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**COMMERCIAL STUDIES**

**7101/12**

Paper 1 Elements of Commerce

**October/November 2016**

MARK SCHEME

Maximum Mark: 100

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### Section A

- 1 (a) (i) Trade is the buying and selling/exchange (1) divided into retail/wholesale or import/export (1) using money (1) for profit (1) to dispose of surpluses so as to provide goods/services (1)
- (ii) Aids to trade are services (1) allow example such as banking/transport/insurance/warehousing/communications/advertising (1) which assist/supports trade to function (1)
- (iii) Human wants are individual requirements to make life pleasant or more comfortable (1) which we do not need to live (1) allow example such as televisions, designer clothes (1)
- 1 mark per point plus 1 mark for development of each [6]
- (b) (i) Likely to reduce the price of the goods (1) since the wholesaler charges for their service (1)  
 More profit for manufacturer (1) as they are cutting out the costs of the wholesaler (1)  
 Problem for manufacturer as the retailer is not clearing production lines (1) may need to warehouse goods (1)  
 Manufacturer would have to provide wholesaler services (1) e.g. breaking bulk (1)  
 Problem for small-scale with small capital (1) who cannot afford to buy in bulk (1)  
 The retailer may not buy from the wholesaler (1) as they have no warehousing (1)  
 Retailer will have to buy in bulk (1) as not receiving small quantity from wholesaler (1)  
 The retailer will have to make contact with a variety of manufacturers (1) which might increase their costs as they may not be as convenient as the wholesaler (1)  
 Retailer will have to buy in bulk (1) as no one is breaking bulk (1)  
 Lead to decline of wholesalers (1) as less demand for their service (1)  
 Encourage trade with the small-scale retailers in other ways (1) allow example such as cash and carry (1)  
 Wholesalers may create voluntary chains (1) where the chain buys goods in bulk (1) and distributes it to the chain's small-scale retailers (1)
- Any 3 × 1 mark for each plus 1 mark for development of each effect [6]
- (ii) Wholesaler buys in bulk (1) and sells in small quantities (1)
- 2 × 1 marks [2]
- (iii) The chain of distribution starts with the manufacturer/producer (1) who needs the final good/service produced to be bought by consumers (1) and delivered/transported to consumers (1) as consumers are the users of goods (1) without the consumer there would be no need for production (1) so that everybody else in the chain makes a living (1)
- 1 mark per point plus up to 2 marks for development [3]
- (iv) Manufacturer/exporter (1) – Agent (1) – retailer (1) – consumer (1)  
 Forwarding agent/transporter (1) – retailer (1) – consumer (1)  
 Agent (1) – retailer (1) – consumer (1)  
 Export merchant (1) – retailer (1) – consumer (1)  
 Manufacturer/exporter (1) – Agent (1) – consumer (1)  
 Manufacturer (1) merchant (1) retailer (1)  
 Any appropriate channel of distribution to be credited [3]

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- 2 (a) (i) Limited liability (1) explanation of limited liability (1)  
 Legal entity (1) explanation of being a legal person (1)  
 Registration (1) Memorandum/Articles of Association (1)  
 Has directors (1) minimum one private/minimum 2 public (1)  
 Shareholders (1) owners of the company (1)  
 Minimum of 2 shareholders (1) 50/no maximum (1)  
 Shareholders have voting rights (1) to elect directors (1)  
 Conforms to Companies Acts (1) documents/meetings/accounts (1)  
 Limited companies must hold an AGM (1) consider annual report (1)  
 Name must include the word 'limited' (1) public has 'plc' after its name (1)  
 Need to submit accounts (1) for inspection (1)  
 Profits distributed to shareholders (1) in dividends (1)
- 1 mark per point plus 1 mark each for development of each [4]
- (ii) Manufacturing/produce goods (1)  
 Stock control (1)  
 Meeting production targets (1)  
 Quality control (1)  
 Maintenance (1)  
 Organising production lines (1)  
 Designing products (1)  
 Testing goods (1)
- Any 2 × 1 marks [2]
- (b) Public limited companies will find it easier to raise finance (1) as they are considered less of a risk (1)  
 Due to their size, they are more likely to take advantage of economies of scale (1) such as national advertising (1)  
 Shares open to the public (1) making it easier for them to invest (1)
- Any 2 × (1 + 1) marks [4]
- (c) (i) Cheaper way of carrying goods (1) than air (1) can use containers (1) as there are different types of ships (1) to keep unit costs down (1) of carrying heavy (1) and bulky/large goods (1) over long distances (1) if goods not required urgently (1)
- Any 2 × 1 marks [2]
- (ii) Cargo ships follow a regular itinerary (1) Tramps go wherever it is sent (1)  
 Cargo ships carry a variety of cargo (1) Tramps usually carries one type of cargo (1)  
 Cargo ships freight rates are fixed (1) Tramps freight rates are set by bargaining (1)  
 Cargo ships are not subject to charter (1) Tramps can be chartered for a voyage or a period of time (1)  
 Generally close supervision of goods on Cargo ship (1) less supervision on Tramps (1)
- 1 mark for each difference [2]

