



BUSINESS STUDIES

0450/11

Paper 1 Short Answer/Structured Response

October/November 2016

MARK SCHEME

Maximum Mark: 80

Published

This mark scheme is published as an aid to teachers and candidates, to indicate the requirements of the examination. It shows the basis on which Examiners were instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began, which would have considered the acceptability of alternative answers.

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

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Cambridge is publishing the mark schemes for the October/November 2016 series for most Cambridge IGCSE[®], Cambridge International A and AS Level components and some Cambridge O Level components.

Page 2	Mark Scheme	Syllabus	Paper
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Question	Answer	Marks	Guidance
1(a)	<p>What is meant by ‘globalisation’?</p> <p>Clear understanding [2]: e.g. – the growth in worldwide trade [2] Freer movement of people and capital between countries [2] The process of countries becoming more interconnected [2]</p> <p>Some understanding [1] or identification of one of these features: trade around the world rise of multinationals movement of capital around the world</p>	2	Note: Do not accept answers that clearly relate to a business/businesses
1(b)	<p>Identify <u>two</u> possible threats to C&C from globalisation.</p> <p>Application [2 × 1] award one mark per way Points might include:</p> <ul style="list-style-type: none"> • increased competition/increasing imports, • exchange rates, • skilled workers leave for jobs elsewhere • loss of individualised products • wages increased to match multinational wage rates • increasing investment from multinationals setting up in home market • unable to meet demand 	2	Note: Do not accept selling abroad

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Question	Answer	Marks	Guidance
1(c)	<p>Identify and explain <u>two</u> suitable ways in which C&C might advertise the job vacancies.</p> <p>Knowledge [2 × 1] – award 1 mark for each relevant way Application [2 × 1] – award 1 mark for each relevant explanation Relevant points might include:</p> <ul style="list-style-type: none"> • Job centre [k] as local shoemakers would look here for jobs [app] • advertising in newspaper [k] as skilled it is labour [app] • specialist (trade magazines) [k] as looking for people to hand make shoes [app] • recruitment agency [k] so C&C can focus on meeting the extra demand [app] • jobs website / own website / social media [k] • internal newsletter [k] • Radio / television [k] • Word of mouth [k] 	4	<p>Application: skilled, high quality, demand, factory, shoes or associated words as leather, sewing, global, production, good reputation</p> <p>Do not accept: ‘in the street’, internal / external, Internet or posters on its own.</p> <p>Award relevant examples of either two external or one example of each</p>
1(d)	<p>Identify and explain <u>two</u> benefits to C&C of having full-time employees.</p> <p>Knowledge [2 × 1] – award 1 mark for each advantage identified Application [2 × 1] – award 1 mark if relevant reference made to C&C Analysis [2 × 1] – award 1 mark for each relevant explanation Relevant points might include:</p> <ul style="list-style-type: none"> • Easy to communicate / update [k] on new styles [app] as employees always there [an] • Motivated / More committed to the business [k] so likely to produce enough shoes [an] to help meet the growing demand [app] • Fewer workers needed [k] therefore less administration needed [an] • No need to train regularly [k] as these are skilled workers [app] so able to maintain quality / output [an] • internal pool of candidates for promotion [k] which can help keep recruitment costs low [an] 	6	<p>Application: skilled, high quality, demand, factory, shoes or associated words such as leather, sewing, global, 120 (workers) 100 000 (shoes), 20 production employees)</p> <p>Note: must link advantage to C&C to be rewarded. E.g. ‘Feel more secure’ alone is too vague as this is about the employee and not the business.</p> <p>Do not accept: fast / quicker production, higher output / quality, increased efficiency or work harder as K points. Candidate must explain ‘why’ these occur.</p>

