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**BUSINESS STUDIES**

7115/11

Paper 1 Short Answer/Structured Response

**May/June 2016**

MARK SCHEME

Maximum Mark: 80

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**Published**

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<b>Question</b>	<b>Guidelines</b>	<b>Marks</b>	<b>Additional Guidance</b>
1(a)	<p><b>What is meant by ‘customer loyalty’?</b></p> <p>Clear understanding [2] e.g. A customer who returns and buys multiple times. Customer keeps buying the same brand no matter what the price. Some understanding [1] e.g. Buy from you rather than the competitors, customer returns, customer keeps buying.</p>	<b>2</b>	Brand loyalty alone [0]
1(b)	<p><b>Calculate the quantity of product Z sold in 2015.</b></p> <p>Good application [2] 320 000 Some application [1] method e.g. <math>800\,000 \times 40\%</math></p>	<b>2</b>	
1(c)	<p><b>Explain the possible effect on EDGE if the prices of its products are reduced.</b></p> <p>Knowledge [2] – identification of relevant points. Application [2] – award up to 2 marks for relevant explanation in context of EDGE. Relevant points might include:</p> <ul style="list-style-type: none"> <li>• Lower revenue [k] as demand is price inelastic [app] the additional revenue will not make up for the reduction in price of phones [app]</li> <li>• Could attract more customers [k] increasing sales beyond 800 000 [app]</li> <li>• Damage their image [k] leading to a reduction in customer loyalty [app]</li> <li>• Profit margin will fall [k].</li> </ul>	<b>4</b>	<p>Note: Candidates can identify and develop 2 points or offer an extended development of one point. Application marks may be awarded for appropriate use of the following: use of numbers, phones, price inelastic, customer/brand loyalty, competitive market, extension of product Z, product life cycle.</p>

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Question	Guidelines	Marks	Additional Guidance
1(d)	<p><b>Identify and explain <u>two</u> advantages to EDGE of developing new products.</b></p> <p>Knowledge [2 × 1] – award 1 mark for each relevant point identified [max 2].            Application [2 × 1] – award 1 mark if relevant reference made to EDGE’s business.            Analysis [2 × 1] – award 1 mark for each relevant explanation. Relevant points might include:</p> <ul style="list-style-type: none"> <li>• Boost sales [k] as existing customers would buy a new phone [an] [app]</li> <li>• Increase market share [k] by attracting customers away from competitor [an] as this is a competitive market [app]</li> <li>• Able to increase prices [k] as new technical features [app] can lead to greater customer interest [an]</li> <li>• Create additional consumer interest [k] as better range/more up-to-date products available [an]</li> <li>• Improve E’s standing/profile in market [k] as seen as able to respond to market change [an] which can help maintain consumer loyalty [app]</li> <li>• Spreading the risk [k] so if product Z doesn’t sell [app] others can help make up the shortfall in sales [an]</li> <li>• Need to replace old products [k] as Z is at end of product life cycle [app] this could help business survival [an]</li> <li>• Keep up to date with competitors [k].</li> </ul>	6	<p>Application marks may be awarded for appropriate use of the following:            relevant numbers, phones (features of a phone) price inelastic, customer loyalty, competitive market, product X, Y, Z or T, technology.</p> <p>Note: Advantages must clearly be to the business, not the consumer.</p>

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1(e)	<p><b>Explain <u>two</u> extension strategies that EDGE could use for product Z. Recommend which of the two strategies it should choose. Justify your answer.</b></p> <p>Knowledge [1] – award 1 mark for identification of relevant strategy/point(s).            Application [1] – award 1 mark if relevant reference made to EDGE’s business.            Analysis [2] – award up to 2 marks for relevant development of point(s).            Evaluation [2] – justified decision made as to which option it should choose. Relevant points might include:</p> <ul style="list-style-type: none"> <li>• Introduce new features/new versions [k]</li> <li>• Look for new target markets [k]</li> <li>• Rebrand [k] to appeal to new market segments [an]</li> <li>• Re-packaging [k]</li> <li>• Create new uses [k].</li> </ul>	6	<p>Do not accept general marketing methods such as lower prices, <b>more</b> advertising on own.            Application marks may be awarded for appropriate use of the following: use of numbers, phones, customer loyalty, competitive market, technology.            Evaluation marks cannot be rewarded if only one extension strategy identified.</p>
		[Total: 20]	

