
- offer informal credit/credit
- convert to self-service – reduce staff expenses
- provide pleasant atmosphere/more hygienic surroundings.

Any other relevant action.

[6]

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4 (a) (i) Any two points × 1 mark each:

- to deposit money that is not needed at present
- so that it can earn interest
- and be readily available
- when required for investment/expansion/replacement of machines.

Any other relevant point.

[2]

(ii) Any two payment methods × 1 mark each:

cheque, credit transfer/bank giro, direct debit, standing order/banker's order,
bank draft, credit card, debit card, electronic transfer, withdraw cash.

[2]

(b) Level 2 (4–6 marks)

Candidate has discussed both options and has given a reasoned recommendation.

(If a candidate has discussed only one option award 4 marks max.)

(If a candidate has made no recommendation = 5 marks max.)

AG Services might purchase the trucks if it has sufficient funds available and if these funds are not needed for another project. The company will not have to pay interest, may be able to negotiate good terms and the trucks would become assets of the company. The company would, however, have to pay for the repairs and maintenance of these trucks and also insure them. This would all add to the costs of running these trucks.

AG Services might also consider leasing the trucks if suitable trucks are available. It might do this if it was uncertain about how many trucks it might need in the future. If the company leases the trucks it would probably enter into a repair and maintenance contract. The company would not own the trucks but only rent them but it might be able to replace them after about two years so that the business is using up-to-date vehicles. It would, however, probably pay more overall to lease than if it were to purchase outright but it would spread the payments for using the trucks.

I would recommend that AG Services buy the trucks if it has sufficient funds to do so. Then it has complete control over what the trucks may be used for and how they are to be repaired and maintained.

(NB beware of comment on hire purchase and credit sales.)

Level 1 (1–3 marks)

Candidate has commented on one or both options with/without a recommendation.

If AG Services bought the trucks they would own them. If they leased them, they would rent them and would not own them. It would be able to pay gradually. I recommend leasing them.

[6]

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(c) Any two reasons × 1 mark for each:

- (i)
 - because it covers claims by employees
 - because of accidents at work/example
 - as a result of the employer's negligence
 - required by law
 - pay compensation/otherwise pay from own reserves. [2]

- (ii)
 - because it covers claims by members of the public/customers
 - because of the company's negligence
 - example – customer falling on a slippery floor
 - may involve the payment of large amounts of compensation
 - pay compensation/otherwise pay from own reserves. [2]

- (iii)
 - because it owns trucks
 - third party required by law
 - the trucks are expensive to replace
 - may have comprehensive insurance
 - may have fleet insurance to cover all the vehicles
 - pay compensation to third party
 - pay compensation/otherwise pay from own reserves. [2]

Any other relevant point.

(d) Any four points × 1 mark each:

- the insurance company would inspect the building
- and use assessors to negotiate the claim settlement
- the insurance company would pay out \$15m if the building was totally destroyed
- because the building has been over-insured
- although A & G Services have paid premiums for \$17m cover
- it can only be indemnified/paid the value of the building
- it cannot make a profit from a loss.

Any other relevant point. [4]

NB utmost good faith = 0 marks.

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5 (a) Any two points × 1 mark each or one point explained × 2 marks:

- how many people the advertising is designed to reach/target market/customers targeted
- may be local, national or international area
- example – poster will cover a local area/television will give nationwide cover.

Any other relevant point.

[2]

(b) One mark for an effective medium and two reasons × 1 mark each:

- television – mass media, can demonstrate use of toothpaste, can be repeated
- billboards – colour, relatively cheap
- magazines – colour, detailed information, lasts for some time
- packaging – may attract attention, can give information, can show brand
- newspapers – can be repeated, detailed information, can appear in special section
- Internet/website – international, colour, cheap in terms of coverage.

Any other relevant medium with reasons (must appeal to mass audience).

[3]

NB cheaper and more local media such as flyers and posters = 0 marks.

Promotion techniques = 0 marks.

(c) (i) Any two points × 1 mark each:

- a way/technique/method/device used for attracting consumers
- by the content of the advertisement
- or actions shown in the advertisement
- may play on the emotions of the consumer
- example which may also be repeated in **(c)(ii)**.

Any other relevant point.

[2]

(ii) Any one method of appeal × 1 mark:

health, shiny teeth, famous person brushing teeth, colour, success, comedy, ambition, sex, romance.

Any other relevant method of appeal suitable for toothpaste.

[1]

(d) (i) One mark for SMILEY.

[1]

(ii) Any two reasons × 1 mark each or one explained reason × 2 marks:

- so that people can recognise the product
- the brand is likely to be a guarantee of a certain quality
- to create brand loyalty
- to aid self-service
- to differentiate between brands
- to attract customers (1) away from competitors (1)
- to increase sales/profits.

Any other relevant reason.

[2]

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(iii) Any reasons well explained up to 3 marks:

The advertisement is persuasive (1) because it promises buyers white teeth and white smiles as well as claiming that use of the toothpaste will mean no more tooth decay and gum disease.

The advertisement may be considered informative (1) because it mentions gum disease and gum decay but it does not give information about how these will be reduced.

