

Business management
Standard level
Paper 1

Friday 28 April 2017 (afternoon)

1 hour 15 minutes

Instructions to candidates

- Do not open this examination paper until instructed to do so.
- A clean copy of the **business management case study** is required for this examination paper.
- Read the case study carefully.
- A clean copy of the **business management formulae sheet** is required for this examination paper.
- Section A: answer two questions.
- Section B: answer question 4.
- A calculator is required for this examination paper.
- The maximum mark for this examination paper is **[40 marks]**.

Section A

Answer **two** questions from this section.

1. (a) With reference to *Utopia*, describe the importance of **two** external stakeholders (line 12). [4]
(b) With reference to *Utopia*, explain the role of promotion (line 6). [6]
2. (a) With reference to *JAC*, describe **two** advantages of internal growth (line 52). [4]
(b) With reference to John, explain the key functions of management. [6]
3. (a) With reference to *Utopia*, describe **two** suitable sources of finance for the 3D printers (line 60). [4]
(b) Explain the role of ethics in John's businesses. [6]

Section B

Answer the following question.

4. Paul's idea for 3D printing takes *Utopia* into a secondary sector activity that contrasts with its usual tertiary sector activities. In order to produce a sufficient number of souvenirs, *Utopia* would need to buy ten 3D printers at \$1000 each. There would be material costs and significant operating costs, as well as time and additional labour. Paul has produced a net cash flow forecast for the project (Table 1) assuming a five year life for the printers. He likes the idea that each souvenir produced could be of a unique design and personalized. Some of the materials would be from recycled plastics obtained from waste at the resort. Recycling would reduce variable costs and it would be good for the resort's environment and for *Utopia's* caring image.

Liza does not like the idea of 3D printing. She is concerned that the souvenirs may damage *Utopia's* exclusive brand. She can see difficulties with recruiting someone with both the necessary IT skills and the ability to make decisions about which types of souvenirs to produce. She is particularly concerned about the impact on *Utopia's* current suppliers of souvenirs. She thinks that 3D printing is more suited to larger organizations.

John believes that the 3D printing technology will bring other benefits to his businesses. He can imagine decorations and other useful items being produced for the resort and its offices.

Table 1: Net cash flow for the 3D printing project

Year	Net cash flow (excluding capital investment)
1	\$2000
2	\$3000
3	\$4000
4	\$4000
5	\$4000

- (a) Define the term *variable cost*. [2]
- (b) With reference to *Utopia*, explain the differences between secondary sector activities and tertiary sector activities. [4]
- (c) Using the information above, calculate the payback period and the average rate of return (ARR) for the 3D printing project (*show all your working*). [4]
- (d) Using information from the case study, additional information above **and** your results from part (c), recommend whether *Utopia* should proceed with the 3D printing project. [10]