

# UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

General Certificate of Education Ordinary Level

## MARK SCHEME for the November 2005 question paper

**7100/02**

**7100/02 Commerce, Paper 2 , maximum raw mark 80**

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.

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- 1 (a) (i) Wholesaler [1]
- (ii) Cotton farmer [1]
- (b) (i) Any two points x 1 mark such as: [2]
- People who make goods  
From raw material  
Example e.g. making cars  
To satisfy needs and wants
- Manufacture = 0 marks
- (ii) Any two points x 1 mark such as: [2]
- People who use/buy goods/services  
And without whom there would be no reason to produce  
To satisfy needs and wants  
Not for resale/for own use  
Last person in chain of distribution
- (c) Any four points x 1 mark each (including up to 2 marks for a developed point) such as: [4]
- Cotton is harvested and sold                      or stored until the price rises  
It is processed into cotton thread              and woven into cloth  
The cloth is cut to suit the pattern              and stitched together  
Other items are added                              such as zips, buttons  
The garment is branded                              and packaged for sale  
Cloth worked into finished item
- Any other relevant point
- Any answer which discusses chain of production/costs/expenses/profits = 0 marks
- (d) **Level 3 [5-6 marks]** [6]
- Has analysed the need for specialisation in relation to a clothing manufacturer and has made a reasoned judgement based on the analysis.
- e.g. a clothing manufacturer needs to use specialisation because he may be producing one particular product in large quantities, can use division of labour and so increase output and reduce labour costs. He would be able to make use of economies of scale such as increased use of machinery/technology and so produce a uniform product of a particular quality
- Level 2 [3-4 marks]**
- Has commented on specialisation in relation to a clothing manufacturer and may/may not have made a judgement
- e.g. the production of clothing is often done on a production line where division of labour takes place and there is large output

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**Level 1 [1-2 marks]**

Has made some comments on specialisation mostly unrelated to a clothing manufacturer

e.g. specialisation means concentrating on one product or task. Many products can be produced.

Allow negative approach

Points that might be included:

Specialisation enables the manufacturer to concentrate on one product/style

Division of labour can be used

And mass production can take place

It may increase output and enables large quantities to be produced

It may reduce labour costs

It enables machines/technology to be used more readily

It enables the manufacturer to make use of economies of scale

Example of economies of scale

If the clothing manufacturer is a specialist and uses job production, the clothing manufacturer will be concentrating on one garment and undertaking all tasks relating to that garment

The manufacturer will be specialising and become known for that particular kind of clothing but the workforce will not be specialists in one particular task

Any other relevant point.

**(e)** Any four points x 1 mark or 2 developed points x 2 marks such as: **[4]**

By being more watchful and aware of what they are buying

By watching consumer programmes

By reading consumer magazines e.g. to find the best value for money

By reporting unfair trading practices

By being aware of government legislation designed to protect them + example of legislation

By looking for labels on products e.g. BSI kite mark

By using reputable retailers e.g. ABTA travel agents

By buying branded goods

By telling other people

By suing/taking to court

Any other relevant point

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**2 (a)** Any two points developed x 2 marks or 4 points x 1 mark such as: **[4]**

A small amount of money is needed to start trading e.g. own savings  
 Banks may be willing to lend against collateral such as property  
 It is an attractive job for many people with a wide diversity of opportunities/products/ services that can be sold  
 It may be possible to take a franchise and so share risk with a larger organisation  
 It may be possible to operate from home using the Internet or have premises close to home  
 Many people enjoy serving customers and offering personal service  
 Back up from wholesaler  
 Easy to set up

Any other relevant point

**(b)** Any three factors x 1 mark each + 1 mark for each reason such as: **[6]**

Nearness to customers – customers often buy locally  
 Availability of labour – may need shop assistants  
 Availability of transport – customers to come to the shop, labour  
 Kind of site – close to other shops – on main roads  
 Ease of obtaining supplies – near main roads, delivery area  
 Close to/away from competition especially large-scale retailers – may have to rely on nearby customers  
 Cost of location  
 Planning rules

