

CAMBRIDGE INTERNATIONAL EXAMINATIONS
International General Certificate of Secondary Education

MARK SCHEME for the October/November 2012 series

0450 BUSINESS STUDIES

0450/13

Paper 1 (Short Answer/Structured Response),
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, which would have considered the acceptability of alternative answers.

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This mark scheme includes a summary of appropriate content for answering each question. It should be emphasised, however, that this material is for illustrative purposes and is not intended to provide a definitive guide to acceptable answers. It is quite possible that among the scripts there will be some candidate answers that are not covered directly by the content of this mark scheme. In such cases, professional judgement should be exercised in assessing the merits of the answer and the senior examiners should be consulted if further guidance is required.

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1 (a) What is meant by a 'sole trader'? [2]

Clear understanding [2] Sole trader refers to a business where **ownership** lies in the hands of one individual.

Some understanding [1] e.g. Run/operated by one person.

Some understanding (of ownership) plus relevant feature can gain 2 marks.

Accept features [1 max] e.g. has unlimited liability.

(b) Identify two ways of measuring the success of a business. [2]

Knowledge [2x1] 1 mark per measure of success.

Measures include: achievement of objectives/growth/increase in market share/sales/profits/survival in short run.

(c) Identify and explain two appropriate methods of communication between Rafa and his shop managers. [4]

Knowledge [2x1] award 1 mark per method.

Application /analysis [2x1] – award 1 mark for each relevant explanation (i.e. show how the method works and so why it is appropriate).

Methods could include:

- face to face meetings [k] which will give Rafa the opportunity for immediate feedback [an]
- emailing [k] so Rafa or managers can send info and access the information when it suits them [an]/helpful if a lot of details or sales information needs to be communicated [app]
- letters [k] useful if need to have written copy of information/decision e.g. formal warning [an]
- telephone [k] as it is quick so if there is an urgent message people don't have to wait to find out [an]
- text messages [k] because the same message can be sent to the many shop managers at same time [app].

(d) Identify and explain three main functions that a manager of a shop performs. [6]

Knowledge [3x1] – award 1 mark per identification of each function.

Application /Analysis [3x1] – award 1 mark for each relevant explanation (e.g. explain what this function will involve or why do it).

Points could include:

- recruit staff [k] as each shop will need sales people [an]
- order stock [k] to ensure there are enough products available for customers to buy [an]
- motivate/organise/supervise employees [k]
- decision making/problem solving [k]
- control [k]
- ensure customer service and customer satisfaction is high [k].

Note: Answer could focus either on generic management functions or more practical shop related functions.

Do not accept answers such as advertise, communicate, raise capital or pay bills.

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- (e) **Rafa thinks that if he continues to open more shops his business will become more profitable. Do you agree? Justify your answer.** [6]

Knowledge [2] Identification of issues.

Application/Analysis [2] – develops the point to explain how or why issue needs to be considered.

Evaluation [2] reasoned judgement made as to whether more shops means business will be more profitable.

Note: A one sided answer can gain 6 marks but must address the profit issue.

Points include:

- opening more shops will increase the sales turnover of the business [k]
- however it will also mean incurring more costs [k] (e.g. rent, workers)
- other factors that could be discussed include – location of shops, demand for products/competition/overhead costs

Example: Opening more shops could increase the sales turnover of the business [k] as more customers will be able to find a shop near them [an]. However it will also mean incurring more costs [k] as the business will have to pay more employees and rent [an]. So whether it increases profits depends on the relationship between the changes in these two variables [eval]. If sales rise by more than the additional costs then Rafa's business could be more profitable [eval].

- 2 (a) **What is meant by 'current assets'?** [2]

Clear understanding [2] Current assets refer to those assets owned that can be quickly converted into cash.

Some understanding [1] e.g. explanation of what an asset OR feature e.g. short term asset

Some understanding plus example e.g. cash can gain 2 marks.

Do not credit examples on own e.g. money.

- (b) **Calculate the current ratio for C & C in 2011.** [2]

Application [2] Correct answer [2] i.e. 1.25 (times).

Method [1] e.g. Current assets / current liabilities [1]; OR 500 / 400 [1].

- (c) **Identify and explain two situations when a business might use an overdraft to finance its activities.** [4]

Knowledge [2x1] – award 1 mark per situation.

Analysis [2x1] – award 1 mark for each relevant explanation (i.e. show why overdraft is most suitable source for this situation rather than any other source of funds).

Situations include:

- working capital needs [k] when the capital need is short term [k] as its quick to arrange [an]
- when the need is for general expenditure not a specific purchase [k] as overdraft is flexible [an]
- no security available or required [k] as overdraft does not need any fixed assets to support it [an]
- cash flow problems [K] as these are likely to be temporary so only borrow money for time needed [an]
- when need quick access to funds [k] as an overdraft is easy to arrange [an].