Page 4	Mark Scheme	Syllabus	Paper
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Question	Answer	Marks	Guidance
1(e)	<p>Do you think C&C should introduce new technology into the production process? Justify your answer.</p> <p>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 C&C's business Analysis [2] – award up to 2 marks for relevant development of point(s) Evaluation [2] – justified decision made as to whether C&C should introduce technology into the production process Relevant points might include:</p> <ul style="list-style-type: none"> • Increased production [k] as need to produce 100 000 each year [app] so able to work all the time [an] • Consistent quality [k] as machinery likely to make fewer errors [an] which can help retain/enhance reputation [app] • Risk to reputation [k] as known for its hand-made shoes [app] so fewer people may demand its products [an] • Impact on employee motivation [k] as work could become less interesting [an] so quality of shoes falls [app] • Risk of job insecurity [k] as it replaces some/all the skilled workers [app] which could lower efficiency [an] • Cost of investment/retraining [k] 	6	<p>Application: 20 production employees, 120 staff, 100 000 pairs of shoes, exports 10% of output, skilled, high quality, demand, factory, shoes or associated words such as leather, sewing.</p> <p>Note: points can relate to employees or the business</p> <p>Accept: 'Faster/quicker/saves time,' as correct knowledge, given that current production is hand-made.</p> <p>For evaluation either viewpoint is acceptable.</p>

Page 5	Mark Scheme	Syllabus	Paper
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Question	Answer	Marks	Guidance
2(a)	<p>What is meant by ‘Return on capital employed’?</p> <p>Clear understanding [2]: ROCE means the profit of the business expressed as % of capital invested in the business or correct formula. (Profit/Capital employed \times 100) Some understanding [1] – e.g. profit from capital invested or money made on investment</p>	2	Note: Must show the awareness of the relationship between profit and capital employed for 2 marks
2(b)	<p>What is meant by a ‘recession’?</p> <p>Clear understanding [2] – a sustained (over a period of time) reduction in GDP/national income/output Some understanding [1] – ‘fall in output’ or ‘fall in GDP’</p>	2	Note: Do not accept features, such as ‘high unemployment’
2(c)	<p>Identify and explain <u>two</u> ways in which the size of the business may benefit Dowson.</p> <p>Knowledge [2 \times 1] – award 1 mark for each relevant advantage Application [2 \times 1] – award 1 mark for each relevant explanation in context of Dowson Relevant points might include:</p> <ul style="list-style-type: none"> • Able to attract better employees [k] so have the expertise to survive the recession [app] • Access to finance [k] as seen as lower risk of failing [app] • Discounts for bulk buying [k] so able to charge lower prices for electrical goods [app] • Marketing economies or bigger marketing budget [k] as able to justify national advertising [app] • Spread risk [k] as can afford to stock a wide range of products [app] • Able to dominate the market/large market share [k] so difficult for small retailers to compete [app] 	4	<p>Application: recession, overdraft \$6 m, large/big, electrical goods, shops, larger range of goods. Use of figures from table 1.</p> <p>Accept: Economies of scale [K] if no specific examples given.</p>

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Question	Answer	Marks	Guidance
2(d)	<p>Identify and explain <u>two</u> problems for Dowson of having a high level of debt.</p> <p>Knowledge [2 × 1] – award 1 mark for each advantage identified Application [2 × 1] – award 1 mark if relevant reference made to Dowson Analysis [2 × 1] – award 1 mark for each relevant explanation Relevant points might include:</p> <ul style="list-style-type: none"> • High financial risk [k] so banks / suppliers might be reluctant to lend to them [an] so not able to stock a wide range of electrical products [app] • Higher expenses [k] which will reduce level of profit [an] • Problems if interest rates rise [k] as might not be able to meet repayments [an] increasing risk Dowson also fails [app] • Difficult to raise additional finance [k] if lenders fear Dowson not able to repay further loans [an] • Cash flow implications / liquidity [k] as acid test ratio is only 0.5: [app] could lead to insolvency [an] 	6	<p>Application: recession, overdraft \$6m, large / big, electrical goods, shops, liquidity, use of numbers from table 1.</p> <p>Note: Do not accept bankruptcy / closure of business as knowledge</p>