Any other relevant factor + reason

**(c) (i)** The candidate should choose after sales service and packaging of goods and should NOT choose EPOS and loyalty cards **[6]**

Award 1 mark each for three reasons to 6 mark max. 0 marks for choice

After sales service -

- Creates customer loyalty
- May increase turnover
- May need to deliver goods
- May be selling goods which require maintenance

Packaging of goods -

- Enables customers to serve themselves
- Protects the goods/saves damage
- Helps to preserve goods
- Assists the advertising of goods as brand on package
- May assist display of goods
- Handling easier

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If EPOS or loyalty cards are chosen, award marks for valid reasons

EPOS -

Enables the retailer to collect data on sales of particular items by reading the bar code

Can therefore stock what the customer requires

Reduces till errors

Loyalty cards -

Maintain customer loyalty and can be linked with special offers

May increase turnover

(ii) Any two points x 2 mark each such as: **[4]**

After sales service - may not be selling goods which need after sales service  
e.g. food

Packaging – may already be packaged

EPOS – business may be on too small a scale, more suitable for large-scale retailing, too expensive to install

Loyalty cards – may be too few customers, too expensive

Any other relevant reason

3 (a) Any two points such as: **[2]**

Some form of communication/example such as letter, email, fax, telephone

Sent to potential suppliers/from buyer to seller

Asking for detailed information

(b) Any three points x 1 mark each such as: **[3]**

Apologise (1), check that everything else was in the parcel (1), send another price list by fax/email, check that it has been received

Any other relevant point

(c) (i) Any four points x 1 mark each or two reasons explained x 2 marks each such as: **[4]**

To check deliveries

To confirm details of the transaction

To maintain records

To give information

To confirm an order

To request payment

To provide written proof of the transaction

To avoid fraud

Any other relevant reason

(ii) Any two documents x 1 mark each such as order form, invoice, delivery note, statement of account, receipt, advice note, credit note, debit note **[2]**

Enquiry/Quotation = 0 marks

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**(iii) Level 2 (3-5 marks)** Enquiry/quotation = 0 marks

Candidate has considered both cash and trade discount and has made a reasoned judgement

e.g. the customer may be offered trade discount if he is a retailer but there is no evidence in the information given to suggest that he is a retailer. He may be offered cash discount to encourage payment within a certain period of time in order to avoid bad debts

N.B. if a candidate has considered only trade discount or cash discount with a judgement – award 3 marks max

**Level 1 (1-2 marks)**

Candidate has explained trade and/or cash discount but not in the context of the question

Points that might be included:

The customer may be buying in small quantities  
and Tan Enterprises may wish to encourage prompt payment  
so that there are no bad debts  
and Tan can use the money to purchase other goods  
There is nothing in the information given to indicate that the customer is a trade customer  
and so the customer should not be wanting to buy in large quantity  
nor to make profits from reselling

**(iv) Any two methods of payment x 1 mark each + 1 mark for each reason such as: [4]**

Cheque – can be made out for any amount, can be crossed, can be posted, usually acceptable  
Credit transfer – payment can be transferred at a bank, safe method of payment, may be paying other bills  
Credit card – can postpone payment, can pay by instalments  
Debit card – safe, money automatically debited from account

Any other relevant service + reason

Allow bank draft, cashier's order, banker's cheque

Cash/standing order/direct debit = 0 marks

**4 (a) (i) 25% + 4% (1 mark) = 29% (1 mark) [2]**

If the correct answer is shown without working award full marks  
OFR applies

**(ii) 30% of \$140bn = 0.3 x \$140bn (1 mark) = \$42bn (1 mark) [2]**

If the correct answer is shown without working award full marks  
OFR applies

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**(b)** Any two ways x 2 marks each such as **[4]**

