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# BUSINESS STUDIES

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Paper 0450/01

Paper 1

## General comments

The general standard of scripts was marginally down on last year. The paper differentiated well across the full ability range. All questions proved accessible to candidates although some proved to be more demanding. This was true of **Questions 2 and 4**. These questions focused on financial and numerate parts of the syllabus and this remains an area of relative weakness for some candidates. The paper as a whole was slightly more challenging than last year and this resulted in a reduction in the mean mark. Candidates might find the following points helpful in improving their performance:

- Questions that ask for explanation required an answer that develops points in a logical manner.
- In calculation questions it is always advisable to show working. Even if numerical errors occur marks will be awarded for method.
- The command word in a question must be read and followed carefully. This will help an answer to focus more accurately on the specific question set. For example in **3 (c)(iii)** the question asked for the benefits that a business might gain from induction training of their staff. Many answers made little reference to the business but focused solely on benefits to the employee.
- A number of questions require the candidate to identify and explain two factors. Many candidates ignore this instruction and produce an answer that identifies more than two but explains none. This over-emphasis on knowledge and insufficient focus on understanding and analysis results in fewer marks being gained. The key to high marks is to demonstrate a range of skills.

## Comments on specific questions

### Question 1

- (a)(i) Generally limited liability was a well understood concept. Clearly an answer needed a strong focus on the meaning of the word 'limited'.
- (ii) Understanding of dividend was variable. Many answers failed to link it strongly to the concept of profit.
- (iii) The most common error here was confusion with public and private sectors. However, usually this was well answered.
- (b) Although many candidates were able to identify reasons why share prices might fall, a surprising number felt that the price of a share was determined by the company itself. They suggested that the company made the price lower so that it would be in greater demand.
- (c) Many good answers that identified methods such as A.G.M. and company reports. Unfortunately many candidates were unable to explain how these methods represented communication between management and shareholders. Some answers focused on generic methods of communication such as telephone or fax.
- (d) Candidates often struggled to develop their answers here. Many recognised that the needs of stakeholders such as employees and consumers should be considered but they found it difficult to explain why this should be the case. A few argued that the management's sole responsibility lay with its owners. Such answers were judged on their merits.

**Question 2**

- (a)(i) Answers were 2003 - 8.88% and 2002 - 12.5%, thus a fall of 3.6%. A number of answers identify the reduction in the margin.
- (ii) Any reduction in net profit margin implies that the percentage of sales revenue representing profit has been reduced. This usually would be the result of reduced prices or increased costs. Many candidates found this difficult to explain.
- (iii) Surprisingly poorly answered. Answer - 14.5%.
- (iv) Again a lack of understanding of a key financial measure of performance.
- (v) The major error here was to refer to ratios that could be gained from the information already given. Even when a new ratio was identified it was not well linked to the concept of success. This part of the whole question was not done very well. Clearly the concept of success of a business is an area where many candidates have a superficial understanding.
- (b)(i) Generally most candidates had an appreciation of the concept of working capital.
- (ii) Some good answers here. The main weakness was an inability to link the concepts together. Thus an answer sometimes focused on cash flow problems with no mention of profit or vice versa.

**Question 3**

- (a) Although there was evidence that many candidates had some appreciation of the concept of business communications, there was also evidence of an inability to focus on the specific question. Some answers made reference to external communication issues. Others referred to good communications but not barriers. Better candidates linked their answers successfully to issues like wide spans of control or long chains of command.
- (b) Concepts of employee motivation are well known to most candidates. The question differentiated successfully because it required a consideration of the likely degree of success of a given method. There were many good answers that provided reasons to support the line of argument adopted.
- (c)(i) Although there was much general understanding of job descriptions and their value, often the grasp of the concept was insecure. A number of answers confused it with a job advert. Better candidates made reference to ideas like job tasks and functions.
- (ii) The Examiners were hoping to see a focus of an answer that would recognise that the concept was of value in the recruitment process because job requirements are clarified.
- (iii) High quality answers linked induction training with benefits to the company in terms of employee integration and work performance probably resulting in improved productivity, lower costs and higher profitability. Weaker answers failed to make the link explicit.

**Question 4**

- (a)(i) Well answered.
- (ii) Many general answers here that referred to economies of scale but without any specific reference to the unit labour cost or unit material cost data given in the table. This question was a very effective discriminator.
- (iii) This proved difficult for many candidates. The answer was \$74.66. Many candidates simply took 75% of 300 units and concluded that the answer was 225. Understanding of cost plus pricing is not strong.
- (iv) There was little evidence of any real appreciation of the merits of different pricing methods. Some candidates were able to identify different ways of determining prices. This appears to be an area which is under taught in many Centres.

