

Mark Schemes
CIE IGCSE Business Studies
Paper 1
Summer & Winter
2012 to 2015



MARK SCHEME for the May/June 2012 question paper
for the guidance of teachers

0450 BUSINESS STUDIES

0450/11

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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Examples of possible answers are also included in this mark scheme. Again, it should be emphasised that this is for illustrative purposes and the examples chosen represent only some of the many possible responses that would merit reward.

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

Clear understanding [2] e.g. a measure of the output of a business in relation to its inputs [2] or effective utilisation of resources/in a time period.

Some understanding [1] e.g. output per worker/measure of efficiency/rate at which they produce goods.

(b) What is meant by 'on-the-job training'? [2]

Clear understanding [2] e.g. Training which involves watching a more experienced worker doing the job in the work place.

Some understanding [1] e.g. get training whilst still working/at the work place/learning from another worker.

(c) Identify and explain one advantage and one disadvantage of off-the-job training for IRKAM. [4]

Knowledge [2 × 1]: award 1 mark for the advantage and 1 mark for the disadvantage.

Application/analysis [2 × 1]: award 1 mark for each development of a relevant point.

Advantages include:

- experienced worker's production is not affected as training happens away from work place
- learner has access to trainers who are skilled in the task
- workers will not learn bad habits of on-the-job trainer
- quality of product maintained as all work completed by experienced workers
- less impact on output as current workers do not have to spend time training new people.

Disadvantages include:

- more expensive than on the job which increases costs for the business. For example transport costs/paid trainer
- loss of first hand experience/not necessarily tailored to individual company
- no output produced by learner whilst training taking place.

Do not accept points that apply to both methods of training.

(d) Identify and explain two reasons why quality control might be important to IRKAM. [6]

Knowledge [2 × 1]: award 1 mark per relevant reason.

Analysis [2 × 1]: award 1 mark for each relevant explanation.

Application [2 × 1]: award 1 mark for explaining why it is important to IRKAM.

Reasons might include:

- reduce errors (k) so saves time and money (an)
- protect reputation (k) as makes high quality doors (ap)
- save money (k) on cost of remaking items (an)/reduce wastage (an)
- saves time (k) so could help increase production (an) therefore increasing productivity (ap).

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- (e) Over the past three years there has been a large increase in demand for IRKAM's doors. Do you think job production is still the best method of production for IRKAM? Justify your answer. [6]

Knowledge [2]: outlines methods of production/identification of issues concerning job production.

Analysis [2]: develop or explain point to show why it is an issue.

Evaluation [2]: reasoned judgement made as to whether 'job' is still best method for IRKAM to use.

For two evaluation marks, the answer must be clearly in the context of this business.

Either viewpoint is possible depending on points discussed.

Points might include:

- nature of product – are doors standard or one off orders
- can he meet demand if continue to use job production?
- costs of changing process
- training required for workers
- possible financial costs of purchasing new equipment
- frequency of orders
- number of doors made

Context could include: high quality; quality control is important; looking for ways to increase productivity.

- 2 (a) What is meant by 'profit'? [2]

Clear understanding [2] e.g. profit is the amount of money that a business makes once costs have been subtracted from the revenue [2]. Or total revenue minus total costs [2]. Formula is acceptable for two marks.

Some understanding [1] e.g. money left after costs paid.

Answers such as money made by a business [0].

For both marks must have idea that there is both sales and cost element to profit.

- (b) Identify two factors which could affect demand for Sunil's products. [2]

Knowledge [2 × 1]: one mark per factor.

Factors include:

- seasonal – coats not worn in summer, or increase in demand if wet weather
- fashion
- availability or price of substitutes
- price of complementary goods
- increase in income
- price of coat
- competition
- increase in population
- advertising.

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(c) Identify and explain two reasons why profit is important to small businesses like Sunil's. [4]

Knowledge [2 × 1]: award 1 mark per relevant reason.

Analysis/application [2 × 1]: award 1 mark for each relevant explanation (i.e. show why important to small business).

Reasons include:

- reward for risk taking
- source of funds for expansion
- source of funds for emergency
- main reason for the existence of many small businesses/motivation
- necessary for survival
- difficult to obtain other sources of finance as Sunil is a sole trader.

Do not accept repayment of any costs/loan of a business.

(d) Identify and explain one way in which consumer protection laws might affect Sunil's business and one way consumer protection laws might affect his customers. [6]

Knowledge [2 × 1]: award 1 mark per relevant way.

Analysis [2 × 1]: award 1 mark for each relevant explanation.

Application [2 × 1]: award 1 mark for explaining why it is important to Sunil's business/customers.

Ways Laws affect Sunil:

- suppliers will have to spend more to meet new laws so likely to increase Sunil's costs
- prices might rise to meet additional costs of compliance leading to lower demand for Sunil's coats
- stricter laws might force closure of supplier which could lead to Sunil unable to meet orders
- could force Sunil to look for cheaper suppliers overseas.

Ways Laws affect Consumers:

- protect consumers against faulty goods
- ensure quality products e.g. coat is waterproof
- forced to pay higher prices as businesses have to spend more to meet new laws.

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- (e) Do you think the advantages of owning a small business are greater than the disadvantages for Sunil? Justify your answer. [6]

Knowledge [2 × 1]: award 1 mark for identification of relevant advantages or disadvantages.

Analysis [2]: explain how or why it might be an issue.

Evaluation [2]: reasoned judgement made as to whether advantages are greater than disadvantages for Sunil.

For two evaluation marks, the answer must be clearly in the context of this business.

Points include:

- able to offer personal service
- own boss
- size of market
- need to be creative
- lack of finance
- threat of competition
- lack of skills if only Sunil
- lack of economies of scale
- unlimited liability.

Either viewpoint is possible depending on points discussed.

Context could include: sole trader; likes owning business; very competitive market; new laws; makes a profit; low price raincoats.

- 3 (a) What is meant by 'tertiary sector'? [2]

Clear understanding [2] e.g. industry which provides/sells services [1] to consumers and/or other sectors of the economy.

Some understanding [1] e.g. provide services plus an example [+1].

Do not accept examples on their own e.g. delivery company, accountant, shop.

- (b) What is meant by 'sustainable development'? [2]

Clear understanding [2] e.g. being able to maintain levels of production for a good or service over a long period of time OR ability to meet needs of present population without compromising ability of future generations to meet their own needs.

Some understanding [1] e.g. able to maintain output for ages/no impact on surroundings/production which does not damage (or pollute) the environment.

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(c) Identify and explain two changes between 2000 and 2011 that are shown in Table 1. [4]

Knowledge [2 × 1]: award 1 mark for each change identified.

Analysis [2 × 1]: award 1 mark for each relevant explanation (i.e. why change occurred).

Changes shown:

- Fall in primary sector [1] – because of number of poor harvests/reduction in land available for farming/people move to other sectors in search of higher wages/environmental protection laws/more recycling leads to less demand for the primary sector
- Fall in secondary sector [1] – due to cheaper costs of manufacturing overseas/changes in demand so less products sold by country H/environmental protection laws
- Rise in tertiary sector [1] – increased incomes so people are able to spend more on services and leisure activities/skills base changed so more suited to service provision/more developed country.

(d) Identify and explain three ways a Government could encourage more businesses to set up in its country. [6]

Knowledge [3 × 1]: award 1 mark per way.

Analysis [3 × 1]: award 1 mark for each relevant explanation (i.e. explain how help encourage businesses to set up).

Ways include:

- grants or subsidies
- low rent
- lower interest rates
- laws
- provision of training
- tax allowances
- advisory services
- development areas
- tariffs and quotas.

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- (e) Do you think that all businesses will be affected by the introduction of the new laws to encourage environmentally-friendly production methods? Justify your answer. [6]

Knowledge [2 × 1]: identification of relevant issues.

Analysis [2]: explain how or why issue is important or not.

Evaluation [2]: reasoned judgement made as to effect of new environmental laws on ALL businesses.

To gain 6 marks, reference must be made to **all** businesses

Disadvantages include:

- techniques/products might be banned so unable to make or sell products
- changes might lead to increased costs for business e.g. new machinery leads to increased costs
- could place business at competitive disadvantage if laws do not apply to competitors from other countries.

Advantages include:

- could improve image of business if seen as environmentally friendly leading to increased reputation and sales
- new business opportunities as customers want 'green' products
- new techniques could help reduce waste or increase efficiency so lower costs in long run
- might already adopt environmentally friendly practices so no impact
- laws might help ensure that resources are better used so could continue to operate for longer time.

- 4 (a) What is meant by 'private limited company'? [2]

Clear understanding [2] e.g. a company whose shares cannot be sold to the general public.
Some understanding [1] e.g. outlines general features of limited companies e.g. have limited liability/separate legal identity from owners/can sell shares.

Do not accept in private sector – generic statement which also applies to unlimited businesses.

- (b) Calculate the gross profit margin for the year ending 30 April 2012. [2]

Correct answer [2]: $150/450 = 33.3\%$ or 33% .

Method [1] e.g. uses right formula i.e. $\text{gross profit}/\text{sales} * 100$ [1], 33 [1].

N.B. answer must include % sign to be awarded 2 marks.

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- (c) Identify and explain two ways in which Rapid Call's Finance Director could use the information in Table 2. [4]

Knowledge [2 × 1]: award 1 mark per relevant way.

Analysis/application [2]: award 1 mark for each relevant explanation (i.e. to explain how or why help).

Ways include:

- gross profit margin can be calculated [k] which can be compared to previous years to see if the GP has risen or fallen [an]/which can be compared to other companies [an]
- costs of goods sold might have risen [k] and so could try to find cheaper suppliers [an]
- might use the information to adjust marketing strategy [k]
- show value added [k].

For an answer that accurately calculates the Gross profit margin [33%] or the Net profit margin [12.22%] award 2 marks [an].

- (d) The Marketing Director is thinking about changing the channel of distribution. Identify and explain three factors that Rapid Call should consider when choosing a suitable channel of distribution. [6]

Knowledge [3 × 1]: award 1 mark per relevant factor.

Analysis/application [3 × 1]: award 1 mark for each relevant explanation (i.e. explain how or why it is an issue for Rapid Call).

Factors include:

- where it is to be sold
- cost of transport
- type of product
- level of demand
- amount of control required by company
- size of company
- costs of storage [storage alone 0]
- speed
- location/profile of customers.

Do not award analysis/application marks for points which clearly cannot be applied to a mobile phone manufacturer e.g. perishable.

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- (e) How important is increased competition in influencing the marketing strategy of Rapid Call? Justify your answer. [6]

Knowledge [2]: Identification of relevant issues or factors influencing the marketing strategy.

Analysis [2]: explain how or why issue/factors need to be considered.

Evaluation [2]: reasoned judgement made as to HOW important competition is in influencing marketing strategy of Rapid call.

For two evaluation marks, the answer must be clearly in the context of this business.

Issues include:

- competitive pricing – prices are in line with those of competitors to maintain level of sales. Too high or too low could affect level of demand or sales revenue.
- special features could suggest that competition is forcing RC to change what they sell in order to compete
- product – special features could mean that competition is not important as rivals do not have features
- promotions will need to attract as well as inform potential customers in order to ensure sales
- if business does not respond to competition they could lose sales/market share
- need to ensure that products are available at right time otherwise could lose sales to rivals.

- 5 (a) What is meant by 'marketing'? [2]

Clear understanding [2] e.g. identifying and anticipating customer wants and then providing it.

Some understanding [1] e.g. selling the product or 1 core element of marketing identified, such as promotion or pricing or market research.

- (b) Identify two possible cash outflows for Favell's business. [2]

Knowledge [2 × 1]: award 1 mark per cash out flow.

Cash outflows include: rent, materials such as wood, nails; advertising costs, machines or equipment, transport costs, insurance, and wages.

Accept any reasonable example.

- (c) Identify and explain two benefits for any business of preparing a cash flow forecast. [4]

Benefits:

- able to arrange finance to avoid cash flow problems
- help planning
- see (predict) when money goes in or out of business
- support loan applications
- businesses more likely to have cash flow problems in early years.

Knowledge [2 × 1]: award 1 mark per relevant benefit.

Analysis [2 × 1]: award 1 mark for each relevant explanation (i.e. show how it will help a business).

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- (d) Favell is looking at various methods of promotion for his business. Identify and explain three suitable methods of promotion that Favell could use to attract customers. [6]

Knowledge [3 × 1]: award 1 mark per relevant method.

Analysis/application [3 × 1]: award 1 mark for each relevant explanation (i.e. shows how or why it is a suitable method for Favell to use).

Methods include:

- leaflets
- posters
- adverts in the local paper or local radio or internet
- advertising on side of vehicle that he wishes to buy
- discount/promotional pricing
- sponsorship
- warranty or after sale services
- competitions
- demonstrations
- public relations
- BOGOFF
- free sample/gifts.

Do not award analysis/application marks for points which clearly cannot be applied to a woodworking business.

- (e) Favell needs \$10 000 to buy a motor vehicle so that he can carry all his equipment. He is planning to ask the bank for an overdraft. Do you think this is the most suitable source of finance for him to choose? Justify your answer. [6]

Knowledge [2 × 1]: Identification of points for and against overdrafts or for and against alternative sources of finance.

Analysis [2]: explains how or why issue needs to be considered.

Evaluation [2]: reasoned judgement as to whether a overdraft is the best method to use or not.

For two evaluation marks, the answer must be clearly in the context of this business

Content may include:

Overdraft:

- only interest payable on amount overdrawn
- quick and easy to arrange
- no security but repayable on demand so more appropriate for short term finance such as cash flow problems. So is it suitable for fixed assets such as a vehicle?
- can be expensive as interest rates tend to high.

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Loan:

- have a set period of time to repay
- fixed interest rate
- relatively quick to arrange
- appropriate for a vehicle as it is a long term asset
- but can be expensive as interest payable
- security usually required for loan.

Other methods might include: leasing, hire purchase as it is a vehicle.

Context could include: The business has cash flow issues; Wants to do marketing; \$10 000 needed for vehicle; is a small business.
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0450 BUSINESS STUDIES

0450/12

Paper 1 (Short Answer/Structured Response),
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1 (a) What is meant by 'market research'? [2]

Clear understanding [2]: e.g. process of finding out what consumers want or need before a product is made [2]/process of gathering primary and secondary data on the buying habits and attitudes [1] of potential customers [+1]/collection of data about existing or potential products [2].

Some understanding [1]: e.g. find out what customers want [1].

Do NOT accept examples of primary research or secondary research on own e.g. questionnaires. Acceptable only as a development point.

(b) Identify two possible objectives Made Fresh could have. [2]

Knowledge [2 × 1]: one mark per objective.

Objectives include: expansion OR growth/survival/increased market share OR more customers OR increased sales/customer service/profit/enter new overseas markets/added value.

Do NOT accept reduce cost.

(c) Identify and explain two advantages to a business of branding. [4]

Knowledge [2 × 1]: award 1 mark per relevant advantage.

Analysis [2 × 1]: award 1 mark per relevant explanation (i.e. how helps the company).

Advantages might include:

- able to differentiate product from rivals [k] customers want to buy more of your product [an]
- way to encourage brand loyalty [k] so maintain level of sales [an]
- means to attract potential customers [k]
- means of achieving a competitive advantage [k]
- able to charge higher prices [k] as products can be seen to be of higher quality [an]
- instant recognition/well known/identity/brand image [k]
- way to add value to a product [k]
- easier to launch new products [k] as customers are aware of and/or trust name [an].

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- (d) Identify and explain three possible problems Made Fresh might face if they have to import organic ingredients for the foods they manufacture. [6]

Knowledge [3 × 1]: award 1 mark per relevant problem.

Analysis/Application [3 × 1]: award 1 mark for each relevant explanation. (explain how or why it might be a problem for Made Fresh.)

Problems include:

- government rules or restrictions [k] which might limit/restrict what food items can be imported which affects what they can get [an]
- tariffs [k] could make imported goods too expensive [an]
- quotas [k] which would limit the quantity of ingredients that MF could obtain [an]
- language problems [k] – so order wrong items/unable to order what needed [an]
- transport issues e.g. time [k] If buy from long way, food could perish in transit [an]
- exchange rates [k] depreciation of own currency could lead to higher cost of imports [an]
- costs of transport [k] if long distance need to protect perishable goods could increase expenses [an]
- delay in delivery [k] which could slow down production of food items [an]/lead to customers cancelling orders from MF [an]
- lack of contacts overseas [k]
- quality of fresh food [k] which could damage reputation of MF if imported items not fit to sell [an]/different standard between locally sourced and imports [k]
- too much paperwork [k].

Do not award analysis/application marks for points which clearly cannot be applied to a food manufacturer.

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- (e) The Government in country J wants to encourage international trade. Do you think this would be an advantage to Made Fresh? Justify your answer. [6]

Knowledge [2 × 1]: identifies advantages/disadvantages [2].

Analysis [2]: explain how factors could affect MF.

Evaluation [2]: reasoned judgement as to whether it is an advantage to MF or not. For two evaluation marks, the answer must be clearly in the context of this business.

Possible advantages include:

- access to materials not available in home country [k]
- access to new markets and products [k]
- means to raise international profile of business [k]
- increased sales by selling to larger global market [k]
- increased demand could increase production [k] so able to benefit from economies of scale [an]
- government might offer them grants/incentives [k].

Disadvantages include:

- increased competition [k] in home and international markets could mean that MF must offer lower prices [an]
- increased costs of transport if try to sell to overseas customers [k]
- increased costs of marketing [k] as need to promote business more so potential customers aware [an]
- possible shortage of some resources if other competitors set up in your home country [k].

Context could include: High quality crops produced, farm crops failing, branding, grown by local farmers, organic, recent bad weather, countries nearby.

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2 (a) What is meant by 'batch production'? [2]

Clear understanding [2]: e.g. products are made in groups [1] of items of a certain amount, usually to meet a specific order/as orders come in
OR identifies two distinctive features of batch production.
Some understanding [1]: identifies one distinct feature of batch e.g. made in (small) groups.

Do not accept 'batch' as part of answer as stated in question.
Do not accept examples on own.

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

Knowledge [2 × 1]: one mark per measure.

Measures include:

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

Do NOT reward profit/outlets/machines/number of assets/amount of output.

(c) Identify and explain two benefits of lean production for a business. [4]

Knowledge [2 × 1]: award 1 mark per relevant advantage.

Analysis [2 × 1]: award 1 mark per relevant explanation (i.e. how it helps a business).

Benefits might include:

- reduction in waste [k] can lead to improved efficiency [an]/lower production costs [an]
- by **being involved in process** workers are motivated [k] could lead to better quality [an]
- reduced stock holding costs [k] as lower levels of stock required on site [an]
- less resources required as less waste [k] so lower cost [an]
- less operational space needed as production is better organised [k] which could lower fixed costs [an].

Points must be linked to lean production to be credited.

Do not accept simple statements as faster/cheaper/more output/more efficient/time saving/motivated unless explained.

Do not accept identification of methods e.g. JIT/Kaizen/TQM.

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- (d) Identify and explain three advantages to the management of Bray Electrics of introducing new technology in the business. [6]

Knowledge [3 × 1]: award 1 mark per relevant advantage.

Analysis/application [3 × 1]: award 1 mark for each relevant explanation (how helps management).

Advantages include:

- improve quality [k] so able to charge higher prices for products [an]
- increase output [k] so able to meet more orders [an]
- improves productivity [k] which can help reduce average costs [an]
- way to reduce labour costs [k] so lower total costs for business [an]
- machines do not need breaks [k] so more parts can be made/less errors [an]
- faster production [k] as machines can make more in less time [an]
- machines are able to handle more complex work [k]
- role in designing prototypes/development of new products [k]
- improves stock control for ordering parts [k]
- improved communication (internal or external) [k].

Note: advantages must clearly relate to business not employees.

Do not award analysis/application marks for points which clearly cannot be applied to a manufacturing company.

- (e) The Managing Director believes 'our workers like change'. Do you think that all the workers at Bray Electrics would like the introduction of new technology? Justify your answer. [6]

Knowledge [2]: identifies relevant issues.

Analysis [2]: explanation to show how it might affect employees.

Evaluation [2]: reasoned judgement made as to whether *all* workers will like introduction of new technology.

For two evaluation marks, the answer must be clearly in the context of a manufacturer.

Issues might include:

- need for re-training [k] which could create promotion opportunities [an]
- impact on motivation (either positive or negative) [k]
- fear of change [k]
- fear of redundancy as machines replace jobs [k] could decrease motivation [an]
- deskilling [k]
- implications for pay e.g. lower wages [k] so lower living standards [an]
- opportunities to learn new skills [k]
- chances for self improvement or promotion [k]
- safer conditions as up to date technology [k] so less risk of injury [an].

Do not accept points such as 'more efficient' unless clearly link benefit to employees.

Context could include: large company, engine parts, batch production, always looking for ways to introduce new technology, manufacturer.

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3 (a) What is meant by 'public limited company'? [2]

Clear understanding [2] e.g. a company whose shares can be sold on the stock exchange
OR identifies specific features of public limited company e.g. shares issued to and owned by public/shares sold freely on the stock market.

Some understanding [1] e.g. identifies general features of limited companies e.g. have limited liability/separate legal identity from owners/can sell shares/freedom of access to financial statements.

Do not accept private sector on its own.

(b) Calculate the Return on Capital Employed for 2012. [2]

Correct answer [2]: 15%.

Method only [1]: e.g. correct formula for ROCE = net profit/capital employed * 100 [1],
75/500 * 100 [1].

N.B. answer must include % sign to be awarded 2 marks.

(c) Identify and explain two reasons why shareholders might be interested in the accounts of HTB. [4]

Knowledge [2 × 1]: award 1 mark per relevant reason.

Application/analysis [2 × 1]: award 1 mark per relevant explanation (i.e. explain why issue for shareholders).

Reasons might include:

- will want to know how well the company has performed (e.g. are they making a profit) [k] to know how much dividend they might receive [an]/whether it is worthwhile to CARRY on investing in the company [an]
- potential investors will want to know if it is worth investing in company [an] as if returns are poor they will look for alternative investments [an]
- is the company being run efficiently (e.g. liquidity, debt levels) [k]
- whether likely to see a rise in share price if business is successful [k]
- to compare with other businesses accounts [k] to decide which one to invest in [an].

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(d) Identify and explain three factors that HTB should consider before issuing more shares. [6]

Knowledge [3 × 1]: award 1 mark per relevant factor.

Analysis [3 × 1]: award 1 mark per relevant explanation (i.e. explain why an issue for HTB).

Factors might include:

- likely take up by the market (ease of selling) [k]
- anticipated impact on share price [k]/impact on market's view of the company [k] if market don't like issue it could affect reputation or share price [an]
- risk of takeover [k] or loss of control of existing shareholders [k] who might not allow HTB to issue more shares [an]
- do they have any other options of raising capital [k]/is it an appropriate way to raise the amount needed [k].

Allow practical issues such as cost of issuing shares e.g. prospectus/time/complexity of the process of issuing shares/amount of shares to be issued as separate points.

Do not allow points such as 'do they need the money' or 'can they pay dividends'.

(e) Do you think that the product is the most important element of the marketing mix for HTB? Justify your answer. [6]

Knowledge [2]: – general discussion of role of product/identifies relevant issues.

Analysis [2]: – Explains why the issue needs to be considered.

Evaluation [2]: – judgement made as to importance of product in HTB's marketing mix. For two evaluation marks, the answer must be clearly in the context of this business.

Points include:

- product is what consumers buy [k] If the product is not what consumers want, they will not buy it [an]
- price, promotion and place also have important role [k]
- having the right pricing strategy is important [k] as it is a competitive market [an]
- promoting the products can attract customers [k] which can help increase sales [an]
- the product must also be sold in the right places [k].

Context could include: computers, competitive market, spends a lot on advertising, increasing demand, looking to expand, using figures from the data.

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4 (a) What is meant by 'organisational structure'? [2]

Clear understanding [2] e.g. the number of levels of management and division of responsibility/authority within a business [2]/staff and their positions in relation to each other [2].

Some understanding [1] e.g. how many levels in a business/Shows how business is organised/shows who reports to whom/hierarchy.

Some understanding plus example can gain full marks.

(b) What is meant by 'chain of command'? [2]

Clear understanding [2]: structure within an organisation through which orders are passed down from senior management to the lower levels of management/pass messages up and down the hierarchy.

Some understanding [1]: 'shows who gives orders'.

For 2 marks must have idea of 'messages passed/communication' AND 'who between'.

(c) Identify and explain two possible disadvantages for a business of having a wide span of control. [4]

Knowledge [2 × 1]: award 1 mark per relevant disadvantage.

Analysis [2 × 1]: award 1 mark per relevant explanation (i.e. explain why might be disadvantage for a business).

Points might include:

- difficult to control so many people [k] so less work is done [an]
- communication problems as too many subordinates to inform/ask [k] so harder to get feedback about the work [an]/messages lost [an]
- workers might not have enough skills to cope with extra responsibility [k] so more mistakes are made [an]
- supervisors might not have the right skills to manage so many people [k]
- fall in productivity [k] as hard to motivate so many people [an].

Note: disadvantages must clearly relate to business not employees to be credited.

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- (d) Identify and explain three reasons why effective communication within a business is important to the management. [6]

Knowledge [3 × 1]: award 1 mark per relevant reason.

Analysis [3 × 1]: award 1 mark per relevant explanation (i.e. explain why it is important to management).

Reasons might include:

- improves efficiency [k]
- as workers as feel involved in the business decisions [k] so more productive [an]
- ensures the right orders are passed to the right people [k] so orders are completed properly or on time [an]
- avoids confusion or misunderstanding [k] so less mistakes [an]
- avoids duplication of work [k] which can waste time and resources
- less mistakes as know what to do [k] so prevents faults [an].

Note: reasons must clearly relate to management/business not employees or customers. Do not allow 'workers motivated' unless linked to idea of effective communication.

- (e) The management of Cole Brokers think that the disadvantages of e-commerce are greater than the advantages to their business. Do you agree? Justify your answer. [6]

Knowledge [2 × 1]: identification of relevant issues.

Analysis [2]: explain how or why might affect business.

Evaluation [2]: reasoned judgement made as to whether disadvantages are greater or not for CB Brokers.

For two evaluation marks, the answer must be clearly in the context of this business. Either viewpoint is possible depending on points discussed.

Disadvantages include:

- vulnerability to viruses/technical breakdown/security issues [k]
- government restrictions/laws concerning what and how sell insurance in other countries [k]
- loss of personal contact with customers [k]
- need for system support/security/training costs for staff [k] which will increase costs [an]
- threat of increased competition [k].

Advantages include:

- access new markets as not restricted to existing locations [k] which could lead to more sales [an]
- possible cost savings can lead to lower prices and more business
- opportunity for 24 hour business [k].

1 sided argument maximum 4 marks.

Context could include: medium sized, customers around the world, highly competitive market, many insurance businesses using the internet.

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5 (a) What is meant by a 'job description'? [2]

Clear understanding [2] outlines the responsibilities and duties [1] expected to be done by someone employed to do a specific job [+1].

Some understanding [1] e.g. what have to do for a job.

Some understanding plus example can gain 2 marks.

(b) Identify two possible features of a person specification. [2]

Knowledge [2 × 1]: one mark per feature.

Features include:

- knowledge of various elements such as qualifications, experience, skills, personal qualities

OR

- practical examples such as able to manage people
- age and/or gender (allow only 1 mark).

Allow any reasonable feature.

Do not accept examples which clearly relate to details of a CV e.g. where went to school, previous employer.

(c) Identify and explain two suitable places where Manuel could advertise the vacancies. [4]

Knowledge [2 × 1]: award 1 mark per suitable place.

Application [2 × 1]: award 1 mark for each relevant explanation (i.e. say why suitable place).

Places include:

- internal – notice board/staff publication.
- external – job centre/advertising in local paper or local radio/specialist trade magazines/recruitment agency/internet or jobs website or online.

Do not accept 'shop', in the street, internal or external or in the business unless explained.

Award relevant examples of either two internal or two external or one example of each.

Do not award analysis/application marks for points which clearly cannot be applied to role of supervisor e.g. Television, national radio, national newspaper and magazines.

Page 13	Mark Scheme: Teachers' version	Syllabus	Paper
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(d) Identify and explain three factors that Sachs-Tech should consider when deciding where to locate a new factory. [6]

Knowledge [3 × 1]: award 1 mark per relevant factor.

Analysis/application [3 × 1]: award 1 mark for each relevant explanation (i.e. explain how/why factor is important to Sachs-Tech).

Factors include:

- available space [k]
- cost of site [k] can they afford the rent [an]
- utilities e.g. power, water, internet [k]
- transport links/infrastructure [k] so it is cheaper/easier to distribute the parts [an]
- access to market/access to (necessary) materials [k]
- government rules [k]
- availability of grants/incentives [k]
- access to (suitable) labour [k]
- cost of labour [k] e.g. cheap labour could reduce their variable costs [an]
- personal preference of owner as to where they want to live/work [k]
- environmental issues e.g. waste disposal or pollution [k]
- local opposition to plans/pressure groups [k].

Do not award analysis/application marks for points which clearly cannot be applied to a mobile phone manufacturer e.g. 'near retailers'.

Page 14	Mark Scheme: Teachers' version	Syllabus	Paper
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- (e) The Finance manager is worried that the business might be growing too quickly. Do you think he is right to be worried? Justify your answer. [6]

Knowledge [2 × 1]: identification of relevant issues.

Analysis [2]: explain how or why issue needs to be considered.

Evaluation [2]: reasoned judgement made as to whether business might be growing too quickly.

For two evaluation marks, the answer must be clearly in the context of this business.

Either viewpoint is possible depending on points discussed.

Possible issues include:

- demand for the product is growing [k] so need to expand to meet customer requirements [an]
- growth can bring many advantages e.g. economies of scale [k]
- depends on objectives of the business/attitude to risk [k]
- costs of expansion e.g. more equipment [k]/extra factory space needed [k] can the business afford to pay [an]
- management issues e.g. do they have sufficient skilled managers to oversee the expansion [k]
- recruitment problems e.g. are they able to recruit enough workers or the right people? [k]
- finance issues e.g. access to necessary sources of finance [k]
- diseconomies of scale [k]
- quality may suffer in rush to meet demand [k]
- sales could fall as quickly as sales have risen [k]
- problems of excess stock [k].

Context could include: mobile phone industry, sales are rising quickly, meet demand, new production supervisors, makes parts, new factory.

MARK SCHEME for the May/June 2012 question paper
for the guidance of teachers

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.

Mark schemes must be read in conjunction with the question papers and the report on the examination.

- Cambridge will not enter into discussions or correspondence in connection with these mark schemes.

Cambridge is publishing the mark schemes for the May/June 2012 question papers for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level syllabuses and some Ordinary Level syllabuses.

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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.

Examples of possible answers are also included in this mark scheme. Again, it should be emphasised that this is for illustrative purposes and the examples chosen represent only some of the many possible responses that would merit reward.

Page 3	Mark Scheme: Teachers' version	Syllabus	Paper
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1 (a) What is meant by 'market research'? [2]

Clear understanding [2]: e.g. process of finding out what consumers want or need before a product is made [2]/process of gathering primary and secondary data on the buying habits and attitudes [1] of potential customers [+1]/collection of data about existing or potential products [2].

Some understanding [1]: e.g. find out what customers want [1].

Do NOT accept examples of primary research or secondary research on own e.g. questionnaires. Acceptable only as a development point.

(b) Identify two possible objectives Made Fresh could have. [2]

Knowledge [2 × 1]: one mark per objective.

Objectives include: expansion OR growth/survival/increased market share OR more customers OR increased sales/customer service/profit/enter new overseas markets/added value.

Do NOT accept reduce cost.

(c) Identify and explain two advantages to a business of branding. [4]

Knowledge [2 × 1]: award 1 mark per relevant advantage.

Analysis [2 × 1]: award 1 mark per relevant explanation (i.e. how helps the company).

Advantages might include:

- able to differentiate product from rivals [k] customers want to buy more of your product [an]
- way to encourage brand loyalty [k] so maintain level of sales [an]
- means to attract potential customers [k]
- means of achieving a competitive advantage [k]
- able to charge higher prices [k] as products can be seen to be of higher quality [an]
- instant recognition/well known/identity/brand image [k]
- way to add value to a product [k]
- easier to launch new products [k] as customers are aware of and/or trust name [an].

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- (d) Identify and explain three possible problems Made Fresh might face if they have to import organic ingredients for the foods they manufacture. [6]

Knowledge [3 × 1]: award 1 mark per relevant problem.

Analysis/Application [3 × 1]: award 1 mark for each relevant explanation. (Explains how or why it might be a problem for Made Fresh.)

Problems include:

- government rules or restrictions [k] which might limit/restrict what food items can be imported which affects what they can get [an]
- tariffs [k] could make imported goods too expensive [an]
- quotas [k] which would limit the quantity of ingredients that MF could obtain [an]
- language problems [k] – so order wrong items/unable to order what needed [an]
- transport issues e.g. time [k] If buy from long way, food could perish in transit [an]
- exchange rates [k] depreciation of own currency could lead to higher cost of imports [an]
- costs of transport [k] if long distance need to protect perishable goods could increase expenses [an]
- delay in delivery [k] which could slow down production of food items [an]/lead to customers cancelling orders from MF [an]
- lack of contacts overseas [k]
- quality of fresh food [k] which could damage reputation of MF if imported items not fit to sell [an]/different standard between locally sourced and imports [k]
- too much paperwork [k].

Do not award analysis/application marks for points which clearly cannot be applied to a food manufacturer.

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- (e) The Government in country J wants to encourage international trade. Do you think this would be an advantage to Made Fresh? Justify your answer. [6]

Knowledge [2 × 1]: identifies advantages/disadvantages [2].

Analysis [2]: explain how factors could affect MF.

Evaluation [2]: reasoned judgement as to whether it is an advantage to MF or not. For two evaluation marks, the answer must be clearly in the context of this business.

Possible advantages include:

- access to materials not available in home country [k]
- access to new markets and products [k]
- means to raise international profile of business [k]
- increased sales by selling to larger global market [k]
- increased demand could increase production [k] so able to benefit from economies of scale [an]
- government might offer them grants/incentives [k].

Disadvantages include:

- increased competition [k] in home and international markets could mean that MF must offer lower prices [an]
- increased costs of transport if try to sell to overseas customers [k]
- increased costs of marketing [k] as need to promote business more so potential customers aware [an]
- possible shortage of some resources if other competitors set up in your home country [k].

Context could include: High quality crops produced, farm crops failing, branding, grown by local farmers, organic, recent bad weather, countries nearby.

Page 6	Mark Scheme: Teachers' version	Syllabus	Paper
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2 (a) What is meant by 'batch production'? [2]

Clear understanding [2]: e.g. products are made in groups [1] of items of a certain amount, usually to meet a specific order/as orders come in
OR identifies two distinctive features of batch production.
Some understanding [1]: identifies one distinct feature of batch e.g. made in (small) groups.

Do not accept 'batch' as part of answer as stated in question.
Do not accept examples on own.

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

Knowledge [2 × 1]: one mark per measure.

Measures include:

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

Do NOT reward profit/outlets/machines/number of assets/amount of output.

(c) Identify and explain two benefits of lean production for a business. [4]

Knowledge [2 × 1]: award 1 mark per relevant advantage.

Analysis [2 × 1]: award 1 mark per relevant explanation (i.e. how it helps a business).

Benefits might include:

- reduction in waste [k] can lead to improved efficiency [an]/lower production costs [an]
- by **being involved in process** workers are motivated [k] could lead to better quality [an]
- reduced stock holding costs [k] as lower levels of stock required on site [an]
- less resources required as less waste [k] so lower cost [an]
- less operational space needed as production is better organised [k] which could lower fixed costs [an].

Points must be linked to lean production to be credited.

Do not accept simple statements as faster/cheaper/more output/more efficient/time saving/motivated unless explained.

Do not accept identification of methods e.g. JIT/Kaizen/TQM.

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- (d) Identify and explain three advantages to the management of Bray Electrics of introducing new technology in the business. [6]

Knowledge [3 × 1]: award 1 mark per relevant advantage.

Analysis/application [3 × 1]: award 1 mark for each relevant explanation (how helps management).

Advantages include:

- improve quality [k] so able to charge higher prices for products [an]
- increase output [k] so able to meet more orders [an]
- improves productivity [k] which can help reduce average costs [an]
- way to reduce labour costs [k] so lower total costs for business [an]
- machines do not need breaks [k] so more parts can be made/less errors [an]
- faster production [k] as machines can make more in less time [an]
- machines are able to handle more complex work [k]
- role in designing prototypes/development of new products [k]
- improves stock control for ordering parts [k]
- improved communication (internal or external) [k].

Note: advantages must clearly relate to business not employees.

Do not award analysis/application marks for points which clearly cannot be applied to a manufacturing company.

- (e) The Managing Director believes 'our workers like change'. Do you think that all the workers at Bray Electrics would like the introduction of new technology? Justify your answer. [6]

Knowledge [2]: identifies relevant issues.

Analysis [2]: explanation to show how it might affect employees.

Evaluation [2]: reasoned judgement made as to whether *all* workers will like introduction of new technology.

For two evaluation marks, the answer must be clearly in the context of a manufacturer.

Issues might include:

- need for re-training [k] which could create promotion opportunities [an]
- impact on motivation (either positive or negative) [k]
- fear of change [k]
- fear of redundancy as machines replace jobs [k] could decrease motivation [an]
- deskilling [k]
- implications for pay e.g. lower wages [k] so lower living standards [an]
- opportunities to learn new skills [k]
- chances for self improvement or promotion [k]
- safer conditions as up to date technology [k] so less risk of injury [an].

Do not accept points such as 'more efficient' unless clearly link benefit to employees.

Context could include: large company, engine parts, batch production, always looking for ways to introduce new technology, manufacturer.

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3 (a) What is meant by 'public limited company'? [2]

Clear understanding [2] e.g. a company whose shares can be sold on the stock exchange
OR identifies specific features of public limited company e.g. shares issued to and owned by public/shares sold freely on the stock market.

Some understanding [1] e.g. identifies general features of limited companies e.g. have limited liability/separate legal identity from owners/can sell shares/freedom of access to financial statements.

Do not accept private sector on its own.

(b) Calculate the Return on Capital Employed for 2012. [2]

Correct answer [2]: 15%.

Method only [1]: e.g. correct formula for ROCE = net profit/capital employed * 100 [1],
75/500 * 100 [1].

N.B. answer must include % sign to be awarded 2 marks.

(c) Identify and explain two reasons why shareholders might be interested in the accounts of HTB. [4]

Knowledge [2 × 1]: award 1 mark per relevant reason.

Application/analysis [2 × 1]: award 1 mark per relevant explanation (i.e. explain why issue for shareholders).

Reasons might include:

- will want to know how well the company has performed (e.g. are they making a profit) [k] to know how much dividend they might receive [an]/whether it is worthwhile to CARRY on investing in the company [an]
- potential investors will want to know if it is worth investing in company [an] as if returns are poor they will look for alternative investments [an]
- is the company being run efficiently (e.g. liquidity, debt levels) [k]
- whether likely to see a rise in share price if business is successful [k]
- to compare with other businesses accounts [k] to decide which one to invest in [an].

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(d) Identify and explain three factors that HTB should consider before issuing more shares. [6]

Knowledge [3 × 1]: award 1 mark per relevant factor.

Analysis [3 × 1]: award 1 mark per relevant explanation (i.e. explain why an issue for HTB).

Factors might include:

- likely take up by the market (ease of selling) [k]
- anticipated impact on share price [k]/impact on market's view of the company [k] if market don't like issue it could affect reputation or share price [an]
- risk of takeover [k] or loss of control of existing shareholders [k] who might not allow HTB to issue more shares [an]
- do they have any other options of raising capital [k]/is it an appropriate way to raise the amount needed [k].

Allow practical issues such as cost of issuing shares e.g. prospectus/time/complexity of the process of issuing shares/amount of shares to be issued as separate points.

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(e) Do you think that the product is the most important element of the marketing mix for HTB? Justify your answer. [6]

Knowledge [2]: – general discussion of role of product/identifies relevant issues.

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Evaluation [2]: – judgement made as to importance of product in HTB's marketing mix. For two evaluation marks, the answer must be clearly in the context of this business.

Points include:

- product is what consumers buy [k] If the product is not what consumers want, they will not buy it [an]
- price, promotion and place also have important role [k]
- having the right pricing strategy is important [k] as it is a competitive market [an]
- promoting the products can attract customers [k] which can help increase sales [an]
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Some understanding plus example can gain full marks.

(b) What is meant by 'chain of command'? [2]

Clear understanding [2]: structure within an organisation through which orders are passed down from senior management to the lower levels of management/pass messages up and down the hierarchy.

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- communication problems as too many subordinates to inform/ask [k] so harder to get feedback about the work [an]/messages lost [an]
- workers might not have enough skills to cope with extra responsibility [k] so more mistakes are made [an]
- supervisors might not have the right skills to manage so many people [k]
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Note: disadvantages must clearly relate to business not employees to be credited.

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Reasons might include:

- improves efficiency [k]
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Note: reasons must clearly relate to management/business not employees or customers. Do not allow 'workers motivated' unless linked to idea of effective communication.

- (e) The management of Cole Brokers think that the disadvantages of e-commerce are greater than the advantages to their business. Do you agree? Justify your answer. [6]

Knowledge [2 × 1]: identification of relevant issues.

Analysis [2]: explain how or why might affect business.

Evaluation [2]: reasoned judgement made as to whether disadvantages are greater or not for CB Brokers.

For two evaluation marks, the answer must be clearly in the context of this business. Either viewpoint is possible depending on points discussed.

Disadvantages include:

- vulnerability to viruses/technical breakdown/security issues [k]
- government restrictions/laws concerning what and how sell insurance in other countries [k]
- loss of personal contact with customers [k]
- need for system support/security/training costs for staff [k] which will increase costs [an]
- threat of increased competition [k].

Advantages include:

- access new markets as not restricted to existing locations [k] which could lead to more sales [an]
- possible cost savings can lead to lower prices and more business
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1 sided argument maximum 4 marks.

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(b) Identify two possible features of a person specification. [2]

Knowledge [2 × 1]: one mark per feature.

Features include:

- knowledge of various elements such as qualifications, experience, skills, personal qualities

OR

- practical examples such as able to manage people
- age and/or gender (allow only 1 mark).

Allow any reasonable feature.

Do not accept examples which clearly relate to details of a CV e.g. where went to school, previous employer.

(c) Identify and explain two suitable places where Manuel could advertise the vacancies. [4]

Knowledge [2 × 1]: award 1 mark per suitable place.

Application [2 × 1]: award 1 mark for each relevant explanation (i.e. say why suitable place).

Places include:

- internal – notice board/staff publication.
- external – job centre/advertising in local paper or local radio/specialist trade magazines/recruitment agency/internet or jobs website or online.

Do not accept 'shop', in the street, internal or external or in the business unless explained.

Award relevant examples of either two internal or two external or one example of each.

Do not award analysis/application marks for points which clearly cannot be applied to role of supervisor e.g. Television, national radio, national newspaper and magazines.

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(d) Identify and explain three factors that Sachs-Tech should consider when deciding where to locate a new factory. [6]

Knowledge [3 × 1]: award 1 mark per relevant factor.

Analysis/application [3 × 1]: award 1 mark for each relevant explanation (i.e. explain how/why factor is important to Sachs-Tech).

Factors include:

- available space [k]
- cost of site [k] can they afford the rent [an]
- utilities e.g. power, water, internet [k]
- transport links/infrastructure [k] so it is cheaper/easier to distribute the parts [an]
- access to market/access to (necessary) materials [k]
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- personal preference of owner as to where they want to live/work [k]
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- (e) The Finance manager is worried that the business might be growing too quickly. Do you think he is right to be worried? Justify your answer. [6]

Knowledge [2 × 1]: identification of relevant issues.

Analysis [2]: explain how or why issue needs to be considered.

Evaluation [2]: reasoned judgement made as to whether business might be growing too quickly.

For two evaluation marks, the answer must be clearly in the context of this business.

Either viewpoint is possible depending on points discussed.

Possible issues include:

- demand for the product is growing [k] so need to expand to meet customer requirements [an]
- growth can bring many advantages e.g. economies of scale [k]
- depends on objectives of the business/attitude to risk [k]
- costs of expansion e.g. more equipment [k]/extra factory space needed [k] can the business afford to pay [an]
- management issues e.g. do they have sufficient skilled managers to oversee the expansion [k]
- recruitment problems e.g. are they able to recruit enough workers or the right people? [k]
- finance issues e.g. access to necessary sources of finance [k]
- diseconomies of scale [k]
- quality may suffer in rush to meet demand [k]
- sales could fall as quickly as sales have risen [k]
- problems of excess stock [k].

Context could include: mobile phone industry, sales are rising quickly, meet demand, new production supervisors, makes parts, new factory.

MARK SCHEME for the October/November 2012 series

0450 BUSINESS STUDIES

0450/11

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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Page 2	Mark Scheme	Syllabus	Paper
	IGCSE – October/November 2012	0450	11

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.

1 (a) What is meant by ‘cash flow’? [2]

Clear understanding [2] Some understanding [1]

Term refers to the timing and amounts of cash moving in and out of a business [2].

To gain full marks it is sufficient to only refer to “cash in and cash out”. Just cash in OR cash out will gain 1 mark.

(b) Give two examples of fixed costs that a business like a football club would incur. [2]

Application [2 × 1] – award 1 mark per example

Fixed costs refers to any cost incurred by the business as a result of its existence [unaffected by the volume of work undertaken]. Thus costs might include – insurance/rates/rent/salaries etc. Allow any reasonable suggestion. Do NOT allow wages or purchase of football equipment such as balls or shirts.

(c) Identify and explain two ways the cash flow of Durban Dragons could be improved. [4]

Knowledge [2 × 1] – award 1 mark for each way

Application/analysis [2 × 1] – award 1 mark for each relevant explanation of how it impacts on cash flow

Cash flow can be improved by any method that alters the amounts and timing of the flows into and out of the business. Methods might include:

- Selling season tickets [way] would improve cash flow because cash would be received earlier
- Gaining sponsorship would improve cash flow by attracting in more cash earlier
- Delaying payment to creditors would also improve cash flow by postponing cash outflows until later
- Delaying payment of wages as this would postpone cash outflows
- Arranging an overdraft facility (or short term loan) would give access to cash immediately and would therefore allow a business to meet its short term financial obligations
- Disposal of unwanted fixed assets would turn assets into cash

Methods could be in context of a football club but this is not required.

Do NOT allow answers such as cutting costs unless explained. For example, an answer that says selling a number of players would only be credited if they explained that the wage bill would be reduced and so therefore would the cash outflow.

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- (d) Identify and explain two reasons why businesses might want to sponsor football clubs like Durban Dragons. [6]**

Knowledge [2 × 1] – award 1 mark per reason

Application [2 × 1]

Analysis [2 × 1]

Companies sponsor football clubs for a variety of reasons:

- Means of advertising and increasing exposure
- Improve own brand image
- Supporting the local community
- Ego trip for Chairman
- Link name of company to well known brand [football club]

Explanation will show how sponsorship helps achieve these factors. Answer must be in context for full marks.

- (e) Do you think if Durban Dragons reduce ticket prices for matches this will increase revenue? Justify your answer. [6]**

Knowledge [2] – identification of relevant factors

Application/analysis [2]

Evaluation [2]

Content: A reduction in ticket prices means that the 'product' is cheaper and hence more affordable (k). This should increase the demand for tickets. Thus revenue should increase (an). However this depends on the price elasticity of demand for tickets (an) (use of technical language not required). If people are not attending the matches because of reasons like the team is always losing/playing unattractive football (k) then the price fall might not have much of an impact (an). Thus price is NOT the reason for the falling demand (ev). Indeed the revenue could be reduced if prices are reduced (ev). Total revenue is the outcome of volume sales times unit price (k).

The analysis does NOT need to be in context to be rewarded. Thus answer could refer to things like product and price rather than simply applied to a football context.

- 2 (a) What is meant by 'labour intensive'? [2]**

Clear understanding [2] Some understanding [1]

Labour intensive implies that labour resource input is the key resource used in the business. [Some comparison with say other resources such as capital will gain full marks.] It also implies that labour costs are the dominant cost of the business.

Simple understanding shown by answers like – the business uses a lot of labour [1].

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- (b) Identify two suitable sources of finance that Gresham Textiles could use to finance the investment in automated machinery. [2]**

Application [2 × 1] – award 1 mark per source.

Suitable sources might include:

- Long term loan
- Retained profit
- Equity issue
- Leasing arrangement
- Sale of unwanted assets [internally generated source]

1 mark per example. Key feature is that capital must be available long term.

Do NOT accept a source that is clearly short term such as an overdraft.

“Bank loan” not accepted. Must be long term. Do NOT accept hire purchase.

- (c) Identify and explain two reasons why factory managers are paid more than production line workers at Gresham Textiles. [4]**

Knowledge [2 × 1] – award 1 mark per reason

Application/analysis [2 × 1] – explanation mark for showing how the factor explains the wage differential

Factors to include:

- State of labour market
- Skills greater
- Shortage of manager [scarcity value]
- Ready supply of production line workers
- Greater responsibility
- Age and experience might differ
- Value to the company differs
- More demanding/important job

- (d) Identify and explain two ways lean production methods could reduce costs in the factory. [6]**

Knowledge [2 × 1] – award 1 mark for each way

Application/analysis [2 × 2] – for showing how these factors result in lower costs

Lean methods would:

- Reduce waste
- Minimise stocks [JIT]
- Matches production to demand. [No finished goods stock]
- Reduce time

So for example holding less inventory stock would reduce costs because less capital would be tied up and hence overdraft levels would be lower. Holding less stock would also save money [reduce costs] because less storage space would be needed and hence areas released can be put to more productive use. Holding less stock might also reduce insurance premiums and this too would reduce costs of the business.

Stock related points can be accepted twice if focus is clearly different e.g. space saving and insurance reduced.

