

CAMBRIDGE INTERNATIONAL EXAMINATIONS
Cambridge Ordinary Level

MARK SCHEME for the May/June 2015 series

7115 BUSINESS STUDIES

7115/11

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

This mark scheme is published as an aid to teachers and candidates, to indicate the requirements of the examination. It shows the basis on which Examiners were instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began, which would have considered the acceptability of alternative answers.

Mark schemes should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

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1 (a) What is meant by ‘revenue’? [2]

Clear understanding [2] Income/money made by the business [1] from the sale of goods or services [1] OR Quantity sold \times price per unit [2]

Some understanding [1] e.g. Income/money made by the business [1]

(b) What is meant by a ‘variable cost’? [2]

Clear understanding [2] costs that change [1] with the level of output produced/sales made [1]

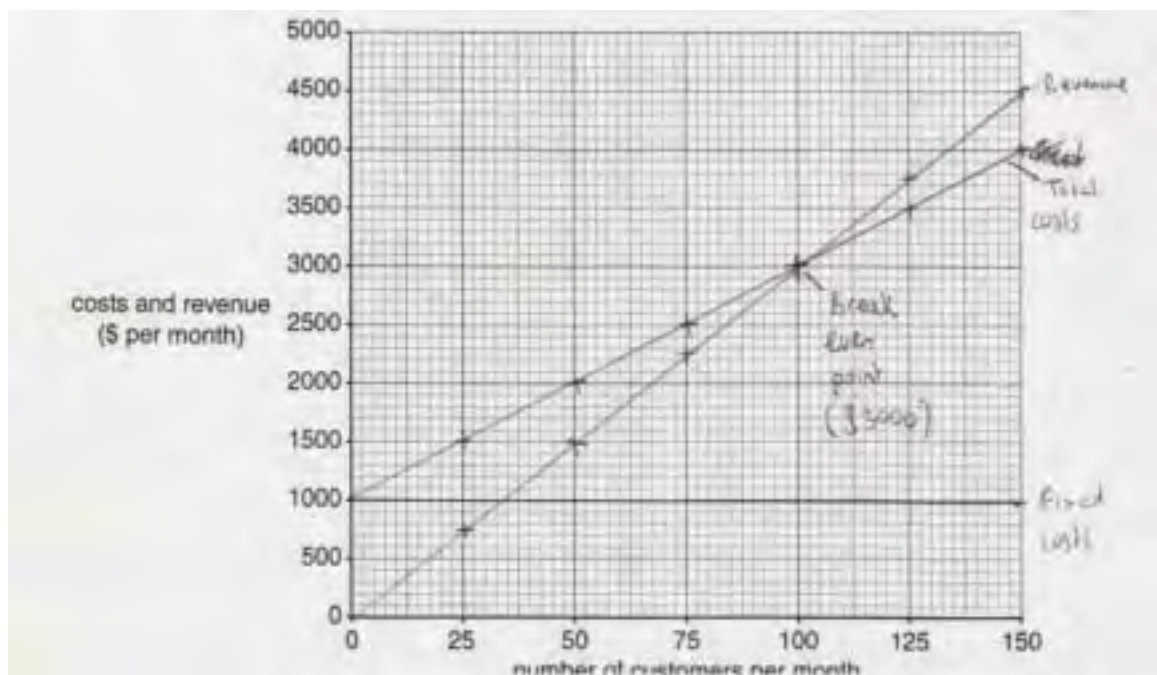
Some understanding [1] e.g. costs that change [1] or costs that vary with sales/output [1]

Do not accept examples of variable costs

Do not accept the phrase ‘costs that vary’ as this is re-wording the question

(c) Using the information in Table 1, draw a break even chart for Gomez’s business. [4]

- Accurately plotted TR line [1]: start at 0, at 100 units is \$3000
- Accurately plotted TC line [2] in total: start at \$1000 [1] \$3000 at 100 units [1]
- Labelling: TR and TC [1] only if layout is correct. TR must start at zero and lines must cross
- Notes:
- Accurately drawn **unlabelled** break-even chart [3].
- For 4 marks TR [revenue] and TC must be clearly labelled.
- Max 1 mark for inaccurately plotted break-even chart with TR and TC correctly labelled.



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(d) Identify and explain two methods that Gomez could use to maintain customer loyalty. [6]

Knowledge [2 × 1] – award one mark for each method identified [max 2]

Application [2 × 1] – award 1 mark if relevant reference made to Gomez’s business

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

Relevant points might include:

- Communicate with customers e.g. newsletters, social media [k] so that they remember your business [an] when they next need computer repaired [app]
- Offer good quality service [k] so that customers want to return [an] rather than go to one of its many rivals [app]
- Extra services [k] e.g. delivery/credit facilities/after sales/training
- Offer rewards [discounts] **to existing customers**/loyalty card [k] such as free software [app] so consumers have an incentive to return [an]
- Train staff [k] so they are able to offer a good quality service [an]
- Ask for feedback e.g. surveys [k] to provide the repairs/service [app] that customers require [an]
- Resolve complaints quickly [k] so that customers don’t go to rivals [an] to repair their computer [app]
- Application marks may be awarded for appropriate use of the following: competitive market/many rivals, computer repairs, software, small business.

