

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.

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

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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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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.

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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. $\text{gross profit/sales} * 100$ [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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