Page 7	Mark Scheme	Syllabus	Paper
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Question	Answer	Marks	Guidance
2(e)	<p>Do you think the Finance Director is right to be pleased with the liquidity of the business? Justify your answer using the ratio results in Table 1.</p> <p>Knowledge [1] – award 1 mark for identification of relevant points Application [1] – award 1 mark if relevant reference made to Dowson’s business Analysis [2] – award up to 2 marks for relevant development of point(s) Evaluation [2] – justified decision made as to whether the Finance Director is right to be pleased about liquidity Relevant points might include:</p> <ul style="list-style-type: none"> • Current ratio increased [k] by 0.3 [app][an] so more liquid [an] • Acid test lower [k] from 0.8 to 0.5 [app] so not able to pay short-term debts [an] possibly due to high value of its inventory [an] • Expenses are high [k] as have a high level of debts, which includes \$6 m overdraft [app] • Risk that demand might fall [k] due to recession [app] therefore he would be left with excess stock [an] • High level of inventory [k] 66% of current assets [app] [an] • High level of trade receivables [k] danger that customers might not pay [an] due to recession [app] so business will lack the cash it needs [an] • Current ratio shows the business is able to pay its short-term debts [k] 	6	<p>Application: marks may be awarded for appropriate use of the following: current ratio 1.2:1, 1.5:1, or change by 0.3, acid test ratio 0.8:1, 0.5:1, Acid test fallen by 37.5%, Current ratio increased by 25%, stockholding has risen, recession, overdraft \$6m, large / big, electrical goods</p>

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Question	Answer	Marks	Guidance
3(a)	<p>Identify <u>two</u> reasons why a government might support business start-ups.</p> <p>Knowledge [2×1] award one mark per reason Points might include: reduce unemployment, increase competition, increase output, benefit society, small businesses can grow</p>	2	Note: Do not allow 'improving the economy' or 'to receive tax' or 'increasing the economy'.
3(b)	<p>Identify <u>two</u> parts (other than marketing) of a business plan.</p> <p>Knowledge [2×1] award one mark per part Points might include: cash flow forecast, location, human resources plan, production details, business aims</p>	2	Note: Accept any piece of information that would be included in a business plan that is NOT marketing.
3(c)	<p>Identify and explain <u>two</u> possible pricing methods that Amelia might use.</p> <p>Knowledge [2] – award 1 mark for each role identified Application [2] – award 1 mark for each relevant reference to this business Relevant points might include:</p> <ul style="list-style-type: none"> • penetration pricing [k] as need to get people to try her sweets [app] • price skimming [k] as it's a niche market [app] • cost plus pricing [k] as likely to have large set up costs [app] • promotional pricing [k] • competitive pricing [k] • psychological pricing [k] 	4	Application: sweets/candy, new business, business plan, money spent on packaging, secondary data, people like sweets, niche market, adult.

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Question	Answer	Marks	Guidance
3(d)	<p>Identify and explain <u>two</u> reasons why packaging is important for YOGO's products.</p> <p>Knowledge [2 × 1] – award 1 mark for each relevant role 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:</p> <ul style="list-style-type: none"> • List ingredients [k] as it's a food product [app] must state what it contains to avoid legal action [an] • Promotion / to attract customers [k] to buy[an] from the new business [app] • Inform [k] customers about its flavours [app] so people know what is in its products [an] • Protection / keep item fresh [k] so the sweets are not damaged [app] otherwise products might be wasted [an] • Boost brand image / impression of high quality [k] as it is a niche market [app] which can help increase sales / revenue [an] • Easier to store / transport [k] 	6	<p>Application: Sweets / candy, new business, business plan, secondary data, people like sweets, niche market, adult, food product. taste</p>