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- (d) Tea/coffee are dutiable goods (1) on which duty has not been paid (1) so kept/put in bonded warehouse (1)  
 While in bond, goods can be processed (1) e.g. packed/bottled/blended/graded (1)  
 Importer may wish to postpone duty (1) while looking for buyers (1)  
 Importer may sell the goods in bond (1) and buyer then pays the duty (1)  
 This economises working capital (1) because money not tied up in duty on unsold goods (1)  
 the importer may wish to spread the duty paid in this way (1)  
 Goods may be re-exported (1) as part of the entrepot trade (1)  
 They import the goods and make them more saleable (1) and then export them again (1) and avoid paying duty (1)

1 mark plus up to 2 marks for each reason

[6]

- 3 (a) (i) Teleconferencing (1)  
 Videoconferencing (1)  
 Fax (1)  
 Internet (1)  
 Telex (1)  
 Text (1)  
 Extranet (1)  
 Intranet (1)  
 Skype (1)  
 Voicemail (1)  
 Social media  
 Pager  
 Blogs/forums (1)  
 VOIP (1)

Any 2 × 1 marks

[2]

- (ii) There is immediate contact (1) where people can directly talk to each other (1) and the conversation can develop into a discussion (1) so that points can be clarified/explained (1) at anytime/anywhere (1)  
 Immediate feedback is given (1) so that customer's queries can be dealt with immediately (1) especially for urgent queries (1)  
 Customer may be persuaded to buy insurance (1) by tone of voice (1) and the personal interaction of the two people (1)

1 mark per point plus 1 mark for development

(2)

- (iii) Provides a record (1) for future reference (1) as email can be kept/stored (1) so that all of the customer's details/information/insurance requirements can be listed (1)  
 Attachments can be sent (1) such as a claim form (1)  
 The phone line may be busy (1) and the customer may not have the time to hang on (1) so it is quicker/cheaper to send an email (1)  
 Telephone signal may be poor (1) can lead to misunderstanding (1) with information misinterpreted (1)

1 mark per point plus 2 marks for development

(3)

|               |                                                  |                 |              |
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- (b) In order to obtain the lowest premium/cheapest price (1) by choosing the cheapest insurer (1) or using it as bargaining tool (1) in order to reduce the premium by comparing it with another insurer (1) and getting the best cover (1) as insurance companies can differ on quotations given for the same insurance cover (1) with other aspects of cover differing as well (1) allow example, such as the amount of excess (1)  
A consumer can see which insurance companies are more expensive than others (1) and what each insurance company offers (1)

1 mark per point plus 2 marks for development [3]

- (c) Consider what they want to insure (1) and whether it is insurable or not (1) such as insuring for bad management is not possible (1)  
Consider the personal information of the insured (1) where they live (1) e.g. it is a high risk area (1)  
Whether there is insurable interest (1) which states that you must have a direct/financial interest in what you insure (1) allow example such as you own the building being insured (1) as you may be tempted to profit from the loss (1) by causing it to happen (1) such as burning the building down (1)  
Whether there is utmost good faith (1) where both parties/insurer and insured should tell the truth (1) giving all relevant/material facts of object to be insured (1) as this will affect the premium paid (1) allow example such as a building containing flammable materials (1)  
Whether there is indemnity (1) and that the insured is not over-insuring (1) or under-insuring (1) in order to make a profit from a loss (1) allow example, such as insuring a building for £50 000 when it needs to be rebuilt for £70 000 (1)

1 mark per point plus two marks for development of each factor [6]

- (d) Letter post (1) which can be divided into first and second class (1)  
Recorded delivery (1) for sending important documents (1)  
Registered post/special delivery (1) for sending valuables (1)  
Business reply service (1) for customers to return envelopes without paying (1)  
Freepost (1) for customers to write freepost on their envelopes (1)  
Express delivery service (1) guarantee delivery (1)  
Parcel post (1) for heavier goods (1)

Note: No marks for couriers such as DHL or Delgado

Any  $2 \times (1 + 1)$  marks [4]

- 4 (a) (i) Formal method of borrowing (1)  
Usually for a set purpose (1)  
Use of collateral security (1)  
Loan agreement completed (1)  
Loan account is opened (1)  
Repayments made in instalments/monthly (1)  
Interest rate (1)  
Interest charged on total amount of loan (1)  
Set amount (1)  
Long period of time (1)  
Set/fixed period of time or e.g. 2 years (1)  
Does not need a bank account (1)

Any  $2 \times 1$  marks [2]

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- (ii) How much/the amount she wants to borrow?  
 What is the purpose of the loan?  
 What is the interest rate?  
 What collateral security she can you provide?  
 When does she expect to pay back the money?  
 Will she be able to pay back the loan?  
 How much does she earn?  
 How long does she need the loan for?  
 How much interest will be charged?  
 What other commitments does she have?  
 How successful has her business been?  
 What profits does she expect to make?  
 How does she intend to develop the business?  
 How long does she want to borrow the money for?

