

Cambridge IGCSE™ (9–1)

BUSINESS STUDIES**0986/22**

Paper 2 Case Study

May/June 2025

MARK SCHEME

Maximum Mark: 80

Published

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.

Mark schemes should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

Cambridge International will not enter into discussions about these mark schemes.

Cambridge International is publishing the mark schemes for the May/June 2025 series for most Cambridge IGCSE, Cambridge International A and AS Level components, and some Cambridge O Level components.

This document consists of **19** printed pages.

Generic Marking Principles

These general marking principles must be applied by all examiners when marking candidate answers. They should be applied alongside the specific content of the mark scheme or generic level descriptions for a question. Each question paper and mark scheme will also comply with these marking principles.

GENERIC MARKING PRINCIPLE 1:

Marks must be awarded in line with:

- the specific content of the mark scheme or the generic level descriptors for the question
- the specific skills defined in the mark scheme or in the generic level descriptors for the question
- the standard of response required by a candidate as exemplified by the standardisation scripts.

GENERIC MARKING PRINCIPLE 2:

Marks awarded are always **whole marks** (not half marks, or other fractions).

GENERIC MARKING PRINCIPLE 3:

Marks must be awarded **positively**:

- marks are awarded for correct/valid answers, as defined in the mark scheme. However, credit is given for valid answers which go beyond the scope of the syllabus and mark scheme, referring to your Team Leader as appropriate
- marks are awarded when candidates clearly demonstrate what they know and can do
- marks are not deducted for errors
- marks are not deducted for omissions
- answers should only be judged on the quality of spelling, punctuation and grammar when these features are specifically assessed by the question as indicated by the mark scheme. The meaning, however, should be unambiguous.

GENERIC MARKING PRINCIPLE 4:

Rules must be applied consistently, e.g. in situations where candidates have not followed instructions or in the application of generic level descriptors.

GENERIC MARKING PRINCIPLE 5:

Marks should be awarded using the full range of marks defined in the mark scheme for the question (however; the use of the full mark range may be limited according to the quality of the candidate responses seen).

GENERIC MARKING PRINCIPLE 6:

Marks awarded are based solely on the requirements as defined in the mark scheme. Marks should not be awarded with grade thresholds or grade descriptors in mind.

**Social Science-Specific Marking Principles
(for point-based marking)****1 Components using point-based marking:**

- Point marking is often used to reward knowledge, understanding and application of skills. We give credit where the candidate's answer shows relevant knowledge, understanding and application of skills in answering the question. We do not give credit where the answer shows confusion.

From this it follows that we:

- a** DO credit answers which are worded differently from the mark scheme if they clearly convey the same meaning (unless the mark scheme requires a specific term)
- b** DO credit alternative answers/examples which are not written in the mark scheme if they are correct
- c** DO credit answers where candidates give more than one correct answer in one prompt/numbered/scaffolded space where extended writing is required rather than list-type answers. For example, questions that require *n* reasons (e.g. State two reasons ...).
- d** DO NOT credit answers simply for using a 'key term' unless that is all that is required. (Check for evidence it is understood and not used wrongly.)
- e** DO NOT credit answers which are obviously self-contradicting or trying to cover all possibilities
- f** DO NOT give further credit for what is effectively repetition of a correct point already credited unless the language itself is being tested. This applies equally to 'mirror statements' (i.e. polluted/not polluted).
- g** DO NOT require spellings to be correct, unless this is part of the test. However spellings of syllabus terms must allow for clear and unambiguous separation from other syllabus terms with which they may be confused (e.g. Corrasion/Corrosion)

2 Presentation of mark scheme:

- Slashes (/) or the word 'or' separate alternative ways of making the same point.
- Semi colons (;) bullet points (•) or figures in brackets (1) separate different points.
- Content in the answer column in brackets is for examiner information/context to clarify the marking but is not required to earn the mark (except Accounting syllabuses where they indicate negative numbers).