- (b) Methods of promotion were generally well understood and there were many good responses here. The most usual were advertising and 'get one free'. Some answers included reduced prices which cannot be regarded as a promotion unless there is specific reference to a period like an introductory offer.
- (c) Not well answered. Many responses focused on methods of distribution rather than on factors that determine the best channel of distribution like speed or access to a specific market.

### Question 5

- (a)(i) Well answered. Most candidates recognised that costs were likely to be the main reasons. Usually candidates were able to develop and illustrate such points.
- (ii) Again generally well answered. Weaker answers identified a problem but failed to explain why it would cause a difficulty e.g. some answers stated changes in exchange rates between currencies. A few referred incorrectly to problems for the economy as a whole such as trade deficits.
- (b) Most candidates had some awareness of consumer issues. Some, however just listed laws, others struggled to provide relevant examples. It was generally well answered though.
- (c)(i) Well answered.
- (ii) Good knowledge of trade unions was demonstrated; however there was a tendency to over-state their role. For example some answers stated that they would stop redundancies or that they would guarantee higher wages. Some answers just listed the functions of trade unions rather than focusing on the advantages of an employee joining one.

Paper 0450/02

Paper 2

### General comments

The general standard of scripts was marginally lower this year. The paper proved more difficult with the mean mark also lower. Candidates found **Questions 1, 2 (b)(ii) and 4** particularly challenging. However the paper proved very successful as an assessment discriminator with a higher standard deviation. Candidates might find the following helpful in improving their performance:

- Answers in a case study paper must be in context wherever possible.
- Close reading of the case material is essential if high grades are to be achieved.
- High mark questions require answers that demonstrate analysis and evaluation. Justified opinion is needed which in effect means arriving at a conclusion which is supported with evidence or logical development of a line of argument.

### Comments on specific questions

#### Question 1

Very few candidates were able to score full marks on the question as a whole although the vast majority were able to express the meaning in a simple statement. To gain the full mark the explanation has to be accurate and developed by examples or contextual reference.

- (a) Almost all candidates were able to relate an overdraft with a loan from a bank. The differentiating features were to focus on the fact that it is short term, flexible and used usually to finance working capital needs.
- (b) Well answered in the sense that most candidates were able to state that these costs changed. Better answers linked this more specifically to levels of output and referred to the direct or proportional relationship between them. Examples were often provided although not always successfully.

- (c) This proved the most challenging of the terms. The answer should have focused on... as to whether there was a consumer requirement for a product. In this case whether the market demand for this new more advanced washing machine that would probably have a higher selling price.
- (d) Although most candidates were able to suggest that this was desk research many struggled to say much else. In particular there were few examples in context of what might constitute secondary data such as information relating to market size or market shares of competitors.

### Question 2

- (a) Well answered. The majority of candidates argued that the business was not market orientated. Better answers explained particularly well why this was not the case. Somewhat more simple responses briefly said that they had not done any research.
- (b)(i) Again well answered. Most candidates were able to identify a number of benefits and a few disadvantages of gathering primary data through interviews. However, a number argued points in reverse. They said that it would be an advantage because it would be quick to achieve and then went on to state that a disadvantage would be that it took a long time to collect. Illogical statements of this kind do not gain credit. Nevertheless this question was well answered.
- (ii) Generally a much lower level of response to this part of the question. Weaker candidates failed to focus on how to decide *who* to ask and considered how to ask. Better answers discussed the idea of sampling and the importance of the composition of a sample.

### Question 3

- (a)(i) Answer = \$120.
- (ii) Answer = \$70. Generally an encouraging number of candidates correctly did these calculations. It would be better still to see the presentation of their workings so marks could be awarded if errors occur.
- (b)(i) A significant number of candidates made a positive attempt at this break-even question. Main errors were:
- axis not labelled,
  - chart not drawn to scale,
  - total cost line often labelled as variable cost.
- (ii) Most candidates who drew the chart read off correctly their break even level.

### Question 4

Most candidates had some idea of the concept of a cash flow statement. Weaker ones confused cash flow with profit statements. However a number of candidates found it difficult to show what value the cash forecast would be to the bank manager. The top level answer needed to show the value of the forecast as an aid to the decision making by the bank. In effect too many answers did not really address the real issue raised in the question.

