

**CAMBRIDGE INTERNATIONAL EXAMINATIONS**

Cambridge Ordinary Level

## **MARK SCHEME for the October/November 2015 series**

### **7115 BUSINESS STUDIES**

**7115/11**

Paper 1 (Short Answer/Structured Response),  
maximum raw mark 80

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1 (a) What is meant by ‘average cost’? [2]

Clear understanding [2] e.g. Total cost divided by the total number of units produced  
 Some understanding [1] e.g. cost to make one product/cost per unit

(b) Calculate the output per employee per week in 2014. [2]

Good application [2] e.g. 520  
 Some application [1] e.g. total output/number of employees or 260 000/500  
 Note: ignore \$ sign

(c) Identify and explain two possible advantages to TWH of using batch production. [4]

Knowledge [2 × 1] – award 1 mark for each relevant advantage [max 2]  
 Application [2 × 1] – award 1 mark for each relevant explanation in context of TWH

Relevant points might include:

- some variety in workers’ jobs [k] leading to better motivation [app]
- allows more variety of products to be made [k] so can respond to changes in demand for different toys [app]
- if machinery breaks down other work can continue [k] so could improve efficiency [app]
- flexible way of working [k]
- economies of scale/bulk buying [k] so lower average costs [app]
- More output than job production [k]

Application marks may be awarded for appropriate use of the following: relevant use of numbers, toys, motivation, average cost, efficiency, new technology

**Do not** accept cheaper, faster, more output (if just this is stated)

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- (d) Identify and explain two ways that TWH could improve the motivation of its employees. [6]

Knowledge [2 × 1] – identification of relevant way [max 2]

Application [2 × 1] – award 1 mark for each way if relevant reference made to TWH

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

Relevant points might include:

- Job rotation [k] swapping between making different toys [app] they are not bored doing the same thing [an]
- training [k] on the new technology [app] so employees feel valued [an]
- better communication with management [k] so workers feel that they are important to the business [an] so efficiency improves [app]
- improve pay [k] they pay \$6 [app] as pay \$.50 less per hour [an] **OR** bonuses/piece rate [k] so make more toys [app] to get paid above their usual wage [an]
- improved working conditions/environment [k]

Note: other options acceptable e.g. fringe benefits (allow only once), job enrichment, promotion

**Do not** accept work harder alone as analysis because a reason for this must be given

Application marks may be awarded for appropriate use of the following: relevant use of numbers, toys, average costs, efficiency, new technology.

- (e) TWH can either use retained profit or a long term loan to finance the purchase of new technology. Which option do you recommend TWH should use? Justify your answer. [6]

Knowledge [1] – award 1 mark for identification of relevant point(s) [max 1]

Application [1] – award 1 mark if relevant reference made to TWH's business

Analysis [2] – award up to 2 marks for relevant development of point(s)

Evaluation [2] – justified decision as to which source of finance is best option to use

For 6 marks must explain why chosen source is the better option for this business

Points might include:

Retained profits–

- no need to repay/readily available [k] which can help keep average costs low [app] so no time wasted in trying to secure the finance [an]
- may not have sufficient funds available [k] so might still need a bank loan [an]
- no funds available for other uses [k]

Long term loan –

- can plan repayments over time/know repayments [k]
- interest costs to pay [k] which would increase average costs [app] which has to be repaid whether they make a profit or not [an]
- have retained profits available in case of need [k]

Note: Candidate's final decision can be for either option.

Application marks may be awarded for appropriate use of the following: relevant use of numbers, toys, lower average costs.

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2 (a) What is meant by a ‘private limited company’? [2]

Clear understanding [2] e.g. a business whose shares cannot be sold to the general public [2] Or shares only sold to family and friends [2]

Some understanding [1] e.g. outlines general features of limited companies e.g. have limited liability/separate legal identity from owners/can sell shares/incorporated

**Do not** accept in private sector/no Government involvement as generic statement also applies to unlimited businesses.

(b) Identify two causes of business failure. [2]

Knowledge [2 × 1] 1 mark per cause

Points might include:

- lack of management skills
- actions of competition
- change in government laws
- poor product range/outdated products
- lack of demand/recession
- lack of/poor market research
- lack of finance/cash flow problems
- diseconomies of scale/over expansion

Note: points could refer to either new or established business. Accept any reasonable answer.

(c) Identify and explain two diseconomies of scale that Ramford might experience. [4]

Knowledge [2 × 1] – award 1 mark for each relevant diseconomy [max 2]

Application [2 × 1] – award 1 mark for each relevant explanation in context of Ramford

Relevant points might include:

- Poor communication [k] as messages need to be sent/received from 4 factories [app]
- Low morale/motivation [k] as worried products they make might be cut [app]
- Slow decision making [k] as 80 products to consider [app]
- Lack of control [k]

Application marks may be awarded for appropriate use of the following: calculations/use of numbers, factories, 80 products, reduced profit, financial performance, wide range, private limited company.