3 Calculation questions:

- The mark scheme will show the steps in the most likely correct method(s), the mark for each step, the correct answer(s) and the mark for each answer
- If working/explanation is considered essential for full credit, this will be indicated in the question paper and in the mark scheme. In all other instances, the correct answer to a calculation should be given full credit, even if no supporting working is shown.
- Where the candidate uses a valid method which is not covered by the mark scheme, award equivalent marks for reaching equivalent stages.
- Where an answer makes use of a candidate's own incorrect figure from previous working, the 'own figure rule' applies: full marks will be given if a correct and complete method is used. Further guidance will be included in the mark scheme where necessary and any exceptions to this general principle will be noted.

4 Annotation:

- For point marking, ticks can be used to indicate correct answers and crosses can be used to indicate wrong answers. There is no direct relationship between ticks and marks. Ticks have no defined meaning for levels of response marking.
- For levels of response marking, the level awarded should be annotated on the script.
- Other annotations will be used by examiners as agreed during standardisation, and the meaning will be understood by all examiners who marked that paper.

Annotations guidance for centres

Examiners use a system of annotations as a shorthand for communicating their marking decisions to one another. Examiners are trained during the standardisation process on how and when to use annotations. The purpose of annotations is to inform the standardisation and monitoring processes and guide the supervising examiners when they are checking the work of examiners within their team. The meaning of annotations and how they are used is specific to each component and is understood by all examiners who mark the component.

We publish annotations in our mark schemes to help centres understand the annotations they may see on copies of scripts. Note that there may not be a direct correlation between the number of annotations on a script and the mark awarded. Similarly, the use of an annotation may not be an indication of the quality of the response.

The annotations listed below were available to examiners marking this component in this series.

Annotations

Annotation	Meaning
	Correct point.
	Incorrect point.
BOD	Used when the benefit of the doubt is given in order to reward a response.
TV	Used when parts of the answer are considered to be too vague to be given credit.
REP	Indicates where content has been repeated.
NAQ	Used when the answer or parts of the answer do not answer the question asked.
APP	Indicates appropriate reference to the information in the stem.
OFR	If a mistake is made in a calculation, and the incorrect figure that results from the mistake is used for subsequent calculations.
SEEN	Indicates that the page or content has been seen by examiner, but no credit given.
L1	Level 1 – Used in part (b) questions to indicate where a response includes limited knowledge and/or understanding.
L2	Level 2 – Used in part (b) questions to indicate where a response has a more detailed discussion and contains some evidence of justification.
L3	Level 3 – Used in part (b) questions to indicate where a response includes a well-justified recommendation.

Question	Answer	Marks
1(a)	Explain <u>one</u> way each of the following problems may affect TSE when entering a new market in another country. • Cultural differences • Lack of knowledge Award 1 mark for each way (max 2). Award a maximum of 3 additional marks for each explanation of the way the problem may affect TSE when entering a new market in another country – one of which must be applied to this context. Relevant ways might include: Cultural differences: • There may be different preferences for types of sports played in a market in another country – as TSE may need to adapt its sports equipment to the ones required for this market – may increase development costs • Possibly need to adapt packaging/marketing/advertising in order to cope with differences in culture – may increase marketing costs • May not be able to compete with existing suppliers of sports equipment that already recognise cultural differences and how this impacts customer choice – customers may be brand loyal to locally produced products • May not produce different products for a new market, so may reduce opportunities for economies of scale – possibly increasing unit costs Lack of knowledge (of the market): • TSE may not be aware of the shopping habits of customers – may need to use different distribution channels to those it is familiar with – may be difficult to become established with retailers in a new market in another country • TSE may lack knowledge of competitors – not aware of competitors' brands of sports products and pricing – may find it difficult to enter a new market if competitors are well established For example: TSE may lack knowledge of competitors in a new market in another country (1) and may not be aware of competitors' brands of sports products (app) and the pricing strategies they use (1) so TSE may find it difficult to enter a new market if competitors are well established (1). Application could include: sports equipment; plastic raw materials; two companies that may be taken over; want to increase market share; multinational company; sports; badminton/football/tennis.	8