- HP You become the owner of goods when you have completed payments
- DP You become the owner of goods when you have paid the deposit
- HP The seller can repossess the goods if the buyer defaults
- DP The seller cannot repossess the goods. The seller sues the buyer for the balance outstanding
- HP Goods usually have a secondhand value
- DP Goods have little secondhand value
- HP The buyer cannot sell the goods until all payments are made
- DP The buyer can sell the goods as he is the legal owner

Any other relevant reason

**(c)** Type of credit x 1 mark + reasons (2 x 1 mark or 1 x 2 marks) such as

**(i)** Bank loan/hire purchase **[3]**

- Large amount of money required
- Can be paid off in instalments
- Has reasonably high secondhand value

**(ii)** Credit card **[3]**

- Acceptable to the hotel
- Can be used in many countries
- Safer than carrying cash
- Easier to carry than cash
- Rate of exchange may be advantageous

Any other relevant reason

**(d)** Any three reasons explained x 2 marks each such as: **[6]**

- Releases cash to pay for other things
- People want a higher standard of living and are prepared to borrow to pay for it
- Goods/services are more expensive and so people cannot afford to pay for them in one payment e.g. house, car
- More credit available and it is more accessible through advertising
- Interest rates in many countries are low so buying on credit is not so expensive as when interest rates are high
- Many retailers offer credit to increase turnover and to gain competitive edge
- Increased amount of tourism in many countries - payment of hotel bills, goods by credit card
- Increased use of Internet/e-commerce to buy goods using credit cards
- Insurance available through credit card companies
- Increased technology makes it easier for seller
- Safer than carrying cash

Any other relevant point

N.B. may not be so applicable in some countries where few individuals have credit cards and most transactions are with cash

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**5 (a)** Any six points x 1 mark each or 3 well developed points x 2 marks such as: **[6]**

The warehouse is a necessary part of Mrs Chang's business because it provides storage for large quantities of goods  
It is where she displays her goods  
Goods are prepared for sale/bottling/packaging etc. (2 max)  
It allows goods which are seasonal in demand to be stored off-season  
It helps to maintain supplies  
It protects goods against weather/theft/deterioration (2 max)  
It provides a place where breaking bulk can take place  
If Mrs Chang imports/exports goods may be stored pending transport  
Dutiable goods may be stored until duty is paid  
It aids the distribution process - clearing manufacturers' production lines, awaiting sale to retailers  
The warehouse is therefore a very important element of Mrs Chang's business  
Cold storage

Any other relevant point

**(b)** Any five points x 1 mark each (including up to 2 marks for a well developed point) such as: **[5]**

They wish to sell in large quantities  
They are able to trade at favourable prices (large trade discount)  
They wish to save the costs of a middleman  
They are trading in perishables/technical/large products  
Many retailers are large-scale and wish to trade in large quantities and have the storage for them  
Many manufacturers deal in branded goods which are standardised as regards size and quality  
Many manufacturers advertise nationwide and so create the market for their products  
Improvements in transport and communications have made it easier and faster for manufacturers to deliver goods  
Selling low priced goods/selling goods which cannot go through chain of production

Any other relevant point

**(c) (i)** Any two points x 1 mark each such as: **[2]**

A warehouse where customers pay cash  
And carry the goods themselves  
Customers likely to be small-scale retailers  
Self service warehouse

**(ii)** Any three points x 1 mark each such as: **[3]**

Arguments for

Would help to reduce costs e.g. delivery costs  
Might attract more customers e.g. card carrying public  
Would avoid bad debts  
Might save time e.g. delivery  
May increase turnover/business



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Arguments against

Might lose customers if does not offer traditional wholesale services  
Might be selling in smaller quantities  
Will need to display goods in the warehouse to attract customers  
Retailer not able to pay cash – cash flow problems