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- (d) Identify and explain two factors that Ramford should consider in deciding which products to remove from its product range. [6]

Knowledge [2 × 1] – identification of relevant factor [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:

- Stage in product life cycle [k] if some foods are in decline [app] few people are likely to be buying them anyway [an]
- Availability of substitutes/competition [k] if many breakfast cereals [app] so might not be cost effective to keep making it [an]
- Cost of producing each product [k] as worried about financial performance [app] might want to stop making expensive items [an]
- Current level of sales/popularity/demand [k] as profits falling [app] need to remove the least popular lines [an]
- Not suit current season [k]

Application marks may be awarded for appropriate use of the following: calculations/use of numbers, food, cereal, ice cream, factories, 80 to 10 products, reduce profit, financial performance.

- (e) Do you think the Finance Director is right to be worried about the financial performance of Ramford in 2014? Justify your answer using the data in Table 2 and appropriate ratios. [6]

Knowledge [1] – award 1 mark for identification of relevant point(s) [max 1]

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 as to whether Ramford should be worried about its performance

Points include:

- Sales down [k] which is a 25% fall [app + an]
- (net) profit down [k] by \$10m [app]
- Profit margin increased [k] to 40% [app+ an] showing better control of fixed costs [an]
- ROCE has fallen [k] to 20% [app + an] showing a lower return on each \$ invested [an]
- Financial Director is aware of the problem [k] as they are cutting the number of products to 10 [app]

Note: using percentage calculation or ratio award application and analysis. Max 1 for application.

Application marks may be awarded for appropriate use of the following: appropriate calculations/use of numbers, diseconomies of scale, four factories, 80 to 10 products

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**3 (a) What is meant by ‘mass market’? [2]**

Clear understanding [2] where there are a large number of (potential) customers willing to buy product(s). Allow: a large number of sales of a product  
 Some understanding [1] lots of customers/sales/buyers/people, shown by comparison to niche

**(b) What is meant by ‘market share’? [2]**

Clear understanding [2] e.g. percentage of the total market sales [1] held by one brand or business [+1] **OR** business sales/total market sales  $\times 100$   
 Some understanding [1] e.g. share of all sales made/percentage of customers a business has

**(c) Identify and explain two advantages of market research to Grimshaw. [4]**

Knowledge [2  $\times$  1] – award 1 mark per advantage.  
 Application [2  $\times$  1] – award 1 mark for each relevant explanation (i.e. show how it is an advantage to Grimshaw)

Advantages could include:

- greater awareness of consumer needs [k] so can adapt its phone/features to match what customers want [app]
- able to forecast likely future trends [k] so can improve focus of new product development [app]
- appreciate the strength of competitors [k] so can change marketing strategy to compete
- knowledge of consumers’ views of company products/image [k] as first time entering country T [app]
- reduces risks/products launched with more confidence [k] as know what features customers want [app]
- help gain competitive advantage [k] as can set effective pricing/promotion strategy to suit country T’s customers [app]
- produce the correct amount of product [k] to avoid wastage of expensive parts [app]
- helps set price [k]

Note: knowledge points must relate to purpose of market research.

Application marks may be awarded for appropriate use of the following: mobile phones, market share increased (by 3%), mass market, factory, new model, multinational, technology, country T

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**(d) Identify and explain two advantages to Grimshaw of developing new products. [6]**

Knowledge [2 × 1] – identification of relevant point [max 2]

Application [2 × 1] – award 1 mark for each way if relevant reference made to Grimshaw's business

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

Relevant points might include:

- gain competitive advantage [k] to target other phone users [app] so increasing their sales [an]
- Keep customers [k] in a competitive market [an]
- spread risk [k] so if demand for one model falls [app] they have new ones to rely on [an]
- expanding into new markets/market segments [k] so able to increase market share [app] as targeting more customers [an]
- can charge a higher price [k]

Note: economies of scale alone is too vague unless it is appropriately explained

Application marks may be awarded for appropriate use of the following: mobile phones, market share, mass market, factory, new model, multinational, technology.