Question	Answer			Marks
1(b)	Consider the following two benefits for TSE of having a well-motivated workforce. Which benefit is likely to be the most important to TSE? Justify your answer. • Reduced absenteeism • Low labour turnover			12
	Level	Description	Marks	
	3	Sound application of knowledge and understanding of relevant business concepts using appropriate terminology. Detailed discussion of both benefits. Well-justified conclusion. Candidates discussing both benefits in detail, in context and with a well-justified conclusion, including why the alternative benefit was rejected, should be rewarded with the top marks in the band.	9–12	
	2	Sound application of knowledge and understanding of relevant business concepts using appropriate terminology. Detailed discussion of at least one benefit. Judgement with some justification / some evaluation of choice made. Candidates discussing at least one benefit in detail and applying it to the case should be rewarded with the top marks in the band.	5–8	
	1	Limited application of knowledge and understanding of relevant business concepts. Limited ability to discuss the benefits with little/no explanation. Simple judgement with limited justification / limited evaluation of choice made. Candidates outlining both benefits in context should be rewarded with the top marks in the band.	1–4	
	0	No creditable response.	0	

Question	Answer	Marks		
1(b)	Relevant points might include:			
	<table><tr><td>Reduced absenteeism</td><td> - Production not delayed/disrupted – no delay in producing planned output – meets customer orders and satisfies demand for sports equipment - No need to move skilled employees around to complete tasks for absent employees – more productive – leading to higher output and possibly increased sales if all the output is sold - If fewer absences occur, then may have lower production costs per unit – if absent the employees may still be paid but not producing any output </td></tr></table>		Reduced absenteeism	- Production not delayed/disrupted – no delay in producing planned output – meets customer orders and satisfies demand for sports equipment - No need to move skilled employees around to complete tasks for absent employees – more productive – leading to higher output and possibly increased sales if all the output is sold - If fewer absences occur, then may have lower production costs per unit – if absent the employees may still be paid but not producing any output
	Reduced absenteeism		- Production not delayed/disrupted – no delay in producing planned output – meets customer orders and satisfies demand for sports equipment - No need to move skilled employees around to complete tasks for absent employees – more productive – leading to higher output and possibly increased sales if all the output is sold - If fewer absences occur, then may have lower production costs per unit – if absent the employees may still be paid but not producing any output	
	<table><tr><td>Lower labour turnover</td><td> - Lower recruitment costs – as fewer skilled employees leave and need to be replaced – less need for advertisements and interviews – saving time and money for HR department - Fewer new employees so less induction training required – reducing training costs and expenses for TSE - May be easier to promote employees internally – as there will be many experienced employees that are employed by the business – they will have more experience of TSE’s flow production line, and the chances of promotion will further increase motivation </td></tr></table>		Lower labour turnover	- Lower recruitment costs – as fewer skilled employees leave and need to be replaced – less need for advertisements and interviews – saving time and money for HR department - Fewer new employees so less induction training required – reducing training costs and expenses for TSE - May be easier to promote employees internally – as there will be many experienced employees that are employed by the business – they will have more experience of TSE’s flow production line, and the chances of promotion will further increase motivation
Lower labour turnover	- Lower recruitment costs – as fewer skilled employees leave and need to be replaced – less need for advertisements and interviews – saving time and money for HR department - Fewer new employees so less induction training required – reducing training costs and expenses for TSE - May be easier to promote employees internally – as there will be many experienced employees that are employed by the business – they will have more experience of TSE’s flow production line, and the chances of promotion will further increase motivation			
<table><tr><td>Conclusion</td><td> Justification might include: - Reduced absenteeism is the most important benefit as when skilled employees are absent then other workers will need to move across and do their job, or the production will stop and output will be reduced. Lower labour turnover is less important as employing new workers can bring new ideas to TSE which can help to make the business more successful in the future. - Lower labour turnover is the most important benefit as TSE will not keep losing employees and will not need to spend time and money on recruiting and training new employees to operate the automated production line. This is likely to reduce costs for TSE. </td></tr></table>	Conclusion	Justification might include: - Reduced absenteeism is the most important benefit as when skilled employees are absent then other workers will need to move across and do their job, or the production will stop and output will be reduced. Lower labour turnover is less important as employing new workers can bring new ideas to TSE which can help to make the business more successful in the future. - Lower labour turnover is the most important benefit as TSE will not keep losing employees and will not need to spend time and money on recruiting and training new employees to operate the automated production line. This is likely to reduce costs for TSE.		
Conclusion	Justification might include: - Reduced absenteeism is the most important benefit as when skilled employees are absent then other workers will need to move across and do their job, or the production will stop and output will be reduced. Lower labour turnover is less important as employing new workers can bring new ideas to TSE which can help to make the business more successful in the future. - Lower labour turnover is the most important benefit as TSE will not keep losing employees and will not need to spend time and money on recruiting and training new employees to operate the automated production line. This is likely to reduce costs for TSE.			