Points MUST be linked to lean production methods to be rewarded. So for example saying cheaper or more efficient can be credited only if the explanation shows how.

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- (e) Do you think that a change to automated methods of production would benefit customers of Gresham Textiles? Justify your answer. [6]

Knowledge [2]

Application/analysis [2]

Evaluation [2]

Knowledge points could include:

- Methods should result in lower costs and hence lower prices
- Uniform standard of products
- Quality standards should be constant
- Improved availability

Alternatively a candidate might refer to:

- High quality clothing is often individually made and unique so may no longer meet the needs of customers
- Production costs might rise in the short term which may result in higher prices

Explanation to show how the customer is affected by the change to automated production. E.g. they might benefit due to the products being potentially cheaper to manufacture.

Evaluation: The answer needs to show some judgement on the impact of the change on the customer. Thus lower costs do NOT automatically lead to lower prices so the company might benefit but not the customer.

Note 1. The focus of the answer MUST be on the customer not the company.

Note 2. It is NOT necessary to cover both the pros and the cons for the customer for full marks.

- 3 (a) What is meant by 'capital employed'? [2]

Clear understanding [2] Some understanding [1]

Capital employed refers to the money invested in the business on a long term basis [2]. It measures the value of the assets at the disposal of the management. [2] It is often measured in terms of long term loans plus shareholders funds [2]. Also accept for full marks a formulae type answer such as $TA - CL$ or $FA + CA - CL$

Some understanding would be an answer that said it is the money [capital] used in the business [1].

- (b) Calculate company D's current ratio in 2011. [2]

Application/analysis [2]

Correct answer [2] Method [1]

Current assets / current liabilities = $650/550 = 1.18$ [2]

Accept answer 1.2 for full marks

A ratio answer i.e. 1.2:1 will also gain full marks

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- (c) The directors are planning further expansion of the company. Identify and explain two benefits to company D of raising finance by selling more shares. [4]

Knowledge [2 × 1] – award 1 mark for each benefit

Application/analysis [2 × 1]

The benefits of share issue are:

- Capital does not have to be repaid
- Does not carry interest charges
- Generally seen as a cheaper way of raising capital
- Business risk reduced

The explanation marks are for showing how the above benefit the company and/or how those benefits are achieved. For example because there are no interest charges on share capital this will mean that the overhead costs of the business are lower and this is beneficial because it means that profits will be higher.

Do NOT accept an easy/quick way of raising capital as a benefit.

- (d) Identify and explain a reason why the following stakeholders would be interested in using Company D's accounts. [6]

Knowledge [3 × 1] – identify what the accounts might show the stakeholder

Analysis [3 × 1] – showing why the information might be useful to the stakeholder

Creditors owed money so keen to see size of other debts of business and what security exists – assess risk of default.

Employees might show them how profitable the business is and therefore how secure their employment is/potential for higher wages in the future.

Shareholders would assess the profitability of the business and use it to assess the use of their funds.

NB Other reasons for each stakeholder's interest could be made which are also valid. Future creditors also acceptable as an interpretation of the question i.e. looking ahead to assess credit worthiness.

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- (e) Do you think that the performance of company D in 2011 has improved? Justify your conclusion using the data provided. [6]

Knowledge of performance measures [2]

Data interpretation could be descriptive or analytical, and so knowledge can be demonstrated in different ways.

Knowledge could be shown by:

- identifying suitable ratios (2 marks max.) Analytical ratios that could be used are ROCE/ gearing/liquidity [last two ratios not really performance ratios but will be credited] **and/or**
- by identifying changes in the data. The maximum knowledge mark for simply describing changes between the two years is 1 mark.

Application/analysis of data [2]

Ratio analysis shows

ROCE	2010 12.3%	2011 17.14%	Improvement
Current ratio	2010 1.33	2011 1.18	Marginal worsening
Gearing ratio	2010 53%	2011 50%	Improvement

Any manipulation of figures gains analysis marks e.g. calculation of ratios or calculation of % rate of increase. Calculation of same ratio for one or both years gains 1 mark.

If an answer just looks at net profit and says \$80m in 2010 and \$120m in 2011 and/or fixed assets have risen from \$500m to \$600m and net assets have increased from \$650m to \$700m so the performance is better because it is more profitable. This answer just looks at the figures and draws simple conclusions. It will gain 2 marks [1 for K and 1 for Ev but NO application/analysis mark]

Conclusions based on knowledge/analysis [2]

Evaluation is for forming a judgement on the analysis or perhaps from drawing on wider context such as difficult to assess whether performance is really improved because no data for previous years or other competitors' results.

For full marks the conclusion has to refer to ROCE as this is the key performance ratio. E.g. the performance of the business has improved because the ROCE has significantly increased. The only minor worry is the deterioration in liquidity.

- 4 (a) What is meant by 'market orientated company'? [2]

Clear understanding [2] Some understanding [1]

A business that focuses on the needs and requirements of its customers through analysis of market research data. Alternatively one that does market research before manufacturing or supplying a product/service [2].

A business that produces what customers want [1] or one that does market research [1].

- (b) What is meant by 'Managing Director'? [2]

Clear understanding [2] Some understanding [1]

Managing director is the overall senior director with general responsibility for the business as a whole. [2] A two mark answer might also be one that makes a number of valid points e.g. in overall charge and directs other managers/directors

Simple answer might be the director who makes the major decisions [1] or controls the company [1]. So one simple statement gains 1 mark.

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(c) Identify and explain two benefits to Jergen Cosmetics of setting business objectives. [4]

Knowledge [2]

Application/analysis [2 × 1]

Benefits of objectives are:

- Gives sense of purpose and direction
- Goal to be achieved
- Measure of success
- Helps decision making and planning

Explanation shows why the above would be of benefit to the business. So setting an objective of increasing turnover by say 5% next year is of benefit to the company because it sets a target [1] which motivates staff to perform better [explanation as to why it is a benefit].

(d) Identify and explain two benefits to Jergen Cosmetics of having its own website. [6]

Knowledge [2]

Application/analysis [2 × 2]

Website would:

- Increase public awareness
- Enhance reputation
- Boost sales
- Improve image
- Allow customers to view their product range
- Lower advertising costs
- Allow online sales

So an answer might say that a website would mean that potential customer could see a full range of beauty products that they make. This would allow them to be more aware of the full range and might encourage them to buy, boosting sales for Jergen. Second benefit might be that the website might enhance the profile of the company. It will seem 'more important' and fashionable and hence might attract new customers to the business. This too will boost sales and profits.

Analysis/application for showing how the points actually represent a benefit and how a website helps achieve them.

(e) Do you think that economic growth in country A will lead to increased profitability for Jergen Cosmetics? Justify your answer. [6]

Knowledge [2]

Application/analysis [2]

Evaluation [2]

The growth in an economy should mean greater prosperity, lower unemployment and higher consumer spending in general. However this does not mean that all sectors will benefit to the same degree. It certainly does not mean that all businesses will gain either. A successful business has products that are in demand and that they can be supplied at a price that is acceptable to the consumer and high enough to generate a profit to the business. The state of the economy has little impact on these factors. However in so far as higher sales may lead to higher profits then economic growth should help Jergen.

Page 9	Mark Scheme	Syllabus	Paper
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5 (a) What is meant by ‘import quota’? [2]

Clear understanding [2] Some understanding [1]

Quota refers to a limit on the flow of goods that are allowed into a country [2].

Simple answer might say something that affects the imports into a country [1]. Although this does not properly differentiate it from a tariff it can still be accepted. Do not reward an answer that says it affects the price [cost] of imports.

(b) Identify two ways that Greenfield’s business might harm the environment. [2]

Application [2 × 1]

Their resources are mainly wood which is imported and therefore carbon footprint/pollution is high. The business may encourage the depletion of forests by increasing the demand for wood. The business also adds to pollution in terms of global warming and destruction of natural habitats. 1 mark per way. Answer must be in context.

(c) Identify and explain two ways in which changes in exchange rates could cause problems for Greenfield. [4]

Knowledge [2 × 1]

Application/analysis [2 × 1]

Problems might be:

- Difficulty in setting selling prices
- Fluctuating costs makes financial planning particularly difficult.

Explanation of how this might cause problems for Greenfield. Answer might say that the business imports raw materials and so a depreciation in their country’s currency means that the cost of their furniture will rise. This causes a problem for Greenfield because profit margins will be reduced. Reference to BOTH appreciation and depreciation can be credited as separate points.

(d) The Government in Greenfield’s country is introducing consumer protection laws. Identify and explain three ways in which Greenfield’s business could be affected by these new laws. [6]

Knowledge [3 × 1]

Application/analysis [3 × 1]

Points could include:

- Minimum safety standards have to be met
- Advertising claims might have to be altered
- Minimum quality standards required
- Labelling of products might need adjustments
- Consumer rights if unhappy with products need to be considered
- Price controls

Candidates should explain these points to show how business might be affected. So if the candidate said that certain standards would have to be met then this will mean that Greenfields might have to alter their specifications to meet these new requirements.

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- (e) **Greenfield’s management is thinking of expanding the business by taking over another furniture manufacturer. Do you think that this is a good idea for Greenfield? Justify your answer.** [6]

Knowledge [2]

Application/analysis [2]

Evaluation [2]

Advantages might include:

- Economies of scale
- Larger market share
- Wider product range
- Larger customer base

Disadvantages might be:

- Organisational problems
- Diseconomies of scale
- Finance issues

The evaluation could be something like: ‘I think it would be a good idea to do this because it should allow the business to increase its sales and market share making it more profitable and more secure’.

It is not necessary to cover both the advantages and the disadvantages for Greenfield for full marks.

MARK SCHEME for the October/November 2012 series

0450 BUSINESS STUDIES

0450/12

Paper 1 (Short Answer/Structured Response),
maximum raw mark 100

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Page 2	Mark Scheme	Syllabus	Paper
	IGCSE – October/November 2012	0450	12

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Page 3	Mark Scheme	Syllabus	Paper
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- 1 (a) Label on Fig. 1 the other two stages of the product life cycle. [2]

Knowledge [2x1] – 1 mark per answer.

Stage II Growth [1] Stage III Maturity or saturation [1].

- (b) What is meant by ‘cost plus pricing’? [2]

Clear understanding [2] e.g. the price is based on the cost of making a product [1] and the addition of a fixed percentage for profit/mark up [+1].

Some understanding [1] e.g. Basic idea that price is related to cost.

Some understanding + example [2].

- (c) Identify and explain two possible advantages to Kruger Enterprises of researching the market. [4]

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

Application/analysis [2x1] – award 1 mark for each relevant explanation (i.e. show how it is an advantage to KE).

Advantages could include:

- greater awareness of consumer needs [k] so can adapt (electrical) products to match what customers want [app]
- able to forecast likely future trends [k] so can improve focus of new product development [app]
- appreciate the strength of competitors [k] so can change marketing strategy to compete better [an]/greater knowledge of consumers views of company products/image [an]
- reduces risks/products launched with more confidence [k] as know market requirements [an]
- help KE gain competitive advantage [k] as able to set effective pricing/promotion strategy [an]
- produce the correct amount of product [k] to avoid wastage of parts [app]
- helps set price [k].

- (d) Identify and explain three benefits to Kruger Enterprises of introducing new products. [6]

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

Application/analysis [3x1] – award 1 mark for each relevant explanation (i.e. show how create advantages to KE).

New products should:

- boost sales OR increase market share [k] as wider range of/more customers can be targeted [an]
- able to increase prices [k] as new product might have unique features [an]
- create additional consumer interest in the company [k] as better range/more up-to-date products available [an]
- increase brand loyalty OR Improve KE’s standing/profile in the market [k] as seen as able to respond to market change [an]
- diversification [k]/Spread business risk [k] so if one product doesn’t sell, others might [an]
- needed to replace products in decline stage of life cycle [k] this should help business survival [an].

Do not accept extend product life cycle (as it is a new product).

Page 4	Mark Scheme	Syllabus	Paper
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- (e) Do you think reducing the price of its washing machines will increase the sales turnover of Kruger Enterprises? 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 reducing prices will help KG increase sales turnover.

Points might include:

- price reduction should increase the volume of sales [k]
- demand for product [k] OR demand is price inelastic [k] so sales will rise by less than % change in price [an]/so should increase price to increase turnover [an]/cut will decrease revenue
- reaction/level of competition [k]
- lower price might suggest lower quality [k] so customers might not want to buy ‘inferior’ product [an]
- other factors affect sales e.g. promotion, place.

Note: A one sided answer can gain 6 marks but must address fact that demand is price inelastic.

Example: A price reduction should increase the amount of sales [k]. This will increase sales revenue if the extra demand is great enough [an]. But their main products are in the decline stage of their life cycle [k] and so any rise is only likely to be short lived [eval]. If sales are falling because the product is out of date the price fall might reduce sales revenue [an]. So it is very unlikely that reducing price will have much effect. [eval]

- 2 (a) What is meant by ‘capital intensive’? [2]

Clear understanding [2] Capital intensive implies production processes where machinery and technology are the dominant resource input.

If comparison made to labour, can gain 2 marks e.g. uses capital instead of labour.

Some understanding [1] e.g. use machines/little labour used.

Do not accept ‘based on capital’ as too vague.

- (b) Identify two objectives that a business like Just4U might have. [2]

Application [2×1] 1 mark per objective.

Objectives might include survival/growth OR enter new markets/ROCE/increase market share OR new customers OR sales revenue/ increase quality/ increase value added/profit.

Do not accept ‘achieve economies of scale’ as in stated in question 2(c).

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(c) Identify and explain two economies of scale from which Just4U could benefit. [4]

Knowledge [2×1] – award 1 mark per economy of scale identified.

Application/analysis [2×1] – award 1 mark for each relevant explanation (i.e. show how economy comes about).

Economies might include:

- technical [k] e.g. invest large amounts in R&D as costs spread over more units [an]
- financial [k] it is easier for large firms to access more sources of finance as seen as a lower risk [an]
- marketing [k] cost of advertising spread over more products, so cheaper per unit [an]
- risk bearing [k] large businesses operate in more than one market so if one market struggles, have others to rely on [an]
- managerial [k] as can afford to hire specialist managers [an]
- purchasing/able to buy in bulk [k] as get discounts/lead to lower unit price [an].

Note: practical based examples are also acceptable.

(d) Identify and explain two problems that poor quality might create for Just4U. [6]

Knowledge [2×1] – award 1 mark for each problem identified [max 2].

Application [2×1] – award 1 mark if relevant reference made to manufacturer like Just4U.

Analysis [2×1] – award 1 mark for each relevant explanation (i.e. show how points create problems for the business).

Problems include:

- loss of confidence by customer [k] so less sales [an] as customers look for alternative motor parts suppliers [app]
- cost of rectification [k] e.g. rework parts [app] which will increase costs and could lead to lower profit [an]
- costs of fines/legal action [k]
- damage to reputation/image [k]
- inability to supply on time [k] so could lose important future orders [an].

(e) Do you think that a takeover of a competitor would benefit the shareholders of Just4U? Justify your answer. [6]

Knowledge [2] Identification of issues.

Application/analysis [2] – develops the point to explain how or why affects the shareholders.

Evaluation [2] reasoned judgement made as to whether **shareholders** will benefit from takeover.

Points might include:

- increased profits [k] which could lead to an improved rate of return on capital/increased dividends [an]
- less competition [k]
- successful takeover could lead to an increase in share price [k]
- lessen risk to shareholder of business failing [k] as they have a larger market share [an] so an increased stability of the company [an]
- no guarantee that increased profits will happen [k]
- the ability to gain benefits from takeover [e.g. economies of scale].

Page 6	Mark Scheme	Syllabus	Paper
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3 (a) Calculate gross profit and sales revenue in 2011. [2]

Application [2×1] – 1 mark per answer
 Gross profit = **\$80m [1]** {i.e. \$150m – \$70m}
 Sales = **\$230m [1]** {i.e. \$150m + \$80m}
 Notes: \$ and Millions not required but OFR **will NOT** apply

(b) Identify two functions of an Annual General Meeting. [2]

Knowledge [2×1] 1 mark per function.
 Functions include: elect OR re-elect directors/approve OR present accounts/vote on resolutions e.g. approve directors pay OR agree dividends/opportunity for shareholders to question the board OR inform performance.

(c) Identify and explain two ways Celtic Springs could reduce its cost of sales. [4]

Knowledge [2×1] – award 1 mark for each way identified.
 Application/analysis [2×1] – award 1 mark for each relevant explanation (i.e. show how changes would reduce appropriate costs).
 Ways to reduce cost of sales (implies reducing the direct costs):

- greater efficiency e.g. reduce waste, JIT [k]
- lower labour costs [k] – **Note** explanation must be wages not salary
- lower raw material costs e.g. buy in bulk [k] which will lower unit cost [an]
- cost of transporting raw materials (i.e. carriage inwards).

Do not accept examples of indirect cost reductions e.g. lower rent or salaries or cut marketing budget.
Do not accept productivity (as not related to cost of sales).

(d) Identify and explain three reasons why profit is important to a company such as Celtic Springs. [6]

Knowledge [3×1] – award 1 mark per reason.
 Application/analysis [3×1] – award 1 mark for each relevant explanation (i.e. show why they are important to the business).
 Profits matter because:

- represent a reward for risk taking [k]
- source of capital/use for reinvestment [k] which does not need to be repaid [an]/for future growth [an]
- measure of performance [k] as higher profits than \$10m is seen as positive [app]
- ensure long term survival of business [k]
- shareholders want dividends (satisficing) [k]
- attracts future investors/shareholders/financiers [k] as potential investors will see this as a successful company [app]
- need to have a significant return on capital employed to justify initial investment [k].

Do not accept answers such as pay costs such as wages/debts.

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- (e) Do you think that the shareholders of Celtic Springs are right to be unhappy with the company's performance? Justify your answer using the data provided. [6]

Knowledge [2] – Identification of measures of performance/issues.

Application/analysis [2] – develops the point to explain how or why issue needs to be considered. (Any manipulation of figures gains analysis. Figures can be rounded. Check for OFR against 3(a).)

Evaluation [2] conclusion based on analysis of data or other issues (e.g. limited data so difficult to properly assess performance).

Content:

- shareholders likely to be unhappy if their dividends are low [k] and the management of the business are thought to be performing poorly [an]
- net profit margin [k] is 4.3% [an]
- gross profit margin [k] is 34.78% [an]
- ROCE [k] is 1.538% [an] so evidence suggests a weak performance and hence shareholders likely to be unhappy [eval]
- performance depends on state of the market and/or performance of competitors [k]
- net profit will further reduce after tax (so less dividend potential)
- limited data as no information about previous years [k].

Note 1: For 2 knowledge marks must include a performance measure. Max 1 mark for simply describing changes or identification of issues.

Note 2: An answer that just describes figures and draws simple conclusions can gain 2 marks.

- 4 (a) Paint manufacturing is a secondary sector business activity. Identify two types of business activity in the tertiary sector. [2]

Knowledge [2×1] 1 mark per example

Allow any reasonable answer

Answers either generic e.g. service activities or specific examples of service activities such as insurance companies.

Do not accept two examples of retailing OR names of businesses alone.

- (b) Identify two problems Colour Rack could have when exporting its paint to customers in other countries. [2]

Application [2×1] – 1 mark per possible problem.

Problems include:

- no knowledge of local customer tastes OR cultural differences
- communication issues
- local market conditions
- unknown brand (of paint)
- distribution networks OR transport costs
- tariffs OR quotas
- exchange rate issues
- legal restrictions e.g. bans, complex documentation.

Do not accept taxes as implies internal to country.

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(c) Explain how a manufacturing business adds value to its products. [4]

Knowledge [2] – allow up to 2 marks for clear understanding of added value which may be implicit in the example/knowledge of ways to add value.

Application [2] – allow up to 2 marks if the candidate explains how a manufacturing business could add value to its products. Each example 1 mark e.g. branding, packaging, extra features [max 2] OR one example explained can get 2 marks.

Adding value is the difference between the price of the finished product/service and the cost of the input involved in making it [2].

Do not accept quality – as this would suggest higher cost of materials which could reduce added value.

(d) Identify and explain three factors Colour Rack should consider in deciding which transport company to use to deliver its products. [6]

Knowledge [3×1] – award 1 mark per factor.

Application / analysis [3×1] – award 1 mark for each relevant explanation (i.e. show why these factors need to be considered).

Factors include:

- competitively priced [k] because if it is too expensive it will add a lot to costs/lower profit margin [an]
- reliable [k] so ensure products reach customers on time [an]
- reputation/conveys correct image for Colour Rack [k]
- efficient [k] so no mix up in paint deliveries [app]
- sufficient capacity available to supply on demand [k] otherwise might miss out on sales/orders [an]
- flexibility of meeting CR and their customers' requirements [k].

(e) Recommend two strategies for improving the motivation of Colour Rack's factory employees. Justify your answer. [6]

Knowledge/application [2×1] – award 1 mark per relevant strategy for CR.

Analysis [2×1] – award 1 mark for each relevant explanation.

Evaluation [2×1] – reasoned judgement as to why it might be appropriate method for CR to use.

Possible methods include: job rotation/job enrichment/job enlargement/creation of teams/changes in management style/consultation/delegation/flexible working hours/improved internal communications/promotion prospects/improved working conditions/fringe benefits (only allow once).

Note: The employees are well paid hence money is NOT the solution so **do not accept increase pay or bonuses.**

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5 (a) What is meant by ‘the private sector’? [2]

Clear understanding [2] e.g. when business activities are **owned** by individuals.
 Some understanding [1] e.g. run by individuals OR not controlled directly by government or profit orientated OR has shareholders OR controlled by person/group of people.

(b) What is meant by ‘rising inflation’? [2]

Clear understanding [2] Inflation refers to the upward movement in general prices over a period of time. Rising inflation implies that this is an increasing rate/rapidly.
 Some understanding [1] e.g. prices keep going up.
 For both marks must show some understanding of inflation and that it is increasing.

(c) Most businesses set objectives. Identify and explain two reasons why having objectives may be important for a business. [4]

Knowledge [2×1] – award 1 mark per reason.
 Analysis [2×1] – award 1 mark for each relevant explanation (e.g. show how or why it helps a business).

Reasons include:

- give a business an aim or target [k] so employees/managers will know what they must do to be seen as successful [an]
- they provide a sense of direction [k] so able to take decisions/allocate resources effectively [an]
- measure of success against which performance can be judged [k]
- they facilitate budgeting OR planning [k] as able to effectively identify milestones which would help them achieve goals [an]
- motivate [k].

(d) Identify three external benefits and explain how business activity can create each benefit. [6]

Knowledge [3×1] – award 1 mark per external benefit identified.
 Analysis [3×1] – award 1 mark for each relevant explanation (i.e. show how the benefit is created).

External benefits (positive externalities) include:

- creation of jobs in associated activities [k] and this will help reduce unemployment in the country [an]/improve standard of living [an]
- environmental benefits [k] – only allow one example
- local infrastructure improvements [k]
- build new roadway [k] and this may encourage other firms to set up in the area [an]
- assist economic growth [k]
- taxes paid to government [k] which can be spent on community based projects [an]
- training [k] so workforce is more highly skilled [an]
- improved trade balance/decreased imports/more self-reliance for the country [k]
- exchange rate improves [k].

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- (e) Herio believes businesses that create external costs should be closed down. Do you agree with him? Justify your answer. [6]

Knowledge [2] – Identification of issues.

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

Evaluation [2] – reasoned judgement made as to whether these businesses that create external costs should be closed down.

Points might include:

- external costs reflect the negative aspects of business activity [k]
- usually projects are only given approval when social benefits > social costs [k] so as long as the benefits are more no reason to stop all activity [eval] as people might lose out more if these businesses are closed down [an]
- still raise taxes for government which can be spent on public [k]
- almost all business activity creates some social costs [k]. Therefore the idea that all these businesses should be closed down is unsustainable [eval].

Note: A one sided answer can gain 6 marks but must address the external cost aspect.

MARK SCHEME for the May/June 2013 series

0450 BUSINESS STUDIES

0450/11

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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Page 2	Mark Scheme	Syllabus	Paper
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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.

Examples of possible answers are also included in this mark scheme. Again, it should be emphasised that this is for illustrative purposes and the examples chosen represent only some of the many possible responses that would merit reward.

1 (a) What is meant by ‘dividends’? [2]

Good knowledge [2] e.g. Payment to shareholders [1] from profits of a company [+1] Return to shareholders for investing in the company [2]

Some knowledge [1] e.g. Payment to shareholders

(b) Calculate the selling price of one house. [2]

Correct answer [2] Method [1]

Price = cost + mark up [1] ($\$30\,000 \times 40\%$) + 30 000 [1] = \$42 000 [2]

Note: \$ not required

Do not credit \$12 000 (the calculation of mark up) as it does not answer the question set

(c) Identify and explain two disadvantages to a business of being a public limited company. [4]

Knowledge [2 × 1] – identification of disadvantage [1 mark per disadvantage]

Analysis [2 × 1] – explain how it is a disadvantage to a business

Disadvantages could include:

- **have to disclose accounts [k]** so less able to keep financial details secret from rivals [an]
- **many legal requirements/regulations [k]** which is expensive and time consuming [an]
- **selling shares expensive [k]** because shares need to be listed on the stock market
- **shares are freely traded [k]** so there is a greater risk of takeover/danger that original owners might lose control [an]

Page 3	Mark Scheme	Syllabus	Paper
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- (d) Identify and explain three methods that Kew Construction could use to improve its level of sales. [6]

Knowledge/ application [3 × 1] – identification of relevant method

Analysis [3 × 1] – explain how method might work to improve sales

Methods could include:

- **lower price [k]** so more people can afford to buy [an]
- **enter new markets [k]** to attract new customers [an]
- **improve quality of product, e.g. train workers [k]** to encourage interest [an]
- **widen range of sizes [k]** offer smaller structures to attract different customers [an]
- **promotions, e.g. free carpets/curtains [k]** therefore more people would be willing to buy
- **advertise [k]** to raise awareness [an]
- **demonstrations at trade fairs [k]** so potential customers can see the products and able to ask questions [an]
- **choose locations where demand is high [k]**

Note: Do not accept any answer that could not be related to construction, e.g. packaging

- (e) What do you think are the most important factors for the Human Resources Director to consider when selecting which workers to make redundant? Justify your answer. [6]

Knowledge [2 × 1] – identification of factor(s)

Analysis/application [2] – explain why the factor should be considered

Evaluation [2] – justified decision made as to which are the most important factors

Factors could include:

- what is the job
- level of experience
- workers' capabilities and skills
- disciplinary record
- length of service
- cost/salary
- amount of redundancy payments required
- productivity of workers

Look at what jobs are not needed anymore [k] and could be replaced by more efficient machinery [an]. They need to see which workers are most productive [k] so that jobs can be reduced without lowering productivity [an]. The main thing therefore has to be the overall cost [ev] as they do not want to lose the most profitable workers [ev].

Page 4	Mark Scheme	Syllabus	Paper
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2 (a) What is meant by ‘market share’? [2]

Clear understanding [2] Percentage of the total market sales [1] held by one brand or business [+1]

Some understanding [1] e.g. share of all sales made

(b) Identify two ways (other than gender) that Gayle’s Soaps could segment its market. [2]

Application [2 x 1]: 1 mark per way

Answers might include: age, lifestyle, geographical, income/social class, use – health or beauty

(c) Identify and explain two advantages of market segmentation for Gayle’s Soaps. [4]

Knowledge/application [2 x 1] – identification of relevant advantage

Analysis [2 x 1] – award one mark for each relevant explanation (i.e. showing how or why it might be an advantage for GS)

Points might include:

- able to tailor any of the 4 Ps to specific needs of customer group [k] which should help sales [an]
- identify gaps in the market [k]– so able to meet needs of new potential customers [an]
- use segmentation to sell more products [k] by targeting different brands to different segments [an]
- research is made simpler [k] because you know who you need to ask [an]

(d) Identify and explain three problems that a business might have when trying to enter a new market. [6]

Knowledge [3 x 1] – identification of problem

Analysis [3 x 1] – explain how or why it might cause problems for the business

Points might include:

- lack of knowledge of the market [k] so produce a product that is not wanted [an]
- issues of entering a foreign market e.g. language barriers/exchange rates [k]
- competitors’ reaction [k] could lead to price war [an]
- government laws [k] might restrict what they can sell [an]
- customer loyalty [k] might not switch to a new company’s products [an]
- cost of developing new products [k] leading to high price needing to be charged [an]/ cash flow issues [an]
- lack of suppliers [k] so unable to find enough materials [an]
- identification of suitable places to sell from [k] different products might sold in different places [an]

Page 5	Mark Scheme	Syllabus	Paper
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- (e) Do you think that if Gayle’s Soaps decides to increase prices then this will lead to higher profits? Justify your answer. [6]

Knowledge [2] – knowledge of price/identification of issues

Application/analysis [2] – for development of points to explain how or why the profits are affected

Evaluation [2] – justified decision made as to whether increased prices will lead to higher profits

Points might include:

- demand might fall [k] because of price elasticity [an]
- brand loyalty [k] may mean people willing to pay [an] customers seem relatively loyal as market share constant [ap]
- depends on the amount of price rise [k]
- level of competition [k] higher prices could see customers switch to lower priced rivals [an]
- impact depends upon their monopoly power/market share

If the soap was of high quality [k] and the target customers were high income women [k] then increasing the price would attract them [an] and make them think the soap is of high quality [an]. So in this case increasing the price will increase the profits [ev] because the higher price will match the image [ev]

Do not credit answers which discuss factors affecting profits in general with no link to prices

Page 6	Mark Scheme	Syllabus	Paper
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3 (a) What is meant by ‘product orientated’? [2]

Clear understanding [2] Business that focuses on making the product right [1] and then tries to find customers to buy it [+1]

Some understanding [1] e.g. no market research done [1]

Firm concentrates upon quality or design of the product [1]

(b) Identify two possible economies of scale the business might benefit from if it expands. [2]

1 mark per economy

Examples include: purchasing, financial, technical, risk bearing, marketing, managerial

Note: accept practical examples such as buying in bulk.

(c) Identify and explain two possible problems for Sharma Machine of holding a lot of stock. [4]

Knowledge [2 × 1] – identification of problem [1 mark per problem]

Application/analysis [2 × 1] – explain how or why it might be a problem for SM

Points might include:

- cash flow/liquidity problems [k] as money held as stock [an]
- additional storage costs [k] as need more space [an]
- additional security costs [k] as valuable parts [ap]
- risk of obsolescence/wastage [k] because of new versions [an]
- risk of damage [k] as need to be stored which could increase costs [an]

Note: Do not accept any answer that could not be related to this type of business, e.g. sell by dates

(d) Identify and explain three methods that Ishant could use to increase productivity. [6]

Knowledge [3 × 1]: identification of method [1 mark per method]

Application/analysis [3 × 1]: explanation of how method could help improve productivity

Points could include:

- **replace workers with machines [k]** – no need to rest/no drop in quality due to tiredness [an]
- **introduce more up to date technology [k]** as less likely to break down [an]
- **improve stock control/JIT [k]** order only materials required so less time wasted [an]
- **improve quality control [k]** so less rework required/workers take more care [an]
- **improve employee motivation** (accept a practical example such as increased pay) [k] so workers work faster to increase number produced [an]
- **train staff [k]** to be more efficient – so less mistakes/wasted resources [an]
- **use TQM [k]** so workers are more responsible for work [an]
- **changing the way work is organised e.g. Kaizen, lean production, cell production**

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- (e) **How important is the right location for the new factory in helping Sharma Machine to remain competitive? Justify your answer.** [6]

Knowledge [2] – identification of points

Analysis/application [2] – explain how it would help Sharma be competitive

Evaluation [2] – justified decision as to how important the right location is help SM remain competitive

Points could include:

- close to suppliers [k] – so less costs of transport [an]
- close to market [k] – so able to deliver goods more quickly [an]
- access to suitably qualified workers [k] – to ensure have best possible workers [an]
- where are rival companies [k] – external economies [an]
- laws [k]– can they set up [an]
- cost of site/access to utilities [k] – rent is fixed cost/need to install power etc. will add to costs – all could lead to lower margin or need to set higher price [an]

Candidates may discuss a range of factors affecting competitiveness. This is creditable only if linked to why location is not important.

They should locate in a place which has low rent [k] and easy access to transport links [k]. This will keep costs of production low [an] therefore SM will be able to keep its prices low [an] and attract more sales. However, location by itself does not mean the business will always be competitive [ev]. Buying from cheap suppliers may be a better way of keeping costs low [ev].

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4 (a) What is meant by ‘appreciation of our country’s currency’? [2]

Good knowledge/understanding [2]: Rise of exchange rate [2] or the value of the currency rises/ [1] so it buys more of another currency than before [1]

Some understanding [1] e.g. currency buys more imports

Do not accept a definition of exchange rate as this is not answering the question

(b) Calculate the current ratio in 2012. [2]

Application [2] e.g. correct answer – 0.666 [2] Also accept 0.66, 0.67, 2:3 or 1:1.5 [2]

Correct method – Current assets / current liabilities or 50/75 [1]

(c) Identify and explain two problems that an increase in taxes could cause for Luxury Destinations. [4]

Knowledge [2 × 1] – identification of problem [1 mark per problem]

Application/analysis [2 × 1] – explanation to show how problem might affect LD

Points might include:

- **demand/sales may fall [k]**
- **suppliers may increase their prices [k]** and therefore costs for the company could rise [an]
- **company may have to pay more tax [k]** and therefore may decide to put their prices up [an]
- **consumers have less money to spend [k]** therefore demand for holidays fall [an]
- **lower profits [k]** meaning lower returns for owners/less money to invest [an]

(d) Identify and explain three benefits for Luxury Destinations of training its employees. [6]

Knowledge [3 × 1] – identification of benefit [1 mark per benefit]

Application/analysis [3 × 1] – explanation to show how it might help LD

Points might include:

- better skills [k] – so more efficient workers
- workers know what they are doing [k] so likely to make fewer mistakes [an]
- more flexible [k] so business able to cover absence of other workers [an]
- able to offer better customer service [k] – so attract more customers [an]
- workers feel more valued [k] so improve the customer service offered [an]
- improved public image of the company [k] so likely to attract more workers/customers [an]

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- (e) Do you think the Finance Director is right to be pleased with the financial position of the business? Justify your answer. [6]

Knowledge [2] – identification of performance/issues [2 max]

Application/Analysis [2] – explanation to show how or why this is an issue for LD. Interpretation of relevant ratio or manipulation of figures/data to explain what it shows

Evaluation [2] – justified decision made as whether LD should be pleased about the financial position

Points might include:

- expenses have decreased [k] by \$5000 [an]
- working capital has decreased [k] by \$25 000 [an]
- net profit increased [k] therefore expenses must have fallen [an]
- gross profit increased [k]
- liquidity has fallen [k] by 0.33% [an]
- increase in fixed assets [k] which might increase output [an]
- current ratio for 2011: 60/60, for 2012: 50/75 [k] therefore they may struggle to pay their short term debts [an]

The current ratio has decreased [k]. This means they are more at risk of bankruptcy [an]. However, their net profit has doubled [k] which means the company has improved by cutting their overheads [an]. Although the current ratio is bad they have plenty of fixed assets to cover their debts [ev] and efficiency has increased therefore the finance director should be pleased [ev].

Page 10	Mark Scheme	Syllabus	Paper
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5 (a) What is meant by the ‘private sector’? [2]

Good knowledge [2]: When business activities are **owned** by individuals [2]

Some knowledge [1] e.g. run by individuals OR not controlled directly by government OR aim to make a profit OR controlled by person/group of people

(b) Identify two ways that a business could increase added value. [2]

Knowledge [2 x 1] 1 mark per way

Ways could include: turning raw materials into finished goods/branding/packaging/adding extra features to products/USP/improved design

(c) Identify and explain two advantages of a short chain of command for Amira. [4]

Knowledge [2 x 1] – identification of advantage [1 mark per advantage]

Application [2 x 1] – explanation to show why it might be an advantage for Amira

Advantages might include:

- communication is quicker [k] – so less chance of messages being distorted or lost as messages have fewer levels to pass through [an]
- decision making is quicker [k] therefore efficiency is improved
- wider span of control [k] – so more choice of who to delegate to [an]
- worker’s motivation could increase [k] so productivity/commitment rises [an]

(d) Identify and explain three qualities that Amira might look for in a manager. [6]

Knowledge [3 x 1] – identification of quality [1 mark per quality]

Application/analysis [3 x 1] – explain why it is a necessary quality for someone in Amira’s business

Qualities might include:

- effective communication skills [k] – they will have to manage 12 people [app]
- approachable [k] – as need to deal with a small team of workers [app]
- experienced [k] – so will need to respond to workers’ specific questions [app]
- knowledgeable/patience [k]
- well organised [k]

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- (e) Do you think that the management style of the new manager might cause problems? Justify your answer. [6]

Knowledge [2] – identification of points

Application/analysis [2] – explanation to show how or why this is an issue

Evaluation [2] – justified decision made as whether management style used might cause problems

Points might include:

- autocratic [k] by being controlling the manager might demotivate staff [an]
- laissez-faire [k] workers might not have the guidance they need [an]
- workers might dislike the management style [k] therefore could leave the company [an]
- manager may have a different style to Amira's [k] which could create conflict within the business [an]

An autocratic leadership style [k] would definitely not suit them [ev] as employees may feel demotivated [an]. However as employees are highly motivated [k] they could adapt to any leadership style [an] and therefore the management style is not important [ev].

MARK SCHEME for the May/June 2013 series

0450 BUSINESS STUDIES

0450/12

Paper 1 (Short Answer/Structured Response),
maximum raw mark 100

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1 (a) What is meant by a ‘recession’? [2]

Good knowledge [2] – Period in the economic/trade cycle when GDP falls [2] OR a general slowdown in economic activity [2]
 Some knowledge [1] – e.g. fall in output [1] or identifies one or more characteristics such as rising unemployment

(b) Calculate the selling price of a boat. [2]

Application [2] – e.g. Correct answer [2] = \$5.2m or \$5 200 000
 Method [1] – e.g. Price = Total cost + % profit [1] OR $\$4\text{m} + (\$4\text{m} \times 30\%)$ [1]

Note: \$ sign not required but answer must be in millions or correct number of 000s
 Do not credit \$1.2m which is a calculation of mark up and does not answer the question set

(c) Identify and explain two advantages to a business of being a public limited company. [4]

Knowledge [2 × 1] – award 1 mark for each advantage identified

Analysis [2 × 1] – award 1 mark for each relevant explanation (i.e. show how it is an advantage to a business)

Points might include:

- **able to sell shares on stock market [k]** so no limit to potential number of investors [an]
- **access to more sources of finance [k]** – so easier to raise funds to expand [an]
- **limited liability [k]** so investor only liable for amount invested [an]/could be more likely to invest in company as risk limited [an]
- **separate legal identity [k]** accounts separate to owners, so if one dies, business can continue [an]
- **high status [k]** so easier to attract suppliers who will sell to them on credit OR **banks more likely to lend to them [k]** as seen as lower risk [an]

Page 3	Mark Scheme	Syllabus	Paper
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- (d) Identify and explain three benefits to Brakker's workers of being members of a trade union. [6]

Knowledge [3 × 1] – award 1 mark for each benefit identified

Application/analysis [3 × 1] – award 1 mark for each relevant explanation (i.e. show how it is a benefit to Brakker's employees)

Points might include:

- **strength in numbers [k] / will negotiate on their behalf [k]** so business more likely to listen to a large group of workers rather than individuals [an] / so if workers are made redundant they get the best deal possible [app]
- **improved working conditions [k]** as union will negotiate on their behalf to ensure that the boat factory is a safe place to work [app]
- **improved holidays OR pay OR pension rights [k]** as union will negotiate on their behalf to get wages which reflect their ability as skilled workers [app]
- **union will provide benefits** e.g. discounts, sports facilities [k]
- **legal advice and support [k] OR protection against unfair dismissal [k]** OR union will help represent workers in a dispute [k]

- (e) Do you think it is a good idea for Brakker to make some of its skilled workers redundant during a recession? Justify your answer. [6]

Knowledge [2] – identification of issues

Application/analysis [2] – award up to 2 marks for each relevant explanation/development of point in context

Evaluation [2] – decision made as to whether good idea for Brakker to make some of its skilled workers redundant in a recession.

Points might include:

- loss of expertise [k]
- cost of redundancy [k] which will increase costs in the short term [an]
- cost of retraining/hiring new staff when recession over [k]
- might not be able to hire suitable workers after recession [k]
- reducing labour might be only option as have to cut costs [k] as it is in a recession [app] – might have to make difficult decision otherwise whole business might have to close [eval]
- effect on other workers' motivation [k] which might lead to lower productivity [an]
- threat of trade union's action which could harm the business [k]
- better workers might look elsewhere as concerned about job security [k] so Brakker might end up not having enough skilled workers [an]
- could depend whether the problems the business is facing are short term or long term issues [k]

Developed example:

Brakker may need to cut costs [k] in order to survive [an]. Making some workers redundant may make some existing workers feel insecure [k] resulting in a fall in job satisfaction [an]. So the firm's output could fall, and they might not be able to respond to a sudden increase in demand [eval]. However if workers are not made redundant, the firm might face serious cash flow problems [k] and its future may be at risk. Overall they should make workers redundant in order to better survive the recession. [eval]

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2 (a) What is meant by ‘quality control’? [2]

Good knowledge [2] – Steps taken to make sure that a company's products or services meet the required standards OR process of checking / reviewing [1] the accuracy of work bought in or completed [+1]

Some knowledge [1] – e.g. someone checking the work

(b) Identify two stages of the product life cycle. [2]

Knowledge [2] – 1 mark per stage:

Stages: development, introduction or launch, growth, maturity, saturation, decline

(c) Identify and explain two ways in which consumer protection laws could benefit B&G's customers. [4]

Knowledge/application [2 × 1] – identification of way

Analysis [2 × 1] – award 1 mark for each relevant explanation (i.e. show how or why it is a benefit for B&G's customers)

Points might include:

- **legal protection [k]** so can take them to court if cannot resolve issue with business [an]
- **rights to refunds if product is faulty [k]** so they can get their money back if problem [an]
- **no misleading advertising [k]** so customers know the shampoo advertised is the same as what they are buying [an]
- **products are fit for purpose/safe to use [k]** so products will actually clean their hair OR doesn't harm people's hair when used [an]
- **right weight [k]**

Note: do not accept answers that could not be related to this type of business, e.g. price controls

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(d) Identify and explain three possible problems for B&G when developing a new product. [6]

Knowledge [3 × 1] – award 1 mark for identification of problems

Application/analysis/[3 × 1] – award 1 mark for each relevant explanation (i.e. how it might be a problem for B&G)

Points might include:

- **no guarantee that customers will like the new product [k]** so it could waste time and resources [an]
- **reaction of competitors e.g. can gain market share whilst develop [k] OR might introduce rival products [k]** so additional expense of advertising new product to attract/interest customers [an]
- **labour issues** e.g. additional training for workers [k]
- **finance issues** e.g. **invest in new machinery** to manufacture products [k] but it might be difficult to arrange additional finance [an]
- **marketing costs** e.g. additional cost of market research [k]/advertising costs [k]
- **production issues** e.g. is there sufficient capacity within factory [k]/technical problems in development/manufacturing could delay launch
- **availability of suitable materials [k]** which they might have to buy overseas which increases transport costs [an]

Note: do not allow 'will increase costs' as development for each problem if not developed further

(e) Explain two possible extension strategies that B&G could use for Slick. Recommend which strategy the company should use. Justify your answer. [6]

Knowledge [2 × 1] – award 1 mark for identification of strategies

Analysis/application [2] – award 1 mark for each relevant explanation (e.g. explain how the method would work)

Evaluation [2] – justified decision as to which strategy B&G should use

Note: For 6 marks must explain why chosen method is the better option

Options could include:

Extension strategies fall into four basic types:

- add new features [k] so more attractive to existing/new customers [an]
- create new uses for these products [k]
- sell to new target markets/segments [k] to widen customer base [an]
- rebranding by creating a different image and so appealing to new market segments

Practical answers might include:

- sell through more or different outlets [k] so available to new customers in different parts of country [an] OR export to different countries
- introduce small changes to product design e.g. new formula for the shampoo [app] OR change colour or packaging [k] so seems like a new product/release 'limited edition' [k]

Do not accept general marketing methods such as price cut or increase advertising on its own unless specifically linked to an extension strategy

Do not accept increase quality unless linked to an extension strategy

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Developed example:

Introduce a new version of the product [k]. This should help interest in the product and encourage sales [an]. Sell through additional different retail outlets [k]. For example Slick could be sold at supermarkets. This would make the product more widely available [an].

I would recommend they introduce an improved version as consumers believe it may be better quality [eval] and existing customers may also consider buying it again [eval].

3 (a) What is meant by ‘internal communication’? [2]

Good knowledge [2] – messages between people [1] working in the same organisation [1]
Some knowledge [1] – e.g. communication inside a business

(b) Identify two suitable methods of communication Emir could use to tell the overseas suppliers of his decision to stop importing raw materials. [2]

Application [2] – 1 mark per method

Methods include: email/letter/telephone/meeting/video conference

Accept any reasonable answer.

Do not accept ‘verbal or written’ as these are categories rather than specific methods.

(c) Identify and explain two payment methods for workers that this business could use (other than time rate). [4]

Knowledge/application [2 × 1] – award 1 mark for identification of relevant method

Analysis [2 × 1] – 1 mark for each relevant explanation (i.e. show how the method would work)

Points might include:

- **piece rate [k]** workers paid for the number of items produced [an]
- **performance related pay [k]**
- **bonuses [k]**
- **profit sharing [k]**
- **share ownership [k]**
- **rewards based on demands of job e.g. salary [k]** which is fixed amount regardless of how much they do [an]

Note 1: do **not** accept answers which could not be related to this type of business, e.g. commission/sales based methods

Note 2: do not accept wages as they are an example of time rate

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- (d) Identify and explain two possible problems of importing raw materials for this food production business. [6]

Knowledge [2 × 1] – award 1 mark for each problem identified

Application [2 × 1] – award 1 mark if relevant reference made to food manufacturer

Analysis [2 × 1] – award 1 mark for each relevant explanation (e.g. show how or why it could be a problem)

Points might include:

- **depreciation in exchange rates of country where Emir's business is based [k]** so the cost rises which if passed onto customers could mean higher food prices [app] so demand drops [an]
- **delays in delivery might delay production [k]** so other ingredients might have to be wasted [app]
- **cost of returning any faulty products [k]**
- **higher cost of transport [k]** as travelling long distance likely to mean greater cost [an]/ as perishable goods might need specialist storage containers [app]
- **quality issues/speed of delivery is important [k]** as food likely to be perishable/easily damaged/not as fresh [app]
- **tariffs [k]** which increases the cost of importing ingredients [app] so lowering the profit margin [an]
- **quotas [k]** might only be able to import an certain amount of materials so cannot produce a full range/enough finished products [app] to meet demand [an]
- **language barriers [k]**
- **different quality standards between countries [k]**

- (e) Explain two ways in which the Production manager could reduce average cost. Recommend which one should be used. Justify your answer. [6]

Knowledge [2 × 1] – award 1 mark for identification of way

Application/analysis [2 × 1] – award 1 mark for each relevant explanation (i.e. show how the way would help reduce costs)

Evaluation [2] – justified decision as to which method the Production manager should use

Note: For 6 marks must explain why chosen way is the better option

Ways might include:

- **improve stock control/JIT [k]** so only order materials needed to reduce wastage [an]
- **increase efficiency and/or productivity [k]** by changing way the work is organised, e.g. introducing lean production/kaizen
- **find cheaper raw materials [k]** so reduce variable costs [an]
- **reduce number of workers or cut wages paid [k]** to reduce total variable costs [an]
- **renegotiate rent [k]** so reduce amount of fixed costs [an]
- **buy in bulk/purchasing economies of scale [k]** this will lower their cost per unit [an]
- **better machinery [k]** which could improve productivity [an]/OR **replace workers with machinery [k]** which would lower labour costs [an]

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Developed example:

Obtain cheaper raw materials [k]. He could negotiate discounts or find cheaper suppliers to reduce his variable costs so reducing average costs [an]. Introduce schemes like job rotation [k] which can lead to higher job satisfaction resulting in higher productivity. Overheads will be spread over a larger output, so reducing average costs [an]. He should choose job rotation to increase productivity [eval]. If he obtained cheaper materials the fall in average costs may be offset with a fall in revenue as product quality may suffer [eval].