**(e) Do you think the Government of country T should help businesses such as Grimshaw set up in its country? Justify your answer. [6]**

Knowledge [1] – award 1 mark for identification of relevant point(s) [max 1]

Application [1] – award 1 mark if relevant reference made to the benefit of the country

Analysis [2] – award up to 2 marks for relevant development of point(s)

Evaluation [2] – justified decision as to whether the Government of country T should help businesses such as Grimshaw to set up in its country

Points might include:

- jobs created [k] as build factory there [app] so reduces unemployment [an]
- investment in infrastructure [k] to transport parts to/from factory [app] so locals benefit from new roads [an]
- new ideas [k] which could improve local business practices [an]
- taxes paid [k] which Government could use to pay for public services [an]
- more choice for consumers [k] as will have access to new model [app]
- more competition [k] so consumers could benefit from lower prices/force local businesses to close [an]
- exploitation of resources [k]
- lack of respect for local customs and cultures [k]
- flow of profits out of a country [k]

Application marks may be awarded for appropriate use of the following: mobile phones, mass market, factory, new model, can build anywhere, multinational.

Note: Candidate's final decision can be either for or against the statement.

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**4 (a) What is meant by ‘made redundant’? [2]**

Clear understanding [2] e.g. The worker is no longer required through no fault of their own [2]  
 Some understanding [1] e.g. means that his job role has gone [1]

Note: If the answer includes dismissed, fired or sacked plus any relevant point maximum 1 mark

**(b) Identify two functions of management that Tebo might have to perform. [2]**

Application: [2 × 1] 1 mark per function

Points might include: organise/co-ordination, planning, control, decision making or practical examples e.g. motivation, recruitment, delegation, strategic tasks

**Do not** accept any task which can be completed by any employee e.g. pay bills, training

**(c) Explain why managing his cash flow will be important for Tebo’s business. [4]**

Knowledge [2] award up to 2 marks for identification of points/knowledge of cash flow

Application [2] award up to 2 marks for relevant explanation in context of Tebo’s business

Relevant points might include:

- Cash flow needed to pay its day to day expenses [k]
- Business could fail due to lack of cash [k] if used all his savings to buy franchise [app]
- Help reduce need for finance [k] for a **new** business [app]
- Able to predict/plan for cash flow problems [k]
- Help a business get a loan [k]

Application marks may be awarded for appropriate use of the following: car repair, no management experience, \$15 000/all his savings, new business, FIXIT franchise.



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(d) Identify and explain two factors Tebo should consider when deciding where to locate his business. [6]

Knowledge [2 × 1] – identification of relevant factor [max 2]

Application [2 × 1] – award 1 mark for each way if relevant reference made to Tebo's business

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

Relevant points might include:

- Demand/customers [k] – he needs to be convenient so that he can get sales [an];
- personal preference [k] – he might want to locate near his home [an],
- cost of property/rent [k] if too high he might not be able to afford it [an] especially if used all his savings for the franchise [app];
- suitable/size of space [k] as will need access for cars [app]
- legal controls [k] as garage is likely to be noisy [app] there might be rules which restrict where he can go [an]
- competition [k]
- franchisor's views [k] if he becomes a franchise [app]
- transport links/access [k]
- availability of suitable employees [k] as need mechanics [app]
- near to supplier [k] because the car repair equipment might be heavy [app]

Note: accept franchisor as the supplier if it is made clear that they supply materials/equipment.

Application marks may be awarded for appropriate use of the following: franchisees, car repair, \$15 000/all his savings, new business, redundant, FIXIT franchise, cash flow important, workshop.

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- (e) Do you think that buy a FIXIT franchise is the best way for Tebo to start his business? Justify your answer. [6]

Knowledge [1] – award 1 mark for identification of relevant point (s) [max 1]

Application [1] – award 1 mark if relevant reference made to Tebo/FIXIT business

Analysis [2] – award up to 2 marks for relevant development of point(s)

Evaluation [2] – justified decision as to whether buying a FIXIT franchise is the best way for Tebo to start his business

Points might include:

- Less chance of business failure [k] if he set up his own business, it would take time to build a reputation [an]
- Training provided [k] as he has no management experience [app]
- Lower advertising/training costs [k] as he has used all his savings to buy the franchise [app] so he may not be able to afford advertising/training [an]
- Supplies from central source [k] so less suppliers to deal with [an] so has more time to do repairs [app]
- Banks more likely to lend to franchisee [k] the \$15000 needed [app] as seen as lower risk [an]
- Recognition [k] FIXIT already has 36 franchisees [app]
- Lack of control [k] as FIXIT will have a say in many decisions [an]
- Problem at one franchise affects all others [k] of the 36 [app] might lower his revenue [an]
- Less profits as only received a percentage [k] so if successful, it will not maximise profits [an]
- Does Tebo want the responsibility? [k]

Application marks may be awarded for appropriate use of the following: 36 (franchisees), car repair, no management experience, \$15 000/all his savings, cash flow important.

Note: Candidate's final decision can be either for or against the statement.