Question	Answer	Marks
2(a)	Explain <u>one</u> objective each of the following TSE stakeholder groups might have. • Shareholders • Suppliers • Employees • Customers Award 1 mark for each objective (max 4). Award a maximum of 1 additional mark for each explanation of the objective applied to this context. Relevant objectives might include: Shareholders: • To receive dividends – from increased profit when more tennis balls are sold • To increase the price of their shares • To increase profit • To increase market share • To increase revenue/sales Suppliers: • To increase sales/revenue/profits from selling its raw materials – such as plastic to make the rackets • To be paid on time/paid back Employees: • To receive higher wages – when working full-time in the factory • To have a secure job / no risk of being made redundant • To have good working conditions • To have opportunities for promotion – as looking into a new market in another country Customers: • To receive a quality product / doesn't break easily – when playing badminton • To pay a low price for the product • To get it delivered on time For example: To receive dividends (1) from increased profit when more sports equipment is sold (app). Application could include: sports equipment; skilled and full-time workers; sells in 30 countries; factories in 10 countries; two companies that may be taken over; want to increase market share; a well-motivated workforce is important; uses new technology and automation for flow production; rubber; plastic; high-quality products.	8

Question	Answer	Marks															
2(b)	Consider the following two ways TSE could use to increase efficiency. Which way should TSE use? Justify your answer. - Improving labour skills - Increasing automation and technology <table border="1"> <thead> <tr> <th>Level</th><th>Description</th><th>Marks</th></tr> </thead> <tbody> <tr> <td>3</td><td> Sound application of knowledge and understanding of relevant business concepts using appropriate terminology. Detailed discussion of both ways. Well-justified recommendation. Candidates discussing both ways in detail, in context and with a well-justified recommendation, including why the alternative way is rejected, should be rewarded with the top marks in the band. </td><td>9–12</td></tr> <tr> <td>2</td><td> Sound application of knowledge and understanding of relevant business concepts using appropriate terminology. Detailed discussion of at least one way. Judgement with some justification / some evaluation of choices made. Candidates discussing at least one way in detail and applying it to the case should be rewarded with the top marks in the band. </td><td>5–8</td></tr> <tr> <td>1</td><td> Limited application of knowledge and understanding of relevant business concepts. Limited ability to discuss the ways with little/no explanation. Simple judgement with limited justification / limited evaluation of choices made. Candidates outlining both ways in context should be rewarded with the top marks in the band. </td><td>1–4</td></tr> <tr> <td>0</td><td>No creditable response.</td><td>0</td></tr> </tbody> </table>	Level	Description	Marks	3	Sound application of knowledge and understanding of relevant business concepts using appropriate terminology. Detailed discussion of both ways. Well-justified recommendation. Candidates discussing both ways in detail, in context and with a well-justified recommendation, including why the alternative way is rejected, should be rewarded with the top marks in the band.	9–12	2	Sound application of knowledge and understanding of relevant business concepts using appropriate terminology. Detailed discussion of at least one way. Judgement with some justification / some evaluation of choices made. Candidates discussing at least one way in detail and applying it to the case should be rewarded with the top marks in the band.	5–8	1	Limited application of knowledge and understanding of relevant business concepts. Limited ability to discuss the ways with little/no explanation. Simple judgement with limited justification / limited evaluation of choices made. Candidates outlining both ways in context should be rewarded with the top marks in the band.	1–4	0	No creditable response.	0	12
Level	Description	Marks															