NB accept answers that argue that the advertisement could be both.

Any other relevant point.

[3]

(e) Level 2 (4–6 marks)

Candidate has discussed the advertising campaigns undertaken by a multinational company and a sole trader and has given a reasoned opinion.

(If a candidate has discussed only one of the two advertising campaigns award 4 marks max.)

Both businesses will need to advertise in order to inform and persuade people to buy their products or services. A multinational company will wish to cover a very large area, possibly with international coverage. A sole trader is likely to target a small area around the business. A multinational will have a large advertising budget and will probably use mass media such as television and newspapers as well as a website on the Internet. A sole trader will have a small budget and the cost of advertising will be a major concern. The sole trader will use media such as leaflets, posters, window displays and also rely on word of mouth. It will depend on the type of goods or services being sold.

A multinational is likely to use an advertising agency and make use of sophisticated techniques and methods of appeal in the advertising. Films may be made, famous people may be hired to promote the product and a number of media will be used. Advertisements will be repeated and the target audience will be carefully studied. The sole trader will rely on his/her own expertise and may produce the advertising material. The sole trader may, however, also have a website.

It is likely, therefore, that the two advertising campaigns will **differ greatly** but they could be equally successful.

Level 1 (1–3 marks)

Candidate has commented on the advertising campaigns of one or both kinds of business with/without an opinion.

A multinational is likely to use mass media. A sole trader will use advertising that is cheap and seen by people local to the business. A multinational will target lots of people over a wide area. A sole trader will try to reach people living around the business. For these reasons the advertising campaigns will be very different.

[6]

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

- the chain of production for cars will be primary to secondary to tertiary
- raw materials will be produced and processed
- the cars will be manufactured in a factory
- by a car manufacturer who is in the secondary sector of production
- Broadway Autos is in the tertiary sector of production
- because it will order/purchase cars from the manufacturer
- because it provides a service by selling cars to consumers
- and it is in the retail trade so it is a retailer.

Any other relevant point.

[4]

(b) (i) $\$12\,000 - \$9000 = \$3000$ (1) $\frac{\$3000}{\$9000} \times 100$ (1) = 33.3% (1)

OFR If the correct answer is given without working award full marks.

[3]

The most likely error is using \$12 000 instead of \$9000 so the answer is 25%.
Award 2 marks for this answer if working is given.

(ii) $\$12\,000 \times \frac{5}{100}$ (1) = \$600 (1)

[2]

OFR applies especially from (b)(i). If the correct answer is given without working award full marks.

(iii) Any one commercial document × 1 mark and any one point to explain the purpose × 1 mark:

- quotation – to show how much individual cars may cost, given in response to an enquiry
- invoice – to give details of the purchase and the total amount payable
- statement of account – may be issued instead of the invoice, shows the amount payable and any other transactions such as payment for licence
- warranty/guarantee – against faults within a certain time period.

Allow also advice note/delivery note.

Any other relevant point.

[2]

(iv) Any three points × 1 mark each:

- Errors and Omissions Excepted (must be correct for the mark)
- if an error is made
- or something is omitted from the document
- the seller reserves the right to correct the mistake.

Any other relevant point.

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(c) Level 2 (4–6 marks)

Candidate has considered both the Internet account and using a local bank branch in context and has given a reasoned opinion as to whether or not the company needs both.
(If a candidate has considered one of the two options, award 4 marks max.)

The company is likely to use the Internet account for its daily transactions. It can obtain details of its debits and credits and its daily balance. It can pay bills, set up direct debits and standing orders, pay credit card bills, apply for loans and overdrafts and order cheque books. It can undertake 24-hour banking or at least access its accounts when it wants to do so.

Although the company can use the Internet for many services, the company will use the local branch to obtain any cash it needs (probably using an ATM at the bank), pay in receipts in the form of cash and cheques and if necessary use the night safe at the bank. Company managers may want to talk face to face about the business, negotiate a loan or seek financial advice and this is better done face to face at the branch where a good relationship may be built up.

It is evident that the company needs both an Internet bank account and access to the local branch. If the company already has both an Internet account and uses a local branch it must think that it needs both facilities.

Level 1 (1–3 marks)

Candidate has commented on using an Internet account and/or using a bank branch with/without an opinion.

The company will use an Internet account for viewing its balance. It will make transfers. It will pay bills. It will not be able to obtain cash. It needs to go to a bank branch for this. It, therefore, needs both. [6]

NB answers relating to buyers = 0 marks.

7 (a) (i) $\$500\,000 \times \frac{25}{100} (1) = \$125\,000 (1)$

$\$500\,000 - \$125\,000 (1) = \$375\,000 (1)$

OFR applies. If the correct answer is given without working award full marks. [4]

(ii) $\$125\,000 - \$80\,000 (1) = \$45\,000 (1)$

OFR applies. If the correct answer is given without working award full marks. [2]

(b) Any two expenses × 1 mark each:

wages/salaries for staff, power, rent, rates, advertising, telephone, insurance, maintenance, transport, interest on borrowing, depreciation, water.