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Question	Answer	Marks	Guidance
3(e)	<p>Do you think Amelia’s business would benefit from primary market research? Justify your answer.</p> <p>Knowledge [1] – award 1 mark for identification of relevant point(s) Application [1] – award 1 mark if relevant reference made to Amelia’s business Analysis [2] – award up to 2 marks for relevant development of point (s) Evaluation [2] – justified decision made as to whether Amelia would have benefited from carrying out primary market research Relevant points might include:</p> <ul style="list-style-type: none"> • It is expensive [k] spends a lot on packaging [app] therefore may not be able to afford it [an] • It is time consuming [k] she has already done secondary research [app] so how much more can she find out [an] • Collect precise information[k] on sweets [app] so that she can produce the most appropriate products[an] • Secondary data may be outdated [k] [app]Needs might have changed [an] • Help better target promotion / in pricing decisions [k] especially as new business [app] 	6	<p>Application: sweets /candy, new business, business plan, secondary data, people like sweets, niche market, adult, food product, money spent on packaging</p> <p>Note: Do not reward identification of methods of primary research alone as the question is asking for the benefits</p> <p>For evaluation either viewpoint is acceptable</p>

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Question	Answer	Marks	Guidance
4(a)	<p>Identify <u>two</u> functions of management.</p> <p>Knowledge [2×1] award one mark per function Points might include: planning, organising, co-ordinate, command, control, motivate /supervise, decision making, problem solving, recruit</p>	2	
4(b)	<p>Calculate DCP's average cost per litre.</p> <p>Good application [2] 30 c or 0.3 (per litre) Some application [1] e.g. total cost divided by output OR 450 000 / 1 500 000</p>	2	
4(c)	<p>Identify and explain <u>two</u> ways in which DCP might communicate with its customers.</p> <p>Knowledge [2 × 1] – award 1 mark for each relevant reason Application [2 × 1] – award 1 mark for each relevant explanation Relevant points might include:</p> <ul style="list-style-type: none"> • Email /website/ social networks [k] as customers are in different countries [app] • Meetings [k] as only have 6 customers [app] • Phone /text [k] as able to quickly check information about paint orders [app] • Letter [k] • faxes [k] 	4	<p>Application: paint or use of associated words such as walls, litres, colour, 6 large, business customers, competitive market, high quality, different countries, operations manager</p> <p>Methods identified must be appropriate for a large business customer</p> <p>Do not accept: internal communication e.g. memos, noticeboard, categories such as written or verbal on their own, primary methods of research</p>

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Question	Answer	Marks	Guidance
4(d)	<p>Identify and explain <u>two</u> possible reasons why quality is important to DCP.</p> <p>Knowledge [2 × 1] – award 1 mark for each reason Application [2 × 1] – award 1 mark if relevant reference made to DCP Analysis [2 × 1] – award 1 mark for each relevant explanation Relevant points might include:</p> <ul style="list-style-type: none"> • Good reputation / brand image [k] so customers trust the paint [app] which could help increase sales [an] • Attract new customers [k] as products might be better than rivals [app] • Meet legal controls [k] as contains chemicals [app] must be safe to avoid being prosecuted / sued [an] • More competitive [k] as paint is very similar [app] this could give them a competitive advantage over its rivals [an] • Create brand / customer loyalty [k] so business [app] customers keep returning [an] • Can charge a higher price [k] than 35 c per litre [app] to increase revenue [an] • sales might fall [k] if quality is lowered [an] because it is a competitive market [app] 	6	<p>Application: paint, litres, colour, 6 business customers, competitive market, high quality, industrial, different countries, use of numbers</p> <p>Candidates may consider why reducing quality is a problem</p>

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Question	Answer	Marks	Guidance
4(e)	<p>Do you think charging a higher price is the best way for DCP to increase profit? Justify your answer.</p> <p>Knowledge [1] – award 1 mark for identification of relevant points Application [1] – award 1 mark if relevant reference made to DCP's business Analysis [2] – award up to 2 marks for relevant development of point Evaluation [2] – justified decision made as to whether charging a higher price is the best way to increase profits Relevant points might include:</p> <ul style="list-style-type: none"> • Revenue could increase[k] and if quantity and costs of the paint [app] remain the same profit could increase [an] • Demand may fall [k] as customers might choose rival products [an] in this competitive market [app] • if demand is price inelastic [k] higher price will see a lower fall in demand [an] therefore revenue will rise [an] • business may be able to lower costs [k] therefore increasing profit with current prices [an] • It would reinforce the image [k] of high quality [app] customers might be happy to pay it [an] • depends on actions of competitors [k] 	6	<p>Application: paint or use of associated words such as walls, litres, colour, cheaper materials, 6 business customers, competitive market, high quality, industrial, different countries, use of numbers</p> <p>Note: The answer should focus on price or cost changes</p> <p>Note: Do not award candidates who only discuss alternative ways to increase profit, for example, advertising.</p> <p>For evaluation either viewpoint is acceptable</p>