4 (a) What is meant by ‘net profit’? [2]

Good knowledge [2] –

- Profit is the total amount of money that business makes once all/total costs have been subtracted from (sales) revenue OR Total revenue – total cost [2]
- amount left after expenses subtracted from gross profit/gross profit minus overheads or other indirect costs [2]

Some knowledge [1] – e.g. money left after costs OR amount of money made by the business

(b) Calculate the current ratio in 2012. [2]

Application – Correct answer = 1.2:1 or 1.2 [2]

Method [1] – e.g. Current assets / current liabilities [1] or 60/50 [1]

(c) Identify and explain two ways in which Belshire Books could improve profitability. [4]

Knowledge/application [2 × 1] – award 1 mark for each relevant way identified

Analysis [2 × 1] – award 1 mark for each relevant explanation (i.e. show how it could help improve profitability)

Points might include:

- **lower fixed/variable costs [k]** could lead to ability to increase profit margin [an]
- **close the least profitable shop [k]** which will reduce rent and other fixed costs associated with that shop [app]
- **buy in bulk to benefit from economies of scale [k]**
- **sell books online [k]** so lower fixed costs
- **higher price [k]**

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- (d) Identify and explain two problems that competition from online (Internet) booksellers could cause for Belshire Books. [6]

Knowledge [2 × 1] – award 1 mark for identification of problem

Application [2 × 1] – award 1 mark for each relevant reference to BB

Analysis [2 × 1] – award 1 mark for each relevant explanation (i.e. show how or why it could cause a problem)

Points might include:

- **online provider could have lower costs** (e.g. rent, staff) [k] as don't have to pay for shops so able to charge cheaper prices [k]
- **online could offer a better range** [k] of books in their warehouse [app] so better able to meet customer needs [an]
- **online booksellers able to offer 24 hour shopping** [k] so customer has more flexibility as to when to buy [an] so don't have to wait until the shop is open [app]
- **online rivals able to attract customers from around the world** [k] so have larger customer base [an]/due to cheaper advertising online
- **increased competition** [k] as not just competing against local booksellers but international ones so sales fall [app]

- (e) Do you think that the Finance manager is right to be worried about the financial position of the business? Justify your answer. [6]

Knowledge [2] – award 1 mark for identification of points

Application/analysis [2] – award 1 mark for each relevant explanation (e.g. development of point/explanation of what the data shows or relevant calculation)

Evaluation [2 × 1] – justified decision as to whether the Finance manager should be worried about the financial position

Points might include:

- **net profit fallen** [k]
- **current assets increased** [k]
- **current ratio has improved** [k] as it has increased by 0.2 [an] (possibly due to increased stock levels)
- **ROCE has decreased** [k] by 4% [an] which is bad news as business is not being run as efficiently as last year [an]
- **declining market** [k] due to increased competition from online book sellers [app]

Note: ROCE calculations: 2011 = $50/500 = 10\%$; 2012 = $30/500 = 6\%$

Developed example:

Net profit has fallen by 40% [k] and return on capital has fallen [k] from 10% to 6% in 2012 [an]. This means the business is less efficient at making profits from the capital invested [eval]. However, the current ratio has improved [k] from 1 to 1.2 in 2012 [an]. This means the liquidity position has improved so they can repay debts more easily [an]. Overall, liquidity has improved and profitability has fallen. Therefore he should be concerned more with improving the profitability of the firm [eval].

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

Good knowledge [2] – group formed by people with a common interest [1] who will take action to achieve the changes they are seeking [1]

Some knowledge [1] – e.g. group formed by people with a common interest [1]

(b) Identify two measures a Government could use to control business activity. [2]

Knowledge [2 × 1] – 1 mark per measure

Options include: laws, e.g. ban production of certain products or processes/fines/taxes/permits or licences/controls on location or planning permission/interest rates changes/minimum wage rates/subsidies and grants/quotas OR tariffs

(c) Identify and explain two reasons why objectives are important to businesses such as ANZ. [4]

Knowledge [2 × 1] – identification of reason [1 mark per reason]

Analysis [2 × 1] – 1 mark for each relevant explanation (i.e. how or why it might be important or helpful to a business)

Points might include:

- **give a business an aim or target [k]** so employees/managers will know what they must do to be seen as successful [an]
- **provide a sense of direction [k]** so able to take decisions/allocate resources effectively [an]
- **measure of success against which performance can be judged [k]**
- **they facilitate budgeting OR planning OR decision making [k]** as able to effectively identify milestones which would help them achieve goals [an]
- **motivate [k]**

(d) Identify and explain three advantages for country P of ANZ’s decision to open a new factory. [6]

Knowledge/application [3 × 1] – award 1 mark for identification of each advantage

Analysis [3 × 1] – award 1 mark for each relevant explanation (i.e. show it creates a benefit for the country)

Points might include:

- **job creation [k]** so increases standard of living for people [an]
- **raise profile of country [k]** which could encourage other businesses to invest in their country [an]
- **encourage other suppliers to set up in country [k]** which will produce more jobs
- **local businesses might gain additional sales as suppliers/or custom from workers [k]**
- **increase in country’s GDP [k]**
- **increased tax revenue [k]** so government can increase expenditure on public services such as education [an]
- **provision of training [k]** so better educated population which could lead to opportunity for higher paid jobs [an]
- **improvements in infrastructure [k]**

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(e) Do you think that all business activity is bad for the environment? Justify your answer. [6]

Knowledge [2 × 1] – award 1 mark for identification of issues

Analysis [2] – 1 mark for each relevant explanation (i.e. show why it is an issue)

Evaluation [2] – justified decision as to whether all business activity is bad for the environment

Points might include:

- use up scarce resources [k]
- social costs such as pollution [k] or destruction of natural environment [k]
- need some activity to produce goods to meet customer wants [k]
- some businesses do try to be environmentally friendly/ethical decisions [k] so might treat their waste before releasing it into the environment [an]

Developed example:

Business activity can create air pollution [k] and produce dangerous industrial waste [k]. However some businesses may take ethical decisions to reduce pollution [k] and protect the environment even though this may increase its costs [an]. Therefore, although all business activity affects the environment, it does not all damage it to the same extent [eval]. Even those that are bad are being turned clean by Governments implementing environmentally friendly policies to limit the harmful effects [eval].

MARK SCHEME for the May/June 2013 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.

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

Cambridge will not enter into discussions about these mark schemes.

Cambridge is publishing the mark schemes for the May/June 2013 series for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level components and some Ordinary Level components.

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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.

Examples of possible answers are also included in this mark scheme. Again, it should be emphasised that this is for illustrative purposes and the examples chosen represent only some of the many possible responses that would merit award.

1 (a) What is meant by ‘piece rate’? [2]

Good knowledge [2] Payment system where workers are paid depending on the quantity of products they have produced OR paid for what done [1] so money earned is linked to output/volume of the worker

Some knowledge [1] e.g. paid for what done [1]

Do not accept answers which refer to amount sold as this relates to commission based pay

(b) Identify two possible cost savings for Akbar Metal of using new machinery. [2]

Application [2 × 1] – 1 mark per cost saving

Areas for savings include:

- accuracy e.g. less mistakes, less wastage of resources
- labour costs e.g. fewer employees to pay/less overtime/training
- maintenance costs e.g. less machine breakdown/lower maintenance costs
- running costs e.g. less electricity (as more efficient)

(c) Identify and explain two possible advantages to Akbar Metal of selling 60% of its products to one customer. [4]

Knowledge [2 × 1] – award 1 mark for each advantage identified

Application [2 × 1] – award 1 mark for each relevant explanation (e.g. show how or why it is an advantage to Akbar)

Points might include:

- **develop better supplier/customer relations [k]** which can help build up loyalty/reliability to enable them to make requests such as when payments made [app]
- **certainty of sales [k]** so less time and money spent trying to attract new customers as over half parts are already sold [app]
- **able to adapt quicker to changes in customer requirements [k]** as better understanding of bike manufacturers’ needs [app]
- **less wasted resources [k]** as parts/products likely to meet customer requirements [an]
- **able to negotiate better terms [k]**
- **reduction in costs of marketing [k]** as already have firm orders for majority of parts so don’t need to spend as much attracting new orders [app]
- **reduced transport costs [k]** as over half of stock going to the same customer, rather than lots of places [an]

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- (d) Identify and explain three possible problems of flow production for businesses like Akbar Metal. [6]

Knowledge [3 × 1] – award 1 mark for each problem identified

Application/analysis [3 × 1] – award 1 mark for each relevant explanation (i.e. show how or why it might be a problem for manufacturing businesses)

Points might include:

- **repetition of work [k]** – workers could become demotivated as they are always doing the same task [k] so less efficient [an]
- **is there sufficient increase in demand to merit flow [k]** otherwise waste resources/money [an]
- **high cost of investment [k]** can business afford to invest in flow [an] as Akbar has said he will need to arrange finance [app]
- **if one machine breaks down all production stopped [k]** so he won't be able to meet orders [an]
- **flow inflexible [k]** which could cause problems as most of orders from single customer [app]
- **cost of hiring/retraining new workers [k]**
- **access to reliable supply of materials [k]** otherwise flow production will not work effectively as the work has to stop whilst waiting for the parts to arrive [an]

- (e) Explain two suitable sources of finance for the purchase of new machinery. Recommend which source Akbar Metal should use. Justify your answer. [6]

Knowledge/application [2 × 1] – award 1 mark for each suitable source identified

Analysis [2] – award 1 mark for relevant explanation (e.g. why the source is suitable)

Evaluation [2] – justified decision made as to which option to choose

NOTE: For 6 marks must explain why chosen source is the better option

Options include:

- **long term loan [k]** as this will allow AM a long time to repay [an]
- **(retained) profits [k]** as there is no need to repay [an]
- **share issue [k]**
- **leasing/hire purchase [k]** no large initial sum to be paid out [an]

Can accept bank loan on its own, as long as clearly not referring to short term loan

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2 (a) What is meant by a ‘niche market’? [2]

Good knowledge [2] – e.g. highly specialised [1] sub part of a large market [1]
 Some knowledge [1] – e.g. small part of a market OR specialist
 For 2 marks must have both elements

(b) Calculate the selling price of a suit. [2]

Application: Correct answer [2] – i.e. \$420

Some application [1] – e.g. correct method: Unit cost + % profit [1] or \$300+ (300 × 40%)
 [1]

(c) Identify and explain two benefits to Walker Fashion of having skilled workers. [4]

Knowledge [2 × 1] – award 1 mark for identification of each benefit

Application [2 × 1] – award 1 mark for each relevant explanation (i.e. show how or why it is a benefit to WF)

Points might include:

- **skilled workers likely to work more efficiently [k]** so more suits can be made in less time [app]
- **likely to make fewer mistakes [k]** so less wastage of fabrics/materials [app]
- **higher quality [k]** can encourage good reputation so attract more customers to buy their suits [app] OR important as making handmade suits [app]
- **added value [k]** as people likely to pay more for handmade/quality suits [app]
- **can meet customer individual requirements [k]** as have ability to make complex designs [app]

(d) Identify and explain two factors Walker Fashion needs to consider when setting a price for its suits. [6]

Knowledge [2 × 1] – award 1 mark for each factor identified

Application [2 × 1] – award 1 mark for relevant reference to WF

Analysis [2 × 1] – award 1 mark for each explanation (i.e. show how or why factor needs to be considered)

Points might include:

- **production cost [k]** need to cover at least fixed costs or face a loss [an]
- **level of competition [k]** if it a competitive market might have to react to changes in competitor’s price to gain business [an]
- **product/what is being sold [k]** luxury items should have a high price whilst necessities tend to be lower priced [an]
- **level of demand [k]** if it is a popular product might be able to charge a higher price [an]
- **stage in product life cycle [k]** e.g. at launch might offer discounted prices to encourage sales [an]

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- (e) Explain two methods (other than pricing) that Walker Fashion could use to improve sales. Recommend which method Walker Fashion should use. Justify your answer. [6]

Knowledge/application [2 × 1] – award 1 mark for identification of suitable method

Analysis [2 × 1] – award 1 mark for each relevant explanation (i.e. show how method works)

Evaluation [2 × 1] – justified decision as to why each one is appropriate for WF

Methods might include:

- advertising [k]
- other promotional methods e.g. discounts
- introduce new designs/features [k]
- target new markets [k] e.g. country or gender

Do not accept methods which would not be appropriate for this type of business e.g. free samples

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3 (a) What is meant by ‘revenue’? [2]

Good knowledge [2] – e.g. Income of the business [1] during a given period of time from the sale of goods or services [1] OR Quantity sold × price per unit
Some knowledge [1] – e.g. Income of the business

(b) Identify two features of batch production. [2]

Knowledge [2 × 1] – 1 mark per feature

Features could include: goods produced in sets/no variety in each group made/machines need to be reset between batches/lower unit costs than job production

(c) Identify and explain two ways that Kipta could improve the safety of workers. [4]

Knowledge [2 × 1] – award 1 mark for identification of way

Application [2 × 1] – award 1 mark for each relevant explanation (i.e. show how or why it could improve worker safety)

Points might include:

- **provide safety equipment [k]** as chemicals used in products could harm workers [app]
- **training [k]** so workers know how to handle materials/liquids safely [app]
- **good ventilation [k]** otherwise chemicals used could cause breathing problems [app]
- **rest breaks [k]** as working for long periods of time could lead to mistakes being made in
- **guards on machines [k]** so that workers don't get splashed using chemicals [app]

(d) Identify and explain three benefits for consumers of increased competition. [6]

Knowledge [3 × 1] – identification of benefit [1 mark per benefit]

Analysis [3 × 1] – award 1 mark for each relevant explanation (i.e. show how it helps customers)

Points might include:

- **lower prices [k]** so goods more affordable – so able to buy item/more items/save some money for other things[an]
- **better quality [k]** as businesses will compete to produce goods to attract customers,
- **better value for money [k]** as could see more features for same amount of money as business try to gain consumers/sales [an]
- **wider choice of goods produced [k]** so more likely to find something to meet individual needs
- **better customer service/extra services [k]** as businesses try to treat customers nicely to ensure they don't switch to rival companies [an]

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- (e) **How important is market research to the successful introduction of a new product? Justify your answer.** [6]

Knowledge [2] – award up to 2 marks for identification of issues

Analysis [2] – award up to 2 marks for relevant development of point(s)

Evaluation [2] – justified decision made as to how important market research is to successful introduction of a new product.

Points might include:

- **find out customer needs [k]** so able to adapt/make products that customers want [an]
- **able to determine possible demand [k]** so know whether it is worthwhile spending money on developing the new product [an]
- able to determine effective promotion/pricing strategies [k]
- limitations of market research [k] e.g. sample size, who or what questions asked

Other factors include:

- **level of competition [k]**
- 4 Ps – product, pricing, promotion, place
- government rules (as this business is dealing with chemicals)

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4 (a) What is meant by a ‘balance sheet’? [2]

Good knowledge [2] – e.g. shows the value of a business’s assets and liabilities [1] as a particular time [+1]

Some knowledge [1] – e.g. shows assets and liabilities of a business OR value at certain time

(b) Calculate the acid test ratio for 2012. [2]

Application [2] – Correct answer = 0.20 OR 0.2:1 [2]

Method [1] – e.g. Current assets – stock/current liabilities [1] OR 30 – 20/50 [1]

(c) Identify and explain two problems for a business caused by many of its staff leaving. [4]

Knowledge [2 × 1] – award 1 mark for each problem identified

Analysis [2 × 1] – award 1 mark for each relevant explanation (e.g. show how or why it is a problem for a business or the hotel)

Points might include:

- **poor level of service [k]** so fewer customers might want to return/lower sales [an]
- **higher training costs [k]** as new workers need to learn what to do [an]
- **existing staff have to work harder/demotivated [k]** output/efficiency drops [an]
- **higher costs of recruitment [k]** as will have to spend time/money advertising/interviewing new staff [an]
- **poor reputation [k]** so more difficult to recruit new workers [an]
- **reduction in output/efficiency [k]** as takes time for new workers to learn the necessary processes [an]

(d) Identify and explain three suitable ways to improve motivation of staff at Bolton Hotel. [6]

Knowledge [3 × 1] – award 1 mark for each way identified

Application/analysis [3 × 1] – explain how way could help improve motivation at BH

Ways include:

- **job enrichment [k]** by adding more responsibility to workers, they will feel important so increasing job satisfaction [an]
- **job rotation/enlargement [k]** workers won’t become bored by doing the same jobs all the time [an]
- **increased pay [k]**
- **use of incentives** e.g. bonuses, employee of the month
- **chance of promotion [k]**
- **offer fringe benefits** e.g. discounts on stays at hotel/use of facilities [k]
- **training [k]**

Do not accept methods which are not appropriate for a hotel staff e.g. piece rate

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- (e) Explain two ways to improve the liquidity of the hotel. Recommend which way the Managing Director should use. Justify your answer. [6]

Knowledge/application [2 × 1] – award 1 mark for each relevant way identified

Analysis [2 × 1] – award 1 mark for each relevant explanation (i.e. show how measure would work)

Evaluation [2] – justified decision made as to which is the better option for the hotel to choose

Measures could include:

- encourage customers to pay in advance for bookings [k] so that the cash is received quicker into the business [an]
- increase time taken to pay creditors [k] so cash is held in the business rather than paid out straightaway [an]
- reduce stock levels in the hotel [k] e.g. hold less stock of food in the restaurant
- ask for short term loan or overdraft [k] could be arranged quickly so able to meet short term debts [an]
- sell any surplus fixed assets [k] this would release cash held in unused assets [an]
- ask debtors to pay sooner/use of factoring [k]

NOTE: For 6 marks must explain why chosen way is better option

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

Good knowledge [2] – e.g. an economy in which the Government has no control over the factors of production OR an economy which allows markets to decide the allocation of resources

Some knowledge [1] – e.g. no public sector/no role for government

(b) What is meant by a ‘trade union’? [2]

Good knowledge [2] – A group of workers who join together [1] to ensure their interests are protected [1]

Some knowledge [1] – e.g. group of workers who join together/fight for workers rights

Note: Some understanding plus example can gain two marks

(c) Explain the possible effect of an appreciation in country G’s exchange rate on the competitiveness of GreenStar. [4]

Knowledge [2] – award 1 mark for identification of effect/knowledge of exchange rates

Application/analysis [2] – award up to 2 marks for relevant explanation (i.e. show how explanation of effect on appreciation on competitiveness

Points might include:

- **higher exchange rates good for imports [k]** as cost likely to fall as own currency will be worth more so able to buy more clothing [app] with same amount of money [an]
- **as imports cheaper, sales could increase [k]** if pass on lower prices to customers in country G [an]
- **as imports cheaper G could increase profit margins [k]** if keep same prices which could help improve profits [an]
- **exports could become less competitive [k]** as prices seem more expensive [an] so less likely to encourage sales in Asian or European markets [app] which could restrict GreenStar’s ability to grow its business [an/app]

NOTE: candidates can gain full marks for development of 1 effect

Page 11	Mark Scheme	Syllabus	Paper
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- (d) Identify and explain three reasons why the Managing Director of GreenStar might want the business to grow. [6]

Knowledge [3 × 1] – award 1 mark for each reason identified

Application/analysis [3 × 1] – award 1 mark for each relevant explanation (i.e. show how or why it they might want to grow)

Points could include:

- **increased market share/dominate market [k]** so more influence over the market [an]/so able to set prices
- **improved status/recognition [k]** as seen as larger business so able to gain access to more sources of finance to further help expansion plans [an]
- **economies of scale [k]** so able to benefit from lower average costs [an]
- **increased profitability [k]** as they should be able to increase output which could lead to increased sales of clothing [app]
- **stated objective [k]**
- **reduces risk of takeover [k]**
- **spread risk [k]** as if expand into Asia/Europe, if sales in one market falls, they have other markets to rely on [app]

- (e) Do you think it would benefit businesses in country G if there were employment laws? Justify your answer. [6]

Knowledge [2] – award 1 mark for identification of relevant issues

Analysis [2] – award up to 2 marks for each relevant explanation (i.e. show how help/hinder businesses)

Evaluation [2]: justified decision as to whether **businesses** would benefit from employment laws. Either viewpoint is acceptable if supported.

Points might include:

- **additional costs to meet protection laws [k]** which could make them less competitive so reducing levels of sales/profits [an]
- **could restrict number of hours can work [k]** so not able to fulfil orders with current worker levels
- **all employers would have to follow same rules [k]** so helpful if all have same standards [an]
- **set framework for decisions [k]** as know when able to dismiss workers/might not be able to dismiss workers easily without paying compensation for redundancy [an]
- **contract is a reference point** in case of dispute [k] so can dismiss workers easily without fear of worker reaction [an]
- **minimum wages [k]** which could increase labour costs for businesses [an]

NOTE: **issues must be for employers/businesses** NOT employees

MARK SCHEME for the October/November 2013 series

0450 BUSINESS STUDIES

0450/11

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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Page 2	Mark Scheme	Syllabus	Paper
	IGCSE – October/November 2013	0450	11

1 (a) What is meant by ‘productivity’? [2]

Clear understanding [2] e.g. Productivity measures the amount of output that can be produced from a given amount of resource inputs

Some understanding [1] Speed at which items produced

Answers that state that this shows **efficiency** – max 1 mark.

Do not credit an answer that simply focuses on output alone e.g. shows the output of a business in a year.

(b) Identify two advantages to Earnshaw of buying raw materials in bulk. [2]

Knowledge [2 × 1] award one mark per advantage.

Points may include:

- Purchasing economies of scale [resources will be cheaper]
- Materials always available when needed [no delays]
- Little chance of stock outs [running out of stock]
- Requirement to order less often
- Saves on delivery costs

(c) Identify and explain two features of flow production. [4]

Knowledge [2 × 1] – award 1 mark per feature [max 2]

Analysis [2 × 1] – award 1 mark for each relevant explanation

Points may include:

- Associated with large volumes of output [k] so economies of scale possible [an]
- Similar or identical products produced [k] because all products go through the same processes [an]
- Allows division of labour [k] so more efficient [an]
- Continuous movement of goods along a production line [k] so output is faster [an]
- Capital intensive [k] so high fixed costs [an]
- Fast method of production [k]

Note – Do not accept motivation as an identified feature of flow production. This may be explained as a consequence of one of the identified features.

Page 3	Mark Scheme	Syllabus	Paper
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(d) Identify and explain three benefits to Earnshaw of using lean production methods.

[6]

Knowledge/application [3 × 1] – award 1 mark per benefit

Analysis [3 × 1] – award 1 mark for each relevant explanation i.e. why the points identified generate benefits to the company

- Reduced defects/better quality [k] so better reputation [an]
- Reduced stock holding [k] so less capital is tied up in stock [an]
- Fewer resource inputs [k] so lower unit costs [an]
- Reduced waste [k] so less space required for storing [an]
- Time saved [k] so greater output possible [an]

Note – Accept lower unit costs only once as an explanation.

(e) 'If Earnshaw is to grow in the future then its unit production costs must fall'. Do you agree? Justify your answer.

[6]

Knowledge/application [2 × 1] – identification of relevant issues

Analysis [2] – award up to 2 marks for relevant development

Evaluation [2] – reasoned judgment made as to whether unit costs must fall as business grows in future.

Points might include:

- Lower unit cost leads to potential higher mark-up [k] therefore higher profit [an]
- Lower prices can be charged [k] which might increase the number of sales [an]
- Economies of scale [k]
- Risk of diseconomies of scale [k]

Developed answer:

As a business grows it should benefit from economies of scale [k]. This, therefore would mean the business can lower prices [k] which may encourage greater sales [an]. Therefore falling unit costs allow a business to grow. [ev] However, even if unit costs fall the business may not be able to grow because the marketing for the business may be poor or there may be increased competition [an] and this may restrict growth. [ev]

2 (a) Identify two examples of fixed costs for Muammar's business.

[2]

Application [2 × 1] award one mark per example.

Points include: rent/rates/insurance/interest charges/heating/utilities/salaries

Do not accept wages, table 1 specifies wages as \$2 per box

Do not accept machinery unless the answer specifies the cost of machinery.

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(b) Identify two reasons why sales may vary from month to month. [2]

Knowledge [2 × 1]: award one mark per reason.

Points include:

- nature of product
- seasonal reasons
- increased competition
- consumer tastes/fashion changes
- changes to marketing
- prices may have varied

Note – Do not accept ‘demand varies’ as a reason on its own because this is implicit in the question. Answers need to give a reason as to why demand varies.

(c) Calculate the annual profit that Muammar made in 2012. [4]

Note: If the correct figure of 96 000 is not given, up to a maximum of 3 marks may be awarded.

	Calculations	Monthly	Annual	Marks (\$ not required)
Sales Revenue	\$8 x 9 000 boxes	72 000	864 000	1 for either 72 000 or 864 000
Variable cost	(\$2 + \$3 + \$1) x 9 000 boxes	54 000	648 000	1 for either 54 000 or 648 000
Fixed cost		10 000	120 000	0
Total cost	Fixed costs + variable costs	64 000	768 000	2 for either 64 000 or 768 000
Monthly profit	Revenue – total costs	8 000		3 for 8 000
Annual profit			96 000	4 for 96 000

- A candidate who gives the figure 9600 has clearly calculated correctly but made one error and should therefore be awarded 3 marks.
- Calculation of variable costs plus calculation of total costs gains only 2 marks
- Credit calculation using contribution method as follows: contribution is \$2 [1] total monthly contribution \$18 000 [+1] monthly profit \$8 000 [+1]
- Own figure rule (OFR) applies up to a maximum of 3 marks if only one error carried forward.

If **NO acceptable calculations** allow 1 mark for understanding of profit [k] e.g. total revenue – total cost [1]

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- (d) Identify and explain one advantage and one disadvantage to Muammar of using piece rate to pay his workers. [6]

Knowledge [2 × 1] – award 1 mark for the advantage and 1 mark for the disadvantage

Analysis [2 × 2] – award 1 mark for analysis of impact [1] **plus a further** mark for showing how it might be a benefit or not to the business

Advantages might include:

- Encourages high output [k] so productivity would increase [an] and increased output means that extra goods can be sold [an]
- Motivating to the workforce [k] therefore less absenteeism [an]
- Saving on labour costs [k] as absent workers are not paid [an]
- Paid for what is produced [k] so costs directly controlled [an] therefore higher profits [an]

Disadvantages might include:

- Encourages speed [k] which may mean more mistakes [an] therefore more wastage [an]
- Lower quality goods [k] leading to a poor reputation [an] therefore loss of customers [an]
- Maybe discouraging for slower workers [k] increasing labour turnover [an] therefore higher recruitment costs [an]
- The business may struggle to attract workers [k]

Note: points must relate to business benefit/costs not employees.

- (e) Muammar is planning to change the selling price of the boxes to \$7 each. Do you think this change would benefit the business? Justify your answer. [6]

Knowledge/application [2] – identification of relevant issues

Analysis [2] – award up to 2 marks for explanations which explain how or why it might be an issue. Accept calculation of relevant figures as analysis but this is not essential.

Evaluation [2] – reasoned judgement made as to whether the change in price will benefit this business.

Points might include:

- Reduce profit margin per sale [k] which would increase break-even output [an] by 5000 per month [an]
- Potential loss [k] of £1000 profit per month [an] if sales do not rise [an]
- Lower price should increase volume of sales [k] as better able to compete with other products [an]
- If product is price elastic [k] there should be a greater increase in sales [an]
- Cheaper price might suggest inferior quality [k] therefore less sales [an]
- May lead to a price war [k] as competitors may respond by cutting their prices [an]

Note – 1 knowledge point that is very well developed could gain 3 marks [1 k + 2 an]

Developed answer:

The price cut should increase volume of sales [k]. However the reduction would reduce the profit margin per unit [k]. The impact on break-even would be to raise it from 5000 units per month to 10000 [an]. At present sales volume is 9000 per month, which would be below the new break-even point [an]. Whether it would benefit the business would depend on how much the firm could increase production [ev] and how much sales rise [ev].

Page 6	Mark Scheme	Syllabus	Paper
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3 (a) What is meant by ‘market research’? [2]

Clear understanding [2]: e.g. process of finding out what consumers want or need before a product is made. Or process of collecting, analysing and interpreting of information about the market.

Some understanding [1]: e.g. find out what customers want.

Do NOT accept examples of primary or secondary research alone, these are only acceptable as a development point.

(b) Identify two advantages of using secondary sources. [2]

Knowledge [2 × 1] one mark per advantage

Advantages may include:

- Cheaper than other sources
- Already available [time]
- May be on a larger scale than own research

(c) Identify and explain two methods of sampling that the company could use. [4]

Knowledge [2 × 1] – award 1 mark per method [max 2]

Application/analysis [2 × 1] – award 1 mark for each relevant explanation i.e. showing what each method involves or how it is carried out.

Points might include:

- Random [k] every potential customer has an equal chance of being selected [an]
- Stratified [k] it might be useful for holiday companies to collect information about customers from different social backgrounds [app]
- Quota [k] information collected from a set number of people representing different groups [an]
- Systematic [k] people are selected from set criteria [an]
- Cluster [k] is targeting a particular population in a small area [an]

Page 7	Mark Scheme	Syllabus	Paper
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- (d) Identify and explain two ways of segmenting the market for holidays that the company could use. [6]

Knowledge [2 × 1] – award 1 mark for each way identified

Application [2 × 1] – award 1 mark if relevant reference made to this business

Analysis [2 × 1] – award 1 mark for relevant explanation i.e. shows how this grouping would operate

Points might include:

- Age [k] population might be broken down into groups such as 18–30/65+ [an] different age groups may prefer different types of holidays [app]
- Socioeconomic/income groups [k] people with high income will spend more [an] on different types of holidays [app]
- Tastes/interests [k]
- Geographic [k]
- Culture/religious background [k]

- (e) Yura believes that the price is the most important part of the marketing mix for holidays. Do you think he is correct? Justify your answer. [6]

Knowledge/application [2] – identification of relevant issues

Analysis [2] – Explanation as to why the factor is important

Evaluation [2] – reasoned judgement made as to whether price is the most important part of the marketing mix for holidays. This might involve considering whether one element is more important than another.

For six marks there must be some reference to whether price is the most important factor.

Points might include:

- Price can help attract consumer [k]
- Price is only one element of the marketing mix [k]
- If the holiday does not appeal to customers [k] no-one would buy the holiday [an]
- Identification of other elements of the marketing mix [k]

Developed answer:

Price helps to attract consumers [k]. If the price is too high customers may go to a competitor [an]. However, even if a holiday is cheap if the destination is unappealing [k] it will not sell [an]. So price is an important element but not the only factor [ev]. The most important factor depends upon the personal situation of the customer [ev].

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4 (a) What is meant by ‘recession’? [2]

Clear understanding [2] – a sustained (over a period of time) reduction in national income/output.

Some understanding [1] – ‘fall in output’ or ‘fall in national income’ or identifying the effects of recession alone e.g. high unemployment.

Note: without some reference to ‘sustained’ or ‘over time’, reduction in national income as the answer would only gain 1 mark. An answer which identifies only the effects of a recession even with a sustained time period gains only 1 mark.

(b) Identify two possible reasons why national income per person has fallen between 2010 and 2012. [2]

Application [2 × 1] one mark per reason

Points might include:

- GDP fell
- Population rose
- GDP rose by less than population growth
- Unemployment rose
- Government wage restraints

Note: Do not accept wages by individual businesses as the question relates to national income.

(c) Identify and explain two ways that a Government could help new businesses to start up. [4]

Knowledge [2 × 1] – award 1 mark per way [max 2]

Analysis [2 × 1] – award 1 mark for each relevant explanation (i.e. show how the methods would help encourage a start-up).

Points might include:

- Financial assistance in form of low interest loans/subsidy [k] so provide them with capital that they need [an]
- Tax incentives [k] therefore potentially improved profitability/lower costs [an]
- Offer free advice and assistance [k] to improve chances of survival [an]
- Relaxed regulations [k] makes it simpler to set up [an]
- Training courses [k] providing the expertise to start up a business [an]
- Low rent from government [k]

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- (d) Identify and explain three external (social) costs that might be caused by an increase in the number of businesses in country C. [6]

Knowledge [3 × 1] – award 1 mark for each cost identified

Application/analysis [3 × 1] – award 1 mark for each relevant explanation (i.e. show how the cost is created by an increase in the number of businesses

Points might include:

- Pollution [k] may lead to a destruction of wildlife [an]
- Health issues [k] because of pollution [an]
- Congestion issues [k] caused by an increase in traffic [an]
- Resource depletion [k] because more raw materials are used [an]
- Loss of farm land/green areas [k] thus reducing the visual beauty of an area [an]
- Strain on existing infrastructure [k] communities get less power [an]

Note – Different types of pollution can only be awarded only once. [k]

- (e) Do you think that new start-up businesses can be successful in country C? Justify your answer. [6]

Knowledge/application [2] – identification of relevant issues

Analysis [2] – award up to 2 marks for relevant explanation e.g. developing the issues or interpreting their meaning

Evaluation [2] – reasoned judgement made as to whether new start-up businesses can be successful in country C

Points might include:

- They must provide goods and services which people want [k] which might be difficult in a recession because people do not have the income to buy goods [an]
- They must understand the target market [k] for example some groups may have very specific tastes and will only buy goods of a certain type [an]
- They must have the right marketing mix [k] because national income per person is falling [an]
- Need right skills and experience to manage business [k] because new businesses are more likely to fail [an]
- Sufficient financial support [k] to cover initial and ongoing costs [an]
- Depends on existing competition [k] because brand loyalty may be strong [an]

Developed answer:

New businesses will be successful if they can provide goods and services that are needed by consumers [k]. Since the economy is facing falling GDP per head customers may not buy new products [an]. Unemployment is rising [k] so it will be more difficult to set a price that people can afford [an]. Whether new businesses can be successful depends on a range of factors, not all of which a business can control [ev]. This is a particular problem in a country that is going through a recession [ev].

Page 10	Mark Scheme	Syllabus	Paper
	IGCSE – October/November 2013	0450	11

5 (a) Identify two features of a partnership. [2]

Knowledge [2 × 1] one mark per feature

Points might include:

- Legal agreement between 2 or more people
- Owned and financed by partners
- Profits shared
- Unlimited liability [usually]
- Unincorporated
- Share risk of failure

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

Knowledge [2 × 1] one mark per way

Points might include

- Objectives of owners met
- Acceptably high ROCE/profit margin
- Survival
- Market share
- Sales value or volume
- Level of profit earned
- Market leader
- A good reputation
- Growth
- High share price

(c) Identify and explain two reasons why the business might be finding it difficult to compete against larger retailers. [4]

Knowledge [2 × 1] – award 1 mark per way [max 2]

Application [2 × 1] – award 1 mark for each relevant explanation (i.e. show why these points make it difficult to compete against larger businesses)

Reasons might include:

- Lack of economies of scale [k] so prices charged by small businesses are higher [an]
- Lack of capital [k] to be able to market/advertise effectively [an]
- Less stock held [k] and therefore less consumer choice [an]
- Sales volume is low [k] therefore they need higher profit margins [an]
- Vulnerable to price wars [k] because of lower retained profit [an]

Page 11	Mark Scheme	Syllabus	Paper
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- (d) Identify and explain three methods of promotion that the partnership could use to increase sales. [6]

Knowledge [3 × 1] – award 1 mark for each method identified

Application/analysis [3 × 1] – award 1 mark for each relevant explanation (i.e. show how the methods identified help increase sales.

Points might include:

- Advertising more widely [k] would increase consumer awareness [an]
- Sponsorship [k] improves the image of the business [an]
- Merchandising [k] increases the attractiveness of the product/service [an]
- Trade shows/events [k] reaching a wider target market [an]
- Public relations [k] improving the image [an]
- Promotional pricing (must indicate short term price cuts) [k] to encourage customers to try your product/service [an]
- BOGOF/special offers [k] attract the customers to buy [an] as they feel they are gaining more [an]
- Gifts [k] increases the value of the product to the customer [an]
- Competitions [k] encourages to buy more frequently [an] to have a chance of winning [an]

Note – Accept examples of each bullet point once only.

- (e) Consider the advantages and disadvantages of converting the partnership into a private limited company. Recommend whether the partners should do this. Justify your answer. [6]

Knowledge/application [2] – identification of relevant issues

Analysis [2] – award up to 2 marks for relevant explanations (e.g. discussion of points considering their implication for the partnership)

Evaluation [2] – reasoned judgement made as to whether partners should convert the business into a private limited company

Advantages might include:

- Access to more capital [k] as they are able to sell shares [an] or this will allow them to expand [an]
- Lenders more likely to agree loans for private limited companies [k] as seen as lower risk [an]
- Limited liability for owners [k] therefore private assets are secure [an]
- Continuity of existence [k] owners can retire knowing that the business will continue [an]

Disadvantages might include:

- Extra costs [k] as more legal requirements [an]
- Financial results are available [k] so competitors can see how well you are doing [an]
- Potential decrease in control of existing partners [k] as ownership may be shared between more people [an]

Note: A one-sided answer, which considers only advantages or disadvantages, can gain a maximum of three marks, if there is a reasoned decision.

MARK SCHEME for the October/November 2013 series

0450 BUSINESS STUDIES

0450/12

Paper 1 (Short Answer/Structured Response),
maximum raw mark 100

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Page 2	Mark Scheme	Syllabus	Paper
	IGCSE – October/November 2013	0450	12

1 (a) Calculate average labour productivity for Protec. [2]

Correct answer [2]: 6 (units per worker)

Method only [1]: e.g. Total output/number of employees OR 2400/400 OR \$6

(b) Identify two reasons why labour productivity is important for Protec. [2]

Knowledge [2 × 1] one mark per reason

Reasons include:

- Impact on unit costs
- Improve profit margin
- Shows effective use of resources OR efficiency
- Help increase competitiveness of business/meet demand of customers
- Increase output
- Help identify poor performing workers/indicate problems with morale
- Basis for calculating wages or pay

Do not accept increase profits/sales [tv]

(c) Identify and explain two ways Protec could increase the productivity in its factory. [4]

Knowledge [2 × 1] – award 1 mark per way

Application [2 × 1] – award 1 mark for each relevant explanation i.e. show how the method increases productivity. Explanation should refer to productivity not production in general

Methods could include

- Increase in capital intensity OR automation OR introduce new technology [k] as machines work faster/more accurately than people [app]
- Improve quality control/assurance [k] to reduce level of waste [app]
- Improve layout of machines [k] to reduce wasted time moving between the equipment [app]
- Improve inventory (stock control)/introduce JIT [k] so materials are available when needed [app]
- Train workers [k] so understand what they are doing better/improve performance [app]
- Improve motivation (once only) [k] as it will make employees work harder [app]
- Piece rates [k] as workers will produce more to earn more [app]
- Cell production/kaizen [k] as it allows employees to discuss/solve problems affecting production [app]

Accept introduce lean production [1] if no specific examples are given

Page 3	Mark Scheme	Syllabus	Paper
	IGCSE – October/November 2013	0450	12

- (d) Identify and explain three reasons why wages are higher in some countries than others. [6]

Knowledge [3 × 1] – award 1 mark per relevant reason

Analysis [3 × 1] – award 1 mark for each relevant explanation (i.e. why this would cause wages to be higher)

Reasons might include

- Demand for labour [k] if high demand, businesses would be forced to offer high wages to attract/retain employees [an]
- Level of unemployment [k] if high unemployment, workers are prepared to accept lower rates of pay [an]
- Government labour policies [k] a higher minimum wage will increase wages in general [an]
- Strength of trade unions [k] as they will bargain for better wages for its members [an]
- Stage of economic development of the country [k] a developed country is likely to offer higher rates of pay to workers [an]
- Level of skills/training required/education [k] as skilled workers will move if wage levels are not maintained [an]
- High tax rates [k] so wages set higher to compensate [an]

- (e) The management of Protec is thinking of relocating the factory to a country where wages are lower. Do you think that Protec would benefit from such a move? Justify your answer. [6]

Knowledge/application [2 × 1] – award 1 mark for each relevant issue identified [max 2]

Analysis [2] – award up to 2 marks for relevant development (i.e. explain how or why issue needs to be considered by Protec)

Evaluation [2] – reasoned judgement made as to whether Protec would benefit from move

Possible issues include:

- Reduced labour costs [k] which would help reduce costs and improve competitiveness [an]
- Do workers in new country have the right skills [k] if not, face higher training costs [an]
- Marketing and distribution costs [k] as could be further away from customers, which would increase expenses [an]
- Allow consideration of other costs that would be incurred associated with the relocation e.g. availability of raw materials [k] cost of land [k]

Developed answer:

It could be a good idea if land is cheaper [k] and they are closer to its market [k]. Protec could benefit from lower labour costs [k] which would help reduce costs and improve competitiveness [an]. But it also depends on how important are labour costs to the business [k] as making components, if production is likely capital intensive [app] few savings are likely [eval]. Protec needs to weigh up all factors affecting decision so on its own the reason is unlikely to make much financial sense [ev].

Page 4	Mark Scheme	Syllabus	Paper
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2 (a) Identify two aims of advertising. [2]

Knowledge [2 × 1] one mark per aim

Aims could include:

- inform or introduce new products to market
- persuade or increase sales
- create brand image/improve company's image
- to compete with competitors' products

Do not accept if just say 'promotion' as this is one of 4Ps

(b) Identify two methods of pricing that Party Pops could use. [2]

Application [2 × 1] one mark per method

Pricing methods could include

- penetration pricing
- promotional pricing
- competitive pricing
- cost plus pricing
- psychological pricing

Do not accept skimming for this business

(c) Identify and explain two reasons why the demand for the company's products is likely to be price elastic. [4]

Knowledge [2 × 1] – award 1 mark per reason

Application [2 × 1] – award 1 mark for each relevant explanation i.e. show how or why it is likely to affect demand for Party Pops products

Reasons might include:

- Plenty of substitutes/competition exists/no brand loyalty [k] if price goes up, customers will choose a lower priced rival [app]
- Product is non-essential [k] so don't have to buy it [app]

(d) Identify and explain two methods of promotion (other than advertising) that Party Pops could use to increase sales. [6]

Knowledge [2 × 1] – award 1 mark for each method identified [max 2]

Application [2 × 1] – award 1 mark if relevant reference made to Party Pops

Analysis [2 × 1] – award 1 mark for each relevant explanation i.e. show how the method used boosts sales

Promotions include

- BOGOF/special offers [k] e.g. buy a cake get 5 balloons free [app] attract customers to buy as get more when buy certain product [an]
- Promotional pricing (must indicate short term price cuts) [k] to encourage customers to try their products [an]
- Sponsorship/public relations [k] improves the image of the business [an]
- Point of sales displays [k] as attracts attention of customers [an]
- Gifts [k] increases the attractiveness of the product [an]
- Trade shows/events [k] reaching a wider target market [an]
- Competitions [k] people will buy the party items from Party Pops [app] to have a chance of winning the prizes [an]

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- (e) Do you think Party Pops should stop selling through shops and sell only on the Internet? Justify your answer. [6]

Knowledge/Application [2 × 1] – award 1 mark for each relevant issue identified

Analysis [2] – award up to 2 marks for relevant explanation (i.e. how or why it might be an issue)

Evaluation [2] reasoned judgement made as to whether PP should only sell on the internet

Points for internet might include

- Increase the geographical market [k] as it gives them access to customers not in reach of their shops [an]
- Access a new range of customers [k] able to attract a wider target market [an]
- Able to reduce prices by cutting out middle men [k] so improve margins [an]
- Make it easier for customers to buy [k] which would increase sales [an]
- Reduce costs of employees and rent for shops [k] so lower expenses [an]

Points against internet include

- Internet buying is not for everyone [k] so could lose current as well as potential customers [an]
- Security issues e.g. risk of fraud [k] so discourages customers who do not trust system [an]
- Not everyone has access to internet [k] so loss of potential/current customers [an]
- Distribution costs e.g. PP might have to cover costs of postage [k] which would increase its variable costs [an]
- Increased competition from online retailers around the world [k] which would limit possible sales [an]

Note: points must relate to business not consumers

Developed example:

Party pops is able to access more customers [k] so able to increase sales [an]. They won't have to pay the costs of rent [k]. However customers might prefer to see the products before they buy which they can't do [k] which would discourage sales [an]. The products must be delivered [k] which might be difficult as customers live far away [an]. Party pops might want to sell on the internet, to reach a larger market but shouldn't stop using shops especially as they are used to selling in shops as they would lose those customers who won't buy off the internet [eval] and the threat of competition could see sales fall even more [eval].

- 3 (a) What is meant by 'variable costs'? [2]

Clear understanding [2] e.g. costs related to the direct operation of a business/costs that change [1] as the level of activity changes [+1].

Some understanding [1]: e.g. costs that change

Note: Must link answer to level of activity/output to gain full marks.

Do not accept 'costs that vary' as simply reordering the words

- (b) Identify two examples of fixed costs for Harry's business. [2]

Application [2 × 1] one mark per fixed cost

Examples include: rent/insurance/business rates/salaries/heating/utilities/interest charges

Do not accept wages or taxes or dividends

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(c) Calculate how much profit Harry's business makes in one week. [4]

Correct answer [4]: 1800 (\$ not required. No further calculations are required)

Some understanding [can gain up to 3 marks]:

Breakdown of marks as follows:

Sales 1500 @ \$8	\$12000 [1]
Variable costs 1500 @ \$5	\$7500 [1]
Total costs	\$10200 [1]
Profit	\$1800 [1]

Notes:

- Can allow 2 marks for correct calculation of Total cost on own (as will have calculated Variable cost as part of it)
- Own figure rule (OFR) applies up to a maximum of 3 marks if only one error carried forward. $12000 - 2705 = \$9295$ [2] only as incorrect understanding of variable cost
- If NO acceptable calculations allow 1 mark for understanding of profit [k] e.g. total revenue – total cost [1]
- Credit calculation using contribution method as follows: contribution \$3 [1] total contribution \$4500 [+1]

(d) Harry pays his workers piece rates. Identify and explain one advantage and one disadvantage to Harry of using this method of payment. [6]

Knowledge [2 × 1] – award 1 mark for the advantage and 1 mark for the disadvantage

Analysis [2 × 2] – award 1 mark for analysis of impact [1] plus a further mark for showing how each point might be an advantage (or not) to the business

Advantages might include

- Paid for what produce [k] so costs directly controlled [an] therefore able to earn higher profit [an]
- Increase output/efficiency [k] as workers will work faster [an] so Harry is able to meet all orders on time [an]
- Saves labour costs [k] as if no customers in restaurant [an] no wages need to be paid as no production necessary [an]
- Motivating to workers to work harder [k] so less absenteeism [an] so able to offer better customer service [an]

Disadvantages include:

- Encourages speed [k] which may mean more mistakes [an] therefore more wasted ingredients [an]
- Lower quality goods [k] as rush the work [an] leading to customer dissatisfaction/poor reputation [an]
- Can be difficult to calculate wages [k] if restaurant is busy [an] as will have to pay workers more [an]
- Discouraging for slower workers [k] increasing labour turnover [an] therefore higher recruitment costs [an]

Note: points must relate to business not employees

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- (e) Harry is planning to reduce the price of his pizzas to \$7 in order to increase sales. Do you think that this change will benefit his business? Justify your answer. [6]

Knowledge/application [2] – award 1 mark for each relevant issue identified [max 2]

Analysis [2] – explain how or why it might be an issue. Accept calculation of relevant figures as analysis

Evaluation [2] – reasoned judgement made as to whether change in price will benefit Harry's business

Points might include:

- Pizzas more affordable [k] so will result in more demand [an]
- If product is price elastic [k] there should be a greater increase in sales [an]
- Reduce profit margin per sale [k] which would increase break-even output [an] by 450 [an]
- Cut in profit [k] to \$300 [an] if sales do not rise [an]
- Size of market [k] e.g. large city so possible to see an increase in customers [app]
- People might prefer other types of food [k] so a fall in price might not see a rise in sales/as brand loyal to other companies [an]
- Reaction of competition [k] if other companies may respond to cutting prices [an] so sales might remain same/fall depending on their price cut [an]
- The capacity level of the business [k] as might not be able to produce enough extra pizzas [an]
- Loss of image [k] as people think cheaper food means inferior quality [an]

Developed Example:

The price cut should increase number of customers. [k] However contribution margin is reduced to \$2 from \$3 [an]. If sales volume does not prove price elastic [k] the business will be financially worse off [ev]. Current break-even is 900 units per week [sales 1500] [an] so total profit is 600 @ \$3 = \$1800. With new prices B/E would be 1350 units so sales would need to rise to 2250 for the level of profits to be the same [an]. Such an increase is unlikely to happen [eval] so price reduction not advisable. [eval]

- 4 (a) Identify two examples of public sector enterprises. [2]

Knowledge [2 × 1] – one mark per example

Examples include: utilities, health provision, education, transport (only accept one example of each type)

Accept any reasonable answer.

Do not accept 'public corporations, nationalised industries, municipal enterprises' as these are too general.

- (b) Identify two aims that public sector enterprises often have. [2]

Knowledge [2 × 1] one mark per aim

Aims might include:

- Free access for all OR provided irrespective of ability to pay OR affordable for all
- Minimum standard of provision
- Provide (essential) services
- Strategic – control production of certain goods
- Meet (profit/quality) target set by government
- protect or create employment in certain areas

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(c) Identify and explain two reasons why profits are important to private sector businesses. [4]

Knowledge [2 × 1] – award 1 mark per reason

Analysis [2 × 1] – award 1 mark for showing why these points are important

Reasons include:

- Source of finance [k] to help fund future activities/expansion [an]
- Inexpensive source of funds [k] as no need to pay interest [an]
- Needed for long term survival [k] as have funds to help if business makes a loss [an]
- Represent a return on owners' capital [k] as otherwise would invest elsewhere [an]
- Necessary return for risk taking OR pay shareholder dividends/employee bonuses [k] to help attract/retain shareholders/good employees [an]
- Measure of success/performance [k] large profits would indicate/reinforce image of good years trading [an]

Do not accept repayment of any costs/loan of a business

(d) Consider each of the Figures 1–3. Identify and explain three changes that are shown by the data in Figures 1–3. [6]

Knowledge [3 × 1] – award 1 mark per change/trend identified in each chart which focuses on a comparison over time or between sectors

Analysis [3 × 1] – award 1 mark for each relevant explanation based on the data

Main points shown by data are:

Figure 1	Rate of growth of private sector pay greater than public sector [k] Private sector pay risen from by \$4 an hour between 2006 and 2010 to \$10 while public sector pay static at \$8 per hour [an]
Figure 1	Private sector pay has risen and it has accelerated between 2006 and 2012 [k] by \$3 per hour compared to \$1 over the first 6 years [an]
Figure 2	Differential in hours worked per week between sectors reversed [k] Private sector hours fell continuously (from 45 to 35 hours) while public sector hours remained flat (at 37 hours) [an]
Figure 3	Level of employment in public sector falling [k] at accelerating rate [an] Trend downwards over the period but accelerated between 2006 and 2012 [an]
Figure 3	Level of employment in public sector falling [k] attracted to higher wages offered by private sector (Figure 1) [an] or shorter hours (Figure 2) [an]

Note: any analysis must be supported by the data.

For Figure 2: do not accept if say 'average hours per week' have fallen [0] as stated in heading, so no comparison over time has been made.

