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**BUSINESS STUDIES**

**7115/11**

Paper 1 Short Answer/Structured Response

**October/November 2017**

MARK SCHEME

Maximum Mark: 80

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**Published**

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This document consists of **12** printed pages.

Question	Answer	Marks	Guidance
1(a)	<p><b>Identify two characteristics of a successful entrepreneur.</b></p> <p>Knowledge [2 × 1] – award 1 mark for each relevant characteristic</p> <p>Points could include: risk taker, innovator, creative, self-confident, optimistic, hardworking, independent, effective communicator, leadership, initiative, self-motivating/determined, results driven, good at networking, multi-skilled</p>	2	Award any reasonable answer.
1(b)	<p><b>Identify two possible reasons why Ella plans to produce the lights in another country.</b></p> <p>Application: [2 × 1] award 1 mark for each relevant reason</p> <p>Points might include:</p> <ul style="list-style-type: none"> <li>• lower costs</li> <li>• no local factory or capacity to make it</li> <li>• access to materials</li> <li>• Fewer restrictions</li> </ul>	2	
1(c)	<p><b>Identify and explain two reasons why obtaining finance might be difficult for Ella's business.</b></p> <p>Knowledge [2 × 1] – award 1 mark for each relevant reason Application [2 × 1] – award 1 mark for each explanation in context</p> <p>Possible points might include:</p> <ul style="list-style-type: none"> <li>• No business experience [k] of making lights [app]</li> <li>• Seen as higher risk OR don't trust her OR can't repay [k] as just left college [app]</li> <li>• Can offer no security [k]</li> <li>• May not have a business plan OR documentation to support request for finance [k]</li> <li>• Unproven product [k]</li> </ul>	4	Application marks may be awarded for appropriate use of the following: just left college, bicycle light, new business or product or entrepreneur, produce in another country, correct use of numbers e.g. \$8, \$500, \$750 and \$300.

Question	Answer	Marks	Guidance
1(d)	<p><b>Identify and explain one advantage and one disadvantage to Ella of using price skimming.</b></p> <p>Knowledge [2 × 1] award one mark for one advantage and one disadvantage            Application [2 × 1] award one mark for each relevant reference to this business            Analysis [2 × 1] award one mark for each relevant explanation</p> <p>Points might include:            Advantages:</p> <ul style="list-style-type: none"> <li>• Recover costs quicker [k] as need to sell fewer than 300 [app] to pay for development [an]</li> <li>• Gives the image of a quality product [k] which can attract wealthy customers [an] to try out the new light [app]</li> <li>• Higher revenue <b>per item</b>[k]</li> <li>• Break even at a lower output [k]</li> </ul> <p>Disadvantages:</p> <ul style="list-style-type: none"> <li>• Put off some potential customers [k] leading to lower sales [an]</li> <li>• Only work in short term [k] as competitors could produce cheaper alternatives [an]</li> </ul>	<b>6</b>	<p>Application marks may be awarded for appropriate use of the following:            just left college, light, new business, new product, new entrepreneur, produce in another country, raising finance difficult, correct use of numbers, safety features</p> <p>Note: be wary of 'higher sales'/'higher revenue' as a K point. It must be per unit</p>
1(e)	<p><b>Recommend which promotion option Ella should choose. Justify your answer using the information in Table 1.</b></p> <p>Knowledge [1] – award 1 mark for identification of relevant points (s)            Application [1] – award 1 mark for 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 which method of promotion Ella should use</p> <p>Points might include:</p> <ul style="list-style-type: none"> <li>• Option 2 is cheaper [k] as is \$200 less than option 1 [app] + [an]</li> <li>• Ella can't afford much advertising [k] as a new business [app] she can't afford a website [an]</li> <li>• Specialist magazine reaches the target market [k] for bicycle lights [app] therefore likely to sell more [an]</li> <li>• Website may not be required [k] already has an order for 300 [app]</li> </ul>	<b>6</b>	<p>Application marks may be awarded for appropriate use of the following:            just left college, light, new business, produce overseas, raising finance difficult, price skimming, correct use of numbers, magazine, website            Either option is acceptable if justified.</p> <p><b>Note: \$250 is incorrect</b> as this is an incorrect calculation of the difference between the cost of a website with and without online ordering</p>

