

Business management
Standard level
Paper 1

Friday 27 April 2018 (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 **Table 2**, describe **two** advantages for Su of using a cash-flow forecast. [4]
- (b) With reference to Su and her managers at *HH* and *AS*, explain the differences between leadership and management. [6]
2. (a) With reference to *AK Bank*, describe **two** features of for-profit microfinance providers. [4]
- (b) Su is considering two possible locations for the production facility (lines 51–52). Explain the factors (reasons) that Su may consider when deciding between the two locations. [6]
3. (a) Describe **two** advantages for *AS* of using cellular manufacturing in the production of its solar power systems. [4]
- (b) Explain the advantages for Su of forming *AS* as a private limited company. [6]

Section B

Answer the following question.

4. It is now mid-2019. Production of solar power systems has been going for over a year. Sales have exceeded forecasts and reached 5000 systems for the year. All profits have been reinvested into developing a portable biomass source of electricity* (PBS) as an alternative to solar power systems.

The PBS technology is now fully developed and tested. Su has data to help her decide whether to go into production. The new production facility will cost \$1 million.

The costs and the price of the product once production has begun are estimated in **Table 3**.

Table 3: Estimated cost and price data for PBS

Fixed costs	\$200 000 per year
Variable costs	\$70 per PBS
Likely price	\$90 per PBS

In a separate development, *Doorway Foundation (DF)*, a multibillion-dollar charity established by the owners of one of the world’s largest IT businesses, has approached Su. The foundation has a major IT initiative to bring IT to schools in Afghanistan, Myanmar and Bangladesh. By forming a joint venture, *DF* could use *AS*’s expertise and local knowledge to help solve some of the electricity supply and IT problems in Afghanistan. *DF* would have majority ownership in the joint venture, provide most of the senior managers, and is likely to expect changes in the way *AS* operates. *AS* would have to significantly increase the production of solar power systems and would have to restructure. Some managers may lose influence over decisions. Su is worried that her Afghanistan project (*AS*) would take second place. However, she sees this as a huge opportunity to make a real change in young people’s lives.

[Source: © International Baccalaureate Organization 2018]

* portable biomass source of electricity: a means of generating electricity using the heat obtained from burning plant material and/or animal waste

- (a) Define **two** characteristics of a charity. [2]
- (b) (i) Using the information in **Table 3**, calculate the break-even output for portable biomass sources of electricity (*show all your working*). [2]
- (ii) Comment on the usefulness to *AS* of break-even analysis. [6]
- (c) Recommend whether *AS* should enter into a joint venture with *DF*. [10]
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