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Question	Guidelines	Marks	Additional Guidance
2(a)	<p><b>Identify <u>two</u> examples (other than farming) of business activity in the primary sector.</b></p> <p>Knowledge [2 × 1] – award 1 mark per example. Points might include: mining, fishing, forestry, oil extraction, logging.</p>	2	For 2 marks must be two distinct categories.
2(b)	<p><b>Identify <u>two</u> ways (other than its website) that Bushall could use to advertise job vacancies.</b></p> <p>Application [2 × 1] – award 1 mark per way. Points might include: local newspaper, local radio, local TV, word-of-mouth, notices on farm gate, Job Centre/government agency, specialist magazine, social media/facebook, recruitment agency, contacting previous employees.</p>	2	<p>Must be an appropriate method for a local farm.</p> <p>Note: Leaflets, flyers e-mail alone = too vague as must be contextualised.</p>
2(c)	<p><b>Identify and explain <u>two</u> possible reasons why 'Taylor's theory of motivation might not work' at Bushall.</b></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"> <li>Financial rewards might not motivate workers [k] because they enjoy what they do [app]</li> <li>Taylor assumes workers are lazy [k] these workers want to win more awards [app]</li> <li>It assumes you can measure output [k] but only have output at harvest time [app]</li> <li>Non-financial factors might be more important [k] e.g. Being able to work part-time [app].</li> </ul>	4	<p>Application marks may be awarded for appropriate use of the following: team, awards, number of employees, farm (and / or associated references such as bananas, pineapples, harvest), workers enjoy the job. Part-time, full-time. Note: \$8.50 not allowed.</p>

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2(d)	<p><b>Identify and explain <u>two</u> advantages to Bushall of having <u>part-time</u> employees.</b></p> <p>Knowledge [2 × 1] – identification of relevant advantage [max 2].            Application [2 × 1] – award 1 mark for each way if relevant reference made to Bushall.            Analysis [2 × 1] – award 1 mark for each relevant explanation. Relevant points might include:</p> <ul style="list-style-type: none"> <li>• More flexible/easier to ask employees to work at busy times [k] such as the picking season [app] when some additional help is needed [an]</li> <li>• Help to attract new employees [k] because it fits around their other commitments [an], those who may not want to work full-time [app]</li> <li>• Lower labour costs [k] outside of harvest time [app] as there is less work [an]</li> <li>• Provide a wide range of skills/knowledge [k]</li> <li>• May be more motivated [k] and therefore have greater productivity [an]</li> <li>• Easier to find workers [k].</li> </ul>	6	Application marks may be awarded for appropriate use of the following: team, awards, use of numbers, farm (and / or associated references such as bananas, pineapples, harvest) full-time.
2(e)	<p><b>Do you think that the new legal controls for employment will benefit Bushall’s employees? Justify your answer.</b></p> <p>Knowledge [1] – award 1 mark for identification of relevant issues. Positive or negative points allowed.            Application [1] – award 1 mark if relevant reference made to Bushall’s business.            Analysis [2] – award up to 2 marks for relevant development of point(s).            Evaluation [2] – justified decision made as to whether the new legal controls will benefit Bushall’s employees. Either viewpoint acceptable. Relevant points might include:</p> <ul style="list-style-type: none"> <li>• Safer conditions [k] as might require guards on farm machinery [app] so less likely to have accidents [an]</li> <li>• Higher pay [k] as minimum wage increased to \$8.50 per hour [app] so better able to satisfy basic needs [an]</li> <li>• Fewer jobs [k] so less than 10 full-time jobs [app] therefore they become unemployed [an]</li> <li>• Less pay [k] as restriction on hours [app] might mean cannot work as long as want [an].</li> </ul>	6	Note: candidates must link points to employees, not the business. Application marks may be awarded for appropriate use of the following: enjoy what they do, team, awards, use of numbers - 10, 50, minimum wage, \$8.50, farm, harvest, picking fruit, full/part-time.
		[Total: 20]	