Question	Answer	Marks	Guidance
2(a)	<p><b>What is meant by ‘productivity’?</b></p> <p>Clear understanding [2] e.g. a measure of the output of a business in relation to its inputs [2] OR effective utilisation of resources in a time period [2] Equation: output divided by Input [2]</p> <p>Some understanding [1] e.g. output per worker OR measure of efficiency OR rate at which they produce goods</p>	<b>2</b>	
2(b)	<p><b>Identify two reasons why a business might need working capital.</b></p> <p>Knowledge [2 × 1] award one mark per reason</p> <ul style="list-style-type: none"> <li>• Paying invoices/bills</li> <li>• Day to day expenses</li> <li>• Buying raw materials</li> <li>• Paying wages</li> <li>• Paying salaries</li> <li>• Paying rent</li> <li>• Re-payment of short term debts</li> <li>• Paying utilities</li> <li>• Use in an emergency</li> <li>• Evidence to support requests for finance</li> </ul>	<b>2</b>	
2(c)	<p><b>Calculate the following values shown on the cash flow forecast.</b></p> <p>Application [4] award one mark per correct answer</p> <p><b>W:</b> 5 or 5000 <b>X:</b> 75 or 75 000 <b>Y:</b> 5 or 5000 <b>Z:</b> (10) or (10 000) Note: <b>Z</b> must be shown as a negative number to be credited.</p>	<b>4</b>	<p>Note: answers can be written on the cash flow forecast or in the space provided</p> <p><b>Do not</b> use OFR as no wage calculation is required.</p>

Question	Answer	Marks	Guidance
2(d)	<p><b>Identify and explain one advantage and one disadvantage to NMBJ of having a low level of inventory.</b></p> <p>Knowledge [2 × 1] – award 1 mark for one advantage and one disadvantage identified            Application [2 × 1] – award 1 mark for each relevant reference made to this business            Analysis [2 × 1] – award 1 mark for each relevant explanation</p> <p>Possible points might include:</p> <p>Advantages:</p> <ul style="list-style-type: none"> <li>• Lower inventory holding costs [k] help reduce variable costs [an]</li> <li>• Lower security OR rent costs OR insurance [k] as less space needed [an] for ingredients [app]</li> <li>• More flexible [k] as adapt to each different batch [app] to keep customers returning [an]</li> <li>• Help cash flow [k]</li> <li>• Less risk of waste OR damage OR obsolescence [k] which could lower productivity [app]</li> </ul> <p>Disadvantages:</p> <ul style="list-style-type: none"> <li>• Possible delays in production [k] as batches delayed [app] leading to lower output [an]</li> <li>• Few OR no purchasing economies of scale [k] which could help reduce cash outflows [app]</li> <li>• Not able to meet orders [k] for cookies [app] so could damage reputation [an]</li> </ul>	<b>6</b>	<p>Application marks may be awarded for appropriate use of the following:            cookies/biscuits, related words such as ingredients or examples, productivity, use of numbers, batch production, \$1.5 million.</p> <p>Note: Points can refer to raw materials or finished goods.</p>

Question	Answer	Marks	Guidance
2(e)	<p><b>Do you think paying higher wages is the best way for NMBJ to improve employee motivation? Justify your answer.</b></p> <p>Knowledge [1] – award 1 mark for identification of relevant points (s)            Application [1] – award 1 mark for relevant reference made to this business            Analysis [2] – award up to 2 marks for relevant development of point(s)            Evaluation [2] award up to 2 marks for justified decision as to whether paying higher wages is the best way for NMBJ to improve employee motivation</p> <p>Points might include</p> <ul style="list-style-type: none"> <li>• Only a short term incentive [k] have to pay, whatever the output [an]</li> <li>• Money is the main motivator [k]</li> <li>• Other ways to motivate e.g. job rotation, enrichment, fringe benefits [k]</li> <li>• Help retain workers [k] so not as many people leave [app] leading to lower recruitment costs [an]</li> <li>• This will increase costs for the business [k] by \$15 000 per month [app] so output per worker would need to rise [an]</li> </ul>	6	<p>Application marks may be awarded for appropriate use of the following:            correct use of numbers, batch production, cookies or related words such as ingredients; workers leave, profits increased, 1.5 million, increased productivity</p> <p>Candidates could calculate value of wages per worker (to show increase i.e. \$200 to \$250) App and AN</p> <p>Note: The focus needs to be on the business for analysis to be awarded.            e.g. 'Job rotation is a better motivator[k] so workers are not bored' is only awarded as knowledge</p>

