

**MARK SCHEME for the October/November 2007 question paper**

**7115 BUSINESS STUDIES**

**7115/02**

Paper 2 (Case Study), 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.

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.

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CIE is publishing the mark schemes for the October/November 2007 question papers for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level syllabuses and some Ordinary Level syllabuses.

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NB Application marks are not awarded for just mentioning the name of the business or people in the case material. Application is by answering in the context of the case or by using the information in the case to help answer the question.

**1 (a) Explain two advantages to NP of being a multinational company. [8]**

Content: Can sell to a wide market; low labour costs; spreads risk; avoid trade barriers; easier access to finance; economies of scale; international reputation.

1 mark for each advantage listed – 2 marks max.  
Up to 3 additional marks for the advantage explained in context.

4 marks for each advantage x 2 = 8 marks maximum.

**(b) Do you think the Government in Country X should encourage NP to open the new printing factory? Explain your answer. [12]**

Content: Arguments for opening the factory – new investment; fewer imports; jobs created; more competition; taxes paid to government.

Arguments against opening the factory – existing firms in danger; profits flow out of the country; may influence the government and economy.

	Application	Analysis/Evaluation
Level 2	2 marks Well applied to the case.	5–10 marks Advantages and/or disadvantages explained and decisions made with justification. NB 8 marks maximum if no clear decision made.
Level 1	1 mark Limited application to the case.	1–4 marks Advantages and/or disadvantages listed.

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2 (a) How do you think NP researched the market to estimate the number of copies to be sold of each type of magazine?

Content: Primary research; questionnaires, interviews; consumer panels; testing. Secondary research; company reports; newspapers; government data.

	Application	Knowledge
Level 2	2 marks Well applied to the case.	3–6 marks Description of how at least one method of market research might be carried out.
Level 1	1 mark Limited application to the case.	1–2 marks Different methods of market research listed.

(b) Advise NP on which one of the three magazines to publish. Use the information in the case and appendices 1 and 2 to support your answer. [12]

Content: Health Magazine Revenue = \$500,000 Costs = \$200,000  
 Profit = \$300,000 + Advertising revenue = \$60,000  
 Or \$3 profit per magazine. Overall profit = \$360 000

Fashion magazine Revenue = \$800,000 Costs = \$200,000  
 Profit = \$600,000 + Advertising revenue = \$120,000  
 Or \$3 profit per magazine. Overall profit = \$720 000

Fashion and Beauty magazine Revenue = \$1,000,000  
 Costs = \$450,000 Profit = \$550,000 + Advertising revenue = \$100,000  
 (accept \$150,000 and accept 60/90,000). Overall profit = \$650 000 or \$700 000 or more if advertising revenue of beauty product companies also added. \$3.66 profit per magazine.

Credit discussion of the different age groups for the different magazines.  
 Evaluation – accept any magazine as long as the answer is justified.  
 Level 3 – 9–12 marks.

Fully justified answer including Level 2 calculations plus discussion comparing the three different magazines.

Level 2 – 5–8 marks.

Limited justification including calculations of total costs, profit and/or advertising revenue for any of the magazines.

6 max if only advertising revenue calculated.

6 max if correct method used but incorrect calculation.

Level 1 – 1–4 marks.

Limited justification including statements about the figures in the appendices e.g. revenue higher for Fashion and Beauty magazine than other two; Fashion magazine sells more copies than other two; Fashion and Beauty magazine sells to a wider age group than other two.

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3 (a) Refer to Appendix 3. Do you think this is a good time to launch a new magazine in Country X?

Content: Consideration of rising interest rates leading to higher costs of borrowed funds and consumers paying more money on loans/mortgage may lead to less spending on magazines.

Reduced growth may mean less income for consumers and therefore reduced spending on magazines.

Evaluation – Yes or No acceptable as long as the answer is justified.  
 E.g. Rising interest rates will lead to higher mortgage repayments therefore there is less money left over for luxuries like magazines.

	Application	Knowledge/Evaluation
Level 2	2 marks Well applied to the case.	5–6 marks Judgement/decision justified.
Level 1	1 mark Limited application to the case.	1–4 marks Consequences of economic trends or indicators considered.

(b) (i) The Marketing Manager will need to decide on a pricing strategy for the new magazine. Describe three suitable pricing strategies the company might use. [9]

Content: Promotional/Discount/Loss leading pricing;  
 Price skimming/Creaming; Cost-plus pricing; Penetration pricing; Competitive pricing;  
 Psychological pricing; Destroyer/Predatory pricing.

1 mark for each pricing strategy named (up to a maximum of 3 marks).  
 2 additional marks for describing each pricing strategy.

(ii) Which one of these three strategies would you recommend for NP to use for the new magazine and why? [3]

Up to 3 marks for justifying the choice.

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4 (a) NP will need to raise \$4m to set up a new printing factory to publish the newspaper. Analyse three methods of finance they could use.

Content: Bank loan; Sell shares; Sell debentures; Retained profit; Mortgage; Sell assets; Government funding.

1 mark for each method of finance. 3 marks maximum.  
Up to 2 additional marks for explanation of the suitability of each method of finance. (8 marks maximum in total)

(b) NP will need to recruit employees to work in the new printing factory. Discuss whether they should recruit people living in Country X or transfer workers from their factories in other countries. [12]

Content: Recruiting from Country X – for: lower wages; can train them in the ways of NP; speak local language.

Against: training costs high; recruitment costs.

Transferring workers – for: employees already known to the managers; have the required skills; no need to train workers therefore less expensive.

Against: more expensive e.g. higher wages; may not speak local language.

	Application	Knowledge/Analysis/Evaluation
Level 3		9–10 marks Level 2 + Decision made and justified as to which would be the best method to use.
Level 2	2 marks Well applied to the case.	5–8 marks Advantages and/or disadvantages of recruiting from Country X or transferring their existing workers explained.
Level 1	1 mark Limited application to the case.	1–4 marks Advantages and/or disadvantages of recruiting from Country X or transferring their existing workers listed.

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- 5 (a) NP will use flow production in its new printing factory. Outline two benefits of this method of production.

Content: Unit costs are kept low and therefore prices are also lower; capital-intensive methods of production can be used reducing labour costs and increasing efficiency; possibly less skilled labour required; high output; continuous production; standardised product; advantages of division of labour/specialisation.

1 mark for each benefit of flow production listed. (2 marks maximum).

Up to 3 additional marks for explanation of each of the benefits in context. (8 marks maximum in total)

- (b) Advise NP on what factors will be most important when deciding where in Country X to locate the new printing factory. [12]

Content: Market; Power; Government influence (regulations or grants); Personal preferences of NP managers; Availability of labour; Transport communications; Raw material sources; Near to port; External economies of scale; Climate.

Evaluation – Justification of why particular location factors might be important to a printing works. E.g. the availability of skilled workers will be important, as the printing factory will require a large number of employees to work on the printing machines.

	Application	Knowledge/Analysis/Evaluation
Level 3		9–10 marks Level 2 + Justification of which will be the most important location factors.
Level 2	2 marks Well applied to the case.	5–8 marks Location factors explained as to why they are important.
Level 1	1 mark Limited application to the case.	1–4 marks Location factors identified.