



Cambridge International Examinations
Cambridge International General Certificate of Secondary Education

BUSINESS STUDIES

0450/11

Paper 1 Short Answer/Structured Response

May/June 2016

MARK SCHEME

Maximum Mark: 80

Published

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Question	Guidelines	Marks	Additional Guidance
1(a)	<p>What is meant by ‘customer loyalty’?</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>	2	Brand loyalty alone [0]
1(b)	<p>Calculate the quantity of product Z sold in 2015.</p> <p>Good application [2] 320 000 Some application [1] method e.g. $800\,000 \times 40\%$</p>	2	
1(c)	<p>Explain the possible effect on EDGE if the prices of its products are reduced.</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"> • Lower revenue [k] as demand is price inelastic [app] the additional revenue will not make up for the reduction in price of phones [app] • Could attract more customers [k] increasing sales beyond 800 000 [app] • Damage their image [k] leading to a reduction in customer loyalty [app] • Profit margin will fall [k]. 	4	<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>Identify and explain <u>two</u> advantages to EDGE of developing new products.</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"> • Boost sales [k] as existing customers would buy a new phone [an] [app] • Increase market share [k] by attracting customers away from competitor [an] as this is a competitive market [app] • Able to increase prices [k] as new technical features [app] can lead to greater customer interest [an] • Create additional consumer interest [k] as better range/more up-to-date products available [an] • 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] • Spreading the risk [k] so if product Z doesn’t sell [app] others can help make up the shortfall in sales [an] • Need to replace old products [k] as Z is at end of product life cycle [app] this could help business survival [an] • Keep up to date with competitors [k]. 	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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Question	Guidelines	Marks	Additional Guidance
1(e)	<p>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.</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"> • Introduce new features/new versions [k] • Look for new target markets [k] • Rebrand [k] to appeal to new market segments [an] • Re-packaging [k] • Create new uses [k]. 	6	<p>Do not accept general marketing methods such as lower prices, more 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>Identify <u>two</u> examples (other than farming) of business activity in the primary sector.</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>Identify <u>two</u> ways (other than its website) that Bushall could use to advertise job vacancies.</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>Identify and explain <u>two</u> possible reasons why 'Taylor's theory of motivation might not work' at Bushall.</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"> Financial rewards might not motivate workers [k] because they enjoy what they do [app] Taylor assumes workers are lazy [k] these workers want to win more awards [app] It assumes you can measure output [k] but only have output at harvest time [app] Non-financial factors might be more important [k] e.g. Being able to work part-time [app]. 	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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Question	Guidelines	Marks	Additional Guidance
2(d)	<p>Identify and explain <u>two</u> advantages to Bushall of having <u>part-time</u> employees.</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"> • 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] • Help to attract new employees [k] because it fits around their other commitments [an], those who may not want to work full-time [app] • Lower labour costs [k] outside of harvest time [app] as there is less work [an] • Provide a wide range of skills/knowledge [k] • May be more motivated [k] and therefore have greater productivity [an] • Easier to find workers [k]. 	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>Do you think that the new legal controls for employment will benefit Bushall's employees? Justify your answer.</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"> • Safer conditions [k] as might require guards on farm machinery [app] so less likely to have accidents [an] • Higher pay [k] as minimum wage increased to \$8.50 per hour [app] so better able to satisfy basic needs [an] • Fewer jobs [k] so less than 10 full-time jobs [app] therefore they become unemployed [an] • Less pay [k] as restriction on hours [app] might mean cannot work as long as want [an]. 	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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Question	Guidelines	Marks	Additional Guidance
3(a)	<p>What is meant by ‘cost of sales’?</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 \times 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>Refer to Table 1. Calculate: X and Y</p> <p>Application [2 \times 1] – award 1 mark per calculation. X = 600 [600 000] Y = 120 [120 000]</p>	2	
3(c)	<p>Identify and explain <u>two</u> possible reasons why profit is important for this business.</p> <p>Knowledge [2 \times 1] – award 1 mark for each relevant reason [max 2]. Application [2 \times 1] – award 1 mark for each relevant explanation. Relevant points might include:</p> <ul style="list-style-type: none"> • Retained profit [k] which could be used to finance the change to flow production [app] • Measure of performance [k] to see if the \$120 000 profit is higher than last year [app] • Source of finance [k] • To attract/keep investors [k] as the business plans to expand [app]. 	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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Question	Guidelines	Marks	Additional Guidance
3(d)	<p>Identify and explain <u>two</u> advantages to this business of using just-in-time inventory control.</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"> • Less inventory held [k] so less chance of wastage [an] as drinks could go out of date [app] • Lower costs [k] as don't have to spend as much on insurance [an] which will help reduce expenses [app] • Less warehouse space [k] so have more space available [an] so have room to introduce flow production process [app] • Improve working capital [k] as less money tied up in inventory [an] which can help improve gross profit [app] • Improve cash flow [k] • Increased motivation [k] as the idea came from one of the employees [app] and therefore productivity could improve [an] • Improved quality [k] as ingredients are fresher [app] so increase in sales [an]. 	6	Application marks may be awarded for appropriate use of the following: flow production, expansion, use of numbers, reduce expenses, drinks, small factory, ingredients.

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Question	Guidelines	Marks	Additional Guidance
3(e)	<p>Do you think this business should change to flow production? Justify your answer.</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"> • Depends on level of demand/size of market [k] • Economies of scale [k] • Workers might become demotivated [k] as work is more repetitive than batch [app] so they become less productive [an] • Cost of investment [k] as only a small business [app] do they have the necessary finance [an]? • Inflexible [k] as make a range of flavours [app] so might not be able to easily switch to meet demand [an] • Workers may fear redundancy [k] as machines replace them [an] so less than 40 employees needed [app]. 	6	<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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Question	Guidelines	Marks	Additional Guidance
4(a)	<p>What is meant by a 'sole trader'?</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>Identify <u>two</u> possible features which show that the economy is growing.</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>Identify and explain <u>two</u> ways in which an increase in interest rates might affect Nuwan's business.</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"> • Increases cost of borrowing [k] so harder to improve profit margins [app] • Increasing expenses [k] so might have to reduce amount he has available to spend on training [app] • Less spending by customers [k] so lower sales especially as sports goods not necessities [app] • Employees want pay rise [k] so not able to reduce his costs [app] • Business less likely to expand [k] • May have to increase prices [k]. 	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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Question	Guidelines	Marks	Additional Guidance
4(d)	<p>Identify and explain <u>two</u> advantages that Nuwan’s business might have compared to large retailers.</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"> • Better service [k] – all employees are trained [app] so able to maintain customer loyalty [an] • Flexible [k] – able to react quickly to changes in customer requirements [an] if customers want a different cricket product [app] • Leaner management [k]. Nuwan only has his 3 employees to inform/ask [app] so able to make decisions quicker [an] • More control [k] as he owns the business [app] • Better communication [k] • Specialised knowledge [k] as a sports shop [app] so will attract more customers [an]. 	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>Do you think that the best way for Nuwan to improve profit margins is to reduce costs? Justify your answer.</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"> • Lower costs could mean poorer quality goods [k] so customers might look elsewhere for sports goods [app] • 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] • Higher prices could help image of high quality [k] customers might be willing to pay more for specialist goods / good customer service [app] • Lower costs could mean a reduced wide range [app] of inventory [k]. 	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]	