Any other relevant argument

**(iii)** Any two actions explained x 2 marks such as: **[4]**

Develop into a specialist wholesaler concentrating on one particular commodity  
Try to reduce costs e.g. labour  
Form a voluntary chain with small-scale retailers  
Open the warehouse to card carrying customers from the general public  
Encourage small-scale retailers as customers - discounts, special offers, frequent delivery services, more credit (2 max)  
Concentrate on seasonal products/perishables e.g. fruit, fish  
Advertising campaign  
Change business e.g. mail order, sell on-line  
Improve quality of goods

Any other relevant points

**6** Any two advantages explained x 2 marks each such as: **[4]**

Has many branches which because they look similar are recognisable  
Able to have centralised control - centralised buying, bulk purchasing taking advantage of economies of scale  
Usually selling one particular line e.g. shoes so may deal only with a few manufacturers and be able to obtain good terms  
Goods can be supplied from regional distribution centres using own fleet of transport  
Economies on marketing and advertising  
Losses in one shop covered by profits in the other

Any other relevant advantage

**(b) (i)** Any three difficulties x 2 marks each such as: **[6]**

May be different languages so employees may not understand him  
May be difficulties of distance - control, employing managers  
May be different legal, banking and tax systems  
May be difficulties moving goods across national boundaries  
May have to adhere to different health and hygiene regulations  
May have difficulties with different currencies and exchange rates  
May be different social standards and customs as well as tastes greater risk of failure  
Higher costs of insurance, transport because of risk and distance  
May have difficulty co-ordinating businesses in two countries  
Competition from other ice cream and soft drinks businesses  
Costs of setting up

Any other relevant difficulty

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(ii) Any three points well explained x 2 marks each or 6 points x 1 mark **[6]**

N.B. For full marks the candidate must have considered both advantages and disadvantages - 4:2 or 2:4

Advantages

May be able to combine the businesses and sell the two products at all the outlets

Additional finance

Additional expertise

Both involved in the food industry so compatible products

Three people to share the risks and the workload

Disadvantages

Has to give up sole ownership with its quick decision making and flexibility

May not work out - disagreements, one partner doing all the work

May lead to the closure of some outlets - redundancy

Still has unlimited liability

Sharing profits (1)

Any other relevant point

(iii) **Level 2 (3-4 marks)** **[4]**

Has suggested a suitable course of action with valid reasons to justify the course of action

e.g. Ben should form the partnership because it spreads the risk, he can offer a wider range of goods and concentrate his business in one country

**Level 1 (1-2 marks)**

Has given a course of action with superficial reasons.

e.g. Ben should form the partnership because he would get help.

Points that might be included:

Any possible course of action is correct

Reasons may be repeats of the advantages of the partnership or relating to expansion -

May be good market opportunities in the other country

May have exhausted the home market

Enables Ben to keep control of his business

Gives him new challenges to keep his interest

Some candidates might suggest that Ben could do both and substantiate this. This course of action should be accepted. Some candidates may say 'do nothing' and wait and see. This should be accepted.

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7 (a) Any one principle x 1 mark and 3 marks for reasons such as: [4]

Allow without insurance principle for 3 marks max

Utmost good faith    must tell the truth because the risk and premium is assessed on the basis of the information given. Any claim will be null and void if mis-information has been given on the form

Insurable interest    the person completing the form must have a financial interest i.e. own the car he/she is insuring so that he derives benefit from its preservation

Indemnity                accept valid points relating to the form

(b) For both parts any three points x 1 mark each [3]

(i) The amount of premium payable will be affected -  
The younger the person, the higher the premium  
Because there is a higher risk of accident discounts are offered for motorists aged over 21

(ii) The premium will be affected because - [3]  
Some cars are more difficult to repair than others  
The parts for some cars e.g. foreign makes are more expensive  
There is probably more risk of an accident with a sports car than a small saloon car  
Age of car affects premium

(c) 50% of \$1100 (1 mark) = \$550 (1 mark) [2]  
OFR applies

If the correct answer is given without working award full marks.