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- (e) Do you think that a large decrease in the number of employees in the public sector in country A will benefit all workers? Justify your answer. [6]

Knowledge/application [2 × 1] – award 1 mark for each relevant issue identified [max 2]

Analysis [2] explain how or why it might be an issue

Evaluation [2] – reasoned judgement made as to whether all employees will benefit from a decrease in number of employees in public sector

Points include:

- Possible increase in unemployment [k] less disposable income [an] so sales for businesses might fall leading to private sector job losses [an]
- For those who do get jobs the rates of pay [on average] will be higher in private sector [k]/ hours of work will be lower [k] so better standard of living possible [an]
- Private sector businesses might expand to make up for loss of services in public sector [k] so more job opportunities available [an]
- Workers who stay in public sector businesses the hours might have to increase [k] leading to demotivation/stress [an]
- Increase in competition for private sector jobs [k] may force down wages [an]
- Might lead to lower tax rates as fewer wages to be paid in public sector

Developed example:

Not all workers will benefit. Some of those in the public sector who lose their jobs [k] might remain unemployed so living standards fall [an]. The increase in labour supply might force down wage rates in private sector [k] leading to less disposable income [an]. It also depends on reason for decrease, if recession, all businesses will be affected so there might not be enough jobs for any of them [ev]. However if the private sector expands, those workers who get jobs will benefit as wage rates are higher. Overall, some workers will find that the changes make them better off while others will be worse off [ev].

- 5 (a) What is meant by ‘autocratic management style’? [2]

Clear understanding [2] e.g. an autocratic style implies that decisions are made by the management [1] without consultation and discussion [+1]

Some understanding [1] e.g. a manager who tells others what to do

Accept two features for 2 marks

- (b) What is meant by ‘span of control’? [2]

Clear understanding [2] e.g. span of control refers to the number of subordinates who are directly managed by an individual [manager]

Some understanding [1] e.g. for whom responsible

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(c) Identify and explain two disadvantages of one-way communication for K & P's management team. [4]

Knowledge [2 × 1] – award 1 mark per disadvantage

Analysis [2 × 1] – award 1 mark for each relevant explanation i.e. show why it represents a disadvantage

Disadvantages include:

- No feedback [k] so unsure whether message has been understood/received [an]
- No generation of ideas internally within business [k] as employees are not encouraged to give any [an]
- Gap between management and employees becomes greater [k] and this can produce tension and mistrust [an]

(d) Identify and explain three methods that K & P could use to improve worker motivation. [6]

Knowledge [3 × 1] – award 1 mark per relevant method

Analysis [3 × 1] – award 1 mark for each relevant explanation i.e. must focus on how the method has a positive impact on improving motivation of employees

Methods include:

- change leadership style OR use democratic leadership style [k] so workers feel less alienated [an]
- delegation [k] as workers feel trusted [an]
- consultation e.g. kaizen or focus groups as employees have greater involvement in decisions
- improved internal communications [k] so that workers feel informed [an]
- job rotation [k] not bored doing same job all the time
- job enrichment [k] given more responsibility for managing your own work [an]
- flexible working hours [k] so better work life balance [an]
- promotion prospects [k] encourages loyalty/opportunity to rise up the hierarchy [an]
- improved working conditions [k] so more pleasant environment [an]
- offer training [k] have opportunity to develop new skills [an]
- change methods of remuneration e.g. bonuses, commission, increased pay [k] as able to earn more to meet needs/wants [an]

Do not accept piece rate as not appropriate for a shop.

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(e) Should K & P try to reduce the number of workers leaving each year? Justify your answer. [6]

Knowledge/Application [2 × 1] – identification of relevant issues in context [2]

Analysis [2] – explain how or why it might be an issue

Evaluation [2] – reasoned judgement made as to whether K & P should try to reduce number of employees leaving.

Points could include:

- recruitment costs [k] which would increase expenses [an]
- training costs [k] as workers might not have the necessary experience/skills needed [an]
- reduced morale of work force [k] so give poor customer service [an] which could damage company reputation [an]
- new people bring new ideas and skills [k] so able to improve customer service [an]
- depends on who is leaving/why they are leaving [k] as poor performing workers would not be missed [an]
- loss of expertise/knowledge of business [k] as they might not be easy to replace [an]

Developed example:

If more people leave, they will have to spend more on recruiting new workers [k] which would increase their costs [an]. These new workers might need training [k] otherwise level of customer service will fall [an] leading to a fall in sales [an]. However new employees may bring in new ideas about how to sell [k] which could improve the reputation of K & P. whether it is good or bad, will depend on who leaves. As if they are poor workers, there is likely to be no bad effect on the business [eval], and the chance to replace them might actually be more beneficial especially if the new employee's ideas help increase sales. [eval]

MARK SCHEME for the October/November 2013 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.

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

Cambridge will not enter into discussions about these mark schemes.

Cambridge is publishing the mark schemes for the October/November 2013 series for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level components and some Ordinary Level components.

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1 (a) Identify two possible reasons why the directors want Homeright to grow. [2]

Knowledge [2 × 1]: award one mark per reason

Reasons include:

- Economies of scale
- Opportunity to increase profits
- Objective of a business
- Ensures survival/protection from risk of takeover
- Measure of success
- Increase market share

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

Knowledge [2 × 1] one mark per way

Points include:

- Increase in market share
- Sales value or volume
- High ROCE OR profit margin
- Market leader
- Meet objectives of owners
- Good reputation
- Growth
- High share price
- Survival

Note: Measures of size such as output, number of employees or capital should not be credited as this is not the question.

(c) Identify and explain two possible problems for Homeright of selling its products in foreign markets for the first time. [4]

Knowledge [2 × 1] – award 1 mark per problem

Application [2 × 1] – award 1 mark for each relevant explanation i.e. show how these factors actually create problems for a business like Homeright

- Lack of knowledge of customer needs/tastes [k] so produce wrong style of chairs [app]
 - Problems of established competitors [k] customers might be brand loyal to other manufacturers [app]
 - Lack of distribution channels [k] so not able to supply customers on time [an]
 - If Homerights currency appreciates [K] it will make their products more expensive [app]
 - Language problems [k] so might be mistakes over orders [app]
 - Legal restrictions e.g. bans, complex paperwork [k] so not able to sell certain products in some countries [app]
 - Problems of entry e.g. quotas [k] will restrict the numbers of products that Homeright can sell [app]
- Do not accept taxes on own as implies internal to country

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- (d) Identify and explain two problems to Homeright's management that rapid growth could cause. [6]

Knowledge [2 × 1] – award 1 mark for each problem identified [max 2]

Application/analysis [2 × 2] – award up to 2 marks for each relevant explanation i.e. show how the points identified actually create a problem for the management of Homeright

Points might include:

- Organisational issues e.g. lack of managerial experience [k] especially as they have already found it difficult to manage the speed of growth [app] so could lead to poor decisions taken [an]
- Communication problems [k] as likely to have more employees to instruct [an] so existing methods of communication might not be effective [an]
- Labour issues e.g. able to hire enough skilled workers [k] as more growth is planned [app] they will need to produce even more chairs [an]
- Supply change problems – can suppliers keep up with orders [k] as product range doubled [app] they will have lots of extra materials [an]
- Logistical issues – distribution problems [k] as enter overseas markets [app] they may be unable to get ensure products get to customers on time [an]
- Financial – working capital/overtrading [k]
- Quality may suffer in rush to meet demand [k] which could damage reputation [an] leading to fewer sales [an]
- Operational issues e.g. capacity to meet demand [k] as factory might be too small to hold all materials/finished stock [an]

- (e) Do you think that the profits of Homeright will continue to increase if the company grows in the future? Justify your answer. [6]

Knowledge/application [2 × 1] identification of relevant issues

Analysis [2] – explain how or why issue needs to be considered by Homeright

Evaluation [2] – reasoned judgment made as to whether profits will continue to increase if the company grows

Points might include:

- Increased sales [k] which if costs remain the same should lead to higher profits [an]
- Will customers like the new product range [k] if not sales will not rise [an]
- Greater costs/diseconomies of scale [k] as grown rapidly [app] they might not be able to control them [an]
- Growth might bring increased economies of scale [k] leading to lower average costs [an]
- Is their scope for further growth in the market [k] as new competitors might enter [an] so Homeright's sales might not continue to increase [an]

Developed answer:

Growth of a business will result in increased sales revenue [k]. Assuming margins are constant this must result in higher profits [an]. However rapid growth in terms of new products might mean new sales are not easily generated [k] and costs increase proportionally faster [an]. So profits might not rise [eval] and certainly profitability might not increase [eval].

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2 (a) What is meant by ‘fixed costs’? [2]

Clear understanding [2] e.g. costs that do not change [1] as the level of activity changes [+1].
Some understanding [1] e.g. costs that stay the same
Note: Must link answer to level of activity/output to gain full marks.

(b) What is meant by ‘working capital’? [2]

Clear understanding [2] e.g. how much liquid assets a business has to finance its everyday costs [2] OR formula e.g. current assets minus current liabilities [2]
Some understanding [1] e.g. money for everyday expenses OR funds used to buy stock.

(c) Identify and explain two problems for Fabian’s business of holding a lot of stock. [4]

Knowledge [2 × 1] – award 1 mark per problem

Application [2 × 1] – award 1 mark for each relevant explanation i.e. how or why such points represent a problem for the business.

Points might include:

- Increased insurance costs [k] as more items need to be protected [app]
 - Increased storage and handling costs [k] increases business expenses [app]
 - Cash flow/liquidity problems [k] as money held as stock [app]
 - Additional storage/handling costs [k] as need more space [app]
 - Additional security costs [k] as valuable parts need to be kept safe [app]
 - Risk of obsolescence/wastage [k] because of new fashion/taste in design [app]
 - Risk of damage [k] as need to be stored which could increase costs [app]
- Do not accept** any answer that could not be related to this type of business, e.g. sell by dates.

(d) Identify and explain three methods of promotion that Fabian could use to increase sales. [6]

Knowledge/application [3 × 1] – award 1 mark per appropriate method

Analysis [3 × 1] – award 1 mark for each relevant explanation i.e. show how the methods work to help promote the business to increase sales

Points include:

- leaflets/posters/billboards [k] to raise awareness of the business [an]
- advertisements in newspapers OR television (only accept once) to increase customer awareness [an]
- BOGOF/special offers [k] e.g. buy football boots get 1 ball free attract customers to buy as get more when buy certain product [an]
- Promotional pricing (must indicate short term price cuts) [k] to encourage customers to try their products [an]
- Sponsorship/public relations [k] improves the image of the business [an]
- Point of sales displays [k] as attracts attention of customers [an]
- Gifts [k] increases the attractiveness of the product [an]
- Trade shows/events [k] reaching a wider target market [an]
- Competitions [k] people will buy the sports equipment from Fabian to have a chance of winning the prizes [an]
- Internet/social media [k] as it can be targeted at certain customer groups [an]

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- (e) Do you think that reducing the product range will benefit Fabian’s business? Justify your answer. [6]

Knowledge/application [2 × 1] – award 1 mark for each relevant issue identified

Analysis [2] – award up to 2 marks for relevant development

Evaluation [2] – reasoned judgement made as to whether reducing the product range will benefit the business

Points for narrower range include:

- Increase stock turnover [k] reduces chance of products going out of fashion/season [an]
- Attract more customers looking for specialist products [k] as products tailored to specific requirements [an]
- Lower stock holding costs e.g. rent costs decreased [k] as less space needed to store products [an]

However the change might:

- Lose customers [k] as don’t have the products they need [an]
- Lack of demand for areas of specialisation [k] if one sport becomes unpopular left with unsellable goods [an]

Developed answer:

Fabian will have a smaller target market [k] which could mean fewer sales [an] as he doesn’t stock the products that customers want [an]. However he can now specialise [k] so he can offer a better service to his chosen customers [an]. I think this is too big a big risk [eval] as the customers he is focusing on might not spend enough to make up for all the potential customers he has now lost [eval].

- 3 (a) What is meant by ‘economic boom’? [2]

Clear understanding [2] e.g. high level of economic activity associated with a rise in GDP

Some understanding [1] e.g. identifies one or more feature of economic boom

Features might include low unemployment, rising inflation, resource shortages, high levels of disposable income and high levels of consumer and business confidence.

- (b) Identify two factors that may influence wage rates in a business. [2]

Knowledge [2 × 1] one mark per factor

Factors include:

- Ability to pay
- Competition for labour
- Strength of trade unions
- Government regulations e.g. minimum wage
- Skills/type of work
- Level of unemployment/supply of labour

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(c) Identify and explain two problems to a business caused by high interest rates. [4]

Knowledge [2 × 1] – award 1 mark per problem

Analysis [2 × 1] – award 1 mark for each relevant explanation i.e. how or why it creates a problem for businesses

Points include:

- Increased costs of borrowing [k] e.g. so might have higher expenses/reduced profits or have to delay/stop capital expenditure [an]
- Reduced demand for products [k] e.g. as customers will be unwilling to take out loans to buy high priced products [an]
- Demand for higher wages [k] as workers might face lower disposable incomes [an]

(d) Identify and explain two ways in which decisions in a business might be affected by a rise in taxes. [6]

Knowledge [2 × 1] – award 1 mark for each way identified (how effect business) [max 2]

Analysis [2 × 2] – award 1 mark for the decision [1] and a further mark for showing the impact of that decision on the business [+1]

Points might include:

- Higher taxes will reduce sales [k]. Hence business expansion decisions may be delayed [an] so business becomes less competitive/lose market share [an].
- If higher taxes fall on company profits then businesses will have less retained profit [k]. This means that business will need to find alternative sources of finance [an] which might be more expensive [an]
- Increase in indirect taxes will increase prices [k] so business might chose to absorb some or all of the tax [an] and this will reduce profit margins [an]
- Increase in indirect taxes will increase business costs [k] so have to look for cheaper alternatives [an] which might lower quality of products produced [an]

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- (e) Do you think that all businesses will be successful when a country has an economic boom? Justify your answer. [6]

Knowledge [2 × 1] – identification of relevant issues

Analysis [2] – award up to 2 marks for relevant development

Evaluation [2] – reasoned judgement made as to whether ALL businesses will be successful in a boom

Points might include:

- Business sales should rise [k] so profits should increase [an]
- Greater competition as more businesses set up [k] so can be harder to compete [an]
- If sell necessities/basic goods may see very little increase in sales [k] as consumers are already buying the quantity they need [an] and suppliers of basic goods might actually see a fall in sales as consumers switch to better quality substitutes [an]

Developed answer:

An economic boom means that business activity is likely to be high [k]. Generally sales of businesses will be rising and profits will be getting larger [an]. However a business needs to produce the right product to meet customer needs [k]. If a business fails to do this then it will fail [an] even if the economic climate is favourable [eval]. It is more likely that businesses will be successful in a boom but it is not inevitable [eval].

- 4 (a) What is meant by ‘batch production’? [2]

Clear understanding [2] e.g. products are made in groups/sets of items of a certain amount
OR identifies two distinctive features of batch production
Some understanding [1] identifies one distinct feature of batch e.g. made in (small) groups.
Do not accept ‘batch’ as part of answer as stated in question.

- (b) Identify two benefits to Defoe of buying raw materials in small quantities. [2]

Application [2 × 1] one mark per benefit

Benefits include:

- Business ties up less cash
- increased flexibility as changes can be made
- lower holding costs in terms of space and insurance
- less risk of damage/obsolete

- (c) Identify and explain two appropriate sources of finance that Defoe could use to invest in capital intensive methods of production. [4]

Knowledge [2 × 1] – award 1 mark per source (must be long term)

Application [2 × 1] – award 1 mark for each relevant explanation i.e. show why these sources are appropriate

Points might include:

- Retained profit [k] no need to repay or no interest [app]
- long term loans/debentures [k] can structure payments over long time [app]
- new issued capital [k] which can raise full amount OR no need to repay
- leasing [k] no large initial outlay [an]

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(d) Identify and explain three benefits to Defoe of using capital intensive methods. [6]

Knowledge [3 × 1] – award 1 mark for each benefit identified [max 2]

Application [3 × 1] – award 1 mark for each relevant explanation (i.e. show how or why these points generate benefits for the business)

Points include:

- Higher levels of output [k] so able to meet more orders [an]
- Lower unit production costs [k] as benefit from technical economies of scale [an]
- Better quality [k] so able to charge higher prices for products [an]
- Uniformity of products [k] as less errors are made [an]
- Improves productivity [k] which can help reduce average costs [an]
- Way to reduce labour costs [k] so lower total costs for business [an]
- Faster production [k] as machines can make more in less time [an]
- Machines are able to handle more complex work [k] so able to develop better/more advanced products [an]

Note: advantages must clearly relate to business not employees

(e) Would the employees of Defoe benefit from the change to capital intensive methods of production? Justify your answer. [6]

Knowledge/application [2 × 1] – award 1 mark for each relevant issue identified

Analysis [2] – award up to 2 marks for relevant development i.e. how or why these points impact on the employees

Evaluation [2] – reasoned judgement made as to whether Defoe's employees will benefit from the change to capital intensive methods

Points might include:

- Greater job security for those with jobs [k] if profit increases as directors hope [an]
- Need for re-training [k] which could create promotion opportunities [an]
- Fear of change/fear of redundancy as machines replace jobs [k] could decrease motivation [an]
- Deskilling [k] so workers become bored due to repetitive nature of job [an]
- Implications for pay e.g. lower wages [k] so lower living standards [an]
- Opportunities to learn new skills [k] which could improve chances for self-improvement or promotion [an]
- Safer conditions as up to date technology [k] so less risk of injury [an]
- Work less tiring [k] as machines do the heavy work [an]

Do not accept points such as 'more efficient' unless clearly link benefit to employees.

Developed answer:

Some workers might lose their jobs [k] leading to lower living standards [an]. Workers who remain might become demotivated [k] as the work they do becomes more repetitive [an]. But others might benefit as they have the chance to learn new skills [k] or even gain more responsibility [k]. Those who get these opportunities will clearly benefit [eval] but as machines are usually introduced to reduce the labour force, I think more workers are likely to be worse off than gain [eval]

Page 9	Mark Scheme	Syllabus	Paper
	IGCSE – October/November 2013	0450	13

5 (a) What is meant by ‘e-commerce’? [2]

Clear understanding [2] e.g. process of buying and selling [+1] over the Internet [1]
Some understanding [1] e.g. done over internet

(b) What is meant by ‘marketing mix’?

Clear understanding [2] e.g. blend of price, promotion, product and place, designed to attract customers.
Some understanding [1] e.g. identifies four elements of the marketing mix

(c) Identify and explain two possible reasons why Barts’ sales have fallen in recent years. [4]

Knowledge [2 × 1] – award 1 mark per reason

Application [3 × 1] – award 1 mark for each relevant explanation i.e. develop point in context of Barts

Reasons might include:

- Increased competition from new book sellers [k] so customers choose to buy elsewhere [app]
- Changed buying habits of customers [k] less people visit shops as they buy online [app]
- Fall in the demand for books [k] as people switch to e-readers [an]
- Poor management [k] as Barts’ marketing mix might not have adjusted in response to market changes [app]

(d) Identify and explain three pricing methods Barts could use if it sells books through its own website. [6]

Knowledge [3 × 1] – award 1 mark for each method identified [max 3]

Application/analysis [3 × 1] – award 1 mark for each relevant explanation i.e. explaining how each of these methods actually operates.

Methods include:

- Competitive pricing
 - Cost based pricing
 - Promotional pricing
 - Psychological pricing
 - Discount pricing
- Do not accept price skimming as not appropriate for this business.

Page 10	Mark Scheme	Syllabus	Paper
	IGCSE – October/November 2013	0450	13

(e) Do you think that Barts should start using e-commerce to sell books? Justify your answer. [6]

Knowledge/application [2 × 1] – award 1 mark for each relevant issue identified

Analysis [2] – award up to 2 marks for relevant development

Evaluation [2] – reasoned judgment made as to whether Barts should start using e-commerce to sell books

Points could include:

- Widen number of customers [k] as able to sell internationally as well as locally [an]
- Lower fixed costs [k] as no need to pay rent for a shop [an]
- Customers can place orders when they want [k] so able to attract customers who cannot get to the shop [an]
- Need expertise to set up/run online shop [k] which might increase costs [an]
- Increased competition as against other global retailers [k] who might take customers away from Barts [an]
- Trend is online [k] so need to react to remain competitive [an]
- Loss of personal contact with customers [k] so might not know what types of books to stock [an]
- Allow Barts' to compete more effectively against rival companies [k] which might help reverse fall in sales [an]

Developed answer:

A well designed website is a good marketing tool [k] which means that users will want to visit and make repeat visits [an]. Barts' selling costs will also be reduced [k] as they wouldn't need to open more shops and pay rent [an] adding to their competitiveness. As many people use the Internet [k] it is inevitable that Barts should start using e-commerce [eval]. However it will not guarantee success for Barts. They need to ensure that their distribution network is fast and reliable and ensure that all other aspects of their marketing mix are right [eval].

MARK SCHEME for the May/June 2014 series

0450 BUSINESS STUDIES

0450/11

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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Page 2	Mark Scheme	Syllabus	Paper
	IGCSE – May/June 2014	0450	11

1 (a) **What is meant by a ‘marketing budget’?** [2]

Good knowledge: [2] e.g. a financial plan or forecast for the marketing of a product for a specified period of time

Some knowledge: [1] e.g. a financial plan or sum of money put aside for marketing

(b) **Identify two methods of primary market research that Anouk could use.** [2]

Application [2 × 1] 1 mark per method

Methods could include: Questionnaires/survey, interviews, observations, focus group

Do not accept marketing agency or field research as these are not appropriate for a small business.

(c) **Identify and explain two possible advantages for Anouk of hiring equipment.** [4]

Knowledge [2 × 1] – award 1 mark for each relevant advantage

Application [2 × 1] – award 1 mark for each relevant different explanation

Relevant points might include:

- No need to spend a lot of money to buy equipment [k] might be too expensive for a sole trader [app]
- Easier to update or change equipment as required [k] if she designs a new piece of jewellery she does not have to buy more equipment [app]
- Able to afford the best equipment [k] to help her to make her jewellery more efficiently [app]
- If the machine is broken Anouk does not have to pay owner cost of repair [k] as a small business owner she does not have much money [app]
- Machinery is only rented when needed [k] so saving space at home [app].

Note: Do not accept cheaper or saves costs as these are too vague.

(d) **Identify and explain two disadvantages to Anouk to having a business partner.** [6]

Knowledge [2 × 1] – award 1 mark for each disadvantage identified

Application [2 × 1] – award 1 mark if relevant reference made to Anouk

Analysis [2 × 1] – award 1 mark for each relevant explanation

Note: For each reason maximum 3 marks [1k + 1app + 1an].

Relevant points might include:

- Have to share profits [k] so she might earn less [an] than if she were a sole trader [app]
- Share workload: [k] Anouk enjoys doing both designing and selling [app] sharing could lead to conflict [an]
- Unlimited liability [k] just like a sole trader [app] Anouk’s personal assets are still at risk [an]
- Slower decision making [k] as she has to discuss decisions such the marketing budget [app] which could mean she misses sales [an]
- They might have different objectives [k] the partner might not want to just sell at markets [app] this could lead to disagreements [an]
- Partnership agreements cost time and money [k].

Page 3	Mark Scheme	Syllabus	Paper
	IGCSE – May/June 2014	0450	11

- (e) Anouk could use either leaflets or local newspaper advertising as methods of promoting her jewellery. Recommend which method you think Anouk should use. Justify your answer. [6]

Knowledge [2] – award up to 2 marks for identification of relevant points (e.g. advantages or disadvantages of either method)

Application [1] – award 1 mark if relevant reference made to Anouk’s business

Analysis [1] – award 1 mark for relevant development of point(s)

Evaluation [2] – justified decision made as to which of the two methods would be most appropriate for Anouk to use.

Points include:

Advertising in local papers:

- Low cost [k] so she will be able to afford this [an] in her \$50 budget [app]
- Would widen her target audience [k] as many people read newspapers [an]
- Not everyone reads newspapers [k] so her target audience might not be aware of her business [an]
- Repeat adverts can be expensive [k]. Using up the marketing budget [app].

Leaflets:

- Easy to distribute to lots of people [k] could widen her possible audience [an] to help increase her sales revenue above \$3000 [app]
- Can be kept for reference [k] for when people want to buy rings or bracelets as presents [app]
- Can be colourful [k] which will attract people’s attention [an]
- People might see them as junk [k] so throw them away [an].

Note: For 6 marks there must be a justified decision as to why it is the best option.

- 2 (a) Identify two examples of tertiary sector business activity in your country, other than a recruitment agency. [2]

Knowledge [2 × 1] 1 mark per example

Examples might include: Hairdressers, transport or distribution company; banking, retailers, doctors. Accept any reasonable answer but only **one** example of a retailer.

Do not accept names of businesses on their own or answers such as selling

- (b) Identify two reasons why good customer service is important for Keypeople. [2]

Application [2 × 1] - award 1 mark per reason

Reasons might include: customer feels valued / good public relations / creates higher level of customer satisfaction / leads to repeat business (brand loyalty) / can lead to word of mouth recommendations/ motivation of workers/brand image.

- (c) Identify and explain two reasons why employment contracts are used by businesses. [4]

Knowledge [2 × 1] – award 1 mark for each relevant reason

Analysis [2 × 1] – award 1 mark for each relevant explanation

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Points might include:

- It's a legal requirement [k] so failure to use them could lead to fines / legal action [an]
- Avoids misunderstanding if there is a dispute [k] business can check what workers are expected to do [an]
- Employers and employees know the terms and conditions of the employment [k].

Note: Details of content within a contract can be awarded only once as knowledge (e.g. wages/hours/holidays).

(d) Identify and explain two stages in the recruitment process of the manager's job for the manufacturing business. [6]

Knowledge [2 × 1] – award 1 mark for each stage identified

Application [2 × 1] – award 1 mark if relevant reference made to Key people

Analysis [2 × 1] – award 1 mark for each relevant explanation

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

Stages are: job analysis; job description; person (job) specification; advertising the vacancy; shortlisting; interviewing, induction (training).

Possible examples include:

- Job description [k] will outline the tasks and responsibilities of the job [an]
- Person specification [k] will list the qualities and experiences for a senior manager [app] to attract the right people [an]
- Right place to advertise [k] specialist magazines/newspaper[app] to reach a wide range of people [an].

Note: Do not accept training alone – too vague.

(e) Do you think Rachel should expand Keypeople? Justify your answer. [6]

Knowledge [2] – award up to 2 marks for identification of relevant points

Application [1] – award 1 mark if relevant reference made to key people

Analysis [1] – award 1 mark for relevant development of point(s)

Evaluation [2] – justified decision made as to whether Rachel should expand key people

Points might include:

- Access to finance [k] as it is only a small business [app] so banks might not be willing to lend [an]
- Size of market [k] there might not be enough businesses who want to use the services [an] of a recruitment agency [app]
- Negative effect on business reputation [k] as customer service might worsen [app] as employees might not be able to cope with the increased workload [an]
- Need to hire additional employees [k] which would increase the business costs [an] as currently only have 2 employees [app]
- Expansion will reach more people [k] as it may move into new towns[app] and potentially increase sales [an].

3 (a) Identify two fixed costs that HPT might have. [2]

Application [2 × 1] 1 mark per fixed cost

Fixed costs could include: rent, rates, interest payments, electricity, gas, water, salaries.

Allow practical examples such as freezers.

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Note: Do not accept wages and packaging as fixed costs are identified in the data.

(b) Calculate the following. [2]

Application [2 × 1] award 1 mark for each correct value. \$ symbol not required but Y must be shown as a negative value

X = \$180 000; Y = (10 000)

Note: Answers should be in millions but accept 180 000 and (10 000) due to question layout.

(c) Identify and explain two benefits to HPT of having a cash flow forecast. You should refer to Table 1 in your answer. [4]

Knowledge [2 × 1] – award 1 mark for each relevant benefit identified

Application [2 × 1] – award 1 mark for each relevant explanation in context

Relevant points might include:

- Arrange a short term loan [k] or arrange an overdraft [k] as in each month the closing balance is negative [app]
- Can identify possible causes of cash flow problems [k] e.g. as in month 2, sales are \$20 000 lower than the other two months [app]
- Help manage cash flow better [k] as could try to reduce amount spent on packaging to less than \$20 000 per month [app]
- Supports a loan application [k] as shows that the cash flow is improving slowly [app]
- Shows how much is spent each month [k].

Note: Do not reward a definition of cash flow forecast as the question asks for the benefits

(d) Identify and explain two reasons why packaging might be important for HPT. [6]

Knowledge [2 × 1] – award 1 mark for each relevant reason

Application [2 × 1] – award 1 mark for each relevant reference to HPT

Analysis [2 × 1] – award 1 mark for each relevant explanation

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

Relevant points might include:

- Protection [k] as (frozen) food could be easily damaged / perish [app]
- Inform [k] could include nutritional information on labels or how to cook the food [app]
- Promotion [k] attractive wrappings could encourage people to buy the food to taste [app]
- Style or colour of packaging could help boost brand image [k] as it could help products stand out on the shelves [app]
- Easier to store [k].

Note: Do not accept HPT/Frozen food alone as application.

(e) The Finance Director is worried that new Government health & safety laws will not benefit the company and will only add to its costs. Do you agree? Justify your answer. [6]

Knowledge [2] – award up to 2 marks for identification of relevant issue(s)

Application [1] – award 1 mark if relevant reference made to aspects of HPT's business

Analysis [1] – award 1 mark for relevant development of point(s)

Evaluation [2] – justified decision made as to whether the costs of meeting the H&S laws will be greater than the benefits for HPT. Either viewpoint is acceptable.

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Points / additional costs could include:

- Cost of training, new equipment, wastage of food [k]
- Costs increase expenditure[an] and add to the cash flow problems of HPT [app] / or costs negatively affect the profitability [an]
- Worker motivation might increase [k] if workers feel safe [an] they may work harder and output / quality might improve [app].
- All businesses will be affected by the new laws [k] so even if costs rise, they can still remain competitive [an]
- Following health and safety laws will mean people will have trust in the food [k] because the food will be hygienic [app] this will lead to an increase in sales [an].

4 (a) Identify two features of a recession. [2]

Knowledge [2 × 1] one mark per feature

Features could include: falling demand, fall in business output, rising unemployment, business losses **or** lower profit **or** closure, less money circulating, less growth

(b) Identify two effects of a cut in interest rates on businesses like JWR. [2]

Application [2 × 1] – award 1 mark per effect

Points could include: Lower cost of borrowing money, existing loans could become cheaper, encourage businesses to expand, increased demand.

(c) Identify and explain two actions that pressure groups could use to influence JWR's decision. [4]

Knowledge [2 × 1] – award 1 mark for each relevant action

Application [2 × 1] – award 1 mark for each relevant explanation of how it would affect the decision to set up a new power station

Actions include:

- Lobbying government [k] to try to stop JWR from locating the power station in certain locations [app]
- Organise a boycott [k] so customers do not buy electricity from JWR [app]
- Write letters to newspapers [k]
- Hold public meetings [k]
- Arrange a meeting with JWR [k]
- Protest / demonstration [k]
- Petitions [k]
- Direct action [k].

(d) Identify and explain two external benefits as a result of opening a new power station in country U. [6]

Knowledge [2 × 1] – award 1 mark for each relevant benefit identified

Application [2 × 1] – award 1 mark if relevant context

Analysis [2 × 1] – award 1 mark for each relevant explanation

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

Points might include:

- Job creation [k] as JWR will need to employ local workers at the power station [app] so provide a wage / income for many local employees [an]
- Increased orders for suppliers [k] as JWR will need to purchase materials [app] so increasing their sales [an]

Page 7	Mark Scheme	Syllabus	Paper
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- Provide essential resources for community [k] as people will have access to energy [app] so improving their standard of living [an]
- Improved road infrastructure [k] as JWR will need to ensure there is good access to the power station [app] which could help reduce congestion for local people [an]
- Tax revenue [k].

(e) Do you think that the government of country U should try to attract multinational businesses? Justify your answer. [6]

Knowledge [2] – award up to 2 marks for identification of relevant issue(s).

Analysis [2] – award 1 mark for relevant development of point(s)

Evaluation [2] – justified decision made as to whether the government of country U should try to attract businesses like JWR. Either viewpoint is acceptable.

Relevant points might include:

- Increased employment [k] which can help improve living standards [an]
- Improved international reputation[k] could encourage other businesses to set up in country [an] helping economic growth [an]
- Depletion of local resources **or** damage environment [k] could increase pollution levels [an]
- Can switch profits between countries to avoid taxes [k] so country might not receive much additional tax revenue [an]
- MNCs are given incentives [k] money which could have been spent supporting local business [an]
- Can force local businesses to close [k] as they cannot compete with such large and powerful businesses [an].

5 (a) Identify two stakeholder groups, other than employees. [2]

Knowledge [2 × 1] – award one mark per stakeholder

Stakeholders could include: customers, suppliers, Government, owners **or** shareholders, lenders, community.

Note: Do not accept competitors, managers, directors.

(b) Identify two functions of management that each shop manager will have to perform. [2]

Application [2 × 1] award one mark per function

Functions could include: planning rotas, organise or delegate tasks to various employees, coordinating sections, giving commands to department managers, controlling shop budgets or monitoring targets.

Note: Do not accept functions of management which can only be applied to production. Leadership is too vague.

(c) Identify and explain two features of Callow’s organisational structure. [4]

Knowledge [2 × 1] – award 1 mark for each relevant feature

Application [2 × 1] – award 1 mark for each relevant explanation

Page 8	Mark Scheme	Syllabus	Paper
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Features might include:

- Tall hierarchy [k] / long chain of command [k] as there are seven levels in the organisation [app]
- Functional departments [k] but also a regional division of responsibility for operations [k] as split into north south east and west [app]
- Comment on various spans of control e.g. managing director has a short span [k] of 4 employees / supervisors have a wide span of 8 sales assistants [app].

Note: Do not award wide/narrow span of control alone as this does not apply to the whole chart, an employee must be specified.

(d) Identify and explain two possible methods that Callow could use to improve the motivation of its employees. [6]

Knowledge [2 × 1] – award 1 mark for each relevant method identified

Application [2 × 1] – award 1 mark if relevant reference made to Callow’s business

Analysis [2 × 1] – award 1 mark for each relevant explanation

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

Methods might include:

- Bonuses / commission [k] for sales assistants [app] as this would encourage them to sell more to earn extra money [an]
- Fringe benefits[k] e.g. the regional directors / managers could receive a company car[app] they will feel important / position recognised [an]
- Payment methods e.g. increase wage rate or salary (only allow once)
- Job rotation [k] sales assistants could move to different departments [app] so they are not bored [an]
- Training/CPD[k].

(e) Do you think it is a good idea for Callow to use off the job training for all its shop employees? Justify your answer. [6]

Knowledge [2] – award up to 2 marks for identification of relevant issue(s)

Application [1] – award 1 mark if relevant reference made to Callow’s business

Analysis [1] – award 1 marks for relevant development of point(s)

Evaluation [2] – justified decision made as to whether it is a good idea for Callow to use off the job training for all its shop employees. Either viewpoint is acceptable.

Relevant points might include:

- Training costs will increase [k] as they will need to pay for employees training[k] as well as people to cover them in the department [app] this could negatively impact on profits [an]
- Might not have the right people to do training [k] as a good department manager does not necessarily make a good trainer [app] so could teach assistants the wrong skills [an]
- Could gain new ideas or skills [k] which could mean that the Callow can become more competitive [an] against other retailers. [app]
- On the job could distract good employees from their work [k] so sales could be lost [an] as they might not be able to give their full attention to customers [app].

Note: Do not accept development or evaluation which focuses on whether training is a good idea for workers.

MARK SCHEME for the May/June 2014 series

0450 BUSINESS STUDIES

0450/12

Paper 1 (Short Answer/Structured Response),
maximum raw mark 100

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Page 2	Mark Scheme	Syllabus	Paper
	IGCSE – May/June 2014	0450	12

1 (a) What is meant by ‘span of control’? [2]

Good knowledge [2], e.g. number of people who answer directly to one manager in a hierarchy.

Some knowledge [1], e.g. number of people who work for you some knowledge plus example can gain 2 marks, e.g. regional manager has a span of 20.

(b) Identify two factors (other than offering choice of products and having good communication) which could help make LEK more competitive. [2]

Application [2 × 1] award one mark per factor.

Factors could include: lower prices OR price promotions, improve quality of goods sold, change location of shops, offer sales promotions/incentives/advertising, increase quality of service offered, offer free delivery, click and collect, opening hours, free/extended warranty.

Accept any reasonable answer. Accept advertising only once.

Do not accept references to production, as this is a retailer.

Do not accept promotion on own [TV] or market research.

(c) Identify and explain two benefits to LEK of having an organisational chart. [4]

Knowledge [2 × 1] – award 1 mark for each relevant benefit.

Application/analysis [2 × 1] – award 1 mark for each relevant explanation.

Relevant points might include:

- Clear structure so everyone knows their roles [k] which is important in a large organisation [app]
- Clear chain of command [k] so everyone knows who to report to [an] OR so orders can be passed effectively between directors and shop managers [app]
- Can show where possible problems of control/communication might be [k] e.g. 20 is a very large span of control for each region manager [app]
- Helps retention of workers [k] as shop managers can see how to progress up the organisation [app]
- Allows for effective delegation [k]

Points must be related to business, not employees, e.g. do not reward ‘makes employees have a sense of belonging’.

Page 3	Mark Scheme	Syllabus	Paper
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(d) Identify and explain two suitable methods of communication that LEK could use to communicate with its customers [6]

Knowledge [2 × 1] – award 1 mark for each relevant method identified.

Application [2 × 1] – award 1 mark if relevant reference made to LEK.

Analysis [2 × 1] – award 1 mark for each relevant explanation (e.g. how the method works or advantage of using this method).

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

Methods could include:

- Emails/mailshots [k] could be targeted at individual customers [an] who are interested in different electrical products [app]
- Social media e.g. on facebook or twitter [k] as many people use it these days to find out about the latest offers [an] phones [app]
- Telephone [k] as two way communication would allow LEK to explain specific product details to customers who could ask questions [an]
- Website [k] would allow customers to access instant news about appliances [app] without having to spend a lot of money on advertising [an]
- Press releases [k] can be used to inform existing customers in the different regions [app] so business is able to control the information that is given out [an]
- Newsletters [k] to inform customers about the latest technology or appliances [app] to keep them up to date with what is available [an]
- Text messages [k] which can be sent directly to customers, phones [app]
- Market research methods [accept only once] e.g. consumer panels [k] to find out what existing customers think about its products [an] and whether it should stock new types of phones [app]

Methods of communication can only be accepted if aimed directly at existing customers.

Do not accept advertising (e.g. posters, leaflets) as this is too general.

Do not accept internet, verbal/face to face or written as too vague.

(e) Do you think that the takeover of the competitor would benefit LEK? Justify your answer. [6]

Knowledge [2] – award up to 2 marks for identification of relevant issue(s).

Application [1] – award 1 mark if relevant reference made to LEK's business.

Analysis [1] – award 1 mark for relevant development of point(s).

Evaluation [2] – justified decision made as to whether the takeover would benefit LEK. Either viewpoint is acceptable.

Relevant points might include:

- Possible economies of scale (accept only once) e.g. buy in bulk [k] will help reduce unit costs [an] so might be able to reduce prices to become more competitive [app]
- Gain brand name of rival [k] may widen range which could help them be competitive [app]
- Increased market share [k] as could offer wider coverage of shops [an] across the 4 regions [app]
- Reduce competition [k]
- Management issues e.g. communication problems between businesses [k] as current structure of regional managers might need to change [app]
- No guarantee that benefits will happen [k] as their 40 shops might be in the same towns as LEK's [app]

Page 4	Mark Scheme	Syllabus	Paper
	IGCSE – May/June 2014	0450	12

- Increased overheads [k] as 40 more shops [app] so a lot more rent to be paid [an]
- Duplication of shops in the same location [k] which shop to close [app] leading to additional redundancy costs [an]
- Possible clash of culture/reaction of employees [k] so difficult to integrate two businesses [an] especially as they operate in the same regions [app]

2 (a) What is meant by ‘retained profit’? [2]

Good knowledge [2]: e.g. net profit reinvested back into business [1] after tax and/or dividends [+1].

Some knowledge [1]: e.g. money left after dividends and/or taxes paid, money kept by business.

Do not accept net profit or definition of profit [0].

(b) Identify two advantages to Cutter of being a private limited company. [2]

Application [2 × 1] – award one mark per advantage.

Advantages could include: no need to publish (detailed) accounts, limited liability, control over who can buy shares, easier to raise money, more credibility with suppliers, separate legal identity, continuity after death of owners.

(c) Identify and explain two possible benefits to Cutter of using batch production. [4]

Knowledge [2 × 1] – award 1 mark for each relevant benefit.

Application [2 × 1] – award 1 mark for each relevant explanation in context.

Relevant points might include:

- Quantity is still limited [k] so able to check reaches luxury standard [app]
- Some economies of scale are possible [k] so able to reduce unit costs of each coat [app]
- Can add some variety into products [k] so customers can have choice of coats [app]
- Flexibility/easy to switch [k] as able to quickly change production to meet new design [app]

Do not accept cheaper/less waste/consistency of product as all too vague.

Points must be related to business not employees.

(d) Identify and explain two possible elements of a suitable marketing mix for Cutter’s products. [6]

Knowledge [2 × 1] – award 1 mark for each relevant element identified.

Application [2 × 1] – award 1 mark if relevant reference made to Cutter.

Analysis [2 × 1] – award 1 mark for each relevant explanation.

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

Relevant points might include:

- Price/premium pricing/price skimming [k] as luxury brand [app] or competitive pricing (to be able to compete with rivals) or promotional pricing (to encourage increase in sales revenue)
- Product/branding [k] so able to maintain a quality image [app] which helps retain consumer loyalty [an]

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- Promotion/use of celebrity endorsement [k], the right choice of magazines [k] which reinforces the image of a high quality product [app]
- Place – only allow coats to be sold in selective stores [k] to maintain luxury image [app] which could allow them to justify charging high prices [an]

Do not accept packaging on its own due to nature of the product [tv].
Accept only one example from each category.

(e) Do you think it is better for Cutter to use on the job or off the job training? Justify your answer. [6]

Knowledge [2] – award up to 2 marks for identification of relevant issue(s).

Application [1] – award 1 mark if relevant reference made to Cutter’s business.

Analysis [1] – award 1 mark for relevant development of point(s).

Evaluation [2] – justified decision made as to whether it is better for Cutter to use on the job or off the job training. Either viewpoint is acceptable.

Relevant points might include:

- Off the job training might not be focused on the specific needs of the business [k] which might not help maintain luxury brand image [app] so is not cost effective [an]
- Expensive [k] as have to pay more for off the job training which will increase costs [an]
- Skills might not be available in the business [k] so must use off the job training to benefit from new techniques [an]
- Off the job training allows for mistakes to be made [k] so building confidence in an employee who is more likely to produce good quality coats [app], thus reducing waste [an]
- On the job training might reinforce errors/bad practices will be reinforced [k] which could lead to poor quality coats being made [app] which could reduce sales/damage the reputation of the business [an]
- With on the job training it is less likely that new ideas/skills will be taught [k]
- On the job training allows Cutter to control which skills are being taught [k] so that workers do not learn unnecessary skills [an] so could help increase its profits
- With on the job training the worker is immediately able to produce/no loss in production time [k] so more coats [app] improving productivity [an]

Do not accept definitions of terms as knowledge.

3 (a) What is meant by ‘capital intensive?’ [2]

Good knowledge [2]: e.g. machinery is the key resource rather than labour.

Some knowledge [1]: e.g. use machines.

(b) Identify two possible reasons why cameras might have a short product life cycle. [2]

Application [2 × 1]: 1 mark per reason.

Reasons include: Actions of competitors, fashion/changing tastes, availability of new technology, availability of substitutes (e.g. phones with camera features).

Do not accept ‘low sales’ on own as too vague.

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(c) Identify and explain two possible advantages to SENG of using lean production. [4]

Knowledge [2 × 1] – award 1 mark for each relevant advantage.

Application/analysis [2 × 1] – award 1 mark for each relevant explanation.

Relevant points might include:

- Saves storage costs [k] so less capital tied up in stock [an]
- Reduces the risk of obsolete stock [k] as cameras have a short life cycle [app]
- Saves space [k] as larger part of factory can be used for the machinery [app]
- Lower rent as less space needed [k] so lower fixed costs [an]
- Reduction in waste [k] so can save money on expensive components [app]
- Cutting out some processes [k] so quicker production of cameras [app]
- Better use of equipment [k]

Do not accept points such as 'increased efficiency' or 'better motivation' for knowledge [tv].

(d) Identify and explain two possible extension strategies that SENG could use for one of its types of camera. [6]

Knowledge [2 × 1] – award 1 mark for each relevant strategy identified.

Application [2 × 1] – award 1 mark if relevant reference made to SENG's business/cameras.

Analysis [2 × 1] – award 1 mark for each relevant explanation.

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

Relevant points might include:

- Add new features/version
- Change colour of camera to suit popular tastes
- Update image with new packaging
- Target new markets or market segments

Accept practical examples.

Do not accept general marketing strategies such as advertising or lower prices on own OR new products.

(e) Do you think that an increase in market share will always lead to higher profits for SENG? Justify your answer. [6]

Knowledge [2] – award up to 2 marks for identification of relevant issue(s).

Application [1] – award 1 mark if relevant reference made to SENG's business.

Analysis [1] – award 1 mark for relevant development of point(s).

Evaluation [2] – justified decision made as to whether an increase in market share will always lead to higher profits. For 6 marks must address the word 'always'.

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Relevant points might include:

- Lower prices could increase sales [k] but might lead to lower revenue as people only buy cameras [app] because they are cheaper [an]
- If larger share of a smaller market [k] sales volume might have fallen [an] as people now have cameras in phones [app]
- Larger market share due to increased sales volumes may lead to purchasing economies of scale [k] when buying camera components/materials [app] reducing unit cost increasing margins [an]
- Stronger brand recognition [k] which could improve competitiveness [an] as customers are more likely to trust and buy Seng's camera [app]
- More power to charge higher prices [k] if new design or camera feature [app] to gain additional revenue [an], which leads to an increase in profits (if costs rise at lower rate) but the market share might not increase

4 (a) What is meant by the 'private sector'? [2]

Good knowledge [2]: e.g. when business activities are owned by individuals/groups of individuals.

Some knowledge [1]: not government controlled/controlled or run by individuals/owned by shareholders.

For two marks, must have idea of ownership and by whom.

Do not accept 'privately owned' as does not explain term OR 'owned by the people' as it is too vague

(b) Identify two ways the government might support RU Air and other private sector business activity (other than building a new airport). [2]

Application [2 × 1] – award 1 mark per reason.

Ways could include: financial help such as grants OR subsidies, low tax rates, cheap rent areas, low interest rates, provide training, offer advice, organise business fairs, improve infrastructure, reduce regulations, tariffs on imports.

(c) Identify and explain two benefits to RU Air of high profits. [4]

Knowledge [2 × 1] – award 1 mark for each benefit.

Application [2 × 1] – award 1 mark for each relevant explanation in context.

Benefits:

- Source of finance/money to reinvest [k] so can fund expansion into country B [app]
- Sign of success [k] so stay one of the world's most profitable airlines [app]
- Able to pay out larger dividends [k] so encourage shareholders to invest in company [app – as RU Air is public limited company]
- Able to pay out larger bonuses [k] so employees are motivated to provide better service to passengers [app]
- Reduce risk of takeovers [k] as other airlines have to pay more for its shares [app]
- Help ensure long term survival of business [k]
- Measure of performance [k]

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Do not accept 'expansion' or example of it on own as many types of finance allow this.
Do not accept 'decreasing prices' as too vague.
Do not accept use profits to 'pay bills'; 'give wage rises'; 'buy stock'; 'pay debts'.

(d) Identify and explain two benefits for RU Air of having a website. [6]

Knowledge [2 × 1] – award 1 mark for each relevant benefit identified.
Application [2 × 1] – award 1 mark if relevant reference made to RU air.
Analysis [2 × 1] – award 1 mark for each relevant explanation.

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

Relevant points might include:

- Improved communication [k] as ability to have email/phones mean airline employees [app] are in contact so able to respond to customer requests quickly [an]
- Increases public awareness/advertise [k]
- Reinforces image [k] as a leading airline [app] customers will expect business to have website these days [an]
- Increased sales potential [k] as allows customers to easily view options [an] before they book flights [app]
- Lower marketing costs [k] as can advertise latest rates/new destinations [app] quickly without having to reprint brochures [an]
- Lower fixed costs [k] as do not need to pay rent [an] so can close travel shops/call centres [app]
- Can sell/advertise to people around the world [k] which increases their potential market [an]

Note: Points must be advantages to business, not customers.

(e) Do you agree that there are likely to be more advantages for the local community from the new airport than disadvantages? Justify your answer. [6]

Knowledge [2] – award up to 2 marks for identification of relevant issue(s).
Application [1] – award 1 mark if relevant reference made to effect/impact of airport.
Analysis [1] – award 1 mark for relevant development of point(s).
Evaluation [2] – justified decision made as to whether there are more advantages or disadvantages for the local community.

- Improved infrastructure [k] so able to travel around the area more easily or overseas [an] as people have access to air travel [app]
- Economic growth of region as likely to lead to more jobs (e.g. taxis/hotels/tourism)/ higher profile for the area
- Job opportunities [k] as will need employees to work at check in/baggage [app] so can earn an income [an]
- Pollution e.g. air [k] as frequent flights will lead to fuel emissions [app] which could damage the environment/noise pollution as planes will be taking off at all times of day and night so people cannot sleep
- Loss of space/natural resources [k] as airport will take up a lot of land [app]
- Reduction in house prices [k] as they become less attractive [an] due to increased noise, traffic [app] OR prices might rise [k] making it difficult for locals to buy first property [app]

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

Clear understanding [2] e.g. when bank allows business to borrow/spend more money [1] than is available in their bank account [+1].