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- (d) Identify and explain three changes that occurred in the financial position of C & C between 2010 and 2011. [6]

Knowledge [3x1] – award 1 mark for identification of change.

Application/analysis [3x1] – award 1 mark for each relevant explanation (accept calculation of % change or explain reason for change).

Changes include:

- fixed assets risen [k] by 33.3% [an]/as bought new machinery or buildings [an]
- finance of expansion largely long term debt[k] as increased to 83.3% [an]/increase in long term debt [k] which was needed for fixed asset purchase [an]
- current ratio improved [k] which is good as it shows liquidity is stronger [an] OR as paid off some short term liabilities [an].

- (e) How useful are the accounts of a business to any of two stakeholder groups? Justify your answer. [6]

Knowledge [2x1] identification of what the accounts show the stakeholder.

Analysis [2x1] explain how this might/might not be of use to identified stakeholder.

Evaluation [2x1] reasoned judgement as to how useful accounts might be for identified stakeholder.

Note: no marks for simply identifying stakeholders.

Stakeholders might include:

- employees – income statement and level of profit [k] if profits are high, they could get a bonus or a pay rise [an] OR would find the information perhaps of general interest but of no direct relevance [eval]
- lenders – shows the assets and liabilities/what the business is worth/owes/how it is financed. It is helpful because if the business has too many debts [an] it might be too risky to lend more [eval]
- potential investors – might want to know the ROCE [k] to see if it's worth investing in this business [an]
- shareholders – profit levels [k] as if high could lead to higher dividend payment [an]
- creditors – owed money so keen to see size of other debts of business [k] and what security exists – assess risk of default [an].

- 3 (a) What is meant by 'niche markets'? [2]

Clear understanding [2] Niche market is a subsection of a market [1] with specific needs and characteristics [1].

Some understanding [1] e.g. small part of a market [1].

For 2 marks must have reference to idea of 'small part of market' and 'specific characteristics'.

Do not accept 'small market' [0].

- (b) Identify two ways of segmenting a market. [2]

Knowledge [2x1] 1 mark per way.

Ways include: Income/gender/location/socioeconomic groupings/race/age/interests.

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- (c) Identify and explain two reasons why market research information might not be useful to a business in making decisions. [4]

Knowledge [2x1] award 1 mark per reason.

Analysis [2x1] Development marks for showing why the information might be of limited value.

Points might include:

- be out of date [k] / Only shows past not future [k]
- may not be relevant [k] as the information might have been collected for a different purpose [an]
- wrong questions asked [k] so unable to collect the necessary information
- biased and non representative of cohort [k] so information is not relevant to their specific market [an].

- (d) Identify and explain three reasons why a holiday company would spend money on advertising. [6]

Knowledge [3x1] – award 1 mark per reason.

Application/analysis [3x1] – award 1 mark for each relevant explanation (i.e. show why spending is necessary).

Reasons might include:

- create customer awareness [k] which could lead to greater level of sales [an]
- persuade and influence customers [k]
- project a strong company image [k]
- to compete more effectively in a competitive environment [k] as rival businesses are also likely to spend money on advertising its holidays [an]
- spending is cost effective [k] as money spent should hopefully lead to higher levels of revenue [an].

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- (e) Do you think offering cheaper holidays would be a good idea for Koni Travel? Justify your answer. [6]

Knowledge/application [2] – identification of relevant issues.

Analysis [2] – develops the point to explain how or why issue needs to be considered.

Evaluation [2] reasoned judgement made as to whether this is a good idea for KT.

Note: A one sided answer can gain 6 marks but must address niche market aspect.

Points could include:

- new market could increase possible customers/sales [k]
- no expertise [k] as used to operating in a niche market [app]
- additional costs of advertising/location/staffing requirements might mean it is too expensive/not cost effective [an]
- could boost/damage image depending on whether successful [k]
- reaction/level of competition [k] in new market in which KT have no experience [app] so might not gain many additional sales [an].

Example: KT currently operates in a niche market where its customers are high income groups [k]. Cheap holidays would not appeal to this segment [an]. Such a move might tarnish the name and reputation of the business with its existing customer base [k]. However the move could tap a new type of customer [k]. Sales could rise and more profits could be earned as they are able to target more customers [an]. However, this is likely to be a competitive market, so there is no guarantee they will gain these new customers [an] and they will have to pay extra costs which they might not recover in additional sales [eval]. So they could lose out as they lose existing customers and can't gain enough new ones [eval].

- 4 (a) What is meant by 'flow production methods'? [2]

Clear understanding [2] e.g. Where large quantities of a product [1] are produced in a continuous process [1] OR identifies TWO distinctive features of flow.

Some understanding [1] e.g. 'makes lots of the same thing' OR identifies one distinctive feature e.g. large scale production.