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3(a)	<p><b>What is meant by ‘cost of sales’?</b></p> <p>Clear understanding [2] e.g. Money spent on producing or buying in the goods sold by the business,  OR variable cost of making the goods sold,  OR cost per unit × number of output,  OR money spent on making the products plus an example of those costs.  Some understanding [1] e.g. Money spent on materials.</p>	2	<p>Variable cost on its own is too vague.</p> <p>The cost per unit - max. 1 mark as it shows lack of understanding of cost of sales.</p>
3(b)	<p><b>Refer to Table 1. Calculate: X and Y</b></p> <p>Application [2 × 1] – award 1 mark per calculation.  X = 600 [600 000]  Y = 120 [120 000]</p>	2	
3(c)	<p><b>Identify and explain <u>two</u> possible reasons why profit is important for this business.</b></p> <p>Knowledge [2 × 1] – award 1 mark for each relevant reason [max 2].  Application [2 × 1] – award 1 mark for each relevant explanation. Relevant points might include:</p> <ul style="list-style-type: none"> <li>• Retained profit [k] which could be used to finance the change to flow production [app]</li> <li>• Measure of performance [k] to see if the \$120 000 profit is higher than last year [app]</li> <li>• Source of finance [k]</li> <li>• To attract/keep investors [k] as the business plans to expand [app].</li> </ul>	4	<p>Application marks may be awarded for appropriate use of the following: flow, expansion, use of numbers, factory, soft drinks.</p> <p>Note: do not accept Survival as this is covering costs.</p>

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<b>Question</b>	<b>Guidelines</b>	<b>Marks</b>	<b>Additional Guidance</b>
3(d)	<p><b>Identify and explain <u>two</u> advantages to this business of using just-in-time inventory control.</b></p> <p>Knowledge [2 × 1] – identification of relevant advantage [max 2].                      Application [2 × 1] – award 1 mark for each way 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"> <li>• Less inventory held [k] so less chance of wastage [an] as drinks could go out of date [app]</li> <li>• Lower costs [k] as don't have to spend as much on insurance [an] which will help reduce expenses [app]</li> <li>• Less warehouse space [k] so have more space available [an] so have room to introduce flow production process [app]</li> <li>• Improve working capital [k] as less money tied up in inventory [an] which can help improve gross profit [app]</li> <li>• Improve cash flow [k]</li> <li>• Increased motivation [k] as the idea came from one of the employees [app] and therefore productivity could improve [an]</li> <li>• Improved quality [k] as ingredients are fresher [app] so increase in sales [an].</li> </ul>	<b>6</b>	<p>Application marks may be awarded for appropriate use of the following: flow production, expansion, use of numbers, reduce expenses, drinks, small factory, ingredients.</p>



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3(e)	<p><b>Do you think this business should change to flow production? Justify your answer.</b></p> <p>Knowledge [1] – award 1 mark for identification of relevant points about batch or flow production. Positive or negative points allowed.                      Application [1] – award 1 mark if relevant reference made to this business.                      Analysis [2] – award up to 2 marks for relevant development of point(s).                      Evaluation [2] – justified decision made as to whether the business should change to flow production. Either viewpoint is acceptable.                      Relevant points might include:</p> <ul style="list-style-type: none"> <li>• Depends on level of demand/size of market [k]</li> <li>• Economies of scale [k]</li> <li>• Workers might become demotivated [k] as work is more repetitive than batch [app] so they become less productive [an]</li> <li>• Cost of investment [k] as only a small business [app] do they have the necessary finance [an]?</li> <li>• Inflexible [k] as make a range of flavours [app] so might not be able to easily switch to meet demand [an]</li> <li>• Workers may fear redundancy [k] as machines replace them [an] so less than 40 employees needed [app].</li> </ul>	<b>6</b>	<p>Application marks may be awarded for appropriate use of the following: small factory, soft drinks, just-in-time, 40 employees, use of numbers, batch.</p> <p>Note: Do not credit ‘work 24/7’ as this could apply to any mechanised process.</p>
		[Total: 20]	