Question	Answer	Marks	Guidance
3(a)	<p><b>What is meant by 'economies of scale'?</b></p> <p>Clear understanding: [2] factors that lead to lower average costs as a business increases in size.</p> <p>Some understanding:[1] benefit of increasing in size</p>	2	Do not award answers such as 'benefit of being big' as this does not explain the term

Question	Answer	Marks	Guidance
3(b)	<p><b>What is meant by ‘autocratic leadership style’?</b></p> <p>Clear understanding: [2] managers expect to be in charge of business and expect their orders to be followed OR managers make decisions without consulting workers [2]</p> <p>Some understanding: [1] workers have no say in decisions OR decisions made by managers [1]</p>	2	
3(c)	<p><b>Identify and explain one advantage and one disadvantage of GDC’s organisational structure.</b></p> <p>Knowledge [2 × 1] award 1 mark for one advantage and one disadvantage identified Application [2 × 1] award 1 mark for each explanation in context</p> <p>Advantages</p> <ul style="list-style-type: none"> <li>• Employees have a clearly defined role [k] so know where they fit into delivery process [app]</li> <li>• Clear chain of command OR know their manager [k] so know who to ask for help if problem with a parcel [app]</li> <li>• Employees have a clear career structure [k] so can see how to progress from driver [app]</li> <li>• Specialists can be employed [k]</li> </ul> <p>Disadvantages</p> <ul style="list-style-type: none"> <li>• Slow communication [k] due to many number of levels [app]</li> <li>• Heavy workload for managers [k] so do they have time to focus on expansion [app]</li> <li>• Communication between departments can be difficult [k] which could damage its good reputation [app]</li> <li>• Can create rivalry between departments [k]</li> <li>• Workers can feel isolated [k]</li> </ul>	4	<p>Application marks may be awarded for appropriate use of the following: competitive market, expand to other countries, correct use of numbers, business customers, good reputation, delivery, parcels, many levels of hierarchy, long chain of command, 5000 employees, autocratic.</p>

Question	Answer	Marks	Guidance
3(d)	<p><b>Identify and explain two reasons why a good reputation might be important to GDC.</b></p> <p>Knowledge [2 × 1] award one mark for each reason            Application [2 × 1] award one mark for each relevant reference to this business            Analysis [2 × 1] award one mark for each relevant explanation</p> <p>Points might include:</p> <ul style="list-style-type: none"> <li>• Build trust OR loyalty [k] so customers want to use their delivery services [app] and keep purchasing from them [an]</li> <li>• Attract new customers [k] and therefore sales will increase [an]</li> <li>• Easier to raise finance [k] which could help growth plans [app]</li> <li>• Way to attract OR retain employees [k] so able to offer a good service [an]</li> <li>• Can charge higher prices [k] for each delivery [app] helping it increase revenue per unit [an]</li> <li>• Create brand awareness [k] so customers do not buy from competitors [an] in this competitive market [app]</li> <li>• Word of mouth promotion [k]</li> </ul>	<b>6</b>	<p>Application marks may be awarded for appropriate use of the following:            competitive market, expand to other countries, use of numbers, business customers, delivery, parcels, many levels of hierarchy, long chain of command</p>
3(e)	<p><b>Recommend the most suitable way for GDC to expand its business to another country. Justify your answer.</b></p> <p>Knowledge [1] – award 1 mark for identification of relevant points (s)            Application [1] – award 1 mark for relevant reference made to this business            Analysis [2] – award up to 2 marks for relevant development of point(s)            Evaluation [2] award up to two marks for justified decision regards to the most suitable way for GDC to expand.</p> <p>Relevant points might include:</p> <ul style="list-style-type: none"> <li>• Joint venture [k] with a local delivery business [app] you share the risks of expansion [an]</li> <li>• Merger/takeover [k] they will benefit from local expertise [an]</li> <li>• Franchise [k] they will receive a license fee [an]</li> <li>• Set up own operations [k] they will keep control [an] however this is an expensive way [an]</li> </ul>	<b>6</b>	<p>Application marks may be awarded for appropriate use of the following:            competitive market, correct use of numbers, business customers, good reputation, delivery, parcels, many levels of hierarchy, long chain of command, delivery vehicles, economies of scale, logistics</p> <p>Note: Do not award marketing methods e.g. e-commerce or hiring an agent.</p>