BUSINESS STUDIES

0450/21

Paper 2 Case Study

October/November 2016

MARK SCHEME

Maximum Mark: 80

Published

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- 1 (a) P & P needs to be efficient. Identify and explain four methods P & P could use to motivate production workers. [8]

Application [4 × 1] – award one mark for each relevant method for production workers

Analysis [4 × 1] – award one mark for explanation of how each method increases motivation

Award one mark for each relevant method (maximum of four), such as:

- increase wages
- training
- profit sharing
- praise
- piece rate
- employee of the month
- bonus
- change in leadership style
- fringe benefits
- better working conditions
- job rotation
- job enlargement
- setting targets
- promotion

Indicative response:

Introduce piece-rate [ap] because if the production workers produce more paint they will be paid more and so they will be motivated to work harder [an].

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- (b) P & P has developed a new type of paint. Consider the following three factors that will affect the channel of distribution the company will use. Which factor will be the most important when deciding the best channel of distribution? Justify your answer. [12]

Relevant points might include:

Where customers are located	<ul style="list-style-type: none"> do they deliver paint or do customers purchase from the shops are they close to the factory – may use direct selling – lower transport costs may require selling agents if exporting
How often the product is purchased	<ul style="list-style-type: none"> purchased regularly – may need to be sold in shops near to customers/less often then customers may be willing to travel to large shops to purchase paint may use wholesaler/middleman if bought less frequently
Where competitors sell their products	<ul style="list-style-type: none"> may need to sell paint in same retail outlets to competitors – outlet already attracts many customers don't sell at the same outlets as competitors – may need to reduce price/sales

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 to which factor will be the most important when choosing a channel of distribution and why not the alternative channels.</p> <p>7–8 marks for some limited judgement shown in conclusion as to which factor will be the most important when choosing a channel of distribution.</p>
Level 2	<p>4–6 marks Detailed discussion of the factors affecting the choice of channel of distribution for the new type of paint.</p>
Level 1	<p>1–3 marks Outline the factors affecting the choice of channel of distribution.</p>

Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Where do competitors sell their paint.

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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. Where do competitors sell their paint. They may want to sell paint in large shops where many brands of paint are sold so that when customers are looking for paint they will see their brand of paint as well and be more likely to buy it than if they sell the paint in shops where no other paint is sold. 4 marks for L2 answer).

Level 3 – For L3 to be awarded there need to be at least two L2 marks awarded and then a recommendation which justifies which factor is the most important when selecting the channel of distribution to use.

Award up to 2 additional marks for relevant application.

Possible application marks: paint manufacturer; factory; large limited company; imports raw materials; capital city; country X; sells to large retailers; uses batch production; new waterproof paint; target market professional painters; new paint for outside of houses; start exporting paint in 2018.

There may be other examples in context which have not been included here.

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- 2 (a) Identify and explain two reasons why P & P might respond to the pressure group and change what the company is doing. [8]

Knowledge [2 × 1] – award one mark for each reason

Analysis [2 × 1] – award one mark for a relevant explanation for each reason

Application [2 × 2] – award two application marks for each reason

Award one mark for each reason (maximum of two), such as:

- Want to keep a good reputation for being environmentally friendly
- Wants to keep customers from switching to competitors
- Does not want to upset local residents
- Wants to avoid fines or legal action
- Wants to keep a favourable reputation for being a good employer

Award a maximum of three additional marks for **each** explanation – **2 of which must be applied to this context** – of why the business might respond to the pressure group and change what the company is doing.

