Diploma Programme
Programme du diplôme
Programa del Diploma

Business management
Higher level
Paper 1

Thursday 9 November 2017 (afternoon)

2 hours 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.
- Section C: answer question 5.
- A calculator is required for this examination paper.
- The maximum mark for this examination paper is **[60 marks]**.

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Section A

Answer **two** questions from this section.

1. (a) Describe **two** advantages to *MSS* of being a charity (line 14). [4]

(b) Explain how the school could overcome high labour turnover. [6]

2. (a) Describe **two** features of the school's marketing mix (line 54). [4]

(b) Explain, with reference to *MSS*, the purpose of the mission and vision statements (line 37). [6]

3. (a) Describe **one** capital expenditure **and one** revenue expenditure for *MSS* (lines 16–17). [4]

(b) Explain a suitable promotional mix that *MSS* might use to attract new students. [6]

Section B

Answer the following question.

4. *MSS* is in Central Tanzania. This area of the country is subject to severe droughts every few years, and in other years there can be very heavy rain, causing floods and significant damage to roads. Malaria has been a concern, but a government health scheme is reducing cases of this disease in children of school-going age. Jacob is considering having a school contingency plan for such natural disasters.

Jacob is concerned that the financial position of the school is not as good as it could be. He has prepared a variance analysis for the most recent six months.

Table 1: Variance analysis for the most recent six months (figures in $000s)

	Forecast	Outcome	Variance
Fees received	60	58	–2
Sale of crops	7	10	+3
Salaries	25	28	+3
Cash purchases	21	24	+3
Other expenses	13	15	+2
Profit	8	1	–7

Jacob recognizes the need for change, but his experience tells him that change needs careful management and that if something works well it is best left alone. He is planning to create an internet connection for the school to help teachers and students to access more educational resources. However, this is likely to be expensive and a technical challenge due to the school's remote location and underdeveloped infrastructure. He also has plans to improve classroom facilities, but the school does not, at the moment, have sufficient finance.

Mrs K is discussing with Jacob ways in which the school could become more efficient and improve examination results. She wants to increase teacher contact time with students. This would mean a better use of resources and should help students to learn more. She also wants teachers to observe each other's lessons with the aim of making suggestions for improvements of teaching and learning methods. There could be additional duties for teachers, such as supervising students' spare time and study time. Supervision is particularly important at weekends, when some teachers currently go home to their families.

(a) Define the term *contingency plan*. [2]

(b) Explain the usefulness to *MSS* of the variance analysis in **Table 1**. [4]

(c) Explain **two** restraining forces relating to change at *MSS*. [4]

(d) Discuss human resource strategies that could reduce the impact on employees of the changes suggested by Mrs K. [10]

Section C

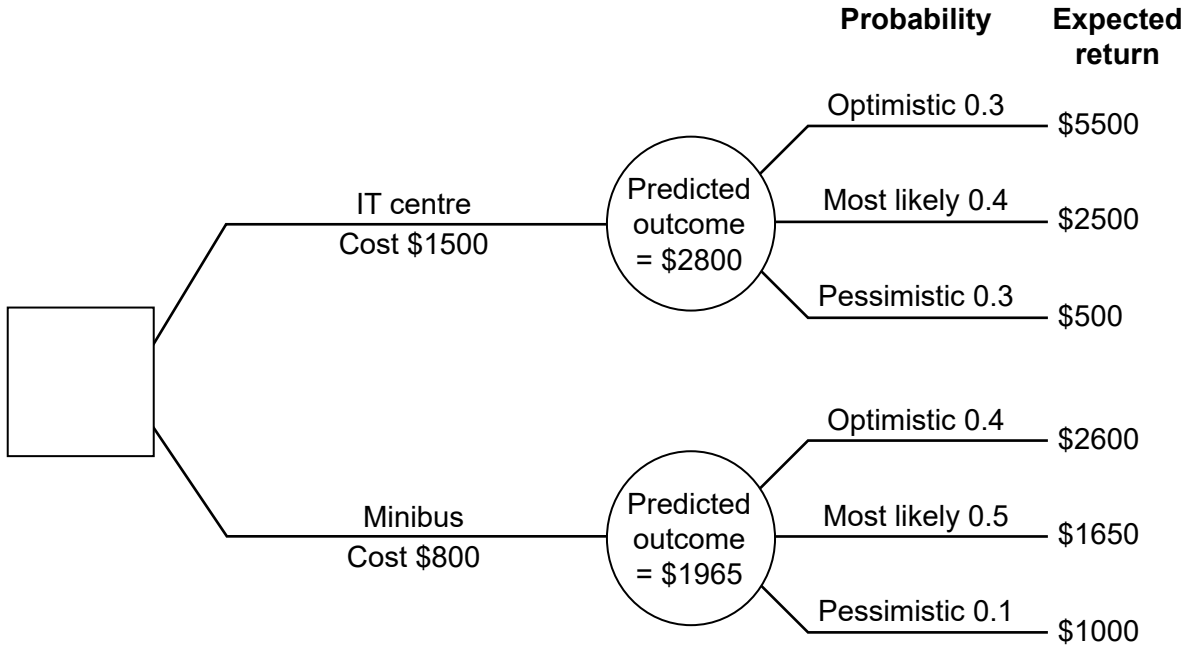
Answer the following question.

5. Jacob wants to introduce the IT centre and internet access as soon as possible. He has found a donor who is willing to pay for the installation of an internet connection and for half of the monthly subscription. Jacob also has an estimate of the cost to convert the classroom and he thinks that *MSS* can afford it. However, the staff at the school do not think the IT centre is a good idea as it is risky due to possible construction problems. They think that there are better ways to spend the money and everyone is worried that they will be expected to help out with the construction work. The teachers do not want to lose a classroom.

The staff want Jacob to consider the purchase of an old minibus. At the beginning of the term some students have difficulty travelling to the school. Expensive taxis also have to be used to bring supplies from the town to the school and to take anyone who is sick into town for medical treatment. As well as saving costs and offering greater convenience, the minibus could carry excess food grown by the students to town for sale. Teachers would have to take turns driving the minibus and sometimes undertake repairs on it. However, the minibus would be helpful to the teachers and Mrs K whenever they needed to visit the town.

Jacob has undertaken research into the two possible options of the IT centre and the minibus. He knows that only one option is possible at the moment. He has drawn up a decision tree to compare the two options depending on various outcomes.

Figure 1: Decision tree for IT centre and minibus



(This question continues on the following page)

(Question 5 continued)

He has also carried out an investment appraisal based on the most likely outcome, with the following results:

Option 1: convert classroom to IT centre

- Cost of building the IT centre: $1500
- Annual increase in income from attracting additional students: $1200
- Additional annual costs for subscribing to internet access: $500
- Lifetime of the IT centre: five years
- Average rate of return (ARR) = 26.7 % Net present value (NPV) at 10 % discount = $1153.

Option 2: the minibus

- Cost of buying the minibus: $800
- Annual savings on taxi fares: $700
- Additional annual costs (fuel and other costs): $150
- Lifetime of the minibus: three years
- Average rate of return (ARR) = 35.4 % Net present value (NPV) at 10 % discount = $567.

Using the information above and in **Figure 1**, recommend either Option 1 or Option 2 for *MSS*. You will find it useful to calculate the payback period for the two options. [20]