Any other relevant expense. [2]

NB food/ingredients/supplies = 0 marks as cost of goods sold.

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(c) Any three actions explained in context × 2 marks each:

- reduce the expenses e.g. by using fewer staff
- using less advertising but this may be self-defeating/increase advertising to try to sell more
- looking for cheaper suppliers of the pizzas and burgers so that cost of goods sold is reduced and so gross profit may improve/better discounts
- improve gross profit by selling more goods
- increasing turnover – by offering other fast food items
- reducing prices so that more food is sold/increase prices but this may be self-defeating
- look for more efficient ways of operating the business e.g. computerisation to save staff
- improve the quality of the food provided – more customers
- introduce promotions – example
- provide after-sales service – home delivery
- change location – cheaper premises, to where there are more customers.

Any other relevant action.

[6]

NB if the reduction of three kinds of expenses is explained = 6 marks max.

(d) Level 2 (4–6 marks)

Candidate has considered the advantages of taking a bank loan and forming a private limited company and has given a reasoned recommendation.

(If a candidate has considered only one option award 4 marks max.)

(If a candidate has not given a recommendation award 5 marks max.)

It may all depend on how much Hassan wishes to expand. If he wants to extend his present premises, the bank loan may be sufficient. He will have to pay interest and make repayments but he will still be in sole control of the business. If, however, he wishes to open new premises he may need to form the company. This may be more risky and he needs the protection of limited liability so that his personal assets are not at risk. Forming a private limited company would mean that members of his family could invest in the business and that his capital would increase. His business would be more formal but he could still retain control by having the majority shareholding.

I would recommend that he forms a private limited company as the bank loan may be insufficient for his needs and he would be able to draw on greater funds for his expansion.

Level 1 (1–3 marks)

Candidate has commented on either taking a bank loan or forming a private limited company with/without a recommendation.

A bank loan would provide Hassan with a lot of money. The private limited company would be difficult to form and shareholders would own the business. Hassan would have limited liability. It might be a good thing to take a bank loan. He is still his own boss. [6]

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8 (a) (i) Any one benefit explained × 2 marks:

- can raise large amounts of capital using the stock exchange
- has continuity of existence although the ownership of the shares may change
- as there is no upper limit to the number of shareholders, it is easy to raise capital
- as large companies, they are considered safer and so are able to borrow more easily
- they are legal entities so they are separate from their shareholders and directors with large amounts of capital available so can take advantage of economies of scale.

NB raising money from shareholders = 0 marks as could apply to private limited company.

Any other relevant benefit explained. [2]

(ii) Any one benefit to shareholders explained × 2 marks:

- likely to be successful so likely to receive dividends from profits
- have protection of limited liability so personal assets are not at risk
- can attend the AGM and elect the directors
- greater security of investment as a large company.

Any other relevant benefit explained. [2]

(b) Level 2 (4–6 marks)

Candidate has considered the effects of both free trade and protectionism in terms of Big Bloom's business.

(If a candidate has considered either free trade or protectionism in relation to Big Bloom's business, award 4 marks max.)

If the country in which Big Bloom is based operates free trade, Big Bloom may encounter competition in the home market. If some of the countries in which Big Bloom plans to sell operate free trade this means that Big Bloom will find it easier to export to these countries because there will be no trade barriers such as import duties or quotas. The countries operating protectionist policies may be trying to protect their home trade. They may be imposing high import duties, quotas on certain products and even embargoes.

How much of an effect this will have on Big Bloom will depend on whether or not these protectionist measures relate to the import of flowers or whether they are imposed on other goods. Perhaps Big Bloom should only sell to those countries operating free trade.

Level 1 (1–3 marks)

Candidate has made some comments on free trade and/or protectionism and has/has not given an opinion.

Free trade means operating without trade barriers. No import duties will be charged. Protectionist policies include quotas and currency control. Big Bloom may be affected. [6]

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

- to find out how much is exported and how much is imported
- and from where these are exported or imported
- to identify trends in international trade as regards quantities, kind of goods and value
- to calculate the Balance of Trade and the Balance of Payments
- because the government requires customs to do this so that it can take any action required.

Any other relevant point.

[4]

NB comment on stopping smuggling, importing harmful products = 0 marks.

(d) Any three factors explained × 2 marks each or two factors × 3 marks each:

- cost of transport – the most economic method of transport is likely to be chosen as this cost will add to the price of the flowers
- quantity of flowers to be carried – bulk goods may be carried by ship, flowers may be in batches so air transport may be used
- nature of the goods to be carried – flowers need refrigeration and need careful handling to avoid damage
- distance – flowers are to be sent to neighbouring countries so several methods of transport may be suitable
- value of the goods to be transported – flowers may be valuable in quantity so may need some security
- availability of particular methods of transport – sea may be unsuitable as there may be no coastline
- need for a regular service – Big Bloom hopes to sell to neighbouring countries – this implies using a method of transport that is reliable and available
- environmental factors – choosing transport that uses less fuel, does not pollute the atmosphere, avoids excess packaging.

Any other relevant factor explained.

[6]

NB consideration of three methods of transport = 2 marks max.