3	Sound application of knowledge and understanding of relevant business concepts using appropriate terminology. Detailed discussion of both ways. Well-justified recommendation. Candidates discussing both ways in detail, in context and with a well-justified recommendation, including why the alternative way is rejected, should be rewarded with the top marks in the band.	9–12															
2	Sound application of knowledge and understanding of relevant business concepts using appropriate terminology. Detailed discussion of at least one way. Judgement with some justification / some evaluation of choices made. Candidates discussing at least one way in detail and applying it to the case should be rewarded with the top marks in the band.	5–8															
1	Limited application of knowledge and understanding of relevant business concepts. Limited ability to discuss the ways with little/no explanation. Simple judgement with limited justification / limited evaluation of choices made. Candidates outlining both ways in context should be rewarded with the top marks in the band.	1–4															
0	No creditable response.	0															

Question	Answer	Marks						
2(b)	Relevant points might include: <table border="1"> <thead> <tr> <th></th><th>Advantages</th><th>Disadvantages</th></tr> </thead> <tbody> <tr> <td>Improving labour skills</td><td> - Increases motivation of skilled production employees – made to feel more valued as training given to them – investment in the employees - Increases skills of employees so may enable them to work more quickly – output of sports equipment is produced in a shorter time - Output per worker increases – increases productivity – fewer inputs for a given output - Employees may become more flexible – with training they could possibly move around the factory covering for absent colleagues – keeps the factory running smoothly/fewer interruptions in output </td><td> - Increases costs of making footballs – in the short-term may reduce profitability – if increase in costs is greater than increase in output when the employees are being trained - Output of sports equipment may be reduced whilst employees are being trained – amount of decrease in output depends on whether it is off-the-job or on-the-job training - Skilled employees may be tempted to leave and work for a competitor that makes high-quality products – then costs of training wasted </td></tr> </tbody> </table>		Advantages	Disadvantages	Improving labour skills	- Increases motivation of skilled production employees – made to feel more valued as training given to them – investment in the employees - Increases skills of employees so may enable them to work more quickly – output of sports equipment is produced in a shorter time - Output per worker increases – increases productivity – fewer inputs for a given output - Employees may become more flexible – with training they could possibly move around the factory covering for absent colleagues – keeps the factory running smoothly/fewer interruptions in output	- Increases costs of making footballs – in the short-term may reduce profitability – if increase in costs is greater than increase in output when the employees are being trained - Output of sports equipment may be reduced whilst employees are being trained – amount of decrease in output depends on whether it is off-the-job or on-the-job training - Skilled employees may be tempted to leave and work for a competitor that makes high-quality products – then costs of training wasted	
	Advantages	Disadvantages						
Improving labour skills	- Increases motivation of skilled production employees – made to feel more valued as training given to them – investment in the employees - Increases skills of employees so may enable them to work more quickly – output of sports equipment is produced in a shorter time - Output per worker increases – increases productivity – fewer inputs for a given output - Employees may become more flexible – with training they could possibly move around the factory covering for absent colleagues – keeps the factory running smoothly/fewer interruptions in output	- Increases costs of making footballs – in the short-term may reduce profitability – if increase in costs is greater than increase in output when the employees are being trained - Output of sports equipment may be reduced whilst employees are being trained – amount of decrease in output depends on whether it is off-the-job or on-the-job training - Skilled employees may be tempted to leave and work for a competitor that makes high-quality products – then costs of training wasted						