Indicative response:

To not lose customers who may buy from competitors if they are against businesses polluting the environment (k). The pollution affects a lot of people such as fishermen (ap) and may mean there are a greater number of people lobbying the government for the company to reduce pollution put into the river (ap). The more people affected then the more effective the pressure group and the more likely they are to change to another company if P & P do not change the way they produce paint (an).

Possible application marks: the Government of country X; paint manufacturer; large limited company; large factory next to a river; pollution; waste; dumping in the river; makes tins (cans) of paint; sells to large retailers; 150 production workers; employees live near to the factory; details of two options outlined in Appendix 2; details of pollution caused by paint production outlined in Appendix 3.

There may be other examples in context which have not been included here.

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- (b) P & P production results in external costs as outlined in Appendix 3. Consider the external costs and external benefits of the production of paint by P & P. Recommend whether the Government should take any action. Justify your answer. (12)

Relevant points might include:

External costs	Pollution – waste put into river makes children ill, kills fish, people can no longer catch their own fish, have to buy fish now – no clean water
External benefits	Provides jobs; increased sales for fish sellers; taxes paid to government

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 whether or not the government should take any action. 7–8 marks for some limited judgement shown in recommendation as to whether or not the government should take any action.
Level 2	4–6 mark Detailed discussion of external costs and benefits on third parties.
Level 1	1–3 marks Outline of external costs and benefits.

Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. The company puts waste products into the river,

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 puts waste products into the river and this kills the fish leading to local people have to increase their spending on food which leaves them less to spend on other products. (4 marks for L2 answer plus one application mark for mentioning catching fish from the river).

Level 3 – For L3 to be awarded there need to be at least two L2 marks awarded and then a recommendation whether the government should introduce regulations on the activities of this company.

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Award up to 2 additional marks for relevant application.

Possible application marks: paint manufacturer; large limited company; imports raw materials; large factory next to a river; makes tins (cans) of paint; pressure groups; sells to large retailers; uses batch production; 150 production workers; employees live near to the factory; details of two options outlined in Appendix 2; details of pollution caused by paint production outlined in Appendix 3. No credit for paint but ok for pollution.

There may be other examples in context which have not been included here.

- 3 (a) P & P has decided to use batch production to produce the new paint. Identify and explain two factors which may have influenced this decision. (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:

- Size of the output/ level of demand
- Various styles of product made
- Easier/quicker to respond to changes in demand
- Not enough capital to use capital-intensive methods

Award a maximum of three additional marks for **each** explanation – **2 of which must be applied to this context** – of the factor which may have influenced the decision to use batch production.

Indicative response:

Size of the output [k] as if a large output is not required then flow production will not be used as too many products will be produced (an). Paint has many colours and types and so only a certain quantity of one type will be needed (ap). P & P will produce a certain amount of, for example bathroom paint and then a certain amount of kitchen paint because the demand will not be high for all types of paint (ap).

Possible application marks: different colours of paint; paint manufacturer; paint tins; large limited company; sells to large retailers; 150 production workers; employees live near to the factory; paid using time-rate and no fringe benefits; new waterproof paint; new machinery/equipment to make the paint; details of two options outlined in Appendix 2.

There may be other examples in context which have not been included here.

- (b) Consider the two options outlined in Appendix 2 for increasing the output of paint. Recommend which option the directors should choose. Use the cost data in Appendix 2 to help justify your answer. (12)

Relevant points might include:

Option A – $\$150\,000 \times 10\%$ = cost of \$15 000 interest per year.

Option B – $\$75\,000 \times 10\%$ = cost of \$7 500 interest/yr plus \$10 000 = \$17 500/year.

Option A land cost + factory + machinery = \$150 000 (L1)

Option B land cost + lease = \$85 000 (L1)

Option B will be \$72 500 cheaper in the first year (L2)

	Option A	Option B
<i>Output</i>	200 000 (<i>appendix 2</i>)	102 500 (<i>appendix 2</i>)
<i>Cost</i>	\$100 000 (<i>appendix 2</i>)	\$75 000 (<i>appendix 2</i>)
<i>Factory + machinery</i>	\$50 000 (<i>appendix 2</i>)	
<i>Lease</i>		\$10 000 (<i>appendix 2</i>)
Interest paid	\$15 000 (L2)	\$7 500 (L2)
Total cost in the first year	\$165 000 (L2)	\$92 500 (L2)
Cost per tin	\$0.83 (L2)	\$0.90 (L2)

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 best option to choose compared to the alternative option. 7–8 marks for some limited judgement shown in recommendation as to the best option to choose.
Level 2	4–6 marks Option A and B discussed including calculation of costs.
Level 1	1–3 marks Option A and B outlined including comparison of costs/use of cost information.

Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Option A is more expensive than Option B

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Level 2 – 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (Max 6 marks). Option A is more expensive than Option B but when calculating the costs per tin then Option A is cheaper at \$0.83 per tin compared to Option B of \$0.90 per tin. (5 marks)

Level 3 – For L3 to be awarded there need 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: paint manufacturer; large limited company; imports raw materials; large factory next to a river; uses batch production; 150 production workers; start exporting paint in 2018; details of option 1 – 200 000 tins of paint, \$100 000 land cost, \$50 000 factory and machinery, interest rate of 10% ; details of option 2 – 102 500 tins of paint, \$75 000 extension cost, \$10 000 lease, interest rate of 10%

There may be other examples in context which have not been included here.

4 (a) Identify and explain two reasons why added value is important to P & P. (8)

Knowledge [2 × 1] – award one mark for each relevant reason

Analysis [2 × 1] – award one mark for a relevant explanation for each reason

Application [2 × 2] – award two application marks for each reason

Relevant points might include:

Award one mark for each reason (maximum of two), such as:

- Allows costs to be paid
- Ensures a profit is made
- Prices could be increased

Award a maximum of three additional marks for **each** explanation – **2 of which must be applied to this context** – of the reason why added value is important.

Indicative response:

Allows costs to be paid (k) as wages and other factory costs are paid out of the revenue from sales of paint (ap) and the price of paint is higher than the total costs of producing it (ap). This means that P & P will make a profit (an).

Possible application marks: paint manufacturer; large limited company; imports raw materials; makes tins (cans) of paint; sells to large retailers; uses batch production; 150 production workers; new waterproof paint; target market professional painters; new paint for outside of houses; start exporting paint in 2018; increase in imports of paint.

There may be other examples in context which have not been included here.

- (b) P & P is planning to start selling its products in other countries by 2018. Consider each of the three following changes the company could make. Which one of these changes will be most helpful in selling products to other countries? Justify your answer. (12)

Relevant points might include:

	Advantages	Disadvantages
Take over a retail business in one of the other countries	Will own many outlets to sell their paint	Expensive to buy shares in the other business
Change to a public limited company to raise additional capital	So they can sell shares to the public Pay additional costs of exporting/expanding	Accounts are public and may be able to be taken over
Form joint ventures in the other countries	Local knowledge of the overseas market.	Have to share information and profit.

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 to which change will be most helpful when selling products abroad. 7–8 marks for some limited judgement shown in conclusion as to which change will be most helpful when selling products abroad.
Level 2	4–6 marks Detailed discussion of advantages and/or disadvantages of each possible change.
Level 1	1–3 marks Outline of advantages and/or disadvantages of each possible change.

Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Remaining a private limited company means the business will keep its accounts private.

Level 2 – 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. Changing to a public limited company means the business will not keep its accounts private and so it will be easier for competitors to obtain information about the company. However, it will be able to obtain capital from selling shares as it can now sell shares to more than family and friends and this will enable it to cover the increase in costs from starting to export. (4 marks for L2 answer).

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Level 3 – for L3 to be awarded there need to be at least two L2 marks awarded and then a justified conclusion as to which change will be most helpful when selling products abroad.

Award up to 2 additional marks for relevant application.

Possible application marks: paint; country X; paint manufacturer; large limited company; imports raw materials; makes tins (cans) of paint; sells to large retailers; new waterproof paint; new paint for outside of houses; start exporting paint in 2018; wants to increase output; increase in imports of paint.

There may be other examples in context which have not been included here.