Question	Answer	Marks	Guidance
4(a)	<p><b>What is meant by a ‘stakeholder group’?</b></p> <p>Clear understanding [2]: any person or people with a direct interest in the performance and activities of a business</p> <p>Some understanding [1]: someone affected by what a business does</p>	<b>2</b>	Do not award examples.
4(b)	<p><b>Identify two ways (other than legal controls) that a government might use to influence business decisions.</b></p> <p>Knowledge [2 × 1] award one mark per way</p> <p>Points might include:</p> <ul style="list-style-type: none"> <li>• cheaper rents</li> <li>• loans OR grants OR subsidies</li> <li>• training</li> <li>• interest rates</li> <li>• taxation</li> <li>• build infrastructure</li> </ul>	<b>2</b>	

Question	Answer	Marks	Guidance
4(c)	<p><b>Identify and explain one advantage and one disadvantage of CHONS being a public limited company.</b></p> <p>Knowledge [2 × 1] award one mark for each advantage and disadvantage Application [2 × 1] award one mark for each relevant reference to this business</p> <p>Advantages:</p> <ul style="list-style-type: none"> <li>• Able to sell shares on stock market [k] so no limit to potential number of shareholders [app]</li> <li>• Access to more sources of finance [k] so do not have to ask for support from Government [app]</li> <li>• Limited liability [k]</li> <li>• Separate legal identity [k] of mining business and owners [app]</li> <li>• Better status OR seen as lower risk [k] so suppliers more willing to offer credit [app]</li> </ul> <p>Disadvantages:</p> <ul style="list-style-type: none"> <li>• Have to disclose accounts [k] so less able to keep expansion plans secret [app]</li> <li>• Many legal requirements/regulations [k]</li> <li>• Selling shares expensive [k]</li> <li>• Risk of loss of control [k] for the original shareholders [app]</li> </ul>	<b>4</b>	Application marks may be awarded for appropriate use of the following: coal or mining related words, correct use of data from table, no government support, export, shareholders, suppliers, expansion plans.

Question	Answer	Marks	Guidance
4(d)	<p><b>Identify and explain two ways in which legal controls might affect CHONS.</b></p> <p>Knowledge [2 × 1] award one mark for each way identified            Application [2 × 1] award one mark for each relevant reference to this business            Analysis [2 × 1] award one mark for each relevant explanation</p> <p>Points might include:</p> <ul style="list-style-type: none"> <li>• Need to provide safety equipment [k] such as helmets for miners [app] increasing costs [an]</li> <li>• Limit working hours [k] so cannot obtain 50 m tonnes [app]</li> <li>• Minimum wages [k] so cannot afford to create 10 000 jobs [app]</li> <li>• Pollution restrictions/permits [k] as coal burning could damage environment [app] so stakeholders become unhappy [an]</li> <li>• Where business is located [k] as need Government to allow mine to be built [app] without it they cannot start operations [an]</li> <li>• Restrictions on what OR how much can be produced [k]</li> <li>• Increase costs [k]</li> <li>• Banning/restricting exports [k] CHONS would not be able to operate because they are planning to export [an] coal [app]</li> <li>• Banning/restricting imports [k]</li> </ul>	<b>6</b>	<p>Application marks may be awarded for appropriate use of the following:            coal or mining related words,            no government support,            correct use of data from table,            export, government permission to open mine, environment, shareholders, creating jobs,            10 000</