Question	Answer			Marks
2(b)		Advantages	Disadvantages	
	Increasing automation and technology	• May require fewer full-time employees on the production line – reduces wage costs • Output can be produced more quickly – reduces unit costs • Changes in design of badminton equipment may be made more quickly – quicker to react to changes in customer preferences • Lower unit costs of footballs – may allow prices to be reduced – price may be more competitive – increases sales	• May result in redundancy payments for the skilled employees – increases costs in the short-term – legal requirements for redundancy payments may be high • Maintenance costs of the technology may be high – increases total costs of making tennis balls • Increased training costs if employees need training how to use the equipment • May need to employ new skilled workers to operate the equipment on the flow production line – increased recruitment costs	
	Recommendation	Justification might include: • Improving labour skills is the best way to increase efficiency at TSE's factories. The skilled production employees will learn more skills which will enable them to produce more output per worker than previously. This will also motivate the workers to work harder and produce more output. Automation is very expensive to purchase the new equipment, and TSE may find it difficult to raise sufficient funds for the investment in many factories. • Introducing automation and technology in the factory to make tennis balls in the best way to increase efficiency. Technology will mean fewer production workers will be needed so saving on wage costs and greatly increasing output for each remaining employee in the factories.		

Question	Answer	Marks
3(a)	Explain <u>four</u> ways market research information can help a business. Award 1 mark for each way market research information can help a business (max 4). Award a maximum of 1 additional mark for each explanation of the way. There are no application marks for this question. Relevant ways might include: • Helps identify the target market – so can advertise more effectively to this market • Helps to find a gap in the market – so the business can develop a new product to increase sales • Helps identify where consumers purchase products – so can use the most effective distribution channel • Helps identify the price customers are willing to pay – so know the most effective pricing strategy to use • Helps identify which promotional methods consumers are attracted to – so can use these to increase sales • Helps identify which products do not meet consumers' needs – so can stop producing these products • Helps identify competitors – so that they know the best way to compete with them • Helps identify change in customer preferences/tastes/market trends • Helps identify customer needs • Helps to sell into a new market For example: Helps to find a gap in the market (1) so the business can develop a new product that meets customer needs (1).	8