Some understanding or identifies one feature [1] e.g. repayable on demand OR ask for it back at any time, interest calculated daily OR only pay if use, short term source of finance, negative amount in bank.

Do not accept explanation of loan or short-term loan as this is different to an overdraft.

(b) Calculate the following [2]

Application [2 × 1] – award 1 mark for each correct value.

X = \$ 15,000 000 or 15,000

y = \$ (2000 000) or (2000)

\$ sign not required. Note Y must be shown as negative value.

Note: Answer should be in millions but accept 15,000 and (2 000) due to question layout.

(c) Identify and explain two advantages to Anyshade of using flow production. [4]

Knowledge [2 × 1] – award 1 mark for each advantage

Application [2 × 1] – award 1 mark for each relevant explanation in context

Reasons might include:

- Costs are kept low [k] so might be able to reduce its prices [app]
- Capital intensive production [k] to help lower cash outflows for labour costs [app]
- Able to employ unskilled workers [k] as they only have to oversee the paint making machines [app]
- Goods can be produced quickly [k] so might help improve its cash inflows [app]
- Consistent/uniform standard of products [k] help to retain quality reputation [app]
- Production can continue 24/7 [k]
- Highest output [k] or higher output than batch production [k]
- Economies of scale [k] so able to reduce cash outflows [app]

Do not accept ‘increased output’ as too vague.

(d) Identify and explain two possible reasons why Anyshade has cash flow problems. [6]

Knowledge [2 × 1] – award 1 mark for each relevant reason identified.

Application [2 × 1] – award 1 mark if relevant reference made to data.

Analysis [2 × 1] – award 1 mark for each relevant explanation (calculations not necessary).

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

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Relevant points might include:

- High fixed costs [k] of \$70,000 is over half of the monthly cash outflows [app]. These must be paid whether sales are made or not [an]
- Sell stock on credit [k] which means that cash payments are delayed [an] as in Aug/Sep over half the cash inflow is from credit sales [app]
- Opening balance is negative to start with [k] with a value of (\$9 000) [app]
- Poor cash flow management [k]
- Spend too much money [k]
- Wages fluctuate each month [k]

Note: Can accept comments based on general trend e.g. cash sales have fallen [k].

(e) Anyshade’s Finance manager believes that reducing prices is the best way to increase sales revenue. Do you agree? Justify your answer. [6]

Knowledge [2] – award 1 mark for identification of relevant issue(s).

Application [1] – award 1 mark if relevant reference made to Anyshade.

Analysis [1] – award 1 mark for relevant development of point(s).

Evaluation [2] – justified decision made as to whether low prices are the best way for Anyshade to increase sales.

Relevant points might include:

- Low prices could make Anyshade more competitive [k] as paint [app] is cheaper than competitors so could increase volume of sales [an] but there is no guarantee that sales will increase [eval]
- Competitors reaction might lead to a price war which could result in fewer sales [k] if rivals offer better promotions [an]
- Price might not be reason why buy [k] as known for quality [app] so lower price might be seen as lower quality so fewer people want to buy [an]
- The business does not know why people buy paint [k] so lower prices might not affect its sales revenue [an]
- It depends on the price elasticity of demand
- Awareness of other issues affecting sales such as promotion, place could be discussed

Note: If candidate takes the view that reducing prices is not the best strategy, explains alternative strategies but does NOT discuss the advantages and/or disadvantages of reducing prices then max of 4 marks (with no marks for evaluation).

MARK SCHEME for the May/June 2014 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.

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

Cambridge will not enter into discussions about these mark schemes.

Cambridge is publishing the mark schemes for the May/June 2014 series for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level components and some Ordinary Level components.

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1 (a) What is meant by ‘paid by time rate’? [2]

Good knowledge [2]: e.g. receive a set amount of pay for every hour worked
Some knowledge [1]: e.g. by the hour

(b) Calculate the following:

Application [2 × 1] – one mark per feature [2]

(i) Span of control for the managing director is 4

(ii) Levels in the hierarchy is 3

(c) Identify and explain two advantages to TPW of Tim’s democratic management style.[4]

Knowledge [2 × 1] – award 1 mark for each relevant advantage

Application [2 × 1] – award 1 mark for each relevant explanation in context

Relevant points might include:

- Creates time to do other jobs [k] as clerks/managers can perform some tasks [app]
- Less mistakes/better quality work [k] as it would be difficult to oversee the different departments/help TPW remain successful [app]
- Retention of workers [k] as clerks/managers feel part of decision making process [app]
- Better decision making possible [k] as individual managers/clerks are able to contribute ideas [app]
- Better communication [k] as managers/clerks know that they can ask questions [app]
- Improves manager/worker relationship [k]

Note: benefits must be for business not employee

(d) Identify and explain two methods (other than time rate) that TPW could use to reward its employees. [6]

Knowledge [2 × 1] – award 1 mark for each relevant method identified

Application [2 × 1] – award 1 mark if relevant reference made to TPW

Analysis [2 × 1] – award 1 mark for each relevant explanation

Relevant ways might include:

- Bonuses for all workers [k] office workers/clerks would want to work harder [app] to get extra money [an];
- Commission to office team [k] as would want to attract more clients [app] to get additional payment [an]
- Performance related pay [k] as workers are paid in relation to how well they have done [an]
- Profit sharing [k] as TPW believe in democratic management style [app] so everyone to share equally in business success [an];
- Fringe benefits [k] (only once) such as company car for business managers [app] as car acts as sign of status [an]
- Opportunities for promotion [k] so clerks have chance to become managers [app]

Accept practical examples.

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(e) Do you think that introducing new information technology in the office will help improve the profitability of TPW? Justify your answer. [6]

Knowledge [2] – award 1 mark for identification of relevant issue(s)
 Application [1] – award 1 mark if relevant reference made to TPW’s business
 Analysis [1] – award 1 mark for relevant development of point (s)
 Evaluation [2] – justified decision made as to whether introducing new technology will help improve profitability of TPW. Either viewpoint is acceptable.

Relevant points might include:

- High cost of installing technology [k] which would increase fixed costs [an]
- Higher costs of training and maintenance for IT [k] which could lower profit margin [an]
- Help provide a better service [k] which could help attract more businesses [an]
- Quicker or more accurate work is possible [k] as machines are less likely to make mistakes [an] in financial calculations [app]
- Help cut labour costs [k] as technology could replace one (or more) of the three workers in the office [app]
- Risk of job losses could affect the motivation of employees [k] so work is slower or not as accurate so someone has to check accounts [app] which could cost more [an]
- More organised [k] as able to find documents on line [app] so able to complete work quicker [an]

Do not accept ‘more efficient’ on its own as too vague

Do not accept references to production of goods as this is a tertiary sector business

2 (a) What is meant by ‘net cash flow’ [2]

Good knowledge [2]: e.g. difference each month between the cash inflows and cash outflows
 Some knowledge [1]: e.g. shows cash in and out

(b) Calculate [2]

Application [2 × 1] – award 1 mark for each correct value

X = (15 000); Y = 85 000 – Note 000s not required but X must be shown as a negative value

(c) Identify and explain two possible advantages to Karl of employing unskilled workers. [4]

Knowledge [2 × 1] – award 1 mark for each relevant advantage

Application/analysis [2 × 1] – award 1 mark for each relevant explanation in context

Relevant points might include:

- Larger pool of potential employees/easy to replace [k] so not expensive to recruit someone [app]
- Lower wages [k] so helps keep cash outflows low [app]
- Quicker to find if work is unskilled [k]; employees only selecting fabric so no need to pay for skilled workers [app]
- Able to keep prices low [k] which can help attract more customers [an]
- Able to hire more workers [k] so can keep up with demand [an]

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(d) Identify and explain two possible advantages to small business customers of buying from a wholesale business such as Karl's. [6]

Knowledge [2 × 1] – award 1 mark for each relevant advantage identified [maximum 2]
 Application [2 × 1] – award 1 mark if relevant reference made to Karl's business
 Analysis [2 × 1] – award 1 mark for each relevant explanation

Relevant points might include:

- Able to buy amount needed [k] as all the small businesses [app] might not have money or space to store large amounts of stock [an]
- Access to a variety of materials [k] as can easily choose which fabrics [app] they want without having to spend all their time travelling to different manufacturers [an]
- Lower costs of transport [k] as wholesaler usually pay for transport [an]
- Lower office costs [k] as don't need to employ a team of people to deal with many cloth suppliers [app]
- Lower storage costs/less need to [k] as keeping fabrics clean or undamaged [app] might need they need to pay more for safer store [an]
- Immediate availability/convenience [k] as Karl has a large range of fabric in stock [app] so they can always get the materials that they need [an]
- May offer credit [k] so can take materials now and pay later [app] so improve their cashflow [an]

Do not accept answers such as lower prices or break bulk unless explained.

(e) Explain two ways that Karl could use to improve his cash flow. Recommend which one he should use. Justify your answer. [6]

Knowledge [2] – award 1 mark for identification of relevant issue(s)
 Application [1] – award 1 mark if relevant reference made to Karl's business/use of data
 Analysis [1] – award 1 mark for relevant development of point (s)
 Evaluation [2] – justified decision made as to which method is the better one for Karl to use. Answer depends on choices made.

Methods could include:

- Delaying payment to creditors [k] as would delay cash outflows until later [an]
- Delaying payment of wages [k] as this would postpone cash outflows
- Arranging an overdraft facility [k] would give access to cash immediately [an]
- Disposal of unwanted fixed assets [k] would turn assets into cash [an]
- Ask debtors to pay quicker [k] as risen \$20 000 in the 3 months [app] this would help improve cash inflows
- Reduce level of stock [k] which is 2/3 of outflows in month 3 [app]
- Short term loan [k]: bank likely to lend as business is profitable [app]

Can accept practical examples, e.g. find cheaper supplier

Do not accept answers such as 'increase cash inflow/reduce outflow', increase sales, cutting costs, raise prices on own as too vague.

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3 (a) What is meant by ‘break-even level of output’?

Good knowledge [2]: e.g. point at which level of sales is the same as the total costs OR level of output where business makes neither a profit nor a loss

Some knowledge [1]: e.g. costs same as sales

(b) Identify two factors which could influence employee’s motivation at ABC. [2]

Application [2 x 1] – 1 mark per factor

Factors include:

- Recognition and reward (e.g. financial factors such as level of pay OR bonuses OR employee of month awards)
- Good communication
- Leadership style
- Opportunities for promotion
- Interesting / varied work
- Job satisfaction
- Social reasons / sense of belonging
- Security / protection, e.g. safe conditions as working with machines

Accept any reasonable answer but **do not accept** commission, as this is a manufacturer

(c) Identify and explain two economies of scale that ABC could benefit from. [4]

Knowledge [2 x 1] – award 1 mark for each relevant economy identified

Application [2 x 1] – award 1 mark for each relevant explanation in context

Relevant points include:

- Financial [k]: a large car manufacturer is seen as less risky [app]
- Technical [k]: increasing production by 100000 which allow expensive machines to be bought [app]
- Purchasing [k]: discounts for purchasing large volumes of parts/materials [app]
- Managerial [k]: able to hire specialist production managers [app]
- Marketing [k]: can afford to advertise (cars) nationally/internationally [app]

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(d) Identify and explain two possible problems for ABC of increasing production. [6]

Knowledge [2 × 1] – award 1 mark for each relevant problem identified
 Application [2 × 1] – award 1 mark if relevant reference made to car production
 Analysis [2 × 1] – award 1 mark for each relevant explanation
 For each reason maximum 3 marks [1k + 1ap + 1an]

Relevant points might include:

- need to hire more workers [k] who can make cars [app] so increase costs [an]
- (Additional) machines might be needed [k] as not enough equipment to produce the additional output
- higher maintenance costs [k]: if machines are used more they could break down more often so need to spend more keeping them working [an]
- (Additional) costs of training [k] which could increase the break-even level beyond 100 000 [app]
- Lack of space at current site [k] as need to produce 100 000 extra cars [app] so might not have room to expand at this site [an]
- Overwork current workers [k] which could lower their motivation [app] so higher labour turnover [an]
- Quality issues [k] as not able to check all the cars [app] which could damage reputation [an]
- Need to have higher levels of stock [k] which increases cash outflows [an]
- Possible diseconomies of scale, e.g. poor communication [k]

(e) Do you think it is a good idea for ABC to start exporting some of its cars? Justify your answer. [6]

Knowledge [1] – award 1 mark for identification of relevant issue(s) [maximum 1 for all knowledge]
 Application [1] – award 1 mark if relevant reference made to ABC's business
 Analysis [2] – award up to 2 marks for relevant development of point(s)
 Evaluation [2] – justified decision made as to whether exporting is an advantage to ABC

Relevant points might include:

- Increase sales [k] as larger target market [an]
- Better international reputation [k]
- Lack of demand in country X [k] as have additional 100 000 cars to sell [app]
- Spread risk [k] so if demand falls in one country can make up sales in others [an]
- Favourable exchange rates [k] could help make ABC more competitive [an] could help increase the sales of the new car [app]
- Trade barriers [k] could mean not able to export as many (any) cars [app]
- Government restrictions [k] might need to modify the cars [app], which could increase costs / price of vehicles) [an]
- Existing competition [k] so little demand in other countries [an]
- Different customer requirements [k]; people might not want style of cars [app] so cannot sell [an]

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

Good knowledge [2]: a person who organises, operates and takes the risk for a new business venture.

Some knowledge [1]: e.g. identifies qualities such as risk taker, initiative, good management skills, leader, decision maker.

(b) Identify two methods of promotion Frydays might use. [2]

Application [2 × 1] – one mark per method

Methods could include: advertising in local papers OR local television, leaflets, mailshots to customer base, free food samples, discount vouchers, competitions.

Accept any reasonable suggestion

(c) Identify and explain two factors that would affect Kyle’s choice of source of finance.[4]

Knowledge [2 × 1] – award 1 mark for each relevant factor

Application [2 × 1] – award 1 mark for each relevant explanation in context

Relevant points might include:

- Amount needed [k] he has some savings so might not need much money [app]
- What finance is needed for [k] as would use different sources for buying ingredients or the shop [app]
- Timespan [k] to buy ingredients [app] is likely to be short term [an]/if to buy franchise – long term [app] so he needs to decide how
- Financial status [k] as just starting to trade he will not have many options [app]
- Interest rates [k] if high, likely to have to pay a lot if borrow \$100 000 [app]

(d) Identify and explain two factors that Kyle should consider when choosing a suitable location for his business. [6]

Knowledge [2 × 1] – award 1 mark for each relevant factor identified

Application [2 × 1] – award 1 mark if relevant reference made to Kyle’s business

Analysis [2 × 1] – award 1 mark for each relevant explanation (why he should consider the factor)

Factors could include:

- Demand/customers [k]: enough people to have sale/revenue [an]
- Cost of rent [k] a busy city centre location will cost more [an] which as new cannot afford [app]
- Competition [k]: if other fast food businesses nearby [app] customers might be loyal to them so will not chose Frydays [an]
- Guidelines from Frydays [k] could state where restaurant has to be [app] so has little choice [an]
- Access to right type of employees [k] as needs to hire employees [app]
- Enough space [k] as needs somewhere to cook as well as serve [app]
- Space for parking [k] so ease of access [an] for food deliveries [app]

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**(e) Do you think that owning a franchise would mean Kyle is ‘certain to make a profit?’
Justify your answer. [6]**

Knowledge [2] – award up to 2 marks for identification of relevant issue(s)
 Application [1] – award 1 mark if relevant reference made to Kyle
 Analysis [1] – award 1 mark for relevant development of point(s)
 Evaluation [2] – justified decision made as to whether Kyle is certain to make more profit.

Relevant points might include:

- Has to give royalties/share of profits to Frydays [k] so little profit for himself [an]
- Less risk than sole trader [k] so higher possible sales/customers [an] as its leading name [app]
- Total costs might be too high [k]
- Franchisor will pay for some costs, e.g. promotion [k] reducing Kyle’s fixed costs [an]
- Limited influence over decisions [k] so not able to make choices to increase sales enough [an]
- Negative publicity about Frydays will affect all franchises [k] so sales and profits could suffer through no fault of Kyle [an]
- Customer tastes might change [k] so demand for fast food falls [app]
- Actions of competitors [k] so sales might fall [an]
- Business is not guaranteed to succeed [k] if he chooses the wrong location [app]; might not make enough sales / get customers [an]

5 (a) Identify two features of an economic boom.

Knowledge [2 x 1] – 1 mark per feature

Points might include: Low unemployment, high GDP, rising business sector profits, rising rates of inflation, (possible) shortage of skilled workers, business costs rising, higher demand, higher incomes.

(b) Identify two possible advantages to mine workers of being members of a trade union. [2]

Application [2 x 1] – one mark per advantage

Points could include: negotiate for higher wages, better working conditions, improved health and safety, collective bargaining power, advice, legal support, social benefits.

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- (c) Identify and explain two possible advantages to GGC’s management of its mine workers of being members of a trade union. [4]**

Knowledge [2 × 1] – award 1 mark for each advantage identified

Application/analysis [2 × 1] – award 1 mark for each relevant explanation

Points might include:

- Disputes can be solved more quickly [k] so mining operations are not delayed [app]
- Help agree changes [k], e.g. if union agree to longer shifts miners are likely to accept the change [app]
- No need to negotiate with individual workers [k]
- Less time wasted in arguments [k] so managers can focus on important matters such as making joint venture work [app]
- Fewer industrial disputes [k] so able to focus on its other objectives [an]
- Improve GGC’s reputation [k] so easier to attract employees [an].

- (d) Identify and explain two sources of external finance that GGC might use when setting up a new mine. [6]**

Knowledge [2 × 1] – award 1 mark for each relevant external source

Application [2 × 1] – award 1 mark for each relevant explanation

Analysis [2 × 1] – award 1 mark for each relevant explanation

Points might include:

- Short term loans OR overdraft [k] as need to pay unexpected variable bills [an] such as fuel for machines [app]
- Long term bank loans [k]: will need to buy large equipment, e.g. diggers [app] so have long time to repay [an]
- Mortgages [k] to pay for expensive site [app]
- Leasing [k] as will need heavy construction equipment [app] which could need to be replaced regularly [an]
- Debentures [k]
- Government grants [k] as this money does not need to be repaid [an]

Do not accept bank loan [tv].

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(e) Do you think it is a good idea for GGC to form a joint venture in country U? Justify your answer [6]

Knowledge	[2] – award up to 2 marks for identification of relevant issues
Application	[1] – award 1 mark if relevant reference made to GGC’s business
Analysis	[1] – award 1 mark for relevant development of point(s)
Evaluation	[2] – justified decision made as to whether a joint venture is better for GGC (than setting up its own business). Either viewpoint is acceptable.

Relevant points might include:

- Provide access to new markets [k] GGC has no knowledge of country U and its laws which could limit where or how much it can mine [app]
- Share costs [k] so does not need to use as many sources of finance [app] as both can contribute capital [an]/as there is a lot of competition [app] the risks of failure might be higher
- Access to other specialist staff and technology [k]; GGC might not know how to extract the minerals in U’s conditions [app] so would need to hire people anyway [an]
- Share risks [k]
- Different management styles or objectives [k] lead to conflict/problems with decision making [an]
- Skills and expertise of partners differ [k] so might have to spend more time/money setting up the mine than other company [an]
- Any mistakes might damage reputation of both firms [k] even if GGC is not the cause of the error [an]

Do not accept answers that focus on whether GGC should expand/open mine in country U.

CAMBRIDGE INTERNATIONAL EXAMINATIONS

Cambridge International General Certificate of Secondary Education

MARK SCHEME for the October/November 2014 series

0450 BUSINESS STUDIES

0450/11

Paper 11 (Short answer/Structured Response),
maximum raw mark 100

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CAMBRIDGE INTERNATIONAL EXAMINATIONS

Cambridge International General Certificate of Secondary Education

MARK SCHEME for the October/November 2015 series

0450 BUSINESS STUDIES

0450/21

Paper 2 (Case Study), maximum raw mark 80

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Page 2	Mark Scheme	Syllabus	Paper
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- 1 (a) Identify and explain one advantage and one disadvantage to CC of being a public limited company. [8]

Knowledge (2 × 1) – award one mark for each advantage/disadvantage identified

Analysis (2 × 1) – award one mark for an explanation of each advantage/disadvantage

Application (2 × 2) – award two application marks for each advantage/disadvantage

Award one mark for each advantage/disadvantage (maximum of two), such as:

Advantages:

- Raise large amounts of capital through share issue
- No limit to the number of shares sold
- Shares can be sold to the public
- Shares can be sold on the stock exchange
- Limited liability
- Company has separate legal identify for shareholders
- Continuity of company if shareholder dies

Disadvantages:

- Accounts are published
- Risk of takeover
- Divorce between ownership and control
- Loss of control as increased number of shareholders

Award a maximum of three additional marks for **each** advantage/disadvantage – **2 of which must be applied to this context.**

Indicative response:

Shares can be sold on the stock exchange (k) and this means that CC can raise large amounts of capital to finance the building of new factories in other countries (ap). CC will not have to pay interest on this source of finance and so costs of producing camping equipment are lower (ap) as only dividends may be paid when profits are gained (an).

Possible application marks: recognition that the plc is large; business wants to expand; manufactures camping equipment; customers have tents or caravans; merging with a competitor; three factories; capital intensive method of production; camping cooker; prices just below competitors prices; CC share price; takeover; equipment listed from Appendix 1.

There may be other examples in context which have not been included here.

Page 3	Mark Scheme	Syllabus	Paper
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- (b) CC needs to communicate a new health and safety regulation to its factory workers. Consider the advantages and disadvantages of each of the following three ways CC could use. Recommend the most effective way to use. Justify your answer. [12]

Relevant points might include:

	Advantages	Disadvantages
Posters on factory noticeboards	Easily seen by factory workers Cheap to produce Placed in relevant position Remains visible for long period of time	Not seen by other employees May not be noticed Easily removed/damaged Not know whether or not poster has been read
CC website	Seen by a large number of people – all employees Visual images enhances the message Cost to set up (can be argued as a disadvantage)	Only seen if employee accesses the website May not have access to Internet
Text (mobile phone) message to factory workers	Directly reaches worker Send it to multiple people at once	May not be noticed Phone switched off May not own a phone Can be expensive to send out text messages Too easily deleted Communication delays/network errors

Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.

	Knowledge/Analysis/Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified recommendation as to the most effective method of communication to use. 7–8 marks for some limited judgement shown in recommendation as to the most effective method of communication to use.
Level 2	4–6 marks Detailed discussion of advantages and/or disadvantages of each communication method.
Level 1	1–3 marks Outline of advantages and/or disadvantages of each communication method.

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- Level 1 1 mark for each L1 statement (max of 3 marks) e.g. Posters seen by target workers as they will be in the factory and pass by the noticeboard.
- Level 2 one L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. Posters seen by target workers as they will be in the factory and pass by the noticeboard. This is a cost effective method to use as the posters will be cheap to produce. However, it will only be seen by factory workers who pass by those particular noticeboards and there may be many workers who are not working near or walk past these noticeboards and will not see the poster. (4 marks for L2 answer).
- Level 3 for L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation which justifies the most effective method to use.

Award up to 2 additional marks for relevant application.

Possible application marks: in country X; manufactures camping equipment; three factories; 100 skilled workers in each factory; many machines in factory; not allowed trade union membership; public limited company; equipment listed from Appendix 1.
There may be other examples in context which have not been included here.

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- 2 (a) CC's Marketing manager wants to carry out market research. Identify and explain two factors which could influence the accuracy of the market research data. [8]

Knowledge [2 × 1] – award one mark for each relevant factor

Analysis [2 × 1] – award one mark for a relevant explanation for each factor

Application [2 × 2] – award two application marks for each factor

Award one mark for each relevant factor (maximum of two), such as:

- Ensuring the information is up-to-date
- Ensuring a suitable size of sample is selected
- Ensuring a suitable sample method is used/aimed at target market
- Ensure the questions on a questionnaire are well phrased
- Check who carried out the research
- Check where the research was carried out
- Check if there was any bias/dishonesty
- Method of market research used

Award a maximum of three additional marks for **each** explanation – **2 of which must be applied to this context** – of how it can be ensured that the information is accurate.

Indicative response:

To ensure the information is up-to-date [k] because if the market research had been carried out a few years earlier then customer camping habits may have changed [an]. The Marketing manager needs to ensure that the information has been carried out recently so it reflects current camping habits (ap) and then CC will know whether the current customers are happy with its camping equipment (ap).

Possible application marks: in country X; manufactures camping equipment; customers have tents or caravans; country Z; camping shops; camping cooker; prices just below competitors prices; equipment listed from Appendix 1; Appendix 2 information such as price of cooker = \$40 or variable cost per cooker = £20.
There may be other examples in context which have not been included here.

Page 6	Mark Scheme	Syllabus	Paper
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- (b) CC's bestselling product is a good quality camping cooker which is similar to those produced by competitors. Explain how each of the following three elements of the marketing mix could be used to market CC's camping cooker. Justify why each element is important to the success of this product. [12]

Relevant points might include:

Price	Competitive pricing as they have several competitors Need to make sure costs are covered – cost plus pricing Psychological pricing – e.g. \$39.99 Penetration pricing – to enter new market
Promotion	Posters on campsite noticeboards Discount vouchers in specialist camping magazines Advertise on holiday company websites Examples of promotional offers e.g. buy camping cooker and get another item free
Place	CC equipment is sold through camping shops Could be sold direct to customers through the website Sell through other outlets as well as camping shops Open new stores near camping sites/activity centres

Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.

	Knowledge/Analysis/Evaluation
Level 2	4–10 marks Detailed discussion of each of the elements of the marketing mix. Developed reasoning for the course of action suggested Justification of why the description of the element of the marketing mix will lead to successful sales of the camping cooker.
Level 1	1–3 marks Outline the elements of the marketing mix.

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- Level 1 1 mark for each L1 statement (max of 3 marks) e.g. Competitive pricing
- Level 2 one L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 10 marks) e.g. Competitive pricing needs to be used with the marketing of the camping cooker as there are many competitors and so CC cannot have very different prices to the other cookers. (4 marks for L2 answer).

Award up to 2 additional marks for relevant application.

NB – do not reward Cooker as an application mark as it is mentioned in the question.

Possible application marks: in country X; loyal customers, need to maintain our competitiveness; manufactures camping equipment; customers have tents or caravans; selling into country Z; camping shops; prices just below competitors prices; equipment listed from Appendix 1; Appendix 2 information such as price of cooker = \$40 or variable cost per cooker = £20.
There may be other examples in context which have not been included here.

Page 8	Mark Scheme	Syllabus	Paper
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3 (a) Identify and explain two benefits to CC workers of joining a trade union. [8]

Knowledge [2 × 1] – award one mark for each relevant benefit

Analysis [2 × 1] – award one mark for a relevant explanation for each benefit

Application [2 × 2] – award two application marks for each benefit

Award one mark for each relevant benefit (maximum of two), such as:

- Gives strength in numbers/collective bargaining so more likely to achieve demands
- Provides services such as insurance
- Improved pay
- Improved working conditions/health and safety
- Representation in grievances
- Represents the views of the workers
- Advice can be given if the worker has problems
- Legal support if the worker has problems
- Access to training/education
- Social activities/clubs
- Unions membership benefits e.g. discounts

Award a maximum of three additional marks for **each** explanation of the benefits – **2 of which must be applied to this context.**

Indicative response:

Being a member of a trade union gives strength in numbers so workers are more likely to achieve their demands [k] rather than if one worker tries to achieve the demands on their own (an). At the moment CC does not allow a worker to be a member of a trade union (ap). Production workers are only paid low wages and they may want to be members of a trade union in order to gain a pay rise (ap).

Possible application marks: paid lower wages than wages paid to workers in similar businesses; part-time workers; use machinery in the factory; in country X; manufactures camping equipment; merging with a competitor; three factories; 100 skilled workers in each factory; capital intensive method of production; not allowed trade union membership; country Z; camping cooker; public limited company; takeover; equipment listed from Appendix 1.
There may be other examples in context which have not been included here.

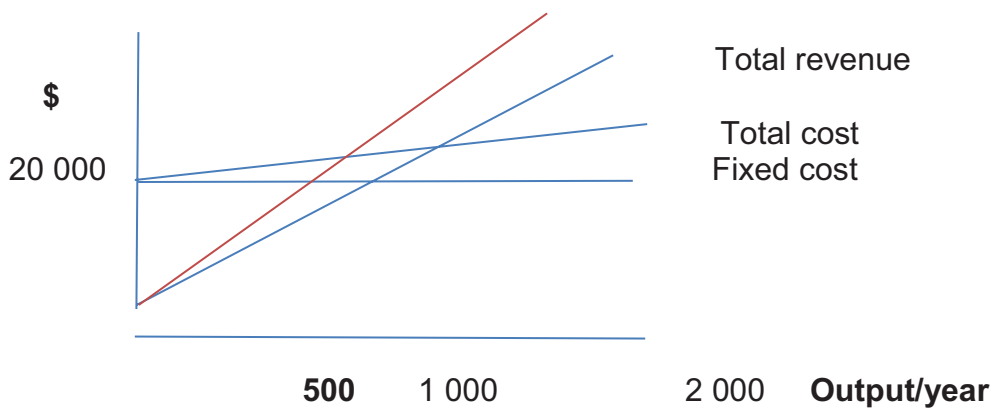
- (b) Show what happens to the break-even point for each of the following options by drawing on each chart. Consider these two options for increasing the profitability of the camping cooker. Recommend which option the directors should choose. Justify your answer. [12]

Option 1 – Increase the price of the camping cooker to \$60

$$B/E = \$20\,000 / (\$60 - \$20) \text{ (L1)} = 500 \text{ (L2)}$$

Revenue increases to \$120 000 – difference of \$40 000 (L1)

B/E at a lower output – increase profit – But – will sales be maintained with higher price?

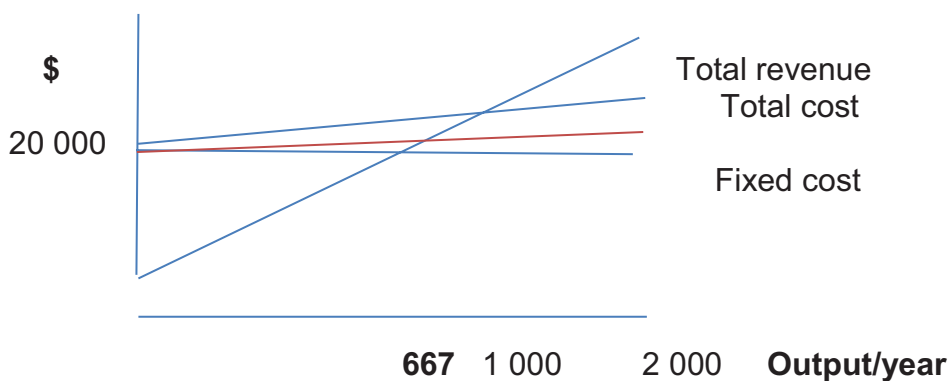


Option 2 – Decrease the variable cost of the camping cooker to \$10

$$B/E = \$20\,000 / (\$40 - \$10) \text{ (L1)} = 667 \text{ (accept 666) (L2)}$$

Variable cost decreases to \$20 000 – difference of \$20 000 (L1)

B/E at a lower output – takes longer to gain higher profit – But – cheaper materials may reduce quality



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Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.

	Knowledge/Analysis/Evaluation
Level 3	Correct break-even calculations of output for both options + 9–10 marks for well justified recommendation as to the best option to choose. 7–8 marks for some limited judgement shown in recommendation as to the best option to choose.
Level 2	4–6 marks Break-even level of output correctly calculated. Comments on what happens to the break-even output/profitability. Recommendation but no correct break-even output calculated.
Level 1	1–3 marks States about the options and what will happen to the break-even output/profitability.

Level 1 1 mark for each L1 statement – increased price may lead to increased profit. (max of 3 marks)

Level 2 one L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation. (max 6 marks) Break-even output of option 1 is 500. (L2)

Level 3 For L3 to be awarded there needs to be both break-even outputs correctly calculated and then a recommendation which justifies which is the best option to choose.

Award up to 2 marks for application – one mark for each correct line on the graphs (label not required)

Page 11	Mark Scheme	Syllabus	Paper
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- 4 (a) Identify and explain one advantage and one disadvantage to CC of employing skilled workers in the factories. [8]

Knowledge [2 × 1] – award one mark for each relevant advantage/disadvantage

Analysis [2 × 1] – award one mark for a relevant explanation for each advantage/disadvantage

Application [2 × 2] – award two application marks for each advantage/disadvantage

Award one mark for each relevant advantage/disadvantage (maximum of two), such as:

Advantage	<p>Increased productivity/More efficient Less training required/Reduced training costs Reduces supervision Can train other workers High quality products Fewer errors/Less waste</p>
Disadvantage	<p>Higher wages paid Increased wage costs May be more difficult to recruit Skilled workers may be specialised in just one area/less flexible</p>

Award a maximum of three additional marks for **each** advantage/disadvantage – **2 of which must be applied to this context.**

Indicative response:

Employing skilled workers will increase labour productivity (k) and this means there will be a greater number of camping cookers produced (ap) and at a lower unit cost (an). This may lead to higher profits and higher dividends paid to shareholders (ap).

Possible application marks: loyal customers, need to maintain competitiveness; other businesses may pay higher wages to attract these workers; business wants to expand; many machines used in factory; part-time workers; in country X; manufactures camping equipment; three factories; 100 skilled workers in each factory; capital-intensive method of production; not allowed trade union membership; country Z; prices just below competitors prices; public limited company; takeover; equipment listed from Appendix 1. There may be other examples in context which have not been included here.

- (b) CC wants to expand into country Z and has the choice of merging with a competitor in country Z or setting up its own factory in country Z. Consider these two options and recommend which one CC should choose. Justify your answer. [12]

Relevant points might include:

	Advantages	Disadvantages
Merging with a competitor in country Z	<ul style="list-style-type: none"> Already established in the market Know target market well Existing workforce of competitor has necessary skills No need to build own factory May be cheaper 	<ul style="list-style-type: none"> Less control over other company May be disagreements between staff in the two firms May incur redundancy costs
Setting up its own factory in country Z	<ul style="list-style-type: none"> Choose location etc. New equipment will be up to date Choose own staff Government support 	<ul style="list-style-type: none"> Little knowledge of new market May be different culture Costs of setting up may be more expensive Need to recruit new staff

Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.

	Knowledge/Analysis/Evaluation
Level 3	<p>At least 2 × Level 2 + 9–10 marks for well justified recommendation as to the best way to increase sales compared to the other way.</p> <p>7–8 marks for some limited judgement shown in recommendation as to the best way to increase sales.</p>
Level 2	<p>4–6 marks Detailed discussion of advantages and/or disadvantages of each option.</p>
Level 1	<p>1–3 marks Outline of advantages and/or disadvantages of each option.</p>

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- Level 1 1 mark for each L1 statement (max of 3 marks) e.g. The company is already established in the market.
- Level 2 one L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. The company is already established in the market therefore it will be familiar with the culture and trends in the camping market in country Z. This will save CC time and money in carrying out market research as it will not need to do this. (4 marks for L2 answer + 1 application mark for mentioning trends in the camping market in country Z).
- Level 3 For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation which justifies which option CC should choose.

Award up to 2 additional marks for relevant application.

Possible application marks: existing business is already large; set up 20 years ago; in country X; manufactures camping equipment; three factories; 100 skilled workers in each factory; capital intensive method of production; not allowed trade union membership; public limited company; equipment listed from Appendix 1; Government grants available; similar range of camping equipment.
There may be other examples in context which have not been included here.

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

Clear understanding [2] e.g. a business owned and controlled by one person OR ownership lies in the hand of an individual.

Some understanding [1] e.g. a business where one person works/runs on their own.

Some understanding plus a relevant feature can gain [2] e.g. keeps all profits / unlimited liability.

Note – Features alone – max [1]

(b) Identify two methods Lu could use for paying employees (other than time rate). [2]

Application [2 × 1] one mark per method.

Points might include: piece rates, salary, performance related pay, bonuses/commission, profit sharing.

Note – Do not accept wage as this implies time rate

(c) Identify and explain two suitable sources of finance Lu could use to buy a new shop. [4]

Knowledge [2 × 1] – award 1 mark for each relevant source.

Analysis [2 × 1] – award 1 mark for each relevant explanation.

Relevant points might include:

- Long term loan [k] (bank loan alone not acceptable) which he can pay back over a long period of time [an]
- Retained profits [k] because he will not have to repay the money back [an]
- Mortgage [k]
- Existing owners capital [k]
- Additional owners capital [k]
- Venture capitalist [k].

Page 3	Mark Scheme	Syllabus	Paper
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(d) Identify and explain two methods of promotion that Lu could use for the new range of cakes. [6]

Knowledge [2 × 1] – award 1 mark for each method identified.

Application [2 × 1] – award 1 mark if relevant reference made to Lu's business,

Analysis [2 × 1] – award 1 mark for each relevant explanation (e.g. how it would help increase sales),

Relevant points might include:

- advertising (allow only once) e.g. leaflets/posters [k] showing pictures of their food [app] which raise awareness of business [an]
- Point of sales displays [k] as attracts attention of customers [an]
- Samples [k] as people are able to taste the products [app] and if liked more willing to buy [an]
- money off incentives (allow only once) e.g. promotional pricing or buy one get one free [k] which will encourage them to come into the shop [app] and buy the product [an]
- Attending fairs [k] such as wedding events [app] which will gain Lu new customers
- publicity / sponsorship [k] loyalty card [k] personal selling [k]
- Competitions [k] people will buy a wedding cake from Lu [app] to have a better chance of winning the prizes [an].

Note – Reference to cakes alone is not sufficient for application as this is in the question stem.

Specific examples of promotion are required so do not accept above and below the line promotion or forms of media alone e.g. newspapers, as these are not specific methods. Two distinct examples of application required for the 2 app marks.

(e) Do you think that Lu's business will be more profitable if he expands it by opening a café in a new shop? Justify your answer. [6]

Knowledge [2 × 1] award 1 mark for each relevant issue identified.

Application [1] – award 1 mark if relevant reference made to Lu's business.

Analysis [1] – award 1 mark for relevant development of point(s).

Evaluation [2] – justified decision made as to whether Lu's business will be more profitable if he expands it by opening a new café.

Points might include:

- Sales revenue of the business should increase [k] if more/new customers are attracted [an] who might buy cakes [app]
- Extra costs [k] such as additional rent [app] he may need more than 4 workers [app] which will increase Lu's expenses [an]
- Reaction of competition [k]
- Is there sufficient demand [k] Lu only thinks there is a demand [app].

Developed example:

Sales revenue of the business should increase [k] but expansion creates extra costs [k] such as the additional rent [app] so profits may not increase [an]. Everything depends upon the success of the venture in generating new customers [eval].

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2 (a) What is meant by ‘fixed costs?’ [2]

Clear understanding [2] e.g. costs that do not change [1] as the level of activity changes [+1]
Some understanding [1]: e.g. costs that stay the same.

Note – Must link answer to level of activity/output to gain full marks. Do not accept examples.

(b) What is meant by ‘Rakesh adds value’? [2]

Clear understanding [2] e.g. the difference between the price of the product and the cost of the resources needed to produce it OR an improvement to the product [1] that makes it worth more [1].

Some understanding [1]: e.g. makes product more valuable.

Note – increased value is a repetition of the question and should not be credited.

(c) Calculate the weekly net profit of the business. [4]

Correct answer [4]: 6000 (\$ not required. No further calculations are required)

Some understanding [can gain up to 3 marks]:

Breakdown of marks as follows:

Revenue per week $(5000 \times 6) = \$30\,000$ [1]

Costs per week:

$[2000 \times 6] + [500 \times 6] + [1000 \times 5] + \$4000 = \$24\,000$ [2] 1 mark for 3 of these 4 correct costs

OR (ii) $30\,000 [1] - 17\,500 = 12\,500 [+1]$

Profit per week $\$6000$ [1]

NOTE – OFR (own figure rule) can apply e.g. (i) $30\,000 [1] - 7500 = 22\,500 [+1]$

(d) Identify and explain two reasons why the weekly net profit may not be the same as the weekly net cash flow for Rakesh’s business. [6]

Knowledge $[2 \times 1]$ – award 1 mark for each reason identified.

Application $[2 \times 1]$ – award 1 mark if relevant reference made to data/Rakesh’s business.

Analysis $[2 \times 1]$ – award 1 mark for each relevant explanation (show why they create cash flow problems).

Points might include:

- Sales are on credit [k] although he is making a profit from the cars [app] money will not be received until later [an]
- Purchase of stock is by cash [k] as he holds a large stock of parts [app] profit is not earned until it is sold [an]
- Some costs may not be paid every week e.g. insurance or rent
- Buys the cars for cash [k] takes time to repair them [app] and so only makes profit when they are sold.

Explanation will focus on the fact that timing of flows creates an imbalance between cash in and out.

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- (e) Country Y's economy is in a recession. Do you think that this will make Rakesh's business less successful? Justify your answer. [6]

Knowledge [2 × 1] award 1 mark for each relevant issue identified.

Application [1] – award 1 mark if relevant reference made to this type of business.

Analysis [1] – award 1 mark for relevant development of point(s).

Evaluation [2] – justified decision made as to whether Rakesh's business is likely to be less successful.

Points might include:

- Recession could mean a fall in disposable income [k]
- Higher unemployment [k] so fall in people's living standards [an] so might not be able to buy a new car [app]
- Depends on what is meant by successful [k]

Developed answer:

Recessions usually mean a fall in disposable income [k] and an increase in unemployment [k]. Both of these usually mean a fall in consumer demand [an] especially for non-essential products such as cars [app]. This is not good news for Rakesh's business [eval]. However, it is possible that there will be a switch in demand towards cheaper cars [an] and this might help his sales so he could still be successful [eval].

- 3 (a) Calculate the total market sales of soap in 2012. [2]

Correct answer [2]: 400 000 000 OR 400 m (\$ not required)

Some understanding [1] e.g. method OR $40 \div 0.1$

- (b) Identify two possible reasons why Natural Care's market share fell in 2014. [2]

Application [2 × 1] – award 1 mark per relevant reason.

Points might include:

- Demand for rival products increased faster than NC sales / market growth higher than 10%
- Increase competition in the market
- Higher price than competitors
- Lack of suitable marketing / promotion
- Decline in quality in the product.

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- (c) Identify and explain two advantages to Natural Care of acting in an ethical way by paying fair prices to its suppliers. [4]

Knowledge [2 × 1] – award 1 mark for each relevant advantage.

Analysis [2 × 1] – award 1 mark for each relevant explanation showing how the factor creates an advantage.

Points might include:

- Good public image / reputation [k] so customers are more willing to pay higher prices [an]
- Management and owners feel 'happy' with the way the business operates [k]
- Business more attractive to potential employees [k] as they will want to be associated with an ethical company [an]
- Keeps suppliers happy / trusted [K] therefore less likely to lose their suppliers [an].

Note – do not reward discounts as the question is asking about fair pricing

- (d) Identify and explain two ways in which Natural Care might be affected by changing to a competitive pricing strategy. [6]

Knowledge [2 × 1] – award 1 mark for each way identified.

Application [2 × 1] – award 1 mark if relevant reference made to this business/manufacturer.

Analysis [2 × 1] – award 1 mark for each relevant explanation.

Points might include:

- Reduce profit margins [k] as prices might fall below cost plus price [app] so need to sell more to make same level of profit [an]
- Possible increase in sales [k] because prices could be lower[an] help increase its market share [app]
- Impact on image [k] as might need to change from ethical suppliers [app] as need to lower costs to maintain competitive [an]
- May loose suppliers [k] because they can no longer afford a fair price [app]
- More competitive [k] as price is no longer a reason not to buy their soaps [app]
- Need to find other way (other than price) to attract customers [k].

- (e) Do you think that customers of products such as soap always benefit from an increase in competition? Justify your answer. [6]

Knowledge [2 × 1] award 1 mark for each issue identified

Application [1] – award 1 mark if relevant reference made to this type of business

Analysis [1] – award 1 mark for relevant development of point(s)

Evaluation [2] – justified decision made as to whether customers always benefit from an increase in competition.

Points to include:

- Competition increase choice [k] therefore they may gain a product that better suits their needs [an]
- Leads to lower prices [k] which means more consumers can afford to buy [an]
- Products become more consumer orientated [k] for examples they can buy soap for sensitive skin [app]
- Lead to hidden quality cuts [k] as manufacturer looks to cut costs [an] to remain price competitive [app]

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- Too much choice can be confusing [k]
- Firms will need to spend on promotion [k] therefore prices might rise for customers to cover the costs [an]
- Lower prices [k] but firms may reduce the size of the product reducing value for money [an]
- Firms reduce the size of the product [k] which means customers get less for their money
- Could reduce choice [k] as smaller firms are forced out of the market [an].

Developed answer:

Competition generally lowers prices [k] as firms try to remain price competitive [app] customers they may gain a product that better suits their needs [an] customers may not benefit if firms reduce quality. [k] The extent to which they benefit depends on how firms compete [ev] and what customers value in the product [ev].

4 (a) What is meant by an ‘autocratic style of management’? [2]

Clear understanding [2] e.g. an autocratic style implies that all decisions are made by the management [1] without consultation and discussion [+1] OR workers have no say in decision making [2].

Some understanding [1] e.g. a manager who tells others what todo.

(b) Identify two possible reasons why Genel ignores health and safety in its factory. [2]

Application [2 × 1] award 1 mark per reason.

Reasons might include:

- Legislation incurs costs / they don't have to spend money
- Management doesn't care about employee welfare
- Laws not enforced
- Cheaper to pay fines
- To increase production
- Workers can be easily replaced

Some countries do not have laws for health and safety.

(c) Identify and explain two ways in which Genel would benefit from a more motivated work force. [4]

Knowledge [2 × 1] – award 1 mark for each relevant way.

Application [2 × 1] – award 1 mark for each relevant explanation in context (show why these points matter to this type of business).

Points might include:

- More output [k] so able to meet demand for its clothes [app]
- Workers work harder [k] which leads to an increase in productivity [app]
- Lower wage costs [k] as might not need to employ as many workers [app]
- More flexible [k] as workers will be able to respond to changing tastes [app]
- Lower levels of absenteeism [k]
- Lower training / recruitment costs [k] because of lower levels of staff turnover[app]
- Loyal staff [k] which will reduce staff turnover
- Less mistakes [k] so better quality clothes made [app]
- Improved image / better reputation [k].

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- (d) Identify and explain two ways that Genel could use to improve employee productivity in its factories. [6]

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

Application [2 × 1] – award 1 mark if relevant reference made to this business/manufacturer.

Analysis [2 × 1] – award 1 mark for each relevant explanation (show how it will help increase output per employee).

Points might include:

- Switch to piece rate [k] rather than pay low wages [app] as workers might produce more in order to gain more money [an]
- Increase pay [k] which improves motivation [app] so workers produce more per hour [an]
- Better working conditions to improve morale [k] as they are currently poor [app]
- New and better machinery
- Training [k] improves motivation [app]
- Reduce working hours
- Implement health and safety laws [k] which are currently ignored [app]
- Change management style [k] to democratic rather than autocratic [app] so that workers feel involved and more willing to work [an].

- (e) Do you think Governments should introduce laws to protect employees' interests in businesses such as Genel? Justify your answer. [6]

Knowledge [2 × 1] award 1 mark for each relevant issue identified.

Application [1] – award 1 mark if relevant reference made to this type of business.

Analysis [1] – award 1 mark for relevant development of point(s).

Evaluation [2] – justified decision made as to whether the Government should introduce laws to protect employees' interests.

Points to include:

- Laws are needed to ensure safety [k] which the company does not follow employee protection [app] so there is no guarantee that Genel would abide by the laws [eval]
- Discourage businesses from setting up in a country [k] because it would increase costs [an]
- Higher business costs [k] could see workers lose their jobs [an]
- Could help retain workers leading to lower recruitment costs?

Note – the candidate may address the question from the viewpoint of either the employee, business or the Government.

Developed answer:

Laws are needed to ensure safety [k] and a fair wage for workers[k] which this company does not follow[app] because it increases their costs[an] therefore introducing laws may have no effect [ev] unless they are monitored [ev].

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

Clear Understanding [2] – a business with factories, production or service operations in more than one country OR a business with production or service in another country outside its normal area of operation.

Some Understanding [1] – e.g. has businesses everywhere / works in more than one country / operates in more than one country.

Note – do not accept examples.

(b) (i) Identify the span of control of the Managing Director of the Asia division. [1]

Application [1]: 2 (factory managers) OR factory A manager and factory B manager.

(ii) How many levels are there in the chain of command? [1]

Application [1]: 4 (levels).

(c) Identify and explain two possible reasons why Zalpha has poor internal communications. [4]

Knowledge [2 × 1] – award 1 mark for each relevant reason.

Application [2 × 1] – award 1 mark for each relevant explanation in context (show why they might create poor communication for Zalpha).

Reasons might include:

- Tall hierarchy / long chain of command/ distance from top to bottom of organisation [k] as there are at least 4 levels [app]
- Choosing the wrong method of communication [k] for a business is split across 3 continents [app] / for such a large number of people [app]
- Barriers to effective communication exist e.g. language issues [k] for different countries / multinational [app].

(d) Identify and explain two advantages to Zalpha of using centralised decision making. [6]

Knowledge [2 × 1] – award 1 mark for each advantage identified.

Application [2 × 1] – award 1 mark if relevant reference made to this business/manufacturer.

Analysis [2 × 1] – award 1 mark for each relevant explanation (showing how the point create an advantage).

Advantages might include:

- Speed of decision making increased [k] because not many people are involved [an]
- Save money/lower cost [k]
- Decrease level of conflict [k]
- Power retained by senior management / control maintained [k] between the board and 3 directors [app]
- Easier to ensure consistency / reduce inconsistency [k] across all divisions [app]
- Economies of scale more achievable [k] as head office are able to order parts [app] in bulk to get larger discounts [an]

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- Easier to co-ordinate and control budgets [k]
- Greater use of specialisation possible [k].

