

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE O Level

MARK SCHEME for the May/June 2006 question paper

7115 BUSINESS STUDIES

7115/01

Paper 1 maximum raw mark 100

This mark scheme is published as an aid to teachers and students, to indicate the requirements of the examination. It shows the basis on which Examiners were initially instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began. Any substantial changes to the mark scheme that arose from these discussions will be recorded in the published *Report on the Examination*.

All Examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes must be read in conjunction with the question papers and the *Report on the Examination*.

The minimum marks in these components needed for various grades were previously published with these mark schemes, but are now instead included in the Report on the Examination for this session.

- CIE will not enter into discussion or correspondence in connection with these mark schemes.

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| | | |
|--------|-----------------------------|----------|
| Page 1 | Mark Scheme | Syllabus |
| | GCE O Level – May/June 2006 | 7115 |

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- 1 (a) (i) Value of computer sales = $\frac{3}{8}$ of \$240 [1] Answer = \$90m [2]
(ii) Value of exports = 10% of total value [1] Answer = \$24m [2] In both cases correct answer alone gets full marks.
- (b) (i) L1 Demand not much affected by price [1]
L2 Change in demand less than change in price [2]
L3 % change in Q.D / % change in P less than 1 OR concept explained [3]
- (ii) If demand is price inelastic then prices will probably rise because such a change would increase turnover [sales revenue]. However other business objectives might be being pursued e.g. market share. If so then price may be kept low.
Knowledge of link [1]
Understanding / application of link / awareness of other objectives [2-3]
- (c) A channel of distribution is the route taken by a product as it passes from the producer to the customer. Distribution is one element of the marketing mix. Thus it is important as part of an overall strategy of generating sales.
Knowledge of channels of distribution [1-2]
Application of concept to Playwell's computer products [1-2]
Evaluative judgement of importance [1-2]
- (d) It is difficult for a company to sell products in new markets overseas for various reasons. These might include reference to – tastes may differ in different countries hence customers might not like the games / existing brands may be hard to dislodge / distribution network not well established / lack of awareness of potential customers / import taxes and other barriers to entry / adverse changes in exchange rates.
Awareness of possible reasons [1-2]
Explanation of reasons [1-2]
- 2 (a) (i) Measurement of size usually done by – number of employees / value of sales / capital employed / value of assets. [net worth]. Knowledge [1] per point identified. [1-3]
- (ii) Tertiary [1] service based activity [1]
- (iii) Simple explanation such as a market where there is competition [1]
Development of explanation by making reference to number of similar businesses selling products aimed at similar customer base [2]. Thus showing higher level of understanding.
- (b) New technology such as office computers might be expected to cut office costs in a number of ways. They might reduce the number of employees needed because of their labour saving potential. They might speed up activities and hence allow more work to be completed in a given time period. Thus overheads spread over more work.
Identification of ways costs might be cut [1-2]
Explanation of ways showing how gains might be achieved [1-3]
- (c) (i) Stakeholders refer to any group which has an interest in business activity. [2]
Simple answer such as people who are involved in a business [1]. Simple answer plus appropriate examples will get two marks.
- (ii) Clearly different stakeholders can be identified. Shareholders would have an objective to get a satisfactory return on their investment. This means that they buy shares usually in anticipation of a financial gain achieved either through dividend income or appreciation in capital value. Employees have objectives like high wages or job security. People work primarily for money and hence wage rates very important or job security helps satisfy basic needs which provides stability that people enjoy. Similar ideas for groups such as consumers / suppliers / society. The objectives must be of TWO different groups of stakeholders.
Identification of objectives of two groups [2]

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|--------|-----------------------------|----------|
| Page 2 | Mark Scheme | Syllabus |
| | GCE O Level – May/June 2006 | 7115 |