### Question 5

Again candidates showed a good knowledge of sources of finance for a business but a general lack of appreciation of their appropriateness to a given situation. The business needed to find cash to purchase fixed assets. This represented a long term capital need. Thus the source(s) must reflect this. In too many answers this was not the case.

### Question 6

Generally a high level of awareness was demonstrated on the human resource issue of recruitment. Candidates from some Centres showed much knowledge of the selection process from advertising through to interviewing. Weaker candidates produced the wrong focus to their answer talking about issues like motivation of staff or retaining existing staff. The question specifically referred to the need to recruit extra staff over time. Misreading can be a costly mistake

**Question 7**

- (a) Most candidates were able to put forward some advantages and disadvantages of the strategy. Better ones were able to focus specifically on the implications of this specific single order in terms of guaranteed income, ease of planning production, no marketing. They also were able to focus on the specific risks of such a strategy.
- (b) Although most candidates were able to put forward some ideas many lacked the ability to evaluate their points. Better candidates were able to focus on concepts such as diversification and risk spreading as the basis of their recommendations. The question was a very effective discriminator. High level answers had to sustain a line of thought through to a justified conclusion.

**Paper 0450/03**

**Coursework**

**General comments**

This is the last session coursework will consist of three pieces of work. From next year the coursework requirement will be a single piece of work (see the syllabus for 2004). Also the assessment criteria have changed and the total mark from next year will be 50 instead of 40 as it is now.

Many of the Centres who submitted coursework were Centres who had entered candidates in the past. However, there were a number of new Centres this year. The assignments were often the same titles which had been successfully completed in the past and covered a variety of areas of the syllabus. On the whole, the standard of work was very good including many examples of widely researched, well written assignments.

The standard of presentation by the majority of candidates was high; assignments were well structured and clearly written. The best work submitted showed candidates had gathered a variety of information, for example by questionnaires, interviews, visits, collecting maps, gathering newspaper articles and advertisements, observation and from textbooks. The information was converted to alternative and appropriate forms of communication such as charts, graphs, diagrams and annotated maps and resulted in high marks under this criteria. Several candidates included a summary of the research undertaken and/or a bibliography which was very helpful to the moderation process.

Titles used in previous years and which had proved effective were again submitted. The most popular topics were motivation, retailing, marketing, finance, Trade Unions, and feasibility studies. Some examples of assignment titles were:-

- 'Is there scope for a .... in my neighbourhood?'
- 'Is personal service the main reason why .... survives?'
- 'What would be an effective way to motivate workers in .... to work harder?'
- 'Are Trade Unions useful to workers today?'

More descriptive titles reduced the scope for analysis and evaluation and therefore limited the candidate's ability to achieve the highest marks. Several Centres undertook the production of a business plan. The title was often not phrased as a question and research either was not undertaken or the findings were not made clear in the work. A conclusion was not included either. All this resulted in candidates penalising themselves by not being able to achieve the highest marks in any of the assessment criteria.

The assessment criteria were generally accurately applied by many Centres. Detailed and constructive written feedback was provided for candidates by some Centres. This proved very useful to the moderation process, as well as for the candidates, as it was clear why particular marks were awarded.

**Paper 0450/04**  
**Alternative to Coursework**

### General comments

This is the last examination session which will have this paper. Next year the new syllabus will be followed and there will be two externally examined papers.

This paper was accessible to all levels of candidates. Many of these candidates demonstrated a very good understanding of Business Studies theory and are to be congratulated on their hard work. However, the standard did vary between Centres and there are a number of points that might be helpful in enabling candidates to achieve higher marks by using the information they know in a better way.

- Candidates need to pay careful attention to the wording of the question. If the question says 'state' then no explanation is required. If the question says 'explain' then the candidate must give a fuller answer not just a list. The number of marks for the question also gives an indication of the amount of explanation required. Full sentences and a paragraph for each point will often encourage candidates to write more detailed explanation.
- To gain the highest marks the candidates must answer the question asked. This seems obvious but some candidates write what they know and hope they will gain some credit. The mark scheme is written to reward the answer required for the question and there is no allowance for alternative responses.
- As has been mentioned in many previous reports, candidates lose marks by not including a title to graphs and not labelling axes correctly. Therefore candidates should construct a clear scale, label both axes, add a title and plot the graph accurately.
- Weaker candidates can resort to copying the information provided when answering the report. This will not be rewarded and candidates should be discouraged from doing this. They should try to put their answers into their own words; this is particularly common in the introduction to the report.
- The conclusion and recommendations of the report are often done poorly even by better candidates. Encourage candidates to *compare* the alternative strategies discussed in the main body of the report, not simply to repeat the advantages and disadvantages of the different strategies in list form. Comparative statements should be present e.g. 'They could raise the price of the juice which would bring in more revenue from each product but they may not sell as many products therefore it may be better to increase the type of adverts.....'. They should weigh up the pros and cons of these alternatives. Weaker candidates just repeat what they wrote in the main body of the report and this scores few marks. The recommendations should then be clear as to what the business should do to solve the problem and why. It is relatively easy to score some marks for the recommendations but for higher marks this recommendation must be justified and explained as to how this will help the business overcome its problem and become more successful.