Any 3 × 1 marks

[3]

- (iii) When Mrs Salah wants an informal method of borrowing (1) to use it immediately/urgently for cash flow problems (1) and using her current account (1) for a small amount of money (1) for a short-term period (1) in order to pay bills/buy stock (1) and when is it cheaper than a loan (1) as interest can be variable (1)

Any 3 × 1 marks

[3]

- (b) Storage (1) e.g. finished furniture/tools (1) protecting/safer (1) from damage/theft/weather (1)  
 To help in stock-piling (1) act as a reservoir for production ahead of demand (1)  
 Place for processing to be carried out (1) packaging/branding/labelling (1)  
 Even out supply (1) so prices are kept stable (1)  
 Provide a place for buyers to inspect furniture (1) and order goods (1)  
 Enables production ahead of demand (1) somewhere to store furniture until required (1) and transported from warehouse (1)  
 To meet unexpected demand (1) e.g. garden furniture in a hot summer (1)

Any 4 × 1 marks

[4]

- (c) (i) Reasonably cheap (1) compared to national media/television (1) and many people listen to the radio (1) as there is easy access (1) including people who cannot read (1)  
 Targeting local audience (1) who are more likely to be buying from Mrs Salah (1)  
 Can target specific users (1) for example, during a gardening programme/those people that love gardening (1) who can listen anytime/anywhere (1)  
 Advertisement is easy to create (1) as it is only oral/sound (1)  
 Advertisements can be remembered (1) by the use of 'jingle' (1) which can be repeated (1) allow example of a jingle, such as 'No summer garden is complete without these cherry blooms' (1)  
 Radio can reach many local consumers (1) as they are in cars/available in remote areas (1)  
 Note: Allow negative reasons compared to other advertising media

1 mark plus 5 marks for development

[6]

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- (ii) As there is likely to be less turnover in Mrs Salah's shop (1) compared to say, a supermarket, there are not going to be many seen/not a wide market (1) to persuade customers to buy (1) and of little use to people who cannot read (1)  
They are likely to add to the costs of the store (1) which could impact on making prices less competitive (1) and less sales/profits (1)  
Plastic bags tend not to be kept (1) and thrown away (1) so they are very wasteful (1) and damage the environment (1) causing greenhouse gases (1) and it is not easy for garden furniture to fit inside a plastic bag (1)

1 mark per point plus 1 mark for development [2]

- 5 (a) (i) If a customer wants to know/be shown the range of the seller's products (1) e.g. prices/delivery dates (1) with pictures of goods (1) to tempt buyers to order goods (1) and increase sales (1)

1 mark per point plus 1 mark for development [2]

- (ii) An invoice is a bill (1) sent by seller/to buyer (1) made out in several copies (1) for goods bought on credit (1) showing details of goods ordered (1) the total price/amount owed (1) and terms of payment (1)

Any 2 × 1 marks [2]

- (iii) Credit note (1) used when goods have been overcharged/it can also be used when goods are returned/or are not the goods ordered (1)  
Debit note (1) used when goods have been undercharged (1)  
Statement of account (1) shows all the transactions/balance owing/acting as a request for payment (1)  
Receipt (1) shows/prove that payment has been made (1)  
Cheque (1) proof of payment (1)

Any 2 × 1 (1 + 1) marks [4]

- (b) (i) Delivery note (1) shows description of goods (1) acts as an advice note (1) and a receipt (1) for delivered goods (1)  
Consignment note (1) shows description of goods (1) acts as an advice note (1) and a receipt (1) as proof of delivery (1)

Any 1 × 3 (1 + 2) marks [3]

- (ii) Air waybill (1) shows description of goods (1) acts as an advice note (1) or evidence/contract of carriage (1) or as a receipt (1) and used for customs (1)

Any 1 × 3 (1 + 2) marks [3]