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4(a)	<p><b>What is meant by a ‘sole trader’?</b></p> <p>Clear understanding [2] e.g. ownership of business in the hands of one individual/person. Some understanding [1] e.g. run/operated by one person.</p>	2	Do not accept ‘features’.
4(b)	<p><b>Identify <u>two</u> possible features which show that the economy is growing.</b></p> <p>Knowledge [2 × 1] – award 1 mark per feature. Points might include: rise in GDP, falling unemployment, shortage of skilled workers, higher living standards, business profits rising/business growing, increased spending/demand, rising investment.</p>	2	
4(c)	<p><b>Identify and explain <u>two</u> ways in which an increase in interest rates might affect Nuwan’s business.</b></p> <p>Knowledge [2] [2 × 1] – award 1 mark per relevant point. Application [2] [2 × 1] – award 1 mark per explanation in context. Relevant points might include:</p> <ul style="list-style-type: none"> <li>• Increases cost of borrowing [k] so harder to improve profit margins [app]</li> <li>• Increasing expenses [k] so might have to reduce amount he has available to spend on training [app]</li> <li>• Less spending by customers [k] so lower sales especially as sports goods not necessities [app]</li> <li>• Employees want pay rise [k] so not able to reduce his costs [app]</li> <li>• Business less likely to expand [k]</li> <li>• May have to increase prices [k].</li> </ul>	4	Application marks may be awarded for appropriate use of the following: training, profit margins, sports goods such as tennis and cricket, specialist, small, sole trader.

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4(d)	<p><b>Identify and explain <u>two</u> advantages that Nuwan’s business might have compared to large retailers.</b></p> <p>Knowledge [2 × 1] – award 1 mark for each relevant advantage identified [max 2].            Application [2 × 1] – award 1 mark if relevant reference made to Nuwan's business.            Analysis [2 × 1] – award 1 mark for each relevant explanation. Reasons might include:</p> <ul style="list-style-type: none"> <li>• Better service [k] – all employees are trained [app] so able to maintain customer loyalty [an]</li> <li>• Flexible [k] – able to react quickly to changes in customer requirements [an] if customers want a different cricket product [app]</li> <li>• Leaner management [k]. Nuwan only has his 3 employees to inform/ask [app] so able to make decisions quicker [an]</li> <li>• More control [k] as he owns the business [app]</li> <li>• Better communication [k]</li> <li>• Specialised knowledge [k] as a sports shop [app] so will attract more customers [an].</li> </ul>	6	<p>Application marks may be awarded for appropriate use of the following: training, profit margins, sports goods such as tennis and cricket, specialist sports shop, small, 3 employees, sole trader.</p>
4(e)	<p><b>Do you think that the best way for Nuwan to improve profit margins is to reduce costs? Justify your answer.</b></p> <p>Knowledge [1] – award 1 mark for identification of relevant knowledge [max 1].            Application [1] – award 1 mark if relevant reference made to Nuwan’s business.            Analysis [2] – award up to 2 marks for relevant development of point.            Evaluation [2] – justified decision made as to whether the best way to improve profit margins is to reduce costs. Relevant points might include:</p> <ul style="list-style-type: none"> <li>• Lower costs could mean poorer quality goods [k] so customers might look elsewhere for sports goods [app]</li> <li>• Higher prices [k] could make them less competitive [an] so customers buy tennis goods elsewhere [app] leading to fewer products sold [an] so overall profit margin would rise but overall total profit might be lower [eval]</li> <li>• Higher prices could help image of high quality [k] customers might be willing to pay more for specialist goods / good customer service [app]</li> <li>• Lower costs could mean a reduced wide range [app] of inventory [k].</li> </ul>	6	<p>Application marks may be awarded for appropriate use of the following: wide range, small business, specialist shop, 3 employees, good service, training, sports goods such as tennis and cricket.</p> <p>Candidates can be awarded 3 marks max. [k, app, and an] for relevant explanations of profit, rather than profit margin.</p>
		[Total: 20]	