Each application to be awarded only once.

(e) Gomez thinks the best way to lower the break-even point is to raise prices. Do you agree? Justify your answer. [6]

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

Application [1] – award 1 mark if relevant reference made to Gomez’s business

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

Evaluation [2] – justified decision made as to whether raising prices is the best way lowering the break-even point. Candidate’s final decision can be either for or against the statement.

Relevant points might include:

- raise in price will increase revenue [k] so need to do less repairs [app]
- effect of elasticity [k] if demand price elastic, increasing prices will see a greater fall in demand [an]
- depends on actions of competitors [k] as it is a competitive market [app]
- is the business able to lower costs [k]
- lower costs [k] might mean quality of work is reduced [an] so lose customer loyalty [app]

Application marks may be awarded for appropriate use of the following: use of break-even information, competitive market, small computer shop, customer loyalty.

2 (a) Identify two stages of the recruitment process. [2]

Knowledge [2 × 1] award one mark per stage identified

Points might include: Job analysis, job description, person specification, advertising, shortlisting, interview, selection.

Note: Answer must be from the business viewpoint not the applicant.

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(b) What is meant by an ‘economic boom’? [2]

Clear Understanding [2] – **strong** rise in level of **economic** activity **OR** Period of time when GDP rising **rapidly**

Some Understanding [1] – e.g. **economy** doing well [high GDP] or rise in level of **economic activity** or GDP rising

Do not credit characteristics of economic boom as these are stated in the stem

(c) Explain how falling unemployment might affect All Active. [4]

Knowledge [2] award up to 2 marks for identification of points/knowledge of unemployment
Application [2] award up to 2 marks for relevant explanation in context of All Active

Relevant points might include:

- customers have more income [k] so can spend money on luxuries such as leisure activities [app]
- problem recruiting workers [k] as need more for each club [app]
- higher wages may be needed [k] for the new staff [app]
- more people in work [k] less time to spend at sports club [app]

Application could include: Leisure/sports clubs, new workers/expansion/more clubs, gym membership, fitness is an elastic product

(d) Identify and explain two factors that All Active should consider when deciding on the location of the new clubs. [6]

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

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

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

Relevant points might include:

- customers/level of demand[k] need to be in places where people are interested in fitness [app] as they will get more customers [an];
- availability of suitable land [k] as likely to need a large space [an] to build a **sports** club [app];
- government regulations [k] which could stop them from building in some locations [an];
- competitors [k] customers might be loyal to a rival gym [app] so difficult to gain customers [an]
- suppliers [k] training equipment is heavy [app] so costs of transport will be high [an]
- Infrastructure/transport links/utilities [k]
- access to employees [k] as they will need trainers [app] to help/advise customers [an]
- cost of land/rent [k]

Application marks may be awarded for appropriate use of the following: equipment, sport/fitness, gym, trainers

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- (e) Consider the advantages and disadvantages for All Active of being converted to a public limited company? Do you think All Active should become a public limited company? Justify your answer. [6]

Knowledge [1] – award 1 mark for identification of relevant issue(s). Positive or negative points allowed [max 1]

Application [1] – award 1 mark if relevant reference made to All Active’s business

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

Evaluation [2] – justified decision made as to whether All Active should become a public limited company. Candidate’s final decision can be either for or against the statement.

Relevant points might include:

Advantages:

- Access to greater sources of finance [k] so help fund expansion [an] of 5 more clubs [app]
- Greater prestige/status [k] so might be able to attract better managers/employees [an]

Disadvantages:

- More legal requirements to meet [k]
- Already have limited liability [k] as private limited company [app] so is there much benefit [eval]
- business is already successful [k] as profits have increased [app] so might have funds for expansion already [an]
- Greater Risk of takeover [k]

Application marks may be awarded for appropriate use of the following: 5 more clubs, private limited company, fitness, 20 clubs, increasing profits

- 3 (a) What is meant by a ‘partnership’? [2]

Clear understanding [2] – 2 [or more] people who agree to **own** and run a business together [2]

Some understanding [1] – e.g. 2 or more people run a business

Do not accept features

- (b) Identify two methods of primary market research that Si and Ramon might have used. [2]

Application [2 × 1] – award 1 mark for each relevant method

Points could include: questionnaire/survey, interview, consumer panel, observation, focus group

Note: **Do not** accept field research/internet – too vague

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(c) Identify and explain two possible sources of finance that they could use to obtain the equipment. [4]

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

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

Relevant points might include:

- Bank loan [k] so can spread cost of cameras over a period of time [app]
- Savings [k] so no need to pay interest on the \$4000 [app]
- Borrow from family and friends [k]
- Leasing [k] as there may not be enough demand [app]
- Hire purchase [k] so their new business does not have to pay a large one off cost [app]
- Government grant [k]
- Additional partner [k]

Do not accept retained profits or overdraft as this is a new business

Application marks may be awarded for appropriate use of the following: new business, \$4000, partnership, cameras or examples of relevant equipment [not equipment on its own], business plan