(e) Do you think that multinational companies such as Zalpha benefit the countries in which they operate? Justify your answer. [6]

Knowledge [2 × 1] award 1 mark for each relevant issue identified.

Application [1] – award 1 mark if relevant reference made to this type of business.

Analysis [1] – award 1 mark for relevant development of point(s).

Evaluation [2] – justified decision made as to whether Multinationals benefit the countries in which they operate.

Points might include:

- Create jobs / provides income [k] because Zalpha employs a large number of people [app] so improving living standards [an]
- Technical knowhow increased [k] Zalpha makes agricultural machinery [app] and improves production [an]
- Possible orders for local suppliers [k] to provide parts for machines [app] therefore increasing local incomes [an]
- Competition [k] for local businesses [k] who manufacturer goods [app] leading to lower prices [an]
- Improve international reputation of country [k]
- Inward investment / infrastructure development [k]
- More goods available [k]
- Companies pay taxes [k] therefore increasing income for the government [an]
- Profits are often repatriated [k] limiting the countries growth [an]
- Resources are depleted [k] so there is less available for other businesses [an] manufacturing in the country needs raw materials [app]
- Local businesses close [k] due to increased competition [app]
- Exploitation can occur [k].

CAMBRIDGE INTERNATIONAL EXAMINATIONS

Cambridge International General Certificate of Secondary Education

MARK SCHEME for the October/November 2014 series

0450 BUSINESS STUDIES

0450/12

Paper 1 (Short Answer/Structured Response),
maximum raw mark 100

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1 Abdula manages a business partnership that makes sports clothing. The business is working at full capacity. It employs 12 people who are paid on a piece rate basis. The partners have an objective to increase profits by 10 % each year for the next 5 years. They are thinking about a joint venture with another manufacturer of sports clothing as one way of achieving this objective.

(a) What is meant by a ‘business partnership’? [2]

Clear understanding [2]: e.g. where two or more people jointly agree to own the business
 Some understanding [1]: two or more people run / operate the business OR identifies a relevant feature
 Features alone max [1] e.g. unlimited liability, no separate legal identity

(b) Identify two ways of paying workers that the partnership could use (other than by piece rates). [2]

Application [2 × 1] award 1 mark per way
 Ways might include – time rates, bonus payments, salaries, profit sharing, performance related pay
 Do not accept commission, as not appropriate for a manufacturing business

(c) Identify and explain two advantages to this business of setting objectives. [4]

Knowledge [2 × 1] – award 1 mark for each advantage
 Application [2 × 1] – award 1 mark for each relevant explanation in context (i.e. explain how the points generate advantages for this business)

Points might include:

- Measure of success [k] if achieve the 10% increase in profit they will know it has been a good year [app]
- Helps decision making / planning / budgeting [k] for a (possible) joint venture / increasing profits [app]
- Gives sense of purpose and direction [k] so able to take decisions/allocate resources effectively to ensure hit its annual target [app]
- Aim or target [k]
- Motivate [k].

(d) Identify and explain two advantages to the partnership of a joint venture with another manufacturer of sports clothing. [6]

Knowledge [2 × 1] –award 1 mark for each advantage identified
 Application [2 × 1] – award 1 mark if relevant reference made to this business
 Analysis [2 × 1] – award 1 mark for each relevant explanation (e.g. show how the points represent an advantage to an individual business)

Points might include:

- Share expertise / ideas [k] as partnership is likely to have few specialists [app] this might enable them to make better decisions [an]
- Reduced capital needs / share costs [k] as both companies contribute [an]
- Wider range of contacts / better access to resources [k] as likely to know different clothing suppliers [app] so might be able to obtain cheaper / different materials [an]

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- Help enter new market [k] allowing further sales [an] which could help them achieve 10% target [app]
- Reduces business risk for partners [k] who have unlimited liability [app] because more markets to rely on / as able to share losses[an]
- Share assets [k] as can use other factory [app]
- Build reputation [k]
- Increase output [k] as at full capacity [app].

Do not accept sports clothing or manufacturer as application as it is stated in the question.

- (e) Explain two ways (apart from a joint venture) that the partnership could use to achieve its objective of a 10% annual increase in its profit over the next 5 years. Recommend which way is most likely to be successful. Justify your answer. [6]**

Knowledge [2 × 1] award 1 mark for each relevant way identified

Application [1] – award 1 mark if relevant reference made to the business

Analysis [1] – award 1 mark for relevant development of point(s)

Evaluation [2] – justified decision made as to which method is likely to be most successful to help it achieve its objective of 10%

For 6 marks must explain why it is the better option (comment on its feasibility or why more appropriate)

Points might include:

- Target new markets / segments [k] such as make items for different sports [app]
- Develop new products [k] to attract new customers [an]
- Increase sales revenue [k] by advertising / attract more customers [an]
- Change price [k]
- Improve Efficiency methods [k] so cutting waste [an];
- Automation [k] replacing some of its 12 employees [app] so lower wage cost [an]
- Find cheaper supplier [k] which lowers cost of sales [an]
- Merger / takeover [k] as buy supplier to get cheaper materials [app] which could lower cost of sales [an].

Application might include: sports products/ clothing, 12 employees, materials, full capacity.

Developed example:

They could advertise [k] so attracting more shops to stock their products [app] increasing sales revenue [an]. Alternatively, they could increase prices. [k] However this could reduce competitiveness as customers will look for cheaper options elsewhere so advertising is better [eval].

2

Table 1 (\$000)

	January	February	March
Cash inflow	15	20	19
Cash outflows:			
Purchases of stock	12	10	14
Wages	X	7	6
Other payments	4	4	4
Total cash outflows	22	Y	24
Net cash flow	(7)	(1)	(5)
Opening balance	10	3	2
Closing balance	3	2	(3)

(a) Calculate the following: **wages in January(X); total outflows in February (Y).**

Application [2 × 1]: award 1 mark per correct answer

(X) \$6000 [1]

(Y) \$21000 [1]

Note: Answer should be in thousands but accept 6 and 21 as could insert answers into table

(b) Identify two examples of Sarah’s ‘other payments’. [2]

Application [2 × 1]: award 1 mark for each relevant payment

Payments include: insurance, rates, rent, water, electricity / gas, interest payments, salaries

Accept any reasonable answer

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(c) Identify and explain two reasons why the business has a negative closing balance in March. [4]

Knowledge [2 × 1] – award 1 mark for each reason

Application [2 × 1] – award 1 mark for each relevant explanation in context

Points might include:

- Outflows higher than Cash Inflows [k] as net cash flow fallen by \$5000 in March / outflows \$3000 more than February [app]
- Different credit terms [k] gets 1 month's credit from suppliers but gives customers 3 months [app]
- Bought more stock [k] paid extra \$4000 compared to February [app]
- Opening balance in March not large enough [k] only \$2000 [app] / if it was more than £6000 [app] closing balance in March would be positive
- Poor cash flow management [k].

Note: Table included for ease of reference for 2c.

(d) Identify and explain two advantages to Sarah's business of producing a cash flow forecast. [6]

Knowledge [2 × 1] – award 1 mark for each advantage identified

Application [2 × 1] – award 1 mark if relevant reference made to this business / use of data

Analysis [2 × 1] – award 1 mark for each relevant explanation (i.e. show how the point generates an advantage to a business)

Advantages might include:

- Imbalances can be predicted / funding for shortfalls can be planned [k] so for the negative balance Jan–Mar [app] has plenty of time to arrange an overdraft [an]
- Can assess impact of decision [k] such as giving 3 months credit [app]
- Help get short term loan / overdraft [k] as show why need / able to repay [an]
- identify possible causes of cash flow problems [k] e.g. cash inflow \$5000 less in January than February [app] so could try to get customers to pay quicker [an]
- Help manage cash flow better [k] as could try to reduce amount spent on stock in March [app]
- Shows how much is spent each month [k].

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- (e) Sarah's accountant told her that a positive cash flow is more important to the business than profits. Do you agree? Justify your answer. [6]

Knowledge [2 × 1] award 1 mark for each issue identified
 Application [1] – award 1 mark if relevant reference made to the business
 Analysis [1] – award 1 mark for relevant development of point(s)
 Evaluation [2] – justified decision made as to whether cash flow is more important to the business than profits

Points might include:

- Main objective is to make a profit [k] without it, owners will question point of business [an]
- Profit is a measure of success [k]
- Profit is important for long term survival [k]
- Profit is a source of finance [k] so higher chance of growth [an]
- Need cash to operate / pay for immediate debts [k] so can make toys [app]
- Help sales [k] as able to offer credit terms to customers [app] as have money to pay other outflows [an]
- Positive cash flow shows able to manage its finances [k]
- Positive cash flow means business is liquid [k] whereas currently has a negative closing balance [app] which shows possible financial difficulties ahead [an]
- Less likely to need overdraft [k] which would add to costs [an].

Application might include: make toys, small business, use of numbers, 1 months credit from suppliers, gives 3 months credit, negative closing balance.

Developed answer:

Cash is needed for the business to operate [k]. If its outflows are more than its inflows, such as the negative closing balance in March [app], it will be unable to meet its immediate debts [an]. Thus cash is crucial for survival [eval]. In the short run a business can survive without making a profit so cash flow is more important to ensure the business lasts long enough to make profits [eval].

- 3 (a) What is meant by a market being 'very competitive'? [2]

Clear understanding [2]: e.g. a market with a large number of businesses [1] selling similar products / aimed at the same group of consumers [+1]
 OR many other businesses/intense rivalry in the same segment of the market [2]
 OR Similar services are being offered [1] and that probably prices are keen. [+1]
 Some understanding [1]: e.g. lots of rival businesses

- (b) Calculate the total value of sales of Rhiannon Enterprises in 2014. [2]

Clear application [2] 600 000 (\$ not required)
 Some application [1] e.g. method [1] OR $300\,000 \div 0.5$ OR $300\,000 \times 2$

Note: no marks for 300 000 alone as this does not answer question.

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- (c) Identify and explain two possible reasons why Rhiannon’s sales of other products fell despite an increase in advertising. [4]

Knowledge [2 × 1] – award 1 mark for each reason

Application [2 × 1] – award 1 mark for each relevant explanation in context (i.e. explain why sales might fall)

Points might include:

- Increase in competition [k] so customers have a wider choice of clothes to pick from [app]
- Prices are too high [k] so customers choose from cheaper priced rivals [app]
- Products don’t meet needs/rivals sell better products [k] as fashion/tastes have changed [app]
- Advertising is wrongly directed/advertising message is unappealing [k] so ladies are not aware of their products [app]
- Poor quality [k] as clothing is not as good as other companies [app].

Do not accept Jeans and t-shirts as application as question states other products.

- (d) Identify and explain two factors that the business should consider before deciding on a new supplier of cloth. [6]

Knowledge [2 × 1] – award 1 mark for each factor identified

Application [2 × 1] – award 1 mark if relevant reference made to this business

Analysis [2 × 1] – award 1 mark for each relevant explanation (i.e. focus on why these points matter)

Factors might include:

- Cost / price charged [k] as RE wants to increase her profit margins [app] this might not be possible if charged a high price [an]
- Terms of business [k] if offer good credit terms could help improve its cash flow [an]
- Range [k] do they stock all the fabric / latest designs [app] otherwise might not be able to sell it [an]
- Reliability / flexible [k] can company supply the right colours / styles [app] when needed so she can meet her orders [an]
- Quality of products [k] if faults in the fabric / material [app] RE could get a bad reputation / lose sales [an]
- Location [k] – if import from other country will have to deal with tariffs / language barriers / exchange rates [an]
- Cost of transport [k] could increase expenses [an] when trying to reduce her costs [app].

Do not accept cloth as application as it is stated in the question.

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- (e) Do you think Rhiannon Enterprises should reduce the price of all its products in 2015? Justify your answer. [6]

Knowledge [2 × 1] award 1 mark for each point identified

Application [1] – award 1 mark if relevant reference made to the business

Analysis [1] – award 1 mark for relevant development of point(s)

Evaluation [2] – justified decision made as to whether RE should reduce the price of all its products in 2015. Either viewpoint is acceptable.

Points might include:

- Lower prices attract customers / increase competitiveness [k] might increase in volume of sales [an]
- Cut profit margin [k] so need to sell more t-shirts [app] to make same level of revenue [an]
- Depends on price elasticity of demand [k]
- Other factors influence demand [k] such as fashion [app] so price charged might not be significant to sales [an]
- Reaction of competitors [k] if rivals also cut prices, unlikely to see rise in sales [an]
- Bad image / reputation [k] as see clothes as lower quality [app]

Application might include: makes ladies clothes, highly competitive, fashion, tastes, increase its profit margin, jeans sales increased due to price cut, advertising did not work for other products, low cost suppliers, use of data from figure 1.

Developed example:

Fall in price of products should increase competitiveness [k], which could lead more goods being sold [an]. However sales revenue might not increase [k]. If demand is price inelastic, they might sell enough extra to make it worthwhile [eval]. Evidence of the jean market does suggest that price cuts can appeal to customers [app] so a lower price could prove beneficial [eval].

- 4 (a) Identify two features of a ‘tall and hierarchical’ organisation structure. [2]

Knowledge [2 × 1] one mark per feature

Points might include:

- Many layers (of management);
- Decision making takes longer
- Narrow span of control
- Little delegation
- Opportunities for promotion
- Communication can take a long time
- Clear lines of authority
- Long chain of command.

- (b) Use Figure 2 to explain what is meant by ‘chain of command’. [2]

Clear application [2]: e.g. structure in an organisation which allows instructions to be passed down [1] from board of directors through middle managers to other employees [+1]

Some understanding [1] e.g. way power and authority are passed down in an organisation

For 2 marks must refer to figure 2.

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- (c) Identify and explain two appropriate ways that the directors of Granada can use to communicate with its employees.** [4]

Knowledge [2 × 1] – award 1 mark for each way identified
 Analysis [2 × 1] – award 1 mark for each relevant explanation

Points might include:

- Letter [k] can contain a lot of information [an]
- Meeting [k] allows opportunity for discussion / feedback [an]
- Video conferencing [k] so less need to travel between different countries [an]
- Phone / mobile [k] as can contact person straightaway [an]
- Email / text [k] as able to send same message to everyone at same time [an]
- Noticeboard [k].

Do not accept visual / written which are categories and not specific ways.

- (d) Identify and explain two disadvantages to Grenada of operating in a number of different countries.** [6]

Knowledge [2 × 1] – award 1 mark for each disadvantage identified
 Application [2 × 1] – award 1 mark if relevant reference made to this business
 Analysis [2 × 1] – award 1 mark for each relevant explanation (show how or why it might be a disadvantage to a business)

Points might include:

- Communication / language problems [k] as many timezones [app] which could lead to delays or mistakes in decisions [an]
- Different Legal controls [k] e.g. different food laws [app] so hard to organise the production process [an] OR Different employment laws / work practices [k] so not able to have same rules in all its factories [app]
- Different market conditions [k] people have different tastes / traditions [app] so it is might be difficult to sell / market the same products everywhere [an]
- Impact of exchange rates [k] which may make it difficult to set budgets [an]
- Difficulty in ensuring quality / standard [k] for meals made in each location [app] which could damage image / reputation [an]
- Problems with control / management [k]
- Long distances involved [k] as difficult to use same supplier [an] to provide all the ingredients [app].

Do not accept 'countries' as application as stated in question.

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- (e) Do you think that Grenada would benefit from greater delegation in its decision making? Justify your answer. [6]

Knowledge [2 × 1] award 1 mark for each issue identified

Application [1] – award 1 mark if relevant reference made to this business

Analysis [1] – award 1 mark for relevant development of point(s)

Evaluation [2] – justified decision made as to whether Grenada would benefit from greater delegation in its decision making

Advantages of delegation include:

- Decision making closer to ‘the ground’ [k] as likely to understand the laws / traditions [app] to have better idea what customers want [an]
- Quicker decisions [k] as don’t have to wait for response [an] which could take time due to being in different countries [app]
- Increased motivation/involvement [k] as if able to make important decisions [app] might be more productive/efficient [an]
- Lighten workload for senior managers [k] so Directors have more time [app] to focus on strategic decisions [an]
- New ideas [k].

Disadvantages might include:

- Loss of control at the top [k] so could lead to duplication of work [an]
- Disagreements/different decisions made [k] as middle managers can now make important decisions [app] so no consistency of approach [an]
- Skills of managers [k] middle managers can’t cope with extra responsibility [app] leading to mistakes [an].

Application might include: pies, ready meals, burgers (food), taste, many countries, different laws and traditions, narrow spans of control, little delegation, cannot make important decisions, want to improve communications.

Developed answer:

Workers will feel more motivated [k] as they can make important decisions [app]. Better decisions could be made [k] as managers in each country are likely to know what their customers want [an] so more delegation could be very beneficial leading to higher sales and profits [eval].

- 5 (a) What is meant by a ‘Board of Directors’? [2]

Clear understanding [2]: e.g. senior management of the business [1] responsible for strategic decisions [+1].

Some understanding [1] e.g. identifies one feature of a board of directors (e.g. elected by shareholders) OR managers in charge of company

For 2 marks must have both idea of being in charge AND responsible for strategic / key decisions.

- (b) Identify two of Anypart’s stakeholder groups (other than employees). [2]

Application [2 × 1] award 1 mark per stakeholder group

Points might include: owners OR shareholders, government, suppliers, community, customers, bank/lenders

Do not accept types of employees e.g. managers.

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- (c) Identify and explain two benefits to Anypart of reducing costs of each unit of output in the business. [4]

Knowledge [2 × 1] – award 1 mark for each advantage
 Analysis [2 × 1] – award 1 mark for each relevant explanation

Points might include:

- Increase efficiency [k] so less wastage of resources / better able to meet customer orders [an]
- Increase profit margin / profit [k] higher dividends for shareholders [an]
- Remain competitive / lower prices [k] to keep / attract customers [an]
- Less cash outflow [k].

- (d) Identify and explain two possible ways of improving productivity in Anypart's business. [6]

Knowledge [2 × 1] – award 1 mark for each way identified
 Application [2 × 1] – award 1 mark if relevant reference made to a manufacturing business
 Analysis [2 × 1] – award 1 mark for each relevant explanation (i.e. focus on how the method identified generates the improvement in productivity)

Points might include:

- Increase in capital intensity OR automation OR introduce new technology [k] as machines don't have to take breaks/can work longer periods[app] so able to produce more in same amount of time [an]
- Improve quality control / assurance [k] to reduce level of waste [an]
- Changes in working practices/Improve layout of machines [k] so less wasted time moving between different areas [an]
- Improve inventory (stock control)/introduce JIT [k] so materials are available when needed [app]
- Train workers [k] so understand what they are doing better [an] so use less materials [app]
- Improve motivation (once only) [k] such as offer more holidays [app] so workers have incentive to work harder [an]
- Use of payment methods (once only) e.g. Bonuses/Piece rates [k] as workers try to produce more parts/products [app] to earn more money [an]
- Cell production/kaizen [k] as it allows employees to discuss/solve problems affecting production [app].

Accept introduce lean production [1] if no specific examples are given.
 Do not accept division of labour as this is already a large manufacturing business.

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(e) Do you think that ‘behaving ethically will always lead to lower profits’? Justify your answer. [6]

Knowledge [2 × 1] award 1 mark for each issue identified

Analysis [2] – award up to 2 marks for relevant development of point(s)

Evaluation [2] – justified decision made as to whether behaving ethically will always lead to lower profits

Points might include:

- Ethical could increase costs [k] leading to higher prices [an]
- Some customers want ethical goods [k] so might be willing to pay more [an]
- Enhance reputation [k] could help them attract potential customers [an]
- Some workers and investors might only want to work with / for an ethical business [k] so easier to attract / retain workers or raise capital [an]
- Shareholders want higher profits [k] so they get a better return on their investment [an]
- Unethical treatment of workers could lead to higher labour turnover [k] could increase costs [an] such as recruitment leading to lower profits [an].

Do not accept answers such as motivation on its own, unless clearly linked to idea of ethical behaviour.

Developed answer:

Being ethical incurs costs [k] paying a fair price to suppliers will increase variable costs [an] so profit could fall in short term [eval]. However customers might be prepared to pay more for ethical products, which could lead to higher revenue [an] which will more than make up for the additional costs involved [eval].

CAMBRIDGE INTERNATIONAL EXAMINATIONS

Cambridge International General Certificate of Secondary Education

MARK SCHEME for the October/November 2014 series

0450 BUSINESS STUDIES

0450/13

Paper 1 (Short Answer/Structured Response),
maximum raw mark 100

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1 (a) What is meant by a ‘limited company’? [2]

Clear understanding [2] – A limited company is a business that has been incorporated and whose owners have limited liability.

Some understanding [1] – identifies one feature e.g. has its own legal identity.

Do not accept examples.

(b) Identity two reasons why profits are important to CF. [2]

Application [2 × 1] – award one mark per reason.

Points might include:

- Return on capital for the owners/reward for risk taking
- Source of capital
- Main goal for a business
- Necessary for survival in the long run
- Attract investors/finance
- Measure of performance/success.

Do not accept ‘expand’ as this is too vague.

(c) Identify and explain two advantages to CF of its employee payment system. [4]

Knowledge [2 × 1] – award 1 mark for each advantage.

Application [2 × 1] – award 1 mark for each relevant explanation in context (show how, or why, it is an advantage to the company).

Points might include:

- Motivation/incentive for employees [k] as must more make to get bonus [app]
- Able to control costs [k] as labour costs directly linked to output [app]
- More workers can be hired [k]; CF can afford it due to low basic wage [app]
- Increase output [k] workers try to increase productivity to earn more money [app].

Do not accept points relating to employees as question states CF.

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(d) Identify and explain two ways that CF could use to increase its sales. [6]

Knowledge [2 × 1] – award 1 mark for each way identified.

Application [2 × 1] – award 1 mark if relevant reference made to this type of business.

Analysis [2 × 1] – award 1 mark for each relevant explanation (show how the method increases sales).

- Lower prices [k] should encourage people to buy [an] as fences are more affordable [app]
- Increase range of products [k] such as locks/security systems [app] to appeal to more/new customers [an]
- Increase advertising [k] (allow only once) in building/gardening magazines [app] which will raise awareness of its products [an]
- Increase number of places sell it products [k] so closer for customers to reach [an]
- Target new markets [k] could sell gates overseas [app]
- Improve product quality [k] use stronger/better materials [app] can make them more competitive [an]
- Trade fairs/events [k]
- Improve quality [k]
- Sponsorship [k].

Accept practical suggestions such as Joint venture [k] with house builder [app].

(e) Do you think that it is important that CF reduces the number of employees leaving the company? Justify your answer. [6]

Knowledge [2 × 1] – award 1 mark for each issue identified.

Application [1] – award 1 mark if relevant reference made to the business.

Analysis [1] – award 1 mark for relevant development of point(s).

Evaluation [2] – justified decision made as to whether it is important that CF reduces the number of employees leaving the company.

Points might include:

- Higher recruitment costs [k] increasing expenses [an]
- Replacement workers available [k] as easy to recruit [app]
- Increase training costs [k] as workers might not have experience/skills needed [an]
- Reduce morale [k] so less/low quality fences made [app] which could damage company reputation [an]
- Bring new ideas and skills [k] so different gates made [app] so could increase sales [an]
- Who leaving/what job they do [k] as poor performing workers would not be missed [an] but if key worker this could reduce productivity [app] as lose expertise/knowledge [an]
- Reasons why leaving [k] if unmotivated could suggest bigger problem which if not resolved could mean it is difficult to recruit/retain other workers [an]
- Damage reputation [k] which could lead to lower sales [an].

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Developed example:

If more people leave, they will have to spend more on recruiting new workers [k] increasing their costs [an]. New employees may bring in new ideas [k] which may help boost productivity [app]. So it depends on who leaves. If they are poor workers, there is likely to be no bad effect on the business [eval], and the chance to replace them might actually be more beneficial, especially if the new employees' ideas/designs help increase sales. [eval]

2 (a) Identify two features of a 'boom'. [2]

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

Features might include: high GDP, low/falling unemployment/shortage of skilled workers, increased number of business start-ups, business costs increase, high consumer demand, higher incomes, rising inflation, growth in company profits.

(b) What is meant by a 'pressure group'? [2]

Clear understanding [2]: e.g. group formed by people with a common interest [1] who take action to change/influence business decisions/government policies. [1]

Some understanding [1] – e.g. group formed by people with a common interest. [1]

Do not accept examples.

(c) Identify and explain two external (social) costs that might be created by building new factories. [4]

Knowledge [2 × 1] – award 1 mark for each point.

Application [2 × 1] – award 1 mark for each relevant explanation in context (how this might be created).

Points might include:

- Air pollution [k] as smoke from chimneys affect air quality [app]
- Visual eye sores [k] as large chimneys will stand out in the area/unwanted old buildings left derelict [app]
- People give up homes/loss of green fields or nature [k] as a large area needed for the site [app]
- Congestion/extra traffic [k] as lots of workers will need to get to work there/as lorries will need to bring lots of materials to the site [app].

Note: accept different types of pollution if explained.

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- (d) **Identify and explain two ways that a Government could use to encourage new businesses to start up (other than removing controls on where factories can be built).** [6]

Knowledge [2 × 1] – award 1 mark for each way identified.

Application [2 × 1] – award 1 mark if relevant reference made to this type of business.

Analysis [2 × 1] – award 1 mark for each relevant explanation (i.e. show how these help businesses).

Points might include:

- Financial assistance e.g. grants/subsidies/low interest rates [k] as new business are less likely to have a lot of finance [app] so provide them with free/cheap capital that they need [an]
- Tax concessions [k] this will help reduce the expenses [an]
- Advice [k] as new entrepreneurs [app] to help them make better decisions/more chance of survival [an]
- Training [k] so that they have the skills needed [an] to operate in a unknown market [app]
- Reduced legislation/regulations [k] so simpler to set up [an]
- Training courses [k] providing the expertise they don't have [app]
- Low rent from government [k].

Accept points which focus on the protection of infant industry from overseas competition e.g. tariffs, quotas.

- (e) **'All new businesses will be successful during a boom'. Do you agree? Justify your answer.** [6]

Knowledge [2 × 1] – award 1 mark for each issue identified.

Analysis [2] – award up to 2 marks for relevant development of point(s).

Evaluation [2] – justified decision made as to whether all new businesses will be successful during a boom.

Points might include:

- If they do not sell the right products [k] customers will not want to buy it [an]
- People have more income [k] so are more willing to buy goods [an]
- Existing competition/people might be brand loyal [k] so it is difficult to gain customers [an]
- Easier to gain finance [k] as banks are likely to feel more confident lending [an]
- Cost/Problems of gaining employees [k] as employment levels high [an] so might have to offer higher wages to attract workers/increasing their labour costs [an].

Developed example:

Businesses must make goods that people want [k] especially in boom when people have more money to spend [an]. However, if it's not advertised [k] people might not be aware of it [an]. Success is not guaranteed if the marketing mix is not right [eval] or there is a lot of competition especially for new businesses that are likely to have limited experience [eval].

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3 (a) What is meant by ‘the maturity stage’ of a product life cycle’? [2]

Clear understanding [2]: e.g. when rate of increase of sales falls and perhaps absolute sales show signs of falling. It is usually associated with the peak level of sales.

Some understanding [1]: identifies one feature e.g. sales start to peak, rate of growth slows, rivals enter market, prices/profits start to fall, positive cash flow.

(b) Identify two costs to Kruger of launching a new product. [2]

Application [2 × 1] – award 1 mark per point.

Points might include: promotional costs, initial production costs, research and development, market research.

Do not accept general expenses such as electricity, rent unless clearly linked to a new product.

(c) Identify and explain two ways Kruger could increase consumers’ brand awareness of its mobile phones. [4]

Knowledge [2 × 1] – award 1 mark for each way.

Analysis [2 × 1] – award 1 mark for each relevant explanation (show how creates awareness).

Points might include:

- Effective advertising (allow only once) [k] which will make customers know about its products [an]
- Widen distribution [k] so customers do not have to travel so far to see what they sell [an]
- Display products prominently in shops [k] so that customers cannot miss seeing them [an]
- Sponsorship [k] so products viewed positively by potential customers [an]
- Use a logo [k] so customers automatically know it is made by Kruger [an]
- Attend events/fairs [k]
- Celebrity endorsements [k] as followers want to copy what famous people do/buy [an].

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(d) Identify and explain two ways of segmenting the mobile phone market. [6]

Knowledge [2 × 1] – award 1 mark for each way identified.

Application [2 × 1] – award 1 mark if relevant reference made to this type of business.

Analysis [2 × 1] – award 1 mark for each relevant explanation (i.e. show how this works).

Points might include:

- Age [k] population might be broken down into groups such as 18–30/65+ [an] different age groups may prefer different models [app]
- Socio economic/income groups [k] People with high income will spend more [an] to have branded devices [app]
- Gender [k] girls might want a different colour to boys [an]
- Location [k] if people live in the city they might want different functions [app] compared to people who live in rural areas [an]
- Tastes/interests/lifestyle [k] people who are active might want different features [app].

(e) Recommend an appropriate pricing strategy to Kruger for a new mobile phone. Justify your answer. [6]

Knowledge [1] – award 1 mark for identification of relevant strategy.

Application [1] – award 1 mark if relevant reference made to business.

Analysis [2] – award up to 2 marks for relevant development of point(s).

Evaluation [2] – justified decision made as to why this is an appropriate pricing strategy.

Points might include:

- Competitive based pricing [k]
- Market penetration pricing [k]
- Price skimming (as it is a new mobile phone) [k]
- Cost plus pricing [k].

Developed answer:

They should use price skimming [k]. It is a very competitive market [app], rivals are always bringing out different models [an]. It is possible to charge a high price because there might be no other products like it [an]. This is their only chance to make lots of money, so they should take it [eval]. They can always change to a more competitive price later, depending on what their rivals do [eval].

4 (a) Calculate (i) Cost of sales (X)
(ii) Fixed costs (Y)

Application [2 × 1] – award 1 mark per correct answer. \$ not required.

(i) X= \$200 000 [1]

(ii) Y= \$80 000 [1]

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(b) Calculate the net profit margin of the business in 2013. [2]

Application [2]: 20% [note % needed for 2 marks]

Some application [1] e.g. net profit/sales*100 OR 70 000 / 350 000*100 or 20

(c) (i) What is meant by ‘fixed costs’? [2]

Clear understanding [2] e.g. costs that do not change [1] as the level of activity changes [+1]

Some understanding [1]: e.g. costs that stay the same.

Note: Must link answer to level of activity/output to gain full marks.

(ii) Identify two examples of fixed costs of Juta’s business. [2]

Application [2 × 1] – award 1 mark for each relevant explanation in context.

Points might include: electricity/gas, water, rates, rent, insurance, salaries.

Do not accept taxes or dividends.

(d) Identify and explain two problems that Juta might have when buying stock from suppliers in other countries. [6]

Knowledge [2 × 1] – award 1 mark for each problem identified.

Application [2 × 1] – award 1 mark if relevant reference made to this type of business.

Analysis [2 × 1] – award 1 mark for each relevant explanation (show why it creates a problem).

Problems might include:

- Exchange rate movements [k] an appreciation of other countries currency could increase variable costs [app] reducing profit margin [an]
- different legal requirements [k] so materials of different quality [app] might not appropriate to use/meet standard needed [an]
- Delays due to distances involved [k] so stock arrives late [an] so not able to meet toy orders [app]
- Communication problems [k] as different languages spoken [an] so there are mistakes made in the fabrics sent [app]
- Quotas [k] so not able to get enough stock [an]
- Import duties [k]
- Difficult to check quality [k].

Note: points must be linked to buying stock from overseas.

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- (e) In 2014 sales of the business increased by \$150 000 and net profit increased by \$10 000. Do you think that the business was more successful in 2014 than in 2013? Justify your answer. [6]

Knowledge [2 × 1] – award 1 mark for each issue identified.

Application [1] – award 1 mark if relevant reference made to the business/use of data.

Analysis [1] – award 1 mark for relevant development of point (s).

Evaluation [2] – justified decision made as to whether the business was more successful in 2014.

Points might include:

- Sales increased [k] by 43% [app]
- Profit increased [k] by 14% [app]
- Net profit margin fell [k] by 4% [app] less control of its costs [an]
- What is criteria for success [k].

Note: Answers that state Sales now \$500 000 and profit \$80 000 award knowledge only.

Do not credit as application a response, which says sales, increased by \$150 000, profit up by \$10 000 as this is stated in question.

Developed answer:

Sales rose [k] and so did profit [k] which would suggest that 2014 was a better year [eval]. However net profit margin decreased [k] by 4% [app]. This implies the business had less control of its costs [an], which would suggest that the business performance was worse in 2014 [eval].

- 5 (a) Identify two features of flow production methods. [2]

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

Points might include: Goods are made in large volumes, identical products produced, production line methods used, continuous production, capital intensive, low skilled labour, repetitive tasks, inflexible.

- (b) What is meant by 'inefficient'? [2]

Clear understanding [2]: e.g. input output ratio is low/not maximise productivity.
Some understanding [1]: waste resources.

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- (c) Identify and explain two problems to Salters of not responding quickly to changes in customer demand. [4]

Knowledge [2 × 1] – award 1 mark for each problem.

Application [2 × 1] – award 1 mark for each relevant explanation (i.e. show *how or why* these represent a problem).

Points might include:

- Loss of sales/order [k] which could lead to higher losses [app]
- Reduced reputation [k] as not seen as a reliable supplier [app]
- Fall in market share [k] as customers will choose to buy from rival manufacturers [app]
- Risk of obsolete stock [k] as size of cans made might not be appropriate/as flow produces large volumes [app].

- (d) Identify and explain two effects on Salters of holding a high level of stock. [6]

Knowledge [2 × 1] – award 1 mark for each effect identified (positive or negative points allowed) could refer to raw materials or finished product.

Application [2 × 1] – award 1 mark if relevant reference made to this type of business.

Analysis [2 × 1] – award 1 mark for each relevant explanation (show how they affect the business).

Points might include:

- No delays in production [k] as stock always available [an] so able to maintain its flow production [app]
- Able to meet orders [k] as always cans ready to be sent out [app] so able to offer better customer service [an]
- Increased insurance/security costs [k] as need to be protected against damage [an]
- Increased storage and handling costs [k] as will need more space/increases business expenses [an] which will not help reduce its loss [app]
- cash flow/liquidity problems [k] as money held as stock [an] at a time when need to find money for new machinery [app]
- risk of obsolescence/wastage [k] because customer requirements might change [an] so new designs of packaging wanted [app].

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5 (e) Do you think Salters should invest in new machinery? Justify your answer. [6]

Knowledge [2 × 1] – award 1 mark for each issue identified.

Application [1] – award 1 mark if relevant reference made to the business.

Analysis [1] – award 1 mark for relevant development of point(s).

Evaluation [2] – justified decision made as to whether Salters should invest in new machinery.

Points might include:

- Reaction of employees/fear of unemployment [k] as threatened strike action [app] which could damage the reputation/lead to lower production [an]
- Cost of investment [k] as capital costs expected to be high [app] and with the loss made in 2013 banks might not want to lend them money [an]
- Need to retrain workers [k] which will increase expenses [an]
- Need to update [k] as existing equipment often breaks down [app] so new machines can help them lower its maintenance costs [an]
- Increase productivity [k].

Developed answer:

New machines are more reliable [k] so less breakdowns [app] reducing maintenance costs [an]. While they might need to retrain workers [k] which will increase its short-term costs [an]. However, the cost of investment and retraining should be paid overtime through the lower unit costs of production, so it is worthwhile [eval].

CAMBRIDGE INTERNATIONAL EXAMINATIONS

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MARK SCHEME for the May/June 2015 series

0450 BUSINESS STUDIES

0450/11

Paper 1 (Short Answer/Structured Response),
maximum raw mark 80

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CAMBRIDGE INTERNATIONAL EXAMINATIONS

Cambridge International General Certificate of Secondary Education

MARK SCHEME for the May/June 2015 series

0450 BUSINESS STUDIES

0450/21

Paper 2 (Case Study), maximum raw mark 80

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1 (a) Identify and explain two characteristics David needs to be a successful entrepreneur. [8]

Knowledge (2 × 1) – award one mark for each relevant characteristic identified
 Analysis (2 × 1) – award one mark for a relevant explanation of each characteristic
 Application (2 × 2) – award two application marks for each relevant characteristic

Relevant characteristics might include:

Award one mark for each relevant characteristic (maximum of two), such as:

- Hard working
- Risk taker
- Creative
- Optimistic
- Self-confident
- Innovative
- Independent
- Effective communicator
- Forward thinker
- Determined

Award a maximum of three additional marks for **each** explanation – **2 of which must be applied to this context** – of why these characteristics are needed to be a successful entrepreneur.

Indicative response:

Hard working (k) as the business has only been established for 10 years and has non-current assets worth \$100m (ap). David worked long hours 7 days a week to find customers so the business has grown (ap). He has had to work hard to manage the business effectively so that it is successful (an).

Possible application marks: cake manufacturing; food; shareholder; private limited company; started 10 years ago in country x; invested all his savings; profits have been constantly increasing every year; constantly develops a new range of cakes; works 7 days a week; has four managers for each department; e-commerce; Figures from Appendix 2; new markets abroad.

There may be other examples in context which have not been included here.

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- (b) David has appointed a manager to control each department as shown in Appendix 1. Identify and explain three management functions of the Operations manager. Which do you think is the most important management function? Justify your answer. [12]

Relevant points might include:

- Planning – sets aims/targets; plan for necessary resources
- Organising – delegate tasks; people and resources; ensure everyone working effectively/no duplicated tasks
- Coordinating – ensure departments working together; aims/tasks linked together; chair regular meeting between departments
- Commanding – guiding employees; leading/supervising employees; ensure employees keep to targets/tasks
- Controlling – measure/evaluate work of employees; identify poor performance/identify problems

Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.

	Knowledge/Analysis/ Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified recommendation as to the most important management function of the Operations Manager compared to the other functions 7–8 marks for some limited judgement shown in recommendation as to the most important management function of the Operations Manager.
Level 2	4–6 marks Detailed discussion of each management function of the Operations Manager.
Level 1	1–3 marks Name management function and/or identifies key tasks Operations manager will carry out.

Level 1

1 mark for each L1 statement (max of 3 marks), e.g. the Operations Manager needs to control the department.

Level 2

One L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks), e.g. the Operations Manager needs to control the department. This will involve ordering the ingredients to ensure that the planned production of cakes can be made otherwise bakers may not be able to bake the batches of cakes ordered. (4 marks for L2 answer + 1 application mark for mentioning bakers and making cakes.)

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Level 3

For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation which justifies the most important management function, e.g. planning will be the most important management function because if the Operations Manager does not plan efficiently then workers may not work effectively. They could be waiting for ingredients to arrive and not be able to work. This is more important than commanding the workers to do their work as if they do not have ingredients then commanding them to work will not be effective.

Award up to 2 additional marks for relevant application.

Possible application marks: cake manufacturing; constantly develops a new range of cakes; e-commerce; Figures from Appendix 2; new markets abroad; large supermarkets; small food shops; 125 workers; may need to make some workers redundant; automated production line; efficiency increases by 10% for option A; investment of \$8m; 10 production employees for option B.

There may be other examples in context which have not been included here.

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2 (a) Identify and explain two ways in which marketing is important for DD. [8]

Knowledge [2 × 1] – award one mark for each relevant way

Analysis [2 × 1] – award one mark for a relevant explanation for each way

Application [2 × 2] – award two application marks for each way

Award one mark for each relevant way (maximum of two), such as:

- to identify customer needs
- to satisfy customer needs
- to maintain customer loyalty
- to gain information about customers/conduct market research/collecting data
- to anticipate changes in customer needs
- to raise awareness of new products
- to advertise/promote the new products
- to create a brand image
- to persuade people to buy products
- to increase sales
- to attract new customers
- reference to importance of the four P's
- to help the business become more competitive

Award a maximum of three additional marks for **each** explanation – **2 of which must be applied to this context** – of the ways marketing is important.

Indicative response:

To identify customer needs [k] because David needs to know what types of cakes to bake [ap]. By producing the types of cakes which customers most want to buy will lead to higher sales [an]. Therefore the company is more likely to be successful and return a good dividend to David and his shareholders [ap].

Possible application marks: cake manufacturing; food; shareholders; started 10 years ago in country x; constantly develops a new range of cakes; e-commerce; Figures from Appendix 2; new markets abroad; large supermarkets; small food shops.

There may be other examples in context which have not been included here.

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- (b) Consider the advantages of using e-commerce and the advantages of selling to supermarkets in other countries. Recommend which way DD should use to increase sales. Justify your answer. [12]

Relevant points might include:

Advantages of using e-commerce	Advantages of selling to supermarkets in other countries
<ul style="list-style-type: none"> • Can sell to a wider market • Can be used for advertising • Customers can order any time • New markets reached • Direct customer contact 	<ul style="list-style-type: none"> • Large/regular orders placed • Administration savings on fewer but larger order/economies of scale • Feedback from supermarkets on which products sell well • Display in supermarket promotes the cakes

Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.

	Knowledge/Analysis/ Evaluation
Level 3	<p>At least 2 × Level 2 + 9–10 marks for well justified recommendation as to the best way to increase sales compared to the other way.</p> <p>7–8 marks for some limited judgement shown in recommendation as to the best way to increase sales.</p>
Level 2	<p>4–6 marks Detailed discussion of advantages of e-commerce and advantages of selling to supermarkets in other countries. N.B. do not reward disadvantages</p>
Level 1	<p>1–3 marks Outline the advantages of e-commerce and advantages of selling to supermarkets in other countries.</p>

Level 1

1 mark for each L1 statement (max of 3 marks), e.g. David can sell to a wider market.

Level 2

One L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks), e.g. David can sell to a wider market. This will allow the company to increase production and expand the business. If the cost of cake ingredients fall as output increases then this will help David to increase profits further. (4 marks for L2 answer + 1 application mark for mentioning cake ingredients.)

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Level 3

For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation which justifies which is the best way. Overall there will be higher costs involved in expanding the business by selling cakes online especially as the company sell food items. It will be difficult to maintain the quality of the cakes when they are posted out to customers. (L3) So although they can sell to a wider market they should take this option because of the difficulties of maintaining the quality of the cakes. (L3) It is much easier to deliver large quantities of cakes to supermarkets abroad as delivery will be in specialised containers to keep the cakes fresh (L3) and administration costs will be kept low by fewer but larger orders to process. (L3)

Award up to 2 additional marks for relevant application.

Possible application marks: cake manufacturing; perishable products; food; constantly develops a new range of cakes; Figures from Appendix 2; new markets abroad; small food shops; automated production line; efficiency increases by 10% for option A; investment of \$8m; 10 production employees for option B.

There may be other examples in context which have not been included here.

3 (a) The company Balance Sheet helps David assess the performance of the business.

(i) Calculate the current ratio and acid test ratio for 2014. [4]

(ii) Compare your two ratio results with those of 2013 (see Appendix 2) [4]

Knowledge [2 × 1] – award one mark for each correct ratio

Analysis [2 × 1] – award one mark for each correct calculation

**(i) Current ratio $1000/600 = 1.66/ 1.67$ (1K + 1Ap)
Accept $1300/600 = 2.16/ 2.17$ if working shown**

Acid test ratio $700/600 = 1.16/ 1.17$ (1K + 1Ap)
Accept $1000/600 = 1.6/ 1.67$ if working shown

2 marks for each correct answer; 1 mark if correct method/formula but incorrect answer

(ii) Application + Analysis [2 × 2] – award one application mark for the comparison between the figures and one analysis mark for each explanation of the calculation result from (i)

Indicative response:

The current ratio is lower [ap] because the current liabilities have increased [an].

The acid test ratio is higher (ap) because the amount of inventories has fallen so less working capital is being tied up in inventories [an].

NB do not reward 'better' or 'worse' for the comparison of the figures but an explanation of why the figure is better or worse can be credited.

- (b) David wants to increase efficiency in his factory. Consider Option A and Option B and then recommend which one he should choose. Justify your answer. [12]

Relevant points might include:

	Advantages	Disadvantages
Option A (training existing production employees)	<ul style="list-style-type: none"> Cheaper No redundancies Increased output meets increased sales Workers feel valued/increased job satisfaction 	<ul style="list-style-type: none"> Increase in efficiency only by 10% Large wage costs Loss of output from experienced workers when carrying out training Large number of workers to retrain
Option B (automated production line)	<ul style="list-style-type: none"> Labour efficiency will increase Low wage costs New markets 	<ul style="list-style-type: none"> High capital cost Off-the-job training required Cost of redundancy payments Worker morale/motivation issues

Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.

	Knowledge/Analysis/ Evaluation
Level 3	<p>At least 2 × Level 2 + 9–10 marks for well justified recommendation as to the best option to choose to increase efficiency compared to the other option.</p> <p>7–8 marks for some limited judgement shown in recommendation as to the best option to choose to increase efficiency.</p>
Level 2	<p>4–6 marks Detailed discussion of advantage/disadvantage of Option A and/or B. NB do not reward mirror image arguments</p>
Level 1	<p>1–3 marks Outline of advantage/disadvantage of Option A and/or B. NB do not reward mirror image arguments</p>

Level 1

1 mark for each L1 statement (max of 3 marks), e.g. only needs to train existing workers and so it is cheaper.

Level 2

one L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks), e.g. only needs to train existing workers and so it is cheaper. Also by using on-the-job training methods then training costs will not be high. However, output only increases by 10% and so not much additional output of cakes will be gained. (4 marks for L2 answer + 1 application mark for mentioning output of cakes.)

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Level 3

For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation which justifies which is the best option to choose.

Award up to 2 additional marks for relevant application.

Possible application marks: cake manufacturing; food; off-the-job training; on-the-job training; perishable products; constantly develops a new range of cakes; e-commerce; Figures from Appendix 2; new markets abroad; large supermarkets; small food shops; 100 production workers/10 remaining production workers; 90 redundancies; may need to make some workers redundant; automated production line; efficiency increases by 10% for option A; investment of \$8m.

There may be other examples in context which have not been included here.

4 (a) Identify and explain four factors DD should consider when packaging cakes if they are exported. [8]

Analysis [4 × 1] – award one mark for each factor (maximum of 4)

Application [4 × 1] – award one mark for an explanation in context of each factor (maximum of 4)

Award one mark for each relevant factor (maximum of four), such as:

- protect the product
- easy to transport the product
- contains correct information about the product for that country
- promotes the brand image for the product
- is culturally sensitive
- appropriate language
- recyclable packaging
- cost of packaging

Award a maximum of one additional mark for **each** explanation of the factor in context.

Indicative response:

Contains the correct information about the cakes for that country it is being exported to [ap] because without the correct information the company could be charged with misleading information. [an]

Possible application marks: transporting over long distances; constantly develops a new range of cakes; food; labelling; ingredients; contamination; sell-by date; easily damaged/fragile; perishable; e-commerce; Figures from Appendix 2; new markets abroad; large supermarkets; small food shops.

There may be other examples in context which have not been included here.

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- (b) External factors can affect the profitability of a company. For each of the following changes consider how it might affect DD's profit. Which change is likely to have the greatest effect on DD's profit? Justify your answer. [12]

Relevant points might include:

Increasing GDP in country x	<ul style="list-style-type: none"> higher incomes – increased demand higher sales of luxury products – increased demand may eat other products to cakes – so demand falls
Reduced supply of the raw materials used to make cakes	<ul style="list-style-type: none"> less ingredients available – increased costs higher prices – decreased demand Prices same but lower profits
Television programme highlighting the effects on health of eating too many cakes	<ul style="list-style-type: none"> Negative publicity – lower demand Not many see the programme – little effect on sales Consumers loyal and ignore the advice

Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.

	Knowledge/Analysis/ Evaluation
Level 3	<p>At least 2 × Level 2 + 9–10 marks for well justified conclusion as which change has the greatest effect on profit compared to the other changes. NB must be explicit reference to the effect on profit.</p> <p>7–8 marks for some limited judgement shown in conclusion as to which change has the greatest effect on profit.</p>
Level 2	<p>4–6 marks Detailed discussion of the changes and how they affect profits.</p>
Level 1	<p>1–3 marks Outline of the changes and how they affect profits.</p>

Level 1

1 mark for each L1 statement (max of 3 marks), e.g. Increasing GDP means more people have jobs and incomes are higher.

Level 2

One L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks), e.g. increasing GDP means more people have jobs and incomes are higher. Higher incomes means more luxury products are bought and therefore people may buy more cakes to treat their family leading to increased demand for DD's cakes. (4 marks for L2 answer + 1 application mark for mentioning more cakes being bought.)

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Level 3

For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation which justifies which change has the greatest effect on profits e.g. higher GDP will probably have the greatest effect on profits as it will lead to higher demand for the cakes. (L3) The television programme may have little effect as it depends on how many people watched it and how many people believed what they were being told. (L3) The rising cost of ingredients could be passed on to the customer and therefore there will be little effect on profits. (L3) It depends on how bad the harvest is and how big an increase there is in the costs of the ingredients. So overall increasing GDP is likely to have the greatest effect on profits. (L3)

Award up to 2 additional marks for relevant application.

Possible application marks: constantly develops a new range of cakes; ingredients; food; increased production workers; \$8m investment; perishable products; luxury products; e-commerce; Figures from Appendix 2; new markets abroad; large supermarkets; small food shops.

There may be other examples in context which have not been included here.