Question	Answer	Marks															
3(b)	Consider the following <u>two</u> ways TSE could purchase the raw materials for its factories. Which way should TSE use? Justify your answer (12) Head office in country P purchases the raw materials for all TSE factories TSE's factory managers in each country purchase raw materials locally <table border="1"> <thead> <tr> <th>Level</th><th>Description</th><th>Marks</th></tr> </thead> <tbody> <tr> <td>3</td><td> Sound application of knowledge and understanding of relevant business concepts using appropriate terminology. Detailed discussion of both ways. Well-justified recommendation. Candidates discussing both ways in detail, in context and with a well-justified recommendation, including why the alternative way was rejected, should be rewarded with the top marks in the band. </td><td>9–12</td></tr> <tr> <td>2</td><td> Sound application of knowledge and understanding of relevant business concepts using appropriate terminology. Detailed discussion of one way. Judgement with some justification / some evaluation of choice made. Candidates discussing at least one way in detail and applying it to the case should be rewarded with the top marks in the band. </td><td>5–8</td></tr> <tr> <td>1</td><td> Limited application of knowledge and understanding of relevant business concepts. Limited ability to discuss the ways with little/no explanation. Simple judgement with limited justification / limited evaluation of choice made. Candidates outlining the ways in context should be rewarded with the top marks in the band. </td><td>1–4</td></tr> <tr> <td>0</td><td>No Creditable Response</td><td>0</td></tr> </tbody> </table>	Level	Description	Marks	3	Sound application of knowledge and understanding of relevant business concepts using appropriate terminology. Detailed discussion of both ways. Well-justified recommendation. Candidates discussing both ways in detail, in context and with a well-justified recommendation, including why the alternative way was rejected, should be rewarded with the top marks in the band.	9–12	2	Sound application of knowledge and understanding of relevant business concepts using appropriate terminology. Detailed discussion of one way. Judgement with some justification / some evaluation of choice made. Candidates discussing at least one way in detail and applying it to the case should be rewarded with the top marks in the band.	5–8	1	Limited application of knowledge and understanding of relevant business concepts. Limited ability to discuss the ways with little/no explanation. Simple judgement with limited justification / limited evaluation of choice made. Candidates outlining the ways in context should be rewarded with the top marks in the band.	1–4	0	No Creditable Response	0	12
Level	Description	Marks															
3	Sound application of knowledge and understanding of relevant business concepts using appropriate terminology. Detailed discussion of both ways. Well-justified recommendation. Candidates discussing both ways in detail, in context and with a well-justified recommendation, including why the alternative way was rejected, should be rewarded with the top marks in the band.	9–12															
2	Sound application of knowledge and understanding of relevant business concepts using appropriate terminology. Detailed discussion of one way. Judgement with some justification / some evaluation of choice made. Candidates discussing at least one way in detail and applying it to the case should be rewarded with the top marks in the band.	5–8															
1	Limited application of knowledge and understanding of relevant business concepts. Limited ability to discuss the ways with little/no explanation. Simple judgement with limited justification / limited evaluation of choice made. Candidates outlining the ways in context should be rewarded with the top marks in the band.	1–4															
0	No Creditable Response	0															

Question	Answer		Marks	
3(b)	Relevant points might include:			
		Advantages		Disadvantages
	Head office in country P purchases the raw materials for all TSE factories	• Able to make bulk purchases – discounts received – lowering variable costs / lower cost of materials such as rubber – lower average costs – increasing profit margin / possibly allowing lower selling prices • Easier to check and standardise the production of tennis balls in different countries as all raw materials are the same quality – maintains reputation for good quality sports equipment • Senior managers could find it easier to control subordinates – mistakes less likely to be made as managers are experienced in making these decisions – leading to better reputation • The managers at TSE's factories may not have the skills to carry out the tasks that have been delegated to them – so better decisions are made by head office		• Increased transport costs for raw materials to be taken to each of the 10 factories – factories may be in other countries increasing transport costs • Do not have the raw materials available at the different factories – so may not satisfy local demand for particular sports – reducing sales • May need warehouses for storage of raw materials before they are sent out to factories in the 10 countries – increases costs

Question	Answer			Marks
3(b)		Advantages	Disadvantages	
	TSE's factory managers in each country purchase raw materials locally	- Managers can order better quality raw materials to produce equipment for local sports – increases demand / improved competitiveness of equipment used in playing sports in that country – increases revenue - Head/senior managers can now focus on the most important tasks at head office – make better decisions - May increase motivation of managers of TSE's factories leading to higher productivity - May develop skills of managers in other countries	- May be unable to meet sudden increase in demand for specific sports equipment – if raw materials are not available – may lose customers as disappointed – lose reputation / customers do not return - May delay the production of tennis balls – as need to wait for raw materials if problems with local availability – loses reputation for demand being satisfied quickly - The factory managers may not have the skills to make these decisions – leading to stocking the wrong quantities of raw materials	
	Recommendation	Justification could include: - All raw materials purchased by head office is the best way as this will allow considerable cost savings due to purchasing economies of scale and lower unit costs. This will allow TSE to keep prices low and to be more competitive with other similar sport equipment manufacturers. Whereas it may be more difficult to ensure the quality of raw materials if they are purchased by the factory managers which could damage the brand reputation. - Each factory manager purchasing their own raw materials is the best way to choose because each manager can meet the local demand for specific sports, and this will attract more customers leading to higher revenue.		