### Comments on specific questions

#### **Section A**

#### **Question 1**

- (a)(i)(ii) Overall this was fairly well answered by many candidates with the majority being able to give strategies to both parts of the question. A suitable explanation as to the pricing policies effect was often given although not always developed for full marks. Weaker candidates failed to outline a strategy which could be used. The main errors were either not naming the strategy or giving an incorrect explanation of the strategy. Cost-plus or competitive pricing were usually given in the first part and skimming, creaming, penetration and psychological pricing were often given in the second part. There was some misunderstanding of price skimming which was confused with penetration pricing.

- (b)(i) Few candidates seemed to understand the concepts in this question and thus few marks. Most thought the question was asking about the different prices rather than the shops where the products were being sold. Few recognised that a high quality drink should be sold in expensive shops as this is where their customers are most likely to buy products.
- (ii) This was only moderately done with many candidates knowing the advantages of a wholesaler, but only better candidates could go on to describe these advantages. Some answers were from the shop's point of view rather than the manufacturer. The main advantages were providing storage space and hence saving storage costs for the manufacturer, giving advice to the manufacturer about the product and how it is selling, buying in large quantities from them so that there would be fewer journeys delivering the goods and administration is reduced, both reducing costs for the manufacturer.
- (c) This was well answered by the vast majority of candidates. Most scored three or four marks on this question. The most common answers were posters, radio, TV advertising, Internet, free samples, competitions.
- (d) This was generally well done, even by poorer candidates. The importance of packaging for the protection of the product, the promotion of the product and enabling brand image to be reinforced making the product easily recognisable on the shelves were the most common answers. However, again candidates lost marks by not explaining their answer in sufficient detail, listing the reasons why packaging is important without going on to explain this importance for the product.

### Question 2

- (a) This was usually well done with candidates scoring at least one mark for mentioning market research reports, newspapers, Internet or government statistics. However, a number confused this and referred to primary sources of collecting information.
- (b)(i) Most candidates could suggest suitable questions but could not justify their choice of question, merely repeating the question. For example, 'What age are you?' because they wanted to know how old they were. The candidates would often not go on to explain that this information would help the business to identify their target market so they can advertise in places where their target market would see it. A common mistake was to not produce actual questions.
- (ii) Surprisingly this question caused some difficulty for many candidates. The majority of candidates were able to state how data was collected but could not take this further. Many scored two or three marks with only better ones going on to refer to sampling methods or where the questionnaire would be carried out.
- (c) Most candidates were able to construct either a pie chart or a bar chart. The most common omissions were a title, as in previous years, and many also omitted profits.
- (d) The candidates appeared to appreciate the need for some market intelligence before the launch of a new product but few could discuss its importance. Hence two marks were often gained but only more able candidates scored full marks. Prices of competitors' products, methods of advertising and where the products were sold were the most common factors considered to be of importance.

### Section B

#### Question 3

The question produced a wide range of responses and candidates showed a good knowledge of the marketing strategy and its application to Fruits R US Ltd.

It was pleasing to note that the majority of candidates were able to gain full marks on the format of the report. As always, weaker candidates tended to repeat the information already given with little comment for the introduction, although better candidates appreciated the problems which the company had to address, such as sales being lower than expected, a quality product being sold in plain packaging, or a low priced product sold in expensive outlets.



Those who discussed the changes to the marketing mix were able to list, with some development, the advantages and disadvantages of the various alternative changes, such as increasing the price, changing the packaging. Weaker candidates mistakenly discussed the existing marketing mix rather than considering how it might be changed. Another common mistake, which lost marks, was to say 'change the price', without saying how it would be changed and therefore it was difficult to credit any advantages or disadvantages of this strategy.

For the conclusion most candidates, as in previous years, merely repeated the facts already presented in the main body of their report, although the better candidates were able to provide some analysis.

Most candidates made some recommendation as to the appropriate changes which should be made to the marketing mix but generally there was little development in support of these recommendations.