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1 (a) What is meant by ‘revenue’? [2]

Clear understanding [2] Income/money made by the business [1] from the sale of goods or services [1] OR Quantity sold \times price per unit [2]

Some understanding [1] e.g. Income/money made by the business [1]

(b) What is meant by a ‘variable cost’? [2]

Clear understanding [2] costs that change [1] with the level of output produced/sales made [1]

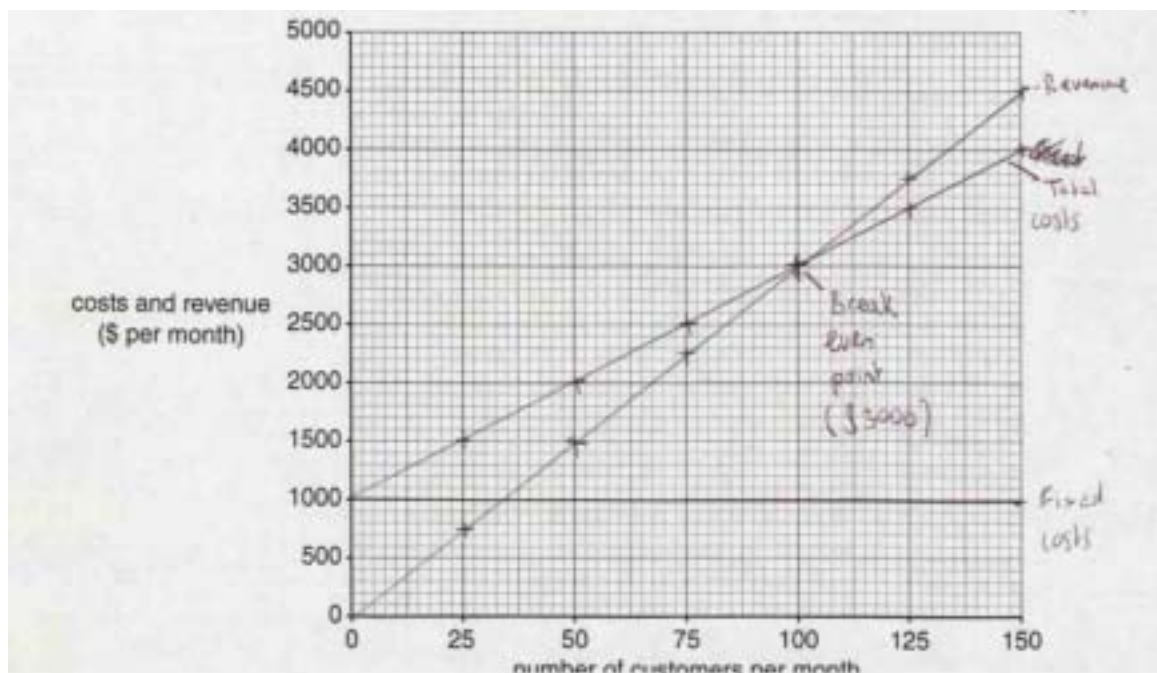
Some understanding [1] e.g. costs that change [1] or costs that vary with sales/output [1]

Do not accept examples of variable costs

Do not accept the phrase ‘costs that vary’ as this is re-wording the question

(c) Using the information in Table 1, draw a break even chart for Gomez’s business. [4]

- Accurately plotted TR line [1]: start at 0, at 100 units is \$3000
- Accurately plotted TC line [2] in total: start at \$1000 [1] \$3000 at 100 units [1]
- Labelling: TR and TC [1] only if layout is correct. TR must start at zero and lines must cross
- Notes:
- Accurately drawn **unlabelled** break-even chart [3].
- For 4 marks TR [revenue] and TC must be clearly labelled.
- Max 1 mark for inaccurately plotted break-even chart with TR and TC correctly labelled.



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(d) Identify and explain two methods that Gomez could use to maintain customer loyalty. [6]

Knowledge [2 × 1] – award one mark for each method identified [max 2]
 Application [2 × 1] – award 1 mark if relevant reference made to Gomez’s business
 Analysis [2 × 1] – award 1 mark for each relevant explanation

Relevant points might include:

- Communicate with customers e.g. newsletters, social media [k] so that they remember your business [an] when they next need computer repaired [app]
- Offer good quality service [k] so that customers want to return [an] rather than go to one of its many rivals [app]
- Extra services [k] e.g. delivery/credit facilities/after sales/training
- Offer rewards [discounts] **to existing customers**/loyalty card [k] such as free software [app] so consumers have an incentive to return [an]
- Train staff [k] so they are able to offer a good quality service [an]
- Ask for feedback e.g. surveys [k] to provide the repairs/service [app] that customers require [an]
- Resolve complaints quickly [k] so that customers don’t go to rivals [an] to repair their computer [app]
- Application marks may be awarded for appropriate use of the following: competitive market/many rivals, computer repairs, software, small business.

Each application to be awarded only once.

(e) Gomez thinks the best way to lower the break-even point is to raise prices. Do you agree? Justify your answer. [6]

Knowledge [1] – award 1 mark for identification of relevant issue(s) [max 1]
 Application [1] – award 1 mark if relevant reference made to Gomez’s business
 Analysis [2] – award up to 2 marks for relevant development of point(s)
 Evaluation [2] – justified decision made as to whether raising prices is the best way lowering the break-even point. Candidate’s final decision can be either for or against the statement.

Relevant points might include:

- raise in price will increase revenue [k] so need to do less repairs [app]
- effect of elasticity [k] if demand price elastic, increasing prices will see a greater fall in demand [an]
- depends on actions of competitors [k] as it is a competitive market [app]
- is the business able to lower costs [k]
- lower costs [k] might mean quality of work is reduced [an] so lose customer loyalty [app]

Application marks may be awarded for appropriate use of the following: use of break-even information, competitive market, small computer shop, customer loyalty.

2 (a) Identify two stages of the recruitment process. [2]

Knowledge [2 × 1] award one mark per stage identified
 Points might include: Job analysis, job description, person specification, advertising, shortlisting, interview, selection.
 Note: Answer must be from the business viewpoint not the applicant.

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(b) What is meant by an ‘economic boom’? [2]

Clear Understanding [2] – **strong** rise in level of **economic** activity **OR** Period of time when GDP rising **rapidly**

Some Understanding [1] – e.g. **economy** doing well [high GDP] or rise in level of **economic activity** or GDP rising

Do not credit characteristics of economic boom as these are stated in the stem

(c) Explain how falling unemployment might affect All Active. [4]

Knowledge [2] award up to 2 marks for identification of points/knowledge of unemployment
Application [2] award up to 2 marks for relevant explanation in context of All Active

Relevant points might include:

- customers have more income [k] so can spend money on luxuries such as leisure activities [app]
- problem recruiting workers [k] as need more for each club [app]
- higher wages may be needed [k] for the new staff [app]
- more people in work [k] less time to spend at sports club [app]

Application could include: Leisure/sports clubs, new workers/expansion/more clubs, gym membership, fitness is an elastic product

(d) Identify and explain two factors that All Active should consider when deciding on the location of the new clubs. [6]

Knowledge [2 × 1] – identification of relevant sources [max 2]

Application [2 × 1] – award 1 mark for each way if relevant reference made to their business

Analysis [2 × 1] – award 1 mark for each relevant explanation

Relevant points might include:

- customers/level of demand[k] need to be in places where people are interested in fitness [app] as they will get more customers [an];
- availability of suitable land [k] as likely to need a large space [an] to build a **sports** club [app];
- government regulations [k] which could stop them from building in some locations [an];
- competitors [k] customers might be loyal to a rival gym [app] so difficult to gain customers [an]
- suppliers [k] training equipment is heavy [app] so costs of transport will be high [an]
- Infrastructure/transport links/utilities [k]
- access to employees [k] as they will need trainers [app] to help/advise customers [an]
- cost of land/rent [k]

Application marks may be awarded for appropriate use of the following: equipment, sport/fitness, gym, trainers

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- (e) Consider the advantages and disadvantages for All Active of being converted to a public limited company? Do you think All Active should become a public limited company? Justify your answer. [6]

Knowledge [1] – award 1 mark for identification of relevant issue(s). Positive or negative points allowed [max 1]

Application [1] – award 1 mark if relevant reference made to All Active’s business

Analysis [2] – award up to 2 marks for relevant development of point(s)

Evaluation [2] – justified decision made as to whether All Active should become a public limited company. Candidate’s final decision can be either for or against the statement.

Relevant points might include:

Advantages:

- Access to greater sources of finance [k] so help fund expansion [an] of 5 more clubs [app]
- Greater prestige/status [k] so might be able to attract better managers/employees [an]

Disadvantages:

- More legal requirements to meet [k]
- Already have limited liability [k] as private limited company [app] so is there much benefit [eval]
- business is already successful [k] as profits have increased [app] so might have funds for expansion already [an]
- Greater Risk of takeover [k]

Application marks may be awarded for appropriate use of the following: 5 more clubs, private limited company, fitness, 20 clubs, increasing profits

- 3 (a) What is meant by a ‘partnership’? [2]

Clear understanding [2] – 2 [or more] people who agree to **own** and run a business together [2]

Some understanding [1] – e.g. 2 or more people run a business

Do not accept features

- (b) Identify two methods of primary market research that Si and Ramon might have used. [2]

Application [2 × 1] – award 1 mark for each relevant method

Points could include: questionnaire/survey, interview, consumer panel, observation, focus group

Note: **Do not** accept field research/internet – too vague

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(c) Identify and explain two possible sources of finance that they could use to obtain the equipment. [4]

Knowledge [2 × 1] – identification of relevant sources [max 2]
 Application [2 × 1] – award 1 mark for each relevant explanation

Relevant points might include:

- Bank loan [k] so can spread cost of cameras over a period of time [app]
- Savings [k] so no need to pay interest on the \$4000 [app]
- Borrow from family and friends [k]
- Leasing [k] as there may not be enough demand [app]
- Hire purchase [k] so their new business does not have to pay a large one off cost [app]
- Government grant [k]
- Additional partner [k]

Do not accept retained profits or overdraft as this is a new business

Application marks may be awarded for appropriate use of the following: new business, \$4000, partnership, cameras or examples of relevant equipment [not equipment on its own], business plan

(d) Identify and explain two advantages to Si and Ramon of having a business plan. [6]

Knowledge [2 × 1] – award 1 mark for each relevant advantage [max 2]
 Application [2 × 1] – award 1 mark if relevant reference to Si and Ramon’s business
 Analysis [2 × 1] – award 1 mark for each relevant explanation

Relevant points might include:

- Support loan applications [k] as bank/lenders will want to know that the \$12 500 [app] can be repaid [an]
- Clear aims/guidance for business [k] so they know what they have to do to get there [an]
- help decision making [k] as Si believe there is customer demand for service before start [app] so will not waste time and money targeting the wrong people [an]
- helps understand the possible risks [k] as they might not have run a business before [app]
- provides an estimate of costs [k] for the photography business [app] so they will know how much they need [an]
- provides a checklist [k] as they set up [app] so that they don’t forget any important task [an]

Application marks may be awarded for appropriate use of the following:
 \$12 500/\$8000/\$4000, \$500 photography business, new business, set up

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- (e) Consider two methods of promotion that would be suitable for Si and Ramon to use. Which of these two methods would be most appropriate? Justify your answer. [6]

Knowledge [1] – award 1 mark for identification of relevant method(s) [max 1]

Application [1] – award 1 mark if relevant reference made to Si and Ramon’s business

Analysis [2] – award up to 2 marks for relevant development of point(s)

Evaluation [2] – justified decision as to which method of promotion is best option to use

NOTE: For 6 marks must explain why chosen method is better than the other option

Relevant methods might include: advertising [can include leaflets, posters, radio, television, newspapers, direct mail, social media, websites], sponsorship, promotional pricing (short-term discounts), special offers, branding, competitions, PR.

Note: **do not** accept internet – too vague

Application marks may be awarded for appropriate use of the following: – photography, pictures, new business, \$500, partnership, weddings, birthdays, special events

- 4 (a) What is meant by ‘batch production’? [2]

Clear understanding [2]: e.g. products are made in groups/blocks [1] followed by another block/group [1]

Some understanding [1]: identifies one distinct feature of batch e.g. made in (small) groups or sets

Do not accept ‘batch’ as part of answer as stated in question.

- (b) Identify two advantages (other than cutting costs) to the company of using new technology. [2]

Application [2 × 1] award 1 mark per advantage

Points include:

- less errors/wastage/consistent quality
- less risk of injury
- higher output
- able to make new products
- speed of production/efficiency
- 24/7 operation

Note: **do not** accept less wages or less employees as these are examples of cutting costs

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(c) Identify and explain two reasons why the quality of chocolates might be important to this company. [4]

Knowledge [2 × 1] – identification of relevant reason [max 2]

Application [2 × 1] – award 1 mark for each relevant explanation in context

Points could include:

- helps establish brand image/loyalty [k] as they make a luxury product [app]
- ensure sales [k] as if they don't taste right, people won't buy [app]
- maintain reputation [k] which is important as it is a competitive market [app]
- maintain standards [k]
- no need to replace faulty products [k] which will help reduce costs [app]
- Charge/maintain high prices [k]
- Add value [k]
- Must meet legal requirements [k] for food products [app]

Application marks may be awarded for appropriate use of the following: competitive market, luxury product, food products, taste.

(d) Identify and explain two problems that a fall in profits might cause for the company. [6]

Knowledge [2 × 1] – identification of relevant problem [max 2]

Application [2 × 1] – award 1 mark for each relevant reference made to the business

Analysis [2 × 1] – award 1 mark for each relevant explanation

Relevant points might include:

- Lack of finance [k] to introduce new technology [app] because of less retained profits [an]
- Lenders/investors unwilling to give money [k] as seen as higher risk [an]
- Workers insecure [k] which results in poor motivation [an] as they fear job losses as the company try to cut costs [app]
- Damaged reputation [k] suppliers/customers might think the business is struggling [an] so look for alternative chocolate makers [app].
- Shareholders may sell shares [k] because the company can't pay dividends [an]

Accept points which refer to either gross profit or profit

Application marks may be awarded for appropriate use of the following: new technology, chocolate, cutting costs, increased competition.

Profit is not used to pay costs therefore **do not** accept answers which suggest they can no longer afford items.

Do not accept solutions e.g. Making workers redundant.

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- (e) Do you think that the introduction of new technology would benefit Javid’s workers? Justify your answer. [6]

Knowledge [1] – award 1 mark for identification of relevant issue(s). Positive or negative points allowed [max 1]

Application [1] – award 1 mark if relevant reference made to Javid’s business

Analysis [2] – award up to 2 marks for relevant development of point(s)

Evaluation [2] – justified decision made as to whether new technology would benefit Javid’s workers. Candidate’s final decision can be either for or against the statement.

Relevant points might include:

- need for re-training [k] which could create opportunities for promotion [an]
- impact on motivation (either positive or negative) [k]
- fear of change [k] as production process likely to change how they do things [an]
- fear of redundancy/job losses as machines replace jobs [k] could decrease motivation [an]
- less skills needed [k] so could mean lower wages [an] leading to lower living standards [an]
- opportunities to learn new skills [k] because they make new types of chocolate [app]
- chances for promotion [k] as new job roles created [an]
- safer conditions [k] in the manufacturing process [app] so less risk of injury [an]
- company survives [k] because they remain competitive [app] so workers keep their jobs [an]

Note: **Do not** accept points such as ‘more efficient’ unless clearly link issue to employees.

Application marks may be awarded for appropriate use of the following: chocolates, sales falling, need to cut costs, increased competition

Note: Answer must focus on the benefit or not to the **workers**

CAMBRIDGE INTERNATIONAL EXAMINATIONS

Cambridge International General Certificate of Secondary Education

MARK SCHEME for the May/June 2015 series

0450 BUSINESS STUDIES

0450/12

Paper 1 (Short Answer/Structured Response),
maximum raw mark 80

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1 (a) What is meant by ‘quality assurance’? [2]

Clear Understanding [2] – checking for quality standards [1] throughout the production process / every stage [1]

Some Understanding [1] – e.g. checking work done

Do not accept ‘checking at end / checking end product’ in this instance as this defines quality control

(b) Identify two ways in which break even analysis might be helpful to PJK. [2]

Application [2 × 1] – award 1 mark for each relevant way

Points could include:

- Planning / forecasting / decision making / help set prices
- Help work out level of profit **at different levels of output**
- Show margin of safety
- Shows how much needed to produce to cover costs / avoid loss / breakeven point
- Help apply for finance

Do not accept points such as shows costs / sales / profit on their own as too vague

(c) Using the information in Table 1, draw a break even chart for PJK. [4]

- Accurately plotted TR (revenue) line [1]: start at 0, at 4000 units should be at \$400 000
- Accurately plotted TC line [2] in total for start at \$200 000 [1] \$400 000 at 4000 units [1]
- Labelling: TR and TC [1] only if layout is correct. TR must start at zero and lines must cross

Notes:

- Accurately drawn **unlabelled** break-even chart [3]
- For 4 marks TR [revenue] and TC must be clearly labelled
- Max 1 mark for inaccurately plotted break-even chart with TR and TC correctly labelled

(d) Identify and explain two advantages to PJK of using skilled workers. [6]

Knowledge [2 × 1] – award 1 mark for identification of each relevant advantage [max 2]

Application [2 × 1] – award 1 mark if relevant reference made to this business

Analysis [2 × 1] – award 1 mark for each relevant explanation

Relevant points might include:

- Work quicker / more efficient / more productive [k] so lower average costs [an]
- More output [k] so able to meet any increase in customer demand [an] for watches [app]
- Higher quality / fewer mistakes [k] so less wasted materials [app] so can buy less inventory [an]
- Brand image / good reputation [k] as it’s a luxury product [app] so people trust / buy [an]
- Less training needed [k] so saves cost [an]
- Less supervision needed [k] so managers have time to do other jobs [an]
- More flexible workforce [k] as able to switch between different stages of production [app]

Application marks may be awarded for appropriate use of the following: luxury product, watches, quality assurance, handmade, production process, materials / parts

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- (e) Do you think that investing in new technology is the best way to improve profitability at PJK? Justify your answer [6]

Knowledge [1] – award 1 mark for identification of relevant issue(s)

Positive or negative points allowed or alternative ways to improve profitability [max 1]

Application [1] – award 1 mark if relevant reference made to this business

Analysis [2] – award up to 2 marks for relevant development of point(s)

Evaluation [2] – justified decision made as to whether new technology is the best way to improve profitability. Candidate's final decision can be either for or against the statement

Relevant points might include:

- Reduce labour costs [k] so lower costs [an]
- Less wastages or errors [k] so have to order less parts [app]
- Additional costs e.g. redundancy or training costs [k] initially reduce profitability [an]
- Impact on employee morale [k]
- Better quality / accuracy [k] for this luxury product [app] so customers might pay higher price [an] leading to bigger gap between costs and revenue [an]
- High initial costs of equipment [k]
- Speed up production [k] so leading to lower average costs [an]
- Might take away their USP [k] of being handmade [app] so reduce demand [an]
- Or Introduce more efficient working practices e.g. redesign factory layout [k]
- Or use cheaper materials [k] so lower variable costs [an] but could mean lower quality of watches [app]
- Or sell more through increased advertising [k] but could be expensive / may not work [an]

Application marks may be awarded for appropriate use of the following: luxury product / watches, skilled workers, quality assurance, handmade, production process, materials / parts

- 2 (a) What is meant by a 'multinational company?' [2]

Clear Understanding [2] – a business with factories, production or service operations in more than one country OR a business with production or service operation in another country outside its normal area of operation

Some Understanding [1] – e.g. has businesses everywhere / works or operates in more than one country

Do not accept 'sells in more than one country' as could equally apply to exporter

Do not accept examples

- (b) What is meant by a 'brand'?' [2]

Clear Understanding [2]: (unique) name, feature or design / logo or image of a product or business [1] that distinguishes it from other products or businesses [1]

Some Understanding [1]: e.g. something which makes a product 'stand out' [1]

Do not accept examples

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(c) Identify and explain two reasons why effective communication might be important for Alkin. [4]

Knowledge [2 × 1] – award 1 mark for each relevant reason

Application [2 × 1] – award 1 mark for each relevant explanation in context of this business

Relevant points might include:

- Avoid diseconomies of scale [k] as communication can be difficult in a multinational [app]
- Everyone understands objectives [k] so no conflict in joint venture [app]
- avoid language issues / misunderstandings [k] particularly when start selling in country Z [app]
- Different cultures / management styles [k] so able to work with the local business [app]
- Better / faster decision making [k] so able to quickly react to changing tastes / flavours [app]
- Able to exchange ideas [k]
- Better relations with suppliers [k]
- Inform customers about its products [k] so that customers are interested in their food [app]

Note: Points can relate to either existing business or planned joint venture

Do not accept 'improves motivation' unless explains the impact on this business

Application marks may be awarded for appropriate use of the following: joint venture, country Z or countries, multinational company, breakfast cereals or food, expansion

(d) Identify and explain two advantages to Alkin of using a joint venture to expand into country Z. [6]

Knowledge [2 × 1] – identification of relevant advantage [max 2]

Application [2 × 1] – award 1 mark for each relevant reference made to this business

Analysis [2 × 1] – award 1 mark for each relevant explanation

Relevant points might include:

- Access to new markets [k] increasing brand awareness [an] of its range of cereals [app]
- Access to local expertise / ideas [k] e.g. cultural knowledge as tastes differ [app] so better able to meet customer requirements / ensure sales [an]
- Wider range of contacts / better access to resources [k] so might be able to obtain cheaper ingredients [app]
- Increased capital / share costs [k] so less risk [an]
- Increased capacity [k] so can meet expected growth in demand [app] without affecting supply for other markets [an]
- Way to avoid government restrictions [k] so able to maximise potential sales [an]
- Less competition [k] as working with local business [app] so one less rival [an]
- Economies of scale [k]
- Build reputation [k]

Application marks may be awarded for appropriate use of the following: multinational company, breakfast cereals or food, fast-growing market, local business

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- (e) Do you think that the Government in country Z is right to be worried about the effect of multinational companies such as Alkin on consumers? Justify your answer [6]

Knowledge [1] award 1 mark for identification of relevant issue(s)

Must relate to consumers

Application [1] – award 1 mark if relevant reference made to this business

Analysis [2] – award up to 2 marks for relevant development of point(s)

Evaluation [2] – justified decision made as to whether the Government in country Z is right to be concerned about the effect of multinational companies such as Alkin **on consumers**

Candidate's final decision can be either for or against the statement

Relevant points might include:

- Access to international brands [k] so more consumer choice [an] so better able to find cereal that suits their individual needs [app]
- Increased competition [k] as local businesses have to respond [an] so lower prices [an]
- Fewer choices [k] so smaller producers forced out of business [an] so prices may increase [an]
- Minimum standard [k] as goods same all over the world [an]
- help meet customers demand [k] in fast growing market [app] as able to supply more [an]

Application marks may be awarded for appropriate use of the following: food, cereals, brands, fast growing market

- 3 (a) Identify two ways that a business could 'build good customer relationships'. [2]

Knowledge [2 × 1] award 1 mark per way

Points might include:

- Offer good / personal service e.g. be friendly with customers
- Find out what customers want / offer the right product
- Ask for feedback
- Extra services e.g. delivery, credit terms, after sales, longer opening hours
- Resolve complaints quickly / refunds
- Communicate with customers regularly e.g. newsletters or mailshots
- Reward customer loyalty e.g. loyalty cards, special offers, discounts, vouchers, BOGOF, events

Accept any reasonable answer

- (b) What is meant by 'secondary market research'? [2]

Clear Understanding [2] –

e.g. Information about the market / customer needs or competition [1]

that is already available / collected by other agencies [1]

Some Understanding [1] – e.g. Simple idea such as information already collected [1] / or

what market research is e.g. information about the market or finding out what

people want [1]

Do not accept examples

Desk research [0]

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- (c) Identify and explain two methods of promotion (other than promotional pricing) that Mabel might use. [4]

Knowledge [2 × 1] – identification of suitable method [max 2]

Application [2 × 1] – award 1 mark for each relevant explanation in context of this business (e.g. show how or why it might be used)

Points might include:

- Free gifts / samples [k] give customers small bottles of shampoo to try [app]
- Demonstrations [k] let people watch whilst she shows possible styles on people's hair [app]
- Loyalty cards [k] e.g. customers get a free haircut if they visit a set number of times [app]
- Advertising (allow only once) [k] e.g. local paper / radio / television / leaflets to let potential customers know about her new business [app]
- Sponsorship / public relations [k]
- Competitions [k] customers will book appointments to have a chance of winning prizes [app]

Application marks may be awarded for appropriate use of the following: appointments, shampoo, haircuts, new business

- (d) Identify and explain two possible disadvantages to Mabel of buying her inventory from a wholesaler. [6]

Knowledge [2 × 1] – identification of relevant disadvantage

Application [2 × 1] – award 1 mark for each way if relevant reference made to this business

Analysis [2 × 1] – award 1 mark for each relevant explanation (i.e. why it is an disadvantage to a business)

Relevant points might include:

- May not stock all / latest products [k] so can't get all the hair products wanted [app] so wastes time looking elsewhere [an]
- More expensive [k] which could push up her costs [an]
- Take longer to receive stock [k] as many stages in distribution process [an] so large rival businesses might offer latest hair products first [app]
- Has to buy more than she wants / can't just buy one [k] could be more than she can afford [an] so less money to spend promotion / her new business [app]
- No direct contact with manufacturer [k] so cannot tell them what needed [an] so cannot build customer relations with her customers [app]

Do not accept high storage costs as not relevant to this business

Do not accept 'has to buy in bulk / large amounts' as the role of the wholesaler is to break bulk

Application marks may be awarded for appropriate use of the following: appointments, shampoo, haircuts, new business, (trying to build) customer relations

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- (e) Do you think that the right location is more important than the prices she charges to the success of Mabel's business? Justify your answer. [6]

Knowledge [1] – award 1 mark for identification of relevant issue(s)

Positive or negative points allowed [max 1]

Application [1] – award 1 mark if relevant reference made to this business

Analysis [2] – award up to 2 marks for relevant development of point(s)

Evaluation [2] – justified decision made as to whether location or price is more important than the prices she charges to the success of Mabel's business.

Note: Must consider both price and location to access evaluation marks

Relevant points might include:

- Near target market [k] e.g. women / men would help ensure sales [an]
- If customer service is key feature [app] then price might not be important [k] as consumers might pay more for a better service [an]
- High price could discourage customers [k] who would go to competitors [an]
- Low prices could suggest low quality [k]
- Right location could affect the level of competition [k]
- Location / prices could influence image [k]
- Cost of rent might be too high [k] leading to increased costs / higher prices [an] so fewer customers can afford to go there to get haircut [app]

Application marks may be awarded for appropriate use of the following: good customer service, hairdressing, salon, new business, secondary market research

- 4 (a) Identify two possible reasons why A2Z might want to expand. [2]

Knowledge / Application [2 × 1] – award 1 mark for each relevant reason

Points could include:

- Increase sales OR revenue OR market share or dominate market or target new markets
- Increase profit
- Spread risk / attract more investment
- Improve reputation / status / brand image
- Gain economies of scale

- (b) Identify two factors that A2Z needs to consider when choosing a source of finance to buy more planes. [2]

Application [2 × 1] – award 1 mark for each relevant factor

Points could include:

- Amount needed
- Current level of debt / gearing
- Amount of retained profits / cash
- Time (how long need finance for)
- interest rates
- Whether can offer security for loans
- Ability to repay / able to afford

Do not accept purpose as this is stated in the question

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(c) Identify and explain two advantages to A2Z of producing a job description. [4]

Knowledge [2 × 1] – award 1 mark for each advantage [max 2]

Application [2 × 1] – award 1 mark for each relevant explanation in context of this business

Relevant points might include:

- Provides a clear idea of what job involves [k] so they can select the best pilots [app]
- Saves time / money / makes selection easier [k] as won't get applications from people who cannot fly planes [app]
- As a basis for drawing up a contract [k] so sure that all duties will be carried out on-board [app]
- Helps decide basis for pay [k]
- Help create person specification [k]
- Helps create appropriate job advert [k]
- Helps resolve disputes [k] between managers and pilots [app]

Do not accept advantages to employees. Candidates must not refer to person specification

Application marks may be awarded for appropriate use of the following: flights, on-board, planes or aircraft, airline, pilots

(d) Identify and explain two suitable ways that A2Z could use to advertise the new jobs. [6]

Knowledge [2 × 1] – award 1 mark for identification of each relevant way [max 2]

Application [2 × 1] – award 1 mark for each way if relevant reference made to this business

Analysis [2 × 1] – award 1 mark for each relevant explanation

Relevant points might include:

- Specialist magazines [k] as looking for qualified people [app] so likely to read magazines targeted at them [an]
- Internet **job** sites / **own** website [k] as most people use internet to look for jobs these days [an]
- National TV / newspaper / radio advertisements [k] as might not be many pilots locally [app] so can attract suitable people [an]
- Job centre / Recruitment agencies [k] can help produce a shortlist of possible candidates [an]
- **Specialist training** / flight schools [k] where people have learnt to fly [app]

Application marks may be awarded for appropriate use of the following: fly, pilots, airlines, highly qualified / highly skilled, passengers

Do not accept answers such internet, website, schools or posters on own as too vague

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- (e) Do you think that using financial rewards is the best way for A2Z to motivate its pilots? Justify your answer. [6]

Knowledge [1] – award 1 mark for identification of relevant issue(s). Positive or negative points allowed or alternative methods (points can be for business or employee) [max 1]

Application [1] – award 1 mark if relevant reference made to this business

Analysis [2] – award up to 2 marks for relevant development of point(s)

Evaluation [2] – justified decision made as to whether financial rewards are the best way for **A2Z** to motivate its pilots. Candidate's final decision can be either for or against the statement.

Note: evaluation must be from the **viewpoint of the business** not the employee

Relevant points might include:

- High wages help retain workers [k]
- Can the business afford to pay high wages [k]
- High skilled jobs [k] so will expect high levels of financial rewards [an] otherwise they will look for a job at rival airline [app]
- Money does not motivate everyone / already highly paid [k]
- Training might be offered [k] as high risk job [app] so safety might be more important
- profit sharing [k] as small airline [app] so might work as pilots may feel they have a direct impact on performance [an]
- Opportunities for promotion [k] could have limited value [an] as it is a small airline [app]
- Job security [k]
- Travel discounts for pilot and/ or family [k] so able to obtain cheap tickets [app]

Application marks may be awarded for appropriate use of the following: small, expansion, successful, references to risk involved in flying, tickets, **highly** qualified / **highly** skilled, **highly** paid, irregular work hours, passengers

Do not accept pilots as application as it is stated in the question

CAMBRIDGE INTERNATIONAL EXAMINATIONS

Cambridge International General Certificate of Secondary Education

MARK SCHEME for the May/June 2015 series

0450 BUSINESS STUDIES

0450/13

Paper 1 (Short Answer/ Structured Response),
maximum raw mark 80

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1 (a) What is meant by ‘market segment’? [2]

Clear understanding [2]
 a identifiable sub-group of a whole market [1]
 in which consumers have similar characteristics or preferences [1]
 Some understanding [1] e.g. subgroup / small section of market

(b) Identify two reasons why consumer spending patterns might change. [2]

Knowledge [2 × 1] – award 1 mark for each relevant reason

Points could include:

- Consumer tastes and fashion,
- Changes in technology,
- Change in income,
- Changes in population size and structure,
- Price of goods,
- Price of competitors goods,
- Spending on advertising and other promotional activities,
- State of economy

Accept any reasonable answer

(c) Using the information in Table 1, draw a break-even chart for GK Hotel on Figure 1. [4]

- Accurately plotted TR (revenue) line [1]: start at 0, at 200 units should be at \$8000
- Accurately plotted TC line [2] in total for start at \$4000[1] \$8000 at 200 units [1].
- Labelling: TR and TC [1] only if layout is correct. TR must start at zero and lines must cross

Notes:

- Accurately drawn **unlabelled** break-even chart [3].
- For 4 marks TR [revenue] and TC must be clearly labelled.
- Max 1 mark for inaccurately plotted break-even chart with TR and TC correctly labelled.

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(d) Identify and explain two benefits to GK Hotel of having a website. [6]

Knowledge [2 × 1] – award 1 mark for each relevant benefit [max 2]

Application [2 × 1] – award 1 mark for each way if relevant reference made to this business

Analysis [2 × 1] – award 1 mark for each relevant explanation

Relevant points might include:

- Can ask for feedback [k] so find out what customers want / improve [an] in each room [app]
- Increase public awareness / Advertising [k] so people can find it in the city centre [app]
- Improved communication / provide information [k] with tourists [app] so can respond to requests quickly [an]
- Lower marketing costs [k] can advertise latest rates [app] without paying to reprint brochures [an]
- Lower fixed costs [k] as fewer employees needed [an] which could lower break-even point [app]
- 24 hour access [k] so more convenient for customers to make enquiries [an]
- Reinforces image [k] customers expect business to have website these days [an]
- Reach wider audience [k] so can target different market segments [app] which increases their potential market [an]
- Increased sales potential [k] as reservations can be made online [app]

Application marks may be awarded for appropriate use of the following: small, use of data, rooms, bookings/ reservations, city centre, tourists, increased competition

Do not accept Hotel as application as it is stated in the question

(e) Do you think that cost plus pricing is the best pricing method for GK Hotel to use? Justify your answer. [6]

Knowledge [1] – award 1 mark for identification of relevant issue(s). Positive or negative points or identifies alternative pricing method [max 1]

Application [1] – award 1 mark if relevant reference made to this business

Analysis [2] – award up to 2 marks for relevant development of point(s)

Evaluation [2] – justified decision made as to whether cost plus pricing is the best pricing method for GK Hotel to use. Candidate's final decision can be either for or against the statement.

Relevant points might include:

- Cost plus
- Cost plus ensures costs are covered [k] so can break even at 200 rooms per month [app]
- Other methods might increase break-even point [k] so might end up making a loss [an]
- Easy to calculate [k] so can work out their profit margin [an]
- Cost plus might be uncompetitive [k] as price set too high [an]
- Competitive pricing [k] so able to respond to increased competition [app]
- Promotional pricing [k] can help attract new customers [an] so able to gain different market segments [app]
- Depends on objectives of business [k]
- Level of competition / state of market [k]
- How important price is for customers [k]

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Application marks may be awarded for appropriate use of the following: small, use of data, website, rooms, bookings/ reservations, increased competition, city centre, different market segment.

Do not accept Hotel as application as it is stated in the question

2 (a) Identify two ways to measure the size of a business (other than number of employees). [2]

Knowledge [2x1] 1 mark per way

Points could include:

- Sales value OR value of output OR revenue
- Capital employed
- Value of balance sheet
- Market share

Do not accept profit/number of assets or machines or capital or outlets/amount of output

(b) Identify two characteristics of a successful entrepreneur. [2]

Knowledge [2 × 1] – award 1 mark for each relevant characteristic

Points could include:

risk taker, innovator, creative, self-confident, optimistic, hardworking, independent, effective communicator, leadership, initiative, self-motivating /determined, results driven, good at networking, multi-skilled

Accept any reasonable answer.

(c) Identify and explain two advantages to Camille of employing part- time workers. [4]

Knowledge [2 × 1] – award 1 mark for each relevant advantage [max 2]

Application [2 × 1] – award 1 mark for each relevant explanation in context of this business

Relevant points might include:

- More flexible [k] so able to cover when one of the 5 workers not available [app]
- Help meet demand during busy times [k]
- Help extend opening hours [k] so able to remain popular [app]
- Can fit around employees other commitments [k] so might help attract new employees [app]
- Less expensive than full-time worker [k] so has money to help expand [app]
- Can add more skills / experience to business [k] so able to offer more hairstyles [app]
- Help keep experienced workers [k]

Application marks may be awarded for appropriate use of the following: hairdressers, hairdryers, haircuts or associated words, 5 part-time employees, small, successful business, wants to expand

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(d) Identify and explain two problems for Camille of using on-the-job training. [6]

Knowledge [2 × 1] – identification of relevant problem [max 2]

Application [2 × 1] – award 1 mark for each way if relevant reference made to this business

Analysis [2 × 1] – award 1 mark for each relevant explanation

Relevant points might include:

- Trainer not as productive [k] so not able to cut as many people's hair [app] leading to less revenue [an]
- Pass on bad habits to trainee [k] which could lead to poor quality work / bad reputation [an] for the salon [app]
- Trainer might not be available [k] as work part time [app] so trainee might have nothing to do / need someone else to train them [an]
- Customers don't want trainee / unskilled person [k] to let them wash / cut their hair [app]
- How to organise training [k] with almost as many trainees as trainers [app]

Application marks may be awarded for appropriate use of the following: hairdressers, hairdryers, haircuts or associated words, 5 part-time employees, small, successful / popular business

(e) Camille thinks that her laissez-faire leadership style will have to change as her business grows. Do you agree? Justify your answer. [6]

Knowledge [1] – award 1 mark for identification of relevant issue(s). Positive or negative points allowed or identifies an alternative leadership style [max 1]

Application [1] – award 1 mark if relevant reference made to this business

Analysis [2] – award up to 2 marks for relevant development of point(s)

Evaluation [2] – justified decision made as to whether Camille needs to change her management style. Candidate's final decision can be either for or against the statement.

Relevant points might include:

- New employees might need guidance [k] so poor decisions might be made [an]
- Communication can be difficult [k] as clear direction is not given [an]
- Not a large a business [k] even with 8 people [app]
- Harder to manage with more people [k] so need rules to avoid disputes [an]
- Her style might be one reason for success [k] so change might damage popularity [app]
- Has she the skills to use different approach [k]
- Workers might leave / demotivated [k] as they like the freedom that laissez-faire allows [an] so she will need to recruit more than 3 new people [app]
- Democratic style allows employees a say in what they do [k] but let Camille keep control [an]
- Autocratic style would mean telling workers what to do [k]

Application marks may be awarded for appropriate use of the following: hairdressers, hairdryers, haircuts or associated words, 5 part-time employees, 3 (more workers), small, successful /popular business

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3 (a) What is meant by ‘specialisation?’ [2]

Clear understanding [2] e.g. way in which work is divided so each worker concentrates on a specific task so become expert at it **OR** when people and businesses concentrate on what they are best at

Some understanding [1] e.g. workers do only one job

(b) Identify two other ways (other than profit) that Bowland could use to measure its success. [2]

Application [2x1] 1 mark for each measure of success

Points could include:

- Achievement of objectives
- Growth
- Increase in market share
- (Sales) revenue
- Survival (in short run)

(c) Identify and explain two reasons why cash flow is important to Bowland. [4]

Knowledge [2 × 1] – award 1 mark for each relevant reason [max 2]

Application [2 × 1] – award 1 mark for each relevant explanation in context of this business

Relevant points might include:

- Need to pay day to day expenses such as suppliers [k] without parts production stops [app]
- If negative might be forced into liquidation [k] despite its profits going up [app]
- Helps avoid cash flow problems [k] while wait for trade receivables to be paid [app]
- A negative cash flow means the business is receiving less cash than it is spending [k]
- Help support finance requests [k] especially as cash flow is negative [app]

Application marks may be awarded for appropriate use of the following: quality, successful, new equipment, bicycles, components or suppliers, trade receivables increased

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(d) Identify and explain two ways in which Bowland could improve its cash flow. [6]

Knowledge [2 × 1] – identification of relevant way [max 2]

Application [2 × 1] – award 1 mark for each way if relevant reference made to this business

Analysis [2 × 1] – award 1 mark for each relevant explanation

Relevant points might include:

- Arrange a **short term** loan / overdraft [k] giving them access to cash [an] so can to pay its suppliers [app]
- Ask debtors to pay quicker [k] as trade receivables increased [app] this will increase cash inflows [an]
- Delay purchases [k] could decide not to buy as much new equipment [app] so keeping cash in the business [an]
- Delay payments for inventory [k] of components [app] so they have less cash outflows [an]
- Reduce level of inventory [k]
- Sell unwanted non-current assets [k] so releasing cash tied up in the business [an]

Can accept practical examples, e.g. find cheaper supplier

Do not accept answers such as ‘increase cash inflow/reduce outflow’, increase sales, cutting costs, raise prices on own as too vague

Application marks may be awarded for appropriate use of the following: quality improved, successful, new equipment, bicycles, components or suppliers, trade receivables increased

(e) Bowland’s management believes that improving quality has been the most important reason that sales have increased. Do you agree? Justify your answer. [6]

Knowledge [1] – award 1 mark for identification of relevant issue(s) or other factor [max 1]

Application [1] – award 1 mark if relevant reference made to this business

Analysis [2] – award up to 2 marks for relevant development of point(s)

Evaluation [2] – justified decision as to quality has been the most important reason for the increase in sales. Candidate’s final decision can be either for or against the statement.

Relevant points might include:

- Quality can lead to a good reputation / brand loyalty [k] so more competitive [an] encouraging others to buy its bicycles [app]
- Can charge higher selling price [k] which might have helped increase its profits [app]
- Less mistakes [k] as make use of specialisation [app] so people trust their products [an]
- More efficient [k] as bought a lot of new equipment [app] lead to lower average costs [an] so able to charge lower prices [an]
- Other factors affect sales such as competition, changes in consumer spending patterns, prices, promotion

Application marks may be awarded for appropriate use of the following: profit up, quality improved, successful, new equipment, bicycles, specialisation

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4 (a) What is meant by an ‘import quota’? [2]

Clear Understanding [2] – Quota refers to a limit on the flow of goods that are allowed into a country

Some understanding [1] e.g. affects goods coming into a country [1]

Note: although this does not properly differentiate it from a tariff it can still be accepted.

Do not reward an answer that says it affects the price [cost] coming into a country, as this is a tariff

(b) What is meant by ‘inventory (stock)’? [2]

Clear Understanding [2] – the amount of raw materials, work in progress, and finished goods held by a business [1] intended for sale [+1]

Some understanding [1] e.g. products or materials owned by a business

(c) Explain how a depreciation in the value of country X’s currency might affect the profits of BRZ. [4]

Knowledge [2] – award up to 2 marks for each relevant point [max 2]

Application [2] – award up to 2 marks for relevant explanation in context of this business

Relevant points might include:

- Value of the currency falls [k] so more expensive to import clothing [app] reducing level of goods available to stock [app]
- More local competition / less competitive [k] as lower profit margin for its coats [app]
- Costs will rise [k] so might have to increase his prices of waterproof goods [app]
- Profitability is likely to fall [k]

Application marks may be awarded for appropriate use of the following: clothing such as coats, waterproofs, trousers, imports

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(d) Identify and explain two opportunities that globalisation might offer BRZ. [6]

Knowledge [2 × 1] – award 1 mark for identification of each relevant opportunity [max 2]

Application [2 × 1] – award 1 mark if relevant reference made to this business

Analysis [2 × 1] – award 1 mark for each relevant explanation

Relevant points might include:

- Wider variety of goods [k] as new clothing / fabrics available [app] leading to better sales [an]
- Cheaper labour costs [k] as buy from low wage countries [app] improves profit margin [an]
- Access larger market [k] for outdoor clothing [app] so spread risk if sales fall in own country [an]
- Build reputation [k]
- Reduce legal controls [k]
- Access to better / quicker distribution networks [k] so able to obtain latest designs quicker [app]
- Quicker communications networks [k]

Application marks may be awarded for appropriate use of the following: clothing such as coats, waterproofs, trousers, designs, fabrics, imports from low wage countries

(e) Do you think it is possible for companies such as BRZ to be both ethical and profitable? Justify your answer. [6]

Knowledge [1] – award 1 mark for identification of relevant issue(s) [max 1]

Application [1] – award 1 mark if relevant reference made to this business

Analysis [2] – award up to 2 marks for relevant development of point(s)

Evaluation [2] – justified decision as to whether it is possible for businesses like BRZ to be both ethical and profitable

Relevant points might include:

- Ethics incurs costs [k] paying a fair price to suppliers will increase variable costs [an] so profit margin might fall [an]
- Suppliers might not pay fair wages [k] as in low wage countries [app]
- Offering to higher prices could lower sales / profit [k]
- Some customers want ethical goods [k] so might be willing to pay more [an] which offsets the higher cost [an]
- Could enhance reputation / act as free promotion [k] so appeal to potential customers [an] leading to increase in sales revenue [an]
- Some workers and investors might only want to work with / for an ethical business [k] so easier to attract / retain workers or raise capital [an]
- Less risk of legal action [k] as clothing / factory conditions likely to be safe [app] avoiding the risk of fines [an]

Application marks may be awarded for appropriate use of the following: clothing such as coats, waterproofs, trousers, imports from low wage countries, retailer

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Cambridge International General Certificate of Secondary Education

MARK SCHEME for the October/November 2015 series

0450 BUSINESS STUDIES

0450/11

Paper 1 (Short Answer/Structured Response),
maximum raw mark 80

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CAMBRIDGE INTERNATIONAL EXAMINATIONS

Cambridge International General Certificate of Secondary Education

MARK SCHEME for the May/June 2015 series

0450 BUSINESS STUDIES

0450/21

Paper 2 (Case Study), maximum raw mark 80

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1 (a) Identify and explain two characteristics David needs to be a successful entrepreneur. [8]

Knowledge (2 × 1) – award one mark for each relevant characteristic identified
 Analysis (2 × 1) – award one mark for a relevant explanation of each characteristic
 Application (2 × 2) – award two application marks for each relevant characteristic

Relevant characteristics might include:

Award one mark for each relevant characteristic (maximum of two), such as:

- Hard working
- Risk taker
- Creative
- Optimistic
- Self-confident
- Innovative
- Independent
- Effective communicator
- Forward thinker
- Determined

Award a maximum of three additional marks for **each** explanation – **2 of which must be applied to this context** – of why these characteristics are needed to be a successful entrepreneur.

Indicative response:

Hard working (k) as the business has only been established for 10 years and has non-current assets worth \$100m (ap). David worked long hours 7 days a week to find customers so the business has grown (ap). He has had to work hard to manage the business effectively so that it is successful (an).

Possible application marks: cake manufacturing; food; shareholder; private limited company; started 10 years ago in country x; invested all his savings; profits have been constantly increasing every year; constantly develops a new range of cakes; works 7 days a week; has four managers for each department; e-commerce; Figures from Appendix 2; new markets abroad.

There may be other examples in context which have not been included here.

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- (b) David has appointed a manager to control each department as shown in Appendix 1. Identify and explain three management functions of the Operations manager. Which do you think is the most important management function? Justify your answer. [12]

Relevant points might include:

- Planning – sets aims/targets; plan for necessary resources
- Organising – delegate tasks; people and resources; ensure everyone working effectively/no duplicated tasks
- Coordinating – ensure departments working together; aims/tasks linked together; chair regular meeting between departments
- Commanding – guiding employees; leading/supervising employees; ensure employees keep to targets/tasks
- Controlling – measure/evaluate work of employees; identify poor performance/identify problems

Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.

	Knowledge/Analysis/ Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified recommendation as to the most important management function of the Operations Manager compared to the other functions 7–8 marks for some limited judgement shown in recommendation as to the most important management function of the Operations Manager.
Level 2	4–6 marks Detailed discussion of each management function of the Operations Manager.
Level 1	1–3 marks Name management function and/or identifies key tasks Operations manager will carry out.

Level 1

1 mark for each L1 statement (max of 3 marks), e.g. the Operations Manager needs to control the department.

Level 2

One L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks), e.g. the Operations Manager needs to control the department. This will involve ordering the ingredients to ensure that the planned production of cakes can be made otherwise bakers may not be able to bake the batches of cakes ordered. (4 marks for L2 answer + 1 application mark for mentioning bakers and making cakes.)

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Level 3

For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation which justifies the most important management function, e.g. planning will be the most important management function because if the Operations Manager does not plan efficiently then workers may not work effectively. They could be waiting for ingredients to arrive and not be able to work. This is more important than commanding the workers to do their work as if they do not have ingredients then commanding them to work will not be effective.

Award up to 2 additional marks for relevant application.

Possible application marks: cake manufacturing; constantly develops a new range of cakes; e-commerce; Figures from Appendix 2; new markets abroad; large supermarkets; small food shops; 125 workers; may need to make some workers redundant; automated production line; efficiency increases by 10% for option A; investment of \$8m; 10 production employees for option B.

There may be other examples in context which have not been included here.

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2 (a) Identify and explain two ways in which marketing is important for DD. [8]

Knowledge [2 × 1] – award one mark for each relevant way

Analysis [2 × 1] – award one mark for a relevant explanation for each way

Application [2 × 2] – award two application marks for each way

Award one mark for each relevant way (maximum of two), such as:

- to identify customer needs
- to satisfy customer needs
- to maintain customer loyalty
- to gain information about customers/conduct market research/collecting data
- to anticipate changes in customer needs
- to raise awareness of new products
- to advertise/promote the new products
- to create a brand image
- to persuade people to buy products
- to increase sales
- to attract new customers
- reference to importance of the four P's
- to help the business become more competitive

Award a maximum of three additional marks for **each** explanation – **2 of which must be applied to this context** – of the ways marketing is important.

Indicative response:

To identify customer needs [k] because David needs to know what types of cakes to bake [ap]. By producing the types of cakes which customers most want to buy will lead to higher sales [an]. Therefore the company is more likely to be successful and return a good dividend to David and his shareholders [ap].

Possible application marks: cake manufacturing; food; shareholders; started 10 years ago in country x; constantly develops a new range of cakes; e-commerce; Figures from Appendix 2; new markets abroad; large supermarkets; small food shops.

There may be other examples in context which have not been included here.

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- (b) Consider the advantages of using e-commerce and the advantages of selling to supermarkets in other countries. Recommend which way DD should use to increase sales. Justify your answer. [12]

Relevant points might include:

Advantages of using e-commerce	Advantages of selling to supermarkets in other countries
<ul style="list-style-type: none"> • Can sell to a wider market • Can be used for advertising • Customers can order any time • New markets reached • Direct customer contact 	<ul style="list-style-type: none"> • Large/regular orders placed • Administration savings on fewer but larger order/economies of scale • Feedback from supermarkets on which products sell well • Display in supermarket promotes the cakes

Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.