(d) Any four points x 1 mark such as: [4]

Brings insured and insurer together  
Offer the best motor policy possible  
Give advice on motor insurance  
Provide the documentation for the motorist  
Arrange a policy with the insurance company chosen  
Undertake any clerical work involved in collecting and forwarding premiums to the insurance company  
Provide cover note for temporary cover

Any other relevant point

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- (e) Any four points x 1 mark each (including up to 2 marks for a well developed point) such as: **[4]**

Method of extending business e.g. loan, changing type of business = 2 marks max  
 Undertake a nationwide advertising campaign e.g. wing television radio, newspaper giving details of services offered  
 Open branches in other parts of the country  
 Contact its clients giving them information on the planned expansion undertake a promotional campaign - offers, endorsement by famous person  
 Place advertisements in Yellow Page directories for the whole country  
 Offer under insurance cover

Any other relevant suggestion

- 8 (a) Any four points well developed which should include both advantages and disadvantages such as **[8]**

Advantages:

Greater flexibility as regards loads, timetable, route  
 More supervision of loads so less likely to be stolen/damaged  
 Side of vehicle can be used to advertise the business  
 May be more economical if there are regular loads  
 Delivery schedules can be arranged to suit customers  
 More contact with customers so hopefully greater customer satisfaction and return business

Disadvantages:

High cost of purchasing the vehicles  
 High running costs e.g. fuel, depreciation, tax, wages  
 May be insufficient business to justify the vehicles at all times of the year  
 May be unable to obtain return loads so costs are increased with the vehicle returning empty  
 Cost of providing buildings for garaging, maintenance dangers of diesel on the premises

Any other relevant point

Advantages/disadvantages of road transport and sole trader = 0 marks

- (b) For each part, choice of transport 1 mark, reason 1 mark

- (i) Refrigerated lorry - need for the vegetables to be kept fresh **[2]**  
 Delivery van - may be short distance so will not deteriorate  
 may be small quantities from a number of farms

- (ii) Container lorry - large consignment - enough to fill container **[2]**  
 may be fragile - container will provide protection  
 goods can be loaded on to ship in container  
 Heavy goods vehicle safe form of transport

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**(c) Level 3 (6-8 marks)**

**[8]**

Has considered all three options shown which is the best option for Mr Azam with reasons and has given reasons for rejecting the other two options e.g. Mr Azam could use any of the three options. He might use a bank loan to obtain the delivery vans because interest rates may be reasonable, he can earn money with the vans to pay off the loan and it may be easy to arrange.

He might not be able to buy the vans using retained profits because the retained profit may be insufficient or he may wish to use it for other purposes. He might not wish to lease the vans as he will not own them and the payments are likely to be more than his loan repayments.

**Level 2 (3 - 5 marks)**

Has mentioned all three options, shown the best option with superficial reasoning and has shown why one/both of other two are rejected

OR

Has identified the best option with reasons and has shown why one or both of the other options should be rejected

e.g. as suggested answer above but with little consideration of the options. May not have commented on both of the rejected options.

**Level 1 (1-2 marks)**

Has identified the best option with little or no reasoning and may/may not have shown why one or both of the other options should be rejected.

Mr Azam should use a bank loan because interest on the loan may be low. (He does not like leasing.)

Points that might be included:

Buying secondhand vans

Should be cheaper than buying new vans

Should be able to obtain them immediately

The question implies that he has enough money to buy them may not last as long and may break down

Obtaining bank loan to buy two new vans

New vans should last longer and will under warranty

Having new vans will be prestigious for the business

Interest payments have to be made

May be delay in obtaining the vans because of arranging the loan the loan has to be repaid

Leasing two vans from leasing company

Should be able to obtain them immediately

Should be new or nearly new vehicles and so less likely to breakdown may be repaired/services as part of the leasing agreement

May be replaced with new vehicles after a period of time

Can return them if no longer required

May be more expensive to lease than to buy