- (b) Identify two ways of measuring the size of a business. [2]

Knowledge [2] 1 mark per way.

Ways include:

- sales value OR value of output OR revenue
- capital employed
- number of employees
- value of balance sheet
- market share.

Do NOT allow profit/outlets/number of assets or machines or capital/amount of output.

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- (c) Identify and explain **two** reasons why measuring ‘output per employee’ is important to the management of a business. [4]

Knowledge [2x1] – award 1 mark for each reason identified [max 2].

Analysis [2x1] – explanation to show why the concept is important to a business.

Reasons could include:

- impacts on unit cost [k]
- measures the employment level in the business in relation to the output [k]
- measures the effective use of employees/labour productivity [k]
- measures effectiveness of training/can identify training needs [k]
- indicate motivation/morale problems [k] which manager will need to address to ensure labour turnover doesn't become a problem [an]
- help calculate wages [k].

- (d) Identify and explain **two** reasons why a high labour turnover might occur in a business such as J and K. [6]

Knowledge [2x1] – award 1 mark for each reason identified [max 2].

Application [2x1] – award 1 mark if relevant reference made to manufacturer like J&K.

Analysis [2x1] – award 1 mark for each relevant explanation (i.e. show why the factor identified might contribute towards people leaving).

Reasons could include:

- wage levels too low [k] so employees seek better wages elsewhere [an]
- no promotion prospects [k] as machines do most of work [app] so workers have to leave to get better paid/responsible job [an]
- nature of work unattractive [k] as flow production used [app] so little variety in work [an]
- working environment unsatisfactory [k] as machines might be dangerous [app] so people don't want to get hurt [an]
- management style not liked [k] so people don't want to work for them [an].

For each reason maximum 3 marks [1k + 1ap + 1an].

- (e) The management of J and K thinks that unit costs will continue to fall if the business gets larger. Do you think they are right? Justify your answer. [6]

Knowledge [2] Identification of issues or knowledge of unit costs.

Application /analysis [2] – develops the point to explain how or why issue needs to be considered.

Evaluation [2] reasoned judgement made as to whether unit costs will continue to fall as J&K gets larger.

Note: A one sided answer can gain 6 marks.

Points that could be considered include:

- might continue to benefit from future economies of scale [k]
- economies of scale may stop at a certain level
- diseconomies can set in [k] e.g. larger businesses are harder to manage
- labour issues (high turnover) [k] could affect ability to maintain efficiency [an].

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5 (a) What is meant by ‘entrepreneur’? [2]

Clear understanding [2] e.g. An entrepreneur is a risk taker who injects money into a business in anticipation of profit OR 2 features of an entrepreneur.

Some understanding [1] e.g. risk taker or innovator.

Do not accept names of entrepreneurs.

(b) Identify two examples of discrimination at work. [2]

Knowledge [2x1] 1 mark per example.

Examples include: One group of workers paid more than another even though work is identical/less qualified person appointed over more qualified/racial, age and gender discrimination.

(c) An employment contract includes the personal details of the employee. Identify and explain two other features of an employment contract. [4]

Knowledge [2x1] – award 1 mark per feature.

Analysis [2x1] – award 1 mark for each relevant explanation (show what the point identified means).

Features might include:

- duration of contract [k]
- level or frequency of pay [k]
- nature of tasks to be carried out [k].

(d) Identify and explain three ways in which laws can protect workers. [6]

Knowledge [3x1] – award 1 mark per way.

Analysis [3x1] – award 1 mark for each relevant explanation (i.e. must show how the employee is protected by the point raised).

Points might include:

- employee might be protected against an unhealthy or dangerous working environment [k] so less risk of being injured [an]
- avoid unreasonable hours [k]
- excessively low pay [k] so able to have basic standard of living [an]
- cannot expect to respond to unreasonable demands outside the terms of the contract [k].

Note: no marks for simply identifying laws.

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- (e) Do you think that company profits can be damaged by employment laws and health and safety laws? Justify your answer. [6]

Knowledge [2] Identification of issues.

Analysis [2] – explain how or why issue needs to be considered by the business.

Evaluation [2] reasoned judgement made as to whether profits can be damaged by laws.

Note: A one sided answer can gain 6 marks.

Points could include: If legislation is excessive it can damage business because

- labour costs too high [k]
- overmanning occurs [k] because removal of people difficult [an]
- legislation can be costly to implement [k]
- may result in legal action and all associated costs if laws broken [k] which could damage reputation of business [an]
- increases reluctance to take extra employees on [k]
- can help business be seen as good employer so able to attract better quality workers [k].

Example: If costs rise and a company's ability to make appropriate decisions is constrained [k] then profits may well be damaged as they cannot respond to demand [an]. However laws may give employees greater security [k] and this might improve their job performance [an]. Motivation might also increase and this could have a greater positive impact on profits [eval]. So situation not entirely clear cut [eval].