(d) Identify and explain two advantages to Si and Ramon of having a business plan. [6]

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

Application [2 × 1] – award 1 mark if relevant reference to Si and Ramon's business

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

Relevant points might include:

- Support loan applications [k] as bank/lenders will want to know that the \$12 500 [app] can be repaid [an]
- Clear aims/guidance for business [k] so they know what they have to do to get there [an]
- help decision making [k] as Si believe there is customer demand for service before start [app] so will not waste time and money targeting the wrong people [an]
- helps understand the possible risks [k] as they might not have run a business before [app]
- provides an estimate of costs [k] for the photography business [app] so they will know how much they need [an]
- provides a checklist [k] as they set up [app] so that they don't forget any important task [an]

Application marks may be awarded for appropriate use of the following: \$12 500/\$8000/\$4000, \$500 photography business, new business, set up

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- (e) Consider two methods of promotion that would be suitable for Si and Ramon to use. Which of these two methods would be most appropriate? Justify your answer. [6]

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

Application [1] – award 1 mark if relevant reference made to Si and Ramon’s business

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

Evaluation [2] – justified decision as to which method of promotion is best option to use

NOTE: For 6 marks must explain why chosen method is better than the other option

Relevant methods might include: advertising [can include leaflets, posters, radio, television, newspapers, direct mail, social media, websites], sponsorship, promotional pricing (short-term discounts), special offers, branding, competitions, PR.

Note: **do not** accept internet – too vague

Application marks may be awarded for appropriate use of the following: – photography, pictures, new business, \$500, partnership, weddings, birthdays, special events

- 4 (a) What is meant by ‘batch production’? [2]

Clear understanding [2]: e.g. products are made in groups/blocks [1] followed by another block/group [1]

Some understanding [1]: identifies one distinct feature of batch e.g. made in (small) groups or sets

Do not accept ‘batch’ as part of answer as stated in question.

- (b) Identify two advantages (other than cutting costs) to the company of using new technology. [2]

Application [2 × 1] award 1 mark per advantage

Points include:

- less errors/wastage/consistent quality
- less risk of injury
- higher output
- able to make new products
- speed of production/efficiency
- 24/7 operation

Note: **do not** accept less wages or less employees as these are examples of cutting costs

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- (c) Identify and explain two reasons why the quality of chocolates might be important to this company. [4]

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

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

Points could include:

- helps establish brand image/loyalty [k] as they make a luxury product [app]
- ensure sales [k] as if they don't taste right, people won't buy [app]
- maintain reputation [k] which is important as it is a competitive market [app]
- maintain standards [k]
- no need to replace faulty products [k] which will help reduce costs [app]
- Charge/maintain high prices [k]
- Add value [k]
- Must meet legal requirements [k] for food products [app]

Application marks may be awarded for appropriate use of the following: competitive market, luxury product, food products, taste.

- (d) Identify and explain two problems that a fall in profits might cause for the company. [6]

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

Application [2 × 1] – award 1 mark for each relevant reference made to the business

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

Relevant points might include:

- Lack of finance [k] to introduce new technology [app] because of less retained profits [an]
- Lenders/investors unwilling to give money [k] as seen as higher risk [an]
- Workers insecure [k] which results in poor motivation [an] as they fear job losses as the company try to cut costs [app]
- Damaged reputation [k] suppliers/customers might think the business is struggling [an] so look for alternative chocolate makers [app].
- Shareholders may sell shares [k] because the company can't pay dividends [an]

Accept points which refer to either gross profit or profit

Application marks may be awarded for appropriate use of the following: new technology, chocolate, cutting costs, increased competition.

Profit is not used to pay costs therefore **do not** accept answers which suggest they can no longer afford items.

Do not accept solutions e.g. Making workers redundant.

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- (e) Do you think that the introduction of new technology would benefit Javid’s workers? Justify your answer. [6]

Knowledge [1] – award 1 mark for identification of relevant issue(s). Positive or negative points allowed [max 1]

Application [1] – award 1 mark if relevant reference made to Javid’s business

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

Evaluation [2] – justified decision made as to whether new technology would benefit Javid’s workers. Candidate’s final decision can be either for or against the statement.

Relevant points might include:

- need for re-training [k] which could create opportunities for promotion [an]
- impact on motivation (either positive or negative) [k]
- fear of change [k] as production process likely to change how they do things [an]
- fear of redundancy/job losses as machines replace jobs [k] could decrease motivation [an]
- less skills needed [k] so could mean lower wages [an] leading to lower living standards [an]
- opportunities to learn new skills [k] because they make new types of chocolate [app]
- chances for promotion [k] as new job roles created [an]
- safer conditions [k] in the manufacturing process [app] so less risk of injury [an]
- company survives [k] because they remain competitive [app] so workers keep their jobs [an]

Note: **Do not** accept points such as ‘more efficient’ unless clearly link issue to employees.

Application marks may be awarded for appropriate use of the following: chocolates, sales falling, need to cut costs, increased competition

Note: Answer must focus on the benefit or not to the **workers**