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- (c) Higher risk of non-payment (1) as it more difficult to determine the creditworthiness of a business in a distant country (1) and to recover debts from foreign traders (1)  
 When goods are sent by sea (1) a bill of lading is needed (1) to confer ownership (1) as a document of title (1) and to act as receipt for goods shipped (1)  
 Payment abroad can be less secure (1) bill of exchange is safer (1)  
 In home trade, methods of payment such as cheques are used (1) whereas in international trade, bills of exchange are used (1)  
 More chance of loss over longer distances (1) need for more documentation (1)  
 Import duties have to be paid (1) need for customs documents (1)  
 Duties will vary with source country (1) need for certificate of origin (1)  
 Greater possible health risks (1) need for clearance certificates (1)  
 Need to control entry of dangerous goods (1) use of import licences (1)  
 Need to restrict currency flows (1) use of exchange control documents (1)

1 mark per point plus 5 marks for development [6]

- 6 (a) (i) Hypermarkets or Speciality (allow specialist) stores or discount stores or telesales or television shopping or factory shops or party selling or hawkers or pedlers or mobile shop (1) or vending machine or market stall/shop (1)

Any 1 × 1 mark [1]

- (ii) 5% (1)  $5/100 \times \$800\text{bn}$  (1) = \$40 billion (1) or 3 marks for the correct answer [3]

- (iii) 21% + 19% + 6% + 4% + 22% (1) = 72% – 100% (1) = 28% (1) or 3 marks for correct answer [3]

- (b) Chain stores have more than ten branches (1) can be either specialist chain stores (1) or variety chain stores (1) with all branches the same (1) e.g. same goods (1) same prices (1) same displays (1) same uniform (1) same shop fronts (1) offering self-service with a branch store manager (1).

The chain is supplied from a central warehouse (1) with activities organised by the Head Office (1) allow example, such as centralised buying/bulk buying (1) advertising (1)

Any 3 × 1 marks [3]

- (c) Makes it more convenient for customers (1) to pick/handle goods (1) and more hygienic for customers to do so (1) so that goods are not damaged/soiled (1)  
 Packaging makes goods more attractive (1) as it is eye-catching (1) and gain their attention/make goods recognisable (1) attracting customers (1) persuading consumers to buy (1)  
 Packaging enables goods to be advertised (1) with brand name placed on packet (1) giving brand loyalty (1)  
 Gives information of goods (1) so consumers know what is inside the packet (1) e.g. ingredients (1)  
 Can give an impression of better value (1) for example, goods in gold coloured boxes look expensive (1)

1 mark per point plus 3 marks for development [4]



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- (d) Many retailers want to increase their sales (1) and expand their markets (1) enabling people to shop worldwide (1) without incurring the costs/rent of more shop space (1) and catalogues (1) so it is much cheaper for the retailer (1) as less labour needed (1)  
 Many competitors have websites (1) and home delivery (1) so retailers have to compete by having their own website (1) to advertise goods (1) and they can sell 24/7 (1) rather than being fixed to shop opening hours (1)  
 Many people have less time to go shopping (1) or live in isolated places (1) and have access to computers (1) so retailers need to meet customer demand (1) and display all their stock (1) which may not be available in their stores (1) to attract more customers (1)  
 Can deal with online enquiries (1) without being face-to-face (1)

1 mark per point plus 4 marks for development plus 1 mark for a conclusion [6]

7 (a) Manufactured goods (1) [1]

(b) \$5.30 (1) + \$8.10 (1) = \$13.40bn (1) or three marks for the correct answer. [3]

(c) The balance of trade is visible exports (1) – visible imports (1) or exported goods (1) – imported goods (1) [2]

- (d) Need to import goods/services not produced/available (1) example (1)  
 Creates jobs (1) to cut unemployment figures (1)  
 Increases standard of living (1) wider choice/variety of goods (1)  
 Friendship/political reasons (1) example (1)  
 Increases government revenue (1) through customs duties (1)  
 To obtain cheaper goods (1) allow an example (1)  
 Encourages investment (1) to support economic growth (1)  
 To obtain better quality goods (1) allow an example (1)  
 To import raw materials (1) in order to make goods (1)  
 To encourage competition (1) so that home industries become more efficient (1)

1 mark per point plus 5 marks for development [6]

- (e) (i) Electronic/online transfer (1) computerised transfer of funds (1)  
 Bill of Exchange (1) promise to pay a debt at a future date (1)  
 Letter of credit/documentary credit (1) sent to exporter's bank to guarantee payment (1)  
 Bank draft (1) cheque drawn on own bank (1)  
 Paypal (1) electronic movement of funds (1)

Any 2 × 1 (1 +1) marks [4]

- (ii) Enforcing quotas (1) to control the amount of goods coming in/out of the country (1)  
 Exchange control (1) whereby importers are restricted in the purchase of foreign exchange to pay for imports (1)  
 Enforcing/collecting customs duties/tariffs (1) discourage imports/making imports more expensive (1)  
 Issue of import licences (1) which limit the amount of imports brought into the country (1)  
 Enforcing embargoes (1) total bans on certain products or example such as drugs (1)

Any 2 × 1 (1 +1) marks [4]