	Knowledge/Analysis/ Evaluation
Level 3	<p>At least 2 × Level 2 + 9–10 marks for well justified recommendation as to the best way to increase sales compared to the other way.</p> <p>7–8 marks for some limited judgement shown in recommendation as to the best way to increase sales.</p>
Level 2	<p>4–6 marks Detailed discussion of advantages of e-commerce and advantages of selling to supermarkets in other countries. N.B. do not reward disadvantages</p>
Level 1	<p>1–3 marks Outline the advantages of e-commerce and advantages of selling to supermarkets in other countries.</p>

Level 1

1 mark for each L1 statement (max of 3 marks), e.g. David can sell to a wider market.

Level 2

One L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks), e.g. David can sell to a wider market. This will allow the company to increase production and expand the business. If the cost of cake ingredients fall as output increases then this will help David to increase profits further. (4 marks for L2 answer + 1 application mark for mentioning cake ingredients.)

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Level 3

For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation which justifies which is the best way. Overall there will be higher costs involved in expanding the business by selling cakes online especially as the company sell food items. It will be difficult to maintain the quality of the cakes when they are posted out to customers. (L3) So although they can sell to a wider market they should take this option because of the difficulties of maintaining the quality of the cakes. (L3) It is much easier to deliver large quantities of cakes to supermarkets abroad as delivery will be in specialised containers to keep the cakes fresh (L3) and administration costs will be kept low by fewer but larger orders to process. (L3)

Award up to 2 additional marks for relevant application.

Possible application marks: cake manufacturing; perishable products; food; constantly develops a new range of cakes; Figures from Appendix 2; new markets abroad; small food shops; automated production line; efficiency increases by 10% for option A; investment of \$8m; 10 production employees for option B.

There may be other examples in context which have not been included here.

3 (a) The company Balance Sheet helps David assess the performance of the business.

(i) Calculate the current ratio and acid test ratio for 2014. [4]

(ii) Compare your two ratio results with those of 2013 (see Appendix 2) [4]

Knowledge [2 × 1] – award one mark for each correct ratio

Analysis [2 × 1] – award one mark for each correct calculation

**(i) Current ratio $1000/600 = 1.66/ 1.67$ (1K + 1Ap)
Accept $1300/600 = 2.16/ 2.17$ if working shown**

Acid test ratio $700/600 = 1.16/ 1.17$ (1K + 1Ap)
Accept $1000/600 = 1.6/ 1.67$ if working shown

2 marks for each correct answer; 1 mark if correct method/formula but incorrect answer

(ii) Application + Analysis [2 × 2] – award one application mark for the comparison between the figures and one analysis mark for each explanation of the calculation result from (i)

Indicative response:

The current ratio is lower [ap] because the current liabilities have increased [an].

The acid test ratio is higher (ap) because the amount of inventories has fallen so less working capital is being tied up in inventories [an].

NB do not reward 'better' or 'worse' for the comparison of the figures but an explanation of why the figure is better or worse can be credited.

- (b) David wants to increase efficiency in his factory. Consider Option A and Option B and then recommend which one he should choose. Justify your answer. [12]

Relevant points might include:

	Advantages	Disadvantages
Option A (training existing production employees)	<ul style="list-style-type: none"> Cheaper No redundancies Increased output meets increased sales Workers feel valued/increased job satisfaction 	<ul style="list-style-type: none"> Increase in efficiency only by 10% Large wage costs Loss of output from experienced workers when carrying out training Large number of workers to retrain
Option B (automated production line)	<ul style="list-style-type: none"> Labour efficiency will increase Low wage costs New markets 	<ul style="list-style-type: none"> High capital cost Off-the-job training required Cost of redundancy payments Worker morale/motivation issues

Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.

	Knowledge/Analysis/ Evaluation
Level 3	<p>At least 2 × Level 2 + 9–10 marks for well justified recommendation as to the best option to choose to increase efficiency compared to the other option.</p> <p>7–8 marks for some limited judgement shown in recommendation as to the best option to choose to increase efficiency.</p>
Level 2	<p>4–6 marks Detailed discussion of advantage/disadvantage of Option A and/or B. NB do not reward mirror image arguments</p>
Level 1	<p>1–3 marks Outline of advantage/disadvantage of Option A and/or B. NB do not reward mirror image arguments</p>

Level 1

1 mark for each L1 statement (max of 3 marks), e.g. only needs to train existing workers and so it is cheaper.

Level 2

one L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks), e.g. only needs to train existing workers and so it is cheaper. Also by using on-the-job training methods then training costs will not be high. However, output only increases by 10% and so not much additional output of cakes will be gained. (4 marks for L2 answer + 1 application mark for mentioning output of cakes.)

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Level 3

For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation which justifies which is the best option to choose.

Award up to 2 additional marks for relevant application.

Possible application marks: cake manufacturing; food; off-the-job training; on-the-job training; perishable products; constantly develops a new range of cakes; e-commerce; Figures from Appendix 2; new markets abroad; large supermarkets; small food shops; 100 production workers/10 remaining production workers; 90 redundancies; may need to make some workers redundant; automated production line; efficiency increases by 10% for option A; investment of \$8m.

There may be other examples in context which have not been included here.

4 (a) Identify and explain four factors DD should consider when packaging cakes if they are exported. [8]

Analysis [4 × 1] – award one mark for each factor (maximum of 4)

Application [4 × 1] – award one mark for an explanation in context of each factor (maximum of 4)

Award one mark for each relevant factor (maximum of four), such as:

- protect the product
- easy to transport the product
- contains correct information about the product for that country
- promotes the brand image for the product
- is culturally sensitive
- appropriate language
- recyclable packaging
- cost of packaging

Award a maximum of one additional mark for **each** explanation of the factor in context.

Indicative response:

Contains the correct information about the cakes for that country it is being exported to [ap] because without the correct information the company could be charged with misleading information. [an]

Possible application marks: transporting over long distances; constantly develops a new range of cakes; food; labelling; ingredients; contamination; sell-by date; easily damaged/fragile; perishable; e-commerce; Figures from Appendix 2; new markets abroad; large supermarkets; small food shops.

There may be other examples in context which have not been included here.

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- (b) External factors can affect the profitability of a company. For each of the following changes consider how it might affect DD's profit. Which change is likely to have the greatest effect on DD's profit? Justify your answer. [12]

Relevant points might include:

Increasing GDP in country x	<ul style="list-style-type: none"> higher incomes – increased demand higher sales of luxury products – increased demand may eat other products to cakes – so demand falls
Reduced supply of the raw materials used to make cakes	<ul style="list-style-type: none"> less ingredients available – increased costs higher prices – decreased demand Prices same but lower profits
Television programme highlighting the effects on health of eating too many cakes	<ul style="list-style-type: none"> Negative publicity – lower demand Not many see the programme – little effect on sales Consumers loyal and ignore the advice

Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.

	Knowledge/Analysis/ Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified conclusion as which change has the greatest effect on profit compared to the other changes. NB must be explicit reference to the effect on profit. 7–8 marks for some limited judgement shown in conclusion as to which change has the greatest effect on profit.
Level 2	4–6 marks Detailed discussion of the changes and how they affect profits.
Level 1	1–3 marks Outline of the changes and how they affect profits.

Level 1

1 mark for each L1 statement (max of 3 marks), e.g. Increasing GDP means more people have jobs and incomes are higher.

Level 2

One L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks), e.g. increasing GDP means more people have jobs and incomes are higher. Higher incomes means more luxury products are bought and therefore people may buy more cakes to treat their family leading to increased demand for DD's cakes. (4 marks for L2 answer + 1 application mark for mentioning more cakes being bought.)

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Level 3

For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation which justifies which change has the greatest effect on profits e.g. higher GDP will probably have the greatest effect on profits as it will lead to higher demand for the cakes. (L3) The television programme may have little effect as it depends on how many people watched it and how many people believed what they were being told. (L3) The rising cost of ingredients could be passed on to the customer and therefore there will be little effect on profits. (L3) It depends on how bad the harvest is and how big an increase there is in the costs of the ingredients. So overall increasing GDP is likely to have the greatest effect on profits. (L3)

Award up to 2 additional marks for relevant application.

Possible application marks: constantly develops a new range of cakes; ingredients; food; increased production workers; \$8m investment; perishable products; luxury products; e-commerce; Figures from Appendix 2; new markets abroad; large supermarkets; small food shops.

There may be other examples in context which have not been included here.

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1 (a) What is meant by ‘average cost’? [2]

Clear understanding [2] e.g. Total cost divided by the total number of units produced
Some understanding [1] e.g. cost to make one product/cost per unit

(b) Calculate the output per employee per week in 2014. [2]

Good application [2] e.g. 520
Some application [1] e.g. total output/number of employees or 260 000/500
Note: ignore \$ sign

(c) Identify and explain two possible advantages to TWH of using batch production. [4]

Knowledge [2 × 1] – award 1 mark for each relevant advantage [max 2]
Application [2 × 1] – award 1 mark for each relevant explanation in context of TWH

Relevant points might include:

- some variety in workers’ jobs [k] leading to better motivation [app]
- allows more variety of products to be made [k] so can respond to changes in demand for different toys [app]
- if machinery breaks down other work can continue [k] so could improve efficiency [app]
- flexible way of working [k]
- economies of scale/bulk buying [k] so lower average costs [app]
- More output than job production [k]

Application marks may be awarded for appropriate use of the following: relevant use of numbers, toys, motivation, average cost, efficiency, new technology

Do not accept cheaper, faster, more output (if just this is stated)

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- (d) Identify and explain two ways that TWH could improve the motivation of its employees. [6]

Knowledge [2 × 1] – identification of relevant way [max 2]

Application [2 × 1] – award 1 mark for each way if relevant reference made to TWH

Analysis [2 × 1] – award 1 mark for each relevant explanation

Relevant points might include:

- Job rotation [k] swapping between making different toys [app] they are not bored doing the same thing [an]
- training [k] on the new technology [app] so employees feel valued [an]
- better communication with management [k] so workers feel that they are important to the business [an] so efficiency improves [app]
- improve pay [k] they pay \$6 [app] as pay \$.50 less per hour [an] **OR** bonuses/piece rate [k] so make more toys [app] to get paid above their usual wage [an]
- improved working conditions/environment [k]

Note: other options acceptable e.g. fringe benefits (allow only once), job enrichment, promotion

Do not accept work harder alone as analysis because a reason for this must be given

Application marks may be awarded for appropriate use of the following: relevant use of numbers, toys, average costs, efficiency, new technology.

- (e) TWH can either use retained profit or a long term loan to finance the purchase of new technology. Which option do you recommend TWH should use? Justify your answer. [6]

Knowledge [1] – award 1 mark for identification of relevant point(s) [max 1]

Application [1] – award 1 mark if relevant reference made to TWH's business

Analysis [2] – award up to 2 marks for relevant development of point(s)

Evaluation [2] – justified decision as to which source of finance is best option to use

For 6 marks must explain why chosen source is the better option for this business

Points might include:

Retained profits–

- no need to repay/readily available [k] which can help keep average costs low [app] so no time wasted in trying to secure the finance [an]
- may not have sufficient funds available [k] so might still need a bank loan [an]
- no funds available for other uses [k]

Long term loan –

- can plan repayments over time/know repayments [k]
- interest costs to pay [k] which would increase average costs [app] which has to be repaid whether they make a profit or not [an]
- have retained profits available in case of need [k]

Note: Candidate's final decision can be for either option.

Application marks may be awarded for appropriate use of the following: relevant use of numbers, toys, lower average costs.

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2 (a) What is meant by a ‘private limited company’? [2]

Clear understanding [2] e.g. a business whose shares cannot be sold to the general public [2] Or shares only sold to family and friends [2]
 Some understanding [1] e.g. outlines general features of limited companies e.g. have limited liability/separate legal identity from owners/can sell shares/incorporated

Do not accept in private sector/no Government involvement as generic statement also applies to unlimited businesses.

(b) Identify two causes of business failure. [2]

Knowledge [2 × 1] 1 mark per cause

Points might include:

- lack of management skills
- actions of competition
- change in government laws
- poor product range/outdated products
- lack of demand/recession
- lack of/poor market research
- lack of finance/cash flow problems
- diseconomies of scale/over expansion

Note: points could refer to either new or established business. Accept any reasonable answer.

(c) Identify and explain two diseconomies of scale that Ramford might experience. [4]

Knowledge [2 × 1] – award 1 mark for each relevant diseconomy [max 2]
 Application [2 × 1] – award 1 mark for each relevant explanation in context of Ramford

Relevant points might include:

- Poor communication [k] as messages need to be sent/received from 4 factories [app]
- Low morale/motivation [k] as worried products they make might be cut [app]
- Slow decision making [k] as 80 products to consider [app]
- Lack of control [k]

Application marks may be awarded for appropriate use of the following: calculations/use of numbers, factories, 80 products, reduced profit, financial performance, wide range, private limited company.

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- (d) Identify and explain two factors that Ramford should consider in deciding which products to remove from its product range. [6]

Knowledge [2 × 1] – identification of relevant factor [max 2]

Application [2 × 1] – award 1 mark for each way if relevant reference made to this business

Analysis [2 × 1] – award 1 mark for each relevant explanation

Relevant points might include:

- Stage in product life cycle [k] if some foods are in decline [app] few people are likely to be buying them anyway [an]
- Availability of substitutes/competition [k] if many breakfast cereals [app] so might not be cost effective to keep making it [an]
- Cost of producing each product [k] as worried about financial performance [app] might want to stop making expensive items [an]
- Current level of sales/popularity/demand [k] as profits falling [app] need to remove the least popular lines [an]
- Not suit current season [k]

Application marks may be awarded for appropriate use of the following: calculations/use of numbers, food, cereal, ice cream, factories, 80 to 10 products, reduce profit, financial performance.

- (e) Do you think the Finance Director is right to be worried about the financial performance of Ramford in 2014? Justify your answer using the data in Table 2 and appropriate ratios. [6]

Knowledge [1] – award 1 mark for identification of relevant point(s) [max 1]

Application [1] – award 1 mark if relevant reference made to this business

Analysis [2] – award up to 2 marks for relevant development of point(s)

Evaluation [2] – justified decision as to whether Ramford should be worried about its performance

Points include:

- Sales down [k] which is a 25% fall [app + an]
- (net) profit down [k] by \$10m [app]
- Profit margin increased [k] to 40% [app+ an] showing better control of fixed costs [an]
- ROCE has fallen [k] to 20% [app + an] showing a lower return on each \$ invested [an]
- Financial Director is aware of the problem [k] as they are cutting the number of products to 10 [app]

Note: using percentage calculation or ratio award application and analysis. Max 1 for application.

Application marks may be awarded for appropriate use of the following: appropriate calculations/use of numbers, diseconomies of scale, four factories, 80 to 10 products

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3 (a) What is meant by ‘mass market’? [2]

Clear understanding [2] where there are a large number of (potential) customers willing to buy product(s). Allow: a large number of sales of a product
 Some understanding [1] lots of customers/sales/buyers/people, shown by comparison to niche

(b) What is meant by ‘market share’? [2]

Clear understanding [2] e.g. percentage of the total market sales [1] held by one brand or business [+1] **OR** business sales/total market sales $\times 100$
 Some understanding [1] e.g. share of all sales made/percentage of customers a business has

(c) Identify and explain two advantages of market research to Grimshaw. [4]

Knowledge [2 \times 1] – award 1 mark per advantage.
 Application [2 \times 1] – award 1 mark for each relevant explanation (i.e. show how it is an advantage to Grimshaw)

Advantages could include:

- greater awareness of consumer needs [k] so can adapt its phone/features to match what customers want [app]
- able to forecast likely future trends [k] so can improve focus of new product development [app]
- appreciate the strength of competitors [k] so can change marketing strategy to compete
- knowledge of consumers’ views of company products/image [k] as first time entering country T [app]
- reduces risks/products launched with more confidence [k] as know what features customers want [app]
- help gain competitive advantage [k] as can set effective pricing/promotion strategy to suit country T’s customers [app]
- produce the correct amount of product [k] to avoid wastage of expensive parts [app]
- helps set price [k]

Note: knowledge points must relate to purpose of market research.

Application marks may be awarded for appropriate use of the following: mobile phones, market share increased (by 3%), mass market, factory, new model, multinational, technology, country T

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(d) Identify and explain two advantages to Grimshaw of developing new products. [6]

Knowledge [2 × 1] – identification of relevant point [max 2]

Application [2 × 1] – award 1 mark for each way if relevant reference made to Grimshaw's business

Analysis [2 × 1] – award 1 mark for each relevant explanation

Relevant points might include:

- gain competitive advantage [k] to target other phone users [app] so increasing their sales [an]
- Keep customers [k] in a competitive market [an]
- spread risk [k] so if demand for one model falls [app] they have new ones to rely on [an]
- expanding into new markets/market segments [k] so able to increase market share [app] as targeting more customers [an]
- can charge a higher price [k]

Note: economies of scale alone is too vague unless it is appropriately explained

Application marks may be awarded for appropriate use of the following: mobile phones, market share, mass market, factory, new model, multinational, technology.

(e) Do you think the Government of country T should help businesses such as Grimshaw set up in its country? Justify your answer. [6]

Knowledge [1] – award 1 mark for identification of relevant point(s) [max 1]

Application [1] – award 1 mark if relevant reference made to the benefit of the country

Analysis [2] – award up to 2 marks for relevant development of point(s)

Evaluation [2] – justified decision as to whether the Government of country T should help businesses such as Grimshaw to set up in its country

Points might include:

- jobs created [k] as build factory there [app] so reduces unemployment [an]
- investment in infrastructure [k] to transport parts to/from factory [app] so locals benefit from new roads [an]
- new ideas [k] which could improve local business practices [an]
- taxes paid [k] which Government could use to pay for public services [an]
- more choice for consumers [k] as will have access to new model [app]
- more competition [k] so consumers could benefit from lower prices/force local businesses to close [an]
- exploitation of resources [k]
- lack of respect for local customs and cultures [k]
- flow of profits out of a country [k]

Application marks may be awarded for appropriate use of the following: mobile phones, mass market, factory, new model, can build anywhere, multinational.

Note: Candidate's final decision can be either for or against the statement.

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4 (a) What is meant by ‘made redundant’? [2]

Clear understanding [2] e.g. The worker is no longer required through no fault of their own [2]
 Some understanding [1] e.g. means that his job role has gone [1]

Note: If the answer includes dismissed, fired or sacked plus any relevant point maximum 1 mark

(b) Identify two functions of management that Tebo might have to perform. [2]

Application: [2 × 1] 1 mark per function

Points might include: organise/co-ordination, planning, control, decision making or practical examples e.g. motivation, recruitment, delegation, strategic tasks

Do not accept any task which can be completed by any employee e.g. pay bills, training

(c) Explain why managing his cash flow will be important for Tebo’s business. [4]

Knowledge [2] award up to 2 marks for identification of points/knowledge of cash flow

Application [2] award up to 2 marks for relevant explanation in context of Tebo’s business

Relevant points might include:

- Cash flow needed to pay its day to day expenses [k]
- Business could fail due to lack of cash [k] if used all his savings to buy franchise [app]
- Help reduce need for finance [k] for a **new** business [app]
- Able to predict/plan for cash flow problems [k]
- Help a business get a loan [k]

Application marks may be awarded for appropriate use of the following: car repair, no management experience, \$15 000/all his savings, new business, FIXIT franchise.

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(d) Identify and explain two factors Tebo should consider when deciding where to locate his business. [6]

Knowledge [2 × 1] – identification of relevant factor [max 2]

Application [2 × 1] – award 1 mark for each way if relevant reference made to Tebo's business

Analysis [2 × 1] – award 1 mark for each relevant explanation

Relevant points might include:

- Demand/customers [k] – he needs to be convenient so that he can get sales [an];
- personal preference [k] – he might want to locate near his home [an],
- cost of property/rent [k] if too high he might not be able to afford it [an] especially if used all his savings for the franchise [app];
- suitable/size of space [k] as will need access for cars [app]
- legal controls [k] as garage is likely to be noisy [app] there might be rules which restrict where he can go [an]
- competition [k]
- franchisor's views [k] if he becomes a franchise [app]
- transport links/access [k]
- availability of suitable employees [k] as need mechanics [app]
- near to supplier [k] because the car repair equipment might be heavy [app]

Note: accept franchisor as the supplier if it is made clear that they supply materials/equipment.

Application marks may be awarded for appropriate use of the following: franchisees, car repair, \$15 000/all his savings, new business, redundant, FIXIT franchise, cash flow important, workshop.

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- (e) Do you think that buy a FIXIT franchise is the best way for Tebo to start his business? Justify your answer. [6]

Knowledge [1] – award 1 mark for identification of relevant point (s) [max 1]

Application [1] – award 1 mark if relevant reference made to Tebo/FIXIT business

Analysis [2] – award up to 2 marks for relevant development of point(s)

Evaluation [2] – justified decision as to whether buying a FIXIT franchise is the best way for Tebo to start his business

Points might include:

- Less chance of business failure [k] if he set up his own business, it would take time to build a reputation [an]
- Training provided [k] as he has no management experience [app]
- Lower advertising/training costs [k] as he has used all his savings to buy the franchise [app] so he may not be able to afford advertising/training [an]
- Supplies from central source [k] so less suppliers to deal with [an] so has more time to do repairs [app]
- Banks more likely to lend to franchisee [k] the \$15000 needed [app] as seen as lower risk [an]
- Recognition [k] FIXIT already has 36 franchisees [app]
- Lack of control [k] as FIXIT will have a say in many decisions [an]
- Problem at one franchise affects all others [k] of the 36 [app] might lower his revenue [an]
- Less profits as only received a percentage [k] so if successful, it will not maximise profits [an]
- Does Tebo want the responsibility? [k]

Application marks may be awarded for appropriate use of the following: 36 (franchisees), car repair, no management experience, \$15 000/all his savings, cash flow important.

Note: Candidate's final decision can be either for or against the statement.

CAMBRIDGE INTERNATIONAL EXAMINATIONS

Cambridge International General Certificate of Secondary Education

MARK SCHEME for the October/November 2015 series

0450 BUSINESS STUDIES

0450/12

Paper 1 (Short Answer/Structured Response),
maximum raw mark 80

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1 (a) What is meant by a ‘focus group’? [2]

Clear understanding [2] e.g. selection of people who have similar characteristics to target market [1] who give their opinions on a product/service [1]
 Some understanding [1] e.g. some idea that they provide comments/opinions about product OR get market research information/find out consumer wants or needs

Do not reward answers which just explain what a group is OR refers to secondary market research.

(b) Identify two reasons why packaging might be important for the new computer game. [2]

Application [2 × 1] – award 1 mark for each relevant reason

Points could include:

- (Method of) advertising/attract customer attention
- (Promote or reinforce) brand image/recognition/differentiation
- Legal requirement
- Information about the product
- Protection/storage
- Ease of display
- Ease of transport

(c) Explain why the profit margin might be important for Walt’s business. [4]

Knowledge [2] – award up to 2 marks for each relevant point/knowledge of importance of profit margin (do not credit definitions or formulae) [max 2]

Application [2] – award up to 2 marks for each relevant explanation in context of this business

Relevant points might include:

- Profit as a proportion of sales revenue, a higher margin would mean more profit [k] is made for each game sold [app]
- Influence price charged [k] if he sells to wholesaler [app] it could mean he needs more adults to buy product [app]
- Indicates efficiency [k]
- Measure of success/performance/comparison with other years [k]
- Comparison with other real world businesses specified by the candidate [k]

Do not award answers that explain reasons why profit rather than profit margins matter.

Application might include: wholesaler, adults, many countries, game, computer or other related terms e.g. software.

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- (d) Identify and explain two advantages to Walt if he decided to use a wholesaler to distribute his products. [6]

Knowledge [2 × 1] – award 1 mark for identification of relevant advantage [max 2]

Application [2 × 1] – award 1 mark for each way if relevant reference made to this business

Analysis [2 × 1] – award 1 mark for each relevant explanation

Relevant points might include:

- Access to many retailers/markets [k] as wholesaler might have links in many countries [app] leading to more sales [an]
- Hold less inventory [k] so improve his working capital [an] as does not need to store games [app]
- Wholesaler provides distribution/transportation [k] so lower costs for Walt [an] which helps his profit margin [app]
- Able to focus on other tasks/no need to deal with lots of retailers [k] saving Walt time [an]
- Wholesalers buy in bulk [k]
- Help advertising [k] as packaging important [app] so more people aware of the product [an]
- Lower administration costs/no additional employees [k] as fewer invoices to send/chase [an]
- Wholesaler gives feedback from customers/identify trends [k]
- May receive cash more quickly [k] improving cash flow [an]

Do not credit answers which simply state ‘saves time’ or ‘saves cost’ on own unless explained.

Do not accept ‘wholesaler breaks bulk’ as this is a benefit to retailers.

Application might include: profit margin, packaging (important), adults, many countries, computer game or related terms.

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- (e) Consider two possible methods of promotion that Walt could use for the new game. Recommend which method he should use. Justify your answer. [6]

Knowledge [1] – award 1 mark for identification of relevant method(s) [max 1]

Application [1] – award 1 mark if relevant reference made to this business

Analysis [2] – award up to 2 marks for relevant development of point(s)

Evaluation [2] – justified decision as to which method of promotion is best option to use

NOTE: For 6 marks must explain why chosen method is better than the other option

Relevant points might include:

- Advertising/use of social media (accept only once) [k] in computer magazines [app] which can attract customers' attention [an]
- Public relations/sponsorship/celebrity tie-in with/endorsements [k]
- Promotional pricing (short-term discounts/vouchers) [k] as product becomes more affordable [an] but this will lower profit margin [app]
- Special offers e.g. bonus content [k] such as additional levels/software [app]
- Competitions [k] aimed at adults [app]
- Free trials/test/demonstrations [k] have limited access to some levels [app] which generate consumer interest/raise awareness [an]
- Trade fairs [k] so wholesalers find out what it is [app]
- Free gifts/merchandise [k]

Application might include: (impact on) profit margin, packaging important, wholesaler, adults, many countries, computer or software or other related terms.

Do not accept 'new' or 'game' as application because stated in question.

Do not accept methods which are not appropriate for this type of product e.g. after sales service, BOGOF.

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2 (a) What is meant by a ‘business plan’? [2]

Clear understanding [2] e.g. a document containing the business aims/objectives and important details about the operations, finance and owners of a business OR states aims/objectives and shows how business aims to achieve them
 Some understanding [1] states one element of plan e.g. shows marketing strategy/production costs

(b) What is meant by a ‘balance sheet’? [2]

Clear understanding [2] e.g. shows value of business assets and liabilities [1] at a particular point in time [+1]
 Some understanding [1] e.g. shows assets and liabilities OR what is owned, owed and how the business is funded

Do not accept ‘financial statement’ as it is too vague

(c) Identify and explain two possible benefits for CLW of holding high inventory (stock) levels. [4]

Knowledge [2 × 1] – award 1 mark for each relevant benefit [max 2]

Application [2 × 1] – award 1 mark for each relevant explanation in context of this business

Relevant points might include:

- Gain economies of scale/bulk buy [k] so can increase scale of production [app]
- Can meet orders/inventory always available [k] as demand is rising [app]
- Production does not need to stop [k] so can keep making furniture [app]
- Avoid supply problems [k] as some types of wood might be difficult/long time to obtain [app]

Application could include: use of numbers, demand risen (rapidly), furniture, factory, tables, chairs, wood.

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- (d) Identify and explain two factors (other than finance) that CLW's management need to consider when increasing the scale of production. [6]

Knowledge [2 × 1] – identification of relevant issues [max 2]

Application [2 × 1] – award 1 mark for each way if relevant reference made to this business

Analysis [2 × 1] – award 1 mark for each relevant explanation

Relevant points might include:

- Enough workspace [k] so might have to relocate [an] away from city centre [app]
- Access to sufficient supplies [k] if there is a shortage of wood [app] might not be able to meet orders [an]
- Labour issues e.g. need to recruit/train more workers [k] to make furniture [app] adding to business expenses [an]
- Market demand/increase in demand permanent [k] as demand risen quickly [app] if tastes change again could be left with unwanted inventory [an]
- Diseconomies of scale e.g. communication issues [k] as larger scale might mean current methods do not work [an]
- Storage issues e.g. have they sufficient storage space [k] as already have high levels of inventory [app] as may need to rent additional unit [an]
- Quality issues e.g. are they able to check standard [k] of tables made [app]? could lead to bad reputation [an]
- Machinery issues e.g. is condition/level of machinery sufficient [k]?

Application could include: use of numbers, demand risen rapidly, high level of inventory, low unemployment, near city centre, factory, furniture, tables, chairs.

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- (e) Do you think the Finance Director is right to be pleased with the liquidity of CLW in 2014? Justify your answer using the data in Table 1 and appropriate ratios. [6]

Knowledge [1] – award 1 mark for identification of relevant point(s) [max 1]

Application [1] – award 1 mark if relevant reference made to this business

Analysis [2] – award up to 2 marks for relevant development of point(s)

Evaluation [2] – justified decision as to whether CLW should be pleased with its liquidity in 2014

Points include:

- Current assets increased [k] by \$60 m [app]
- Current liabilities fallen [k] by 8.33% [app +an]
- Current ratio improved [k] from 1.25:1 to 1.50:1 [app + an] but only because inventory increased by \$150m so not as liquid [an]
- Acid test value fallen [k] from 0.875:1 to 0.75:1 [app + an] so not able to pay short-term debts from its liquid assets if needed [an]
- Cash fallen [k]
- Trade receivables down [k] which could mean customers paying quicker [an] but could mean less sales overall therefore less trade receivables [an]

Note: **using** percentage calculation or ratio award application and analysis. Max 1 for application.

Application could include: calculation of relevant ratios/use of numbers, demand risen rapidly, increased scale.

- 3 (a) What is meant by ‘flow production’? [2]

Clear understanding [2] e.g. where large quantities of a product [1] are produced in a continuous process [1]

Some understanding [1] e.g. ‘makes lots of the same thing’ OR identifies one distinctive feature e.g. large scale production/large volumes, identical products, continuous production, capital intensive, repetitive tasks, inflexible.

Do not credit examples as this does not answer the question.

- (b) Calculate the output per employee in 2014. [2]

Application [2] e.g. 60 (cars per employee)

Some application [1] e.g. method = total output/number of employees OR 168 000/2 800

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(c) Identify and explain two ways in which induction training might benefit NCE. [4]

Knowledge [2 × 1] – award 1 mark for each relevant way [max 2]

Application [2 × 1] – award 1 mark for each relevant explanation in context of this business

Relevant points might include:

- Helps employees to settle into their job quickly/familiarise workers with the business/provide information about the business [k] so can cope with flow production [app]
- Aware of health and safety/legal issues [k] in the factory [app]
- Know who to ask if there is a problem [k] preventing wastage of expensive parts [app]
- Opportunity to communicate culture [k] so all car workers get same message [app]
- Help keep productivity/efficiency high [k] so NCE remains competitive [app]

Application could include: (efficient) factory, cars, car parts, productivity, flow production, competitive market.

Do not accept generic points such as increase output, less mistakes or more ideas as these could relate to any type of training.

(d) Identify and explain two factors that NCE would need to consider in deciding which workers to make redundant. [6]

Knowledge [2 × 1] – award 1 mark for each relevant factor [max 2]

Application [2 × 1] – award 1 mark for each explanation in context of this business

Analysis [2 × 1] – award 1 mark for each relevant explanation

Relevant points might include:

- Identify which jobs are not essential [k] as market might recover the 20% lost [app] so would not want to spend money recruiting them again [an]
- Performance/output/experience/skills/flexibility [k] making cars [app] so will want to get rid of people who make mistakes [an]
- Wages/salary [k]
- Length of service/cost of redundancy [k] if worked at factory for a short time [app] might be cheaper to let go [an]
- Attitude/attendance/disciplinary record [k] in order to maintain productivity [app] will want to lose poor/bad workers [an]
- Age/physical ability [k]

Application could include: 20% fall in market size, factories, cars, (high) productivity/efficient, 400 (workers).

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- (e) The HR Director thinks that ‘a small business cannot survive in this competitive market’. Do you agree with this view? Justify your answer. [6]

Knowledge [1] – award 1 mark for identification of relevant issue(s) [max 1]

Application [1] – award 1 mark if relevant reference made to car industry

Analysis [2] – award up to 2 marks for relevant development of point(s)

Evaluation [2] – justified decision as to whether it is possible for small manufacturer to survive in a competitive market

Relevant points might include:

Advantages of being small:

- Able to specialise/cater to niche market [k] so might not need to compete on price [an]
- Small business able to react quicker to change in customer demands [k] for type of car wanted [app]
- Able to offer personal service [k]

Disadvantages of being small:

- Less opportunity for economies of scale/lack capacity [k] in factory [app] so higher unit costs [an]
- High cost of research and development [k] of, for example, ‘greener’ vehicles [app] might be too expensive for their budget [an]
- Can they attract best managers/employees [k] as larger businesses might offer better financial package/security [an]?
- Less visibility as a brand [k] so harder to get recognition/sales [an]
- Lower marketing budgets [k] so struggle to have a large market presence [an]

Application could include: 20% fall in market size, productivity, flow production, (efficient) factories, 400 redundancies, cars or examples of car companies.

Note: Candidate’s final decision can be either for or against the statement.

- 4 (a) What is meant by an ‘economic boom’? [2]

Clear Understanding [2] – strong rise in level of economic activity OR period of time when GDP rising rapidly.

Some Understanding [1] – e.g. economy doing well (high GDP or rise in level of economic activity or GDP rising) or identifies features of an economic boom

Features might include: low unemployment, rising inflation, resource shortages, high levels of disposable income, high levels of consumer/business confidence.

- (b) Identify two stages (other than boom) of the business cycle. [2]

Knowledge [2 × 1] – award 1 mark for each other stage

Points either:

- Slump/trough
- Growth/recovery/expansion
- Recession/depression/contraction

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(c) Explain how a rise in interest rates might affect Nellis. [4]

Knowledge [2] – award up to 2 marks for relevant points [max 2]

Application [2] – award up to 2 marks for each relevant explanation in context of Nellis

Relevant points might include:

- Cost of borrowing increases [k] so less incentive to buy building land [app] for houses [app]
- Lower sales/consumers reduce spending [k] as cannot afford luxury/non-essential items [app]
- Increased cost of any current loan/overdraft [k] so profits do not increase [app]
- Higher interest rates attract more savings [k]

Application could include: luxury, (large) houses, economic boom, (increased) profits, building land

Note: Candidates can offer extended development of one point or two separate points to achieve both App marks

(d) Identify two stakeholder groups. Explain why each group is important to this business. [6]

Knowledge [2 × 1] – identification of relevant group [max 2]

Application [2 × 1] – award 1 mark for each explanation in context of Nellis

Analysis [2 × 1] – award 1 mark for each relevant explanation

Relevant points might include:

- Owner/Shareholders [k] may choose to sell their shares [app] reducing the market value of the company [an]
- Employees OR Managers [k] as they carry out/control the day-to-day operations [an]
- Customers [k] buy what the business make [an] allowing Nellis to increase profit [app]
- Banks/lenders [k] provide an important source of finance [an] which allows the business to take advantage of the economic boom [app]
- Government [k] as their new legal controls on environment [app] might restrict/influence way they operate [an]
- Local community [k] might object to building [app] delaying the start/stop the work [an]
- Pressure groups [k]

Application could include: luxury, (large) houses, economic boom, legal controls/environment, public limited company/sell shares, (increasing) profits, interest rates.

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- (e) **The Managing Director believes that the new legal controls to protect the environment will only make businesses (such as Nellis) less profitable. Do you agree? Justify your answer.** [6]

Knowledge [1] – award 1 mark for identification of relevant issue(s) [max 1]

Application [1] – award 1 mark if relevant reference made to this type of business (construction)

Analysis [2] – award up to 2 marks for relevant development of point(s)

Evaluation [2] – justified decision as to whether new environmental laws will make businesses like Nellis less profitable

Relevant points might include:

- Might have to buy pollution permits/pay fines [k] which will increase costs [an] which could increase prices [an] so less houses sold [app]
- Might lead to higher standards [k] this could lead to better reputation [an] which could increase sales [an]
- Might make planning applications more difficult [k] to buy building land [app] which may delay the work [an]
- Might have to buy new machinery/introduce new technique [k] for construction [app]

Application could include: luxury, (large) houses, economic boom, building land, construction.

Note: Candidate's final decision can be either for or against the statement

Do not accept profit/profitable as application or analysis as this is stated in the question.

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MARK SCHEME for the October/November 2015 series

0450 BUSINESS STUDIES

0450/13

Paper 1 (Short Answer/Structured Response),
maximum raw mark 80

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1 (a) What is meant by a ‘private limited company’? [2]

Clear understanding [2] e.g. a business whose shares cannot be sold to the general public [2] OR shares only sold to family and friends [2]
 Some understanding [1] e.g. outlines general features of limited companies e.g. have limited liability/separate legal identity from owners/can sell shares/incorporated

Do NOT accept in private sector/no Government involvement as generic statement also applies to unlimited businesses.

(b) Calculate the output per employee per week in 2014. [2]

Application [2]: 32 000 (cans)

Some application [1] e.g. total output per week/number of employees OR 800 000/25

(c) Identify and explain two reasons why calculating the output per employee is important for PYG. [4]

Knowledge [2 × 1] – award 1 mark for each relevant reason [max 2]

Application [2 × 1] – award 1 mark for each relevant explanation in context of this business

Reasons could include:

- Has an impacts on unit cost [k] which can help PYG when exporting [app]
- Measures labour efficiency [k] which has fallen by 1000 in a year [app]
- Make comparisons with previous years/other businesses [k]
- Identify training needs [k] for its 25 workers [app]
- Indicate if able to meet orders/staffing levels correct [k] whether needed to hire 5 more employees [app]
- Help calculate wages [k]
- Useful in employee appraisal [k]

Note: do NOT accept motivation

Application marks may be awarded for appropriate use of the following: (metal) cans, appropriate use of data, flow production, exports.

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(d) Identify and explain two possible problems for PYG of using flow production. [6]

Knowledge [2 × 1] – award 1 mark for identification of relevant problem [max 2]

Application [2 × 1] – award 1 mark for each way if relevant reference made to this business

Analysis [2 × 1] – award 1 mark for each relevant explanation

Relevant points might include:

- Boring/lack motivation [k] so might not work as efficiently [an] which could be why 15 workers left [app]
- Significant storage requirements [k] space needed for metal [app] so higher rent [an]
- Cost of storage [k] likely to be high as cans need to be stored safely [app]
- High set up/machinery costs [k] if relocate [app] which means a large capital outlay [an]
- If one machine breaks down whole production line stops [k] so might not be able to meet export orders [app] which could damage reputation [an]
- Inflexible/standard size [k] so not easy to alter production to meet new requests [an]

Application marks may be awarded for appropriate use of the following: metal cans, appropriate use of data, exports, relocate (to other country), productivity.

(e) Do you think that the benefits of relocating production to another country would be greater than the disadvantages for PYG? Justify your answer. [6]

Knowledge [1] – award 1 mark for identification of relevant issue(s) [max 1]

Application [1] – award 1 mark if relevant reference made to this business

Analysis [2] – award up to 2 marks for relevant development of point(s)

Evaluation [2] – justified decision as to whether the benefits of moving production to another country are greater than the disadvantages

Relevant points might include:

- Cost of land/rent might be cheaper/higher [k] as need a large site [an] to install flow system [app]
- Recruitment issues/suitability of workers [k] as found it difficult to replace workers [app] so might have to pay more to get workers [an]
- Distribution/transport issues e.g. road access [k] as most is exported [app]
- Access to raw materials [k] as need a lot of metal for cans [app]
- How important are labour costs in relation to total costs (i.e. what would be saved) [k]
- Legal controls [k] about metals used [app] might restrict/change how operate [an]
- Level/any Government support available [k]
- Communication problems [k] as would need to use different language [an]
- Labour/trade union response [k] at factory [app] once move is announced could impact on ability to meet current orders [an]

Application marks may be awarded for appropriate use of the following: metal, cans, use of data, flow production, exports, difficult to replace workers, factory, productivity.

Note: Candidate's final decision can be either for or against the statement.

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2 (a) What is meant by ‘tertiary sector’? [2]

Clear Understanding: [2] e.g. industry which provides/sells services to consumers and/or other sectors of the economy

Some understanding: [1] e.g. provide services plus an example [+1]

Do NOT accept examples on own OR names of businesses.

(b) Identify two ways (other than training) that Toddles could use to motivate its workers. [2]

Application [2 × 1] – award 1 mark per way

Points might include: fringe benefits (only once), increased pay, bonuses, more responsibility, job enrichment, job rotation, praise

Accept any reasonable suggestion.

Do NOT accept commission as this is not appropriate for this business.

(c) Identify and explain two advantages to Toddles of having fully trained employees. [4]

Knowledge [2 × 1] – award 1 mark for each relevant advantage [max 2]

Application [2 × 1] – award 1 mark for each relevant explanation in context of this business

Relevant points might include:

- Increased motivation [k] as know how to look after the children [app]
- Improved quality service/image [k] which is important in tertiary sector [app]
- Fewer customer complaints [k] from parents [app]
- Improved customer loyalty [k] as family would use nursery again [app]
- Able to train other employees [k] which might help business become profitable [app]
- Fewer accidents [k]

Application marks may be awarded for appropriate use of the following: (3) children, parents, childcare, tertiary sector, (make business) profitable.

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(d) Identify and explain two possible reasons why profit is important for businesses like Toddles. [6]

Knowledge [2 × 1] – award 1 mark for identification of relevant reasons [max 2]

Application [2 × 1] – award 1 mark for each way if relevant reference made to this business

Analysis [2 × 1] – award 1 mark for each relevant explanation

Relevant points might include:

- Source of funds [k] as a sole trader [app] likely to have few other options available [an]
- Reward for risk taking [k] as invested their money in hope of making money [an]
- Inexpensive source of funds [k] as no interest to pay [an] helping keep costs low [app]
- Needed for long term survival [k] as made loss this year [app] it will allow them to continue [an]
- Represents a return on owners' capital [k] as otherwise would invest elsewhere [an]
- Pay employee bonuses [k] to help attract/retain employees [an] so able to keep its employees well-motivated [app]
- Measure of success/performance [k] as indicate/reinforce image of good years trading [an] which could attract parents [app]
- Attract investors/finance [k]

Application marks may be awarded for appropriate use of the following: 2-5 years, trained staff, financial loss, 3 children, parents.

Do NOT accept answers which suggest profit is used to pay for day-to-day expenses or repay loans.

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- (e) Explain two ways in which Toddles could become more profitable. Recommend which way Toddles should use. Justify your answer. [6]

Knowledge [1] – award 1 mark for identification of relevant way(s) [max 1]

Application [1] – award 1 mark if relevant reference made to this business

Analysis [2] – award up to 2 marks for relevant development of point(s)

Evaluation [2] – justified decision as to which is best option to use

Note: For 6 marks must explain why chosen method is better than the other option

Methods could include:

Ways to increase sales:

- Advertising [k] in parenting magazines [app] which could increase size of target market [an]
- Lower/increase prices [k]
- Widen target market/increase ages accepted [k] so one-year-olds can attend [app]

Ways to cut costs:

- Move location [k] but as its is good location [app] it might lead to fewer customers [an]
- Employ fewer workers [k] so only have 3 [app] which could help lower wage costs [an]
- Make each worker look after more children [k] as currently only look after 3 each [app];

Application marks may be awarded for appropriate use of the following: 2-5 years, trained staff, good location, financial loss, 3 children, toys.

Note: candidates can select 2 ways to increase sales OR 2 ways to cut costs OR one of each way

- 3 (a) What is meant by ‘span of control’? [2]

Clear Understanding [2] – number of subordinates working directly under an individual/manager

Some Understanding [1] – e.g. whom you are responsible for

- (b) What is meant by ‘delegation’? [2]

Clear Understanding [2] – give a subordinate the authority to perform particular tasks/make decisions

Some Understanding [1] – e.g. let workers make decisions

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- (c) Identify and explain two reasons why delegation might be important to businesses like QF Group. [4]

Knowledge [2 × 1] – award 1 mark for each relevant reason [max 2]

Application [2 × 1] – award 1 mark for each relevant explanation in context of this business

Relevant points might include:

- Managers cannot do every job [k] especially as they have a wide span of control [app]
- Managers have time to focus on other issues [k] such as how to increase its revenue [app]
- Help motivate employees [k] who could help increase its profit margin [app]
- Help retain employees [k]
- Helps train future managers [k] which might be needed to when/if achieve growth [app]
- Makes use of individual worker's expertise/skills [k]

Application marks may be awarded for appropriate use of the following: relevant use of financial data, computers, televisions, growth objective, wide span of control.

- (d) Identify two stakeholder groups. Explain why each of these stakeholder groups might support QF Group's objective of growth. [6]

Knowledge [2 × 1] – award 1 mark for identification of relevant stakeholders [max 2]

Application [2 × 1] – award 1 mark for each way if relevant reference made to this business

Analysis [2 × 1] – award 1 mark for each relevant explanation (i.e. benefit to them/why might support growth objective)

Relevant points might include:

- Employees/managers [k] as more job security as larger business/more jobs created [an]
- Government [k] as gain tax revenue [an] from additional television sales [app]
- Lenders [k] as possible to earn income by lending to QF [an]
- Shareholders [k] if profits increase over \$90m [app] could lead to higher dividends [an]
- Suppliers [k] as QF will need more inventory [an] for increased production of TVs [app]
- Customers [k] will benefit from more availability/wider choice [an] of computers [app]
- Community [k]

Application marks may be awarded for appropriate use of the following: relevant use of financial data, computers, televisions, delegation.

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- (e) Do you think the Finance Director is right to be pleased about the performance of QF Group? Justify your answer using the data in Table 2 and appropriate ratios. [6]

Knowledge [1] – award 1 mark for identification of relevant issue(s) [max 1]

Application [1] – award 1 mark if relevant reference made to this business

Analysis [2] – award up to 2 marks for relevant development of point(s)

Evaluation [2] – justified decision as to whether Finance Director is right to be pleased about its performance in 2014

Relevant points might include:

- Gross Profit margin fallen [k] by 5% in 2014 [app] as cost of sales increased/prices fallen [an]
- Profit margin improved [k] to 15% [app + an] as better control of fixed costs [an]
- ROCE improved [k] as now 12% [app + an]
- Sales same [k] at \$600 [app] could suggest that market for goods is saturated [an]
- Profit increased [k] by 25% [app + an]

Note: using percentage calculation or ratio award application and analysis. Max 1 for application.

Application marks may be awarded for appropriate use of the following: relevant use of financial data, computers and televisions, growth objective

- 4 (a) What is meant by the ‘private sector’? [2]

Clear Understanding [2] – when a business activities are owned by individuals/groups of individuals.

Some Understanding [1] – e.g. run/controlled by individuals OR not controlled by Government OR profit motive.

For two marks, must have idea of ownership and by whom.

Do not accept ‘privately owned’ as does not explain term OR ‘owned by the people’ as it is too vague.

- (b) Identify two limitations of using ‘number of employees’ as a method of measuring business size. [2]

Knowledge: [2 × 1] – award 1 mark per limitation.

Points could include:

- Not account for capital intensive business/could be labour intensive
- Could have many part – time employees
- Gives no indication of value/market share/revenue

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- (c) Identify and explain two ways a pressure group might try to influence Xiolom's decision to open the new mine in country G. [4]

Knowledge [2 × 1] – award 1 mark for each relevant way [max 2]

Application [2 × 1] – award 1 mark for each relevant explanation in context of this business

Relevant points might include:

- Creating negative publicity/publish information [k] by highlighting external costs [app]
- Demonstrations/protests/rally opposition against the company [k] which could damage its reputation in other countries [app]
- Lobby/send letters to politicians/sign petition [k] to get more legal controls [app]
- Organise customer boycotts [k] lowering demand for this large company [app]

Application marks may be awarded for appropriate use of the following: large (company), 10/other countries, legal controls, external benefits/costs, expand

Do not accept references to mines as application as stated in question.

- (d) Identify and explain two ways in which Xiolom might be affected by new legal controls over employment. [6]

Knowledge [2 × 1] – identification of relevant points [max 2]

Application [2 × 1] – award 1 mark for each way if relevant reference made to this business

Analysis [2 × 1] – award 1 mark for each relevant explanation

Relevant points might include:

- Need to provide safety equipment [k] to all miners [app] which could lead to fewer accidents/better reputation [an]
- How advertise jobs [k] so longer to prepare [an] so less time to deal with pressure groups [app]
- Rules over unfair dismissal [k] so not easy to reduce workforce [an]
- Minimum wage laws [k] which could increase the costs [an] as has 8000 workers [app]
- Maximum number of working hours [k] allowed underground [app] so need to employ more workers [an]
- Increased administration costs [k] as more paperwork to be completed [an]
- Make recruitment easier [k] as mining [app] seen as less dangerous than before [an]

Do NOT accept increased costs on own

Application marks may be awarded for appropriate use of the following: 8000 jobs, mining, large company, 10 countries, expand.

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- (e) **The Operations Director believes that because Xiolom creates external benefits it should be allowed to expand. Do you agree? Justify your answer.** [6]

Knowledge [1] – award 1 mark for identification of relevant issue(s) [max 1]

Application [1] – award 1 mark if relevant reference made to this businesses

Analysis [2] – award up to 2 marks for relevant development of point(s)

Evaluation [2] – justified decision as to whether if the business creates external benefits it should be allowed to expand

Points might include:

External benefits:

- Create jobs [k] as 8 000 jobs [app] will lower unemployment [an]
- Attract other businesses to area [k]
- Tax receipts [k] which can help fund public services [an]
- Country benefit from training [k]

External costs:

- Pollution [k]
- Use up natural resources [k] as extracting materials [app]
- Most profit leaves the country [k] so country does not receive full benefit of raw materials [an]

Note: Candidate's final decision can be either for or against the statement.

Application marks may be awarded for appropriate use of the following: 8 000 jobs, mining (or extraction), large company, 10 countries, 100 000 employees, pressure groups.