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- 3 (a) (i) Direct cost likely to be wages or stock [1]
(ii) Overheads might be things like rent/rates/insurance/electricity [1]
- (b) (i) Marks [1] each for: label axis [both]; T.R. line; T.C. line.; scales; visual appeal
Knowledge plus analysis
(ii) $b/e = 600$ [1] application
(iii) weekly profit = \$300 [1] annual profit = \$300 times 52 [1] = \$15600 [3]
Full marks for \$15600 and for \$150000. OFR applies [max of 2 marks]
- (c) 15.6% [2] Formula [1] OFR applies [can gain full marks]
- (d) A business can be profitable for many reasons. Basically it is because it produces a product that satisfies customer demand at a price that is thought to acceptable which more than covers the costs incurred. This situation can thus change for a variety of reasons – new businesses prove better at satisfying customer wants / customer needs change / costs rise and hence surplus no longer generated.
Understanding of why a business might be profitable [1-2]
Evaluation of why factors can change involving a justified conclusion [1-4]
- 4 (a) Flow production usually involves large scale production where each operation on a unit is performed continuously, one after the other, often on a production line. Thus companies use the technique as a means of reducing unit costs when large volumes are being produced.
Explanation of the term flow production [1-2]
Evaluative judgement as to why BMF uses the method [1-2]
- (b) Methods that can be identified are numerous but are likely to include – financial means [higher wages / bonuses etc.] non-financial methods such as job enlargement / enrichment / fringe benefits. [1] mark per method identified plus [1] mark for explaining how it might operate plus [1] for linkage with motivation. Thus 2 times 3 marks available. To gain the third mark it is necessary to show how the method specifically creates a motivational force [by helping satisfying a need perhaps]
- (c) Productivity is a measure of the effective use of a resource measured in terms of the output generated by that resource. It is important to the management of a business because it has a direct impact on unit cost and hence on competitiveness and profitability.
Knowledge of productivity [1-2]
Evaluation of implications [1-2]
- (d) Social costs usually refer to the costs to society as well as to a business. They are usually regarded as being the negative externalities associated with business activity. In this context they would include noise / air / visual pollution as well as things like congestion and damage to local environment and other businesses.
Knowledge of social costs [1-3]
Explanation /application of the concept [1-3]

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|--------|-----------------------------|----------|
| Page 3 | Mark Scheme | Syllabus |
| | GCE O Level – May/June 2006 | 7115 |

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- 5 (a) Economic recession refers to a down swing in the level of economic activity economy [2]. Simple answer like less business production [1]
- (ii) Recession likely to have had an impact because consumer spending falls in recession and hence sales of Easy Chairs likely to have been reduced. This will reduce revenue and cash inflows. Costs however would not be reduced proportionally. Thus financial problems likely to follow.
 Explanation of financial problems [1-2]
 Linkage with recession [1-2]
- (b) All three options are damaging to the interests of trade union members but in different ways. Option 1 clearly results in job losses but no loss of income for those who remain in work. Option 2 affects everyone in the form of lower wages for the same work but no loss of jobs. Option 3 means lower wages but less hours, again with no job losses. Thus Option 3 better than 2. Option 1 better for those left in a job. Much will depend on terms of redundancies / local job conditions. Best option is 1 because presumably majority still in work at full pay and those laid off can be cushioned by negotiated terms of redundancy. Considers the options [1-2]
 Draws inferences from options [1-2]
 Justified recommendation [1-2]
- (c) Financial problems can be dealt with in many ways. Labour costs are only one type of cost. Thus focus could lie on reducing overheads / other direct costs. Equally the problem might be tackled by trying to boost revenue by marketing methods / altering market segments etc. Putting in place a financial package to ride out the problem might not solve it as such but would clearly be a short term solution.
 Identification of a method [1]
 Explanation of method [1-3]
- (d) Ignoring a complaint is potentially a dangerous way to proceed [unless of course the consumer was mistaken!] If the complaint was justified then the company could leave itself open to a court case with damaging financial implications. In addition bad publicity would follow. In any case ignoring a complaint is surely poor PR.
 Simple judgement showing awareness of implications [1-2]
 Evaluation of implications [1-2]

Specification Grid

| Question | K | App | An | Ev |
|----------|----|-----|----|----|
| 1 | 7 | 7 | 4 | 2 |
| 2 | 7 | 8 | 5 | - |
| 3 | 3 | 7 | 6 | 4 |
| 4 | 9 | 3 | 4 | 4 |
| 5 | 3 | 7 | 5 | 5 |
| | 29 | 32 | 24 | 15 |