Question	Answer	Marks
4(a)	Explain <u>two</u> possible effects on TSE of the business cycle in country P moving into the recession stage. Award 1 mark for each relevant effect (max 2). Award a maximum of 3 additional marks for each explanation of the effects on TSE of the business cycle moving into the recession phase – one of which must be applied to this context. Relevant effects might include: • Makes it easier for TSE to recruit new employees – larger pool of unemployed people to choose from – may be more skilled people available for work • May make it easier to resist demand for higher wages from employees – with a high level of unemployment – there will be more competition amongst workers for jobs so willing to accept lower wages • May lead to lower demand for TSE's products – consumer spending is lower – as many people have lost their jobs – so incomes are lower • Lower priced products produced by TSE may see an increase in demand – as consumers have less income available to spend on luxury high priced items – buy cheaper substitutes • TSE may be less willing to invest – as future sales and therefore profit may not increase for some time in country P – making it more difficult to gain a return on investment • TSE may focus more on the export of its products to make up for the lower sales in country P • Lower revenue – may lead to lower profits For example: Makes it easier for TSE to recruit new employees (1) as there is a larger pool of unemployed people to choose from (1) and there may be more skilled people available to work for TSE (1) leading to an increase in the output of sports equipment (app). Application could include: sports equipment; skilled and full-time workers; plastic raw materials; sells in more than 30 countries; factories in 10 countries; want to increase market share; a well-motivated workforce is important; uses new technology and automation for flow production; unemployment is increasing.	8

Question	Answer			Marks
4(b)	Using Appendix 3 and other information, consider the extracts from the income statements for the <u>two</u> companies in country P. Which company should TSE take over? Justify your answer using suitable calculations.			12
	Level	Description	Marks	
	3	Sound application of knowledge and understanding of relevant business concepts using appropriate terminology. Detailed discussion of both companies. Well-justified recommendation. Candidates discussing both companies in detail, in context and with a well-justified recommendation, including why the alternative company was rejected, should be rewarded with the top marks in the band.	9–12	
	2	Sound application of knowledge and understanding of relevant business concepts using appropriate terminology. Detailed discussion of one company. Judgement with some justification / some evaluation of choice made. Candidates discussing at least one company in detail and applying it to the case should be rewarded with the top marks in the band.	5–8	
	1	Limited application of knowledge and understanding of relevant business concepts. Limited ability to discuss the companies with little/no explanation. Simple judgement with limited justification / limited evaluation of choice made. Candidates outlining the two companies in context should be rewarded with the top marks in the band.	1–4	
	0	No creditable response.	0	

Question	Answer	Marks
4(b)	Relevant points might include: Simple statements: • Company B has twice as much revenue at \$200m • Company A has less revenue than Company B • Company A has less than half the cost of sales, a difference of \$50m • Company B has higher cost of sales at \$90m • The expenses are less than twice as much for Company B at \$60m • Lower revenue means that Company A is probably smaller than Company B Possible calculations: • The gross profit of Company A is \$60m • The gross profit margin of Company A is 60% • The gross profit of Company B is \$110m • The gross profit margin of Company B is 55% • The profit of Company A is \$20m • The profit margin of Company A is 20% • The profit of Company B is \$50m • The profit margin of Company B is 25% Justification might include: • TSE should take over Company A because it has a 5% higher gross profit margin than Company B. This suggests that it is more efficient in its management of variable costs. It is a smaller competitor as its revenue is lower at \$100m and therefore it could require a lower amount of capital to take over the company. It should not take over Company B as TSE may need to borrow a much higher amount of capital as the company appears to be larger. • TSE should take over Company B because it has much higher revenue suggesting it is a larger competitor than Company A and will better help TSE to achieve the aim of increasing its market share and it has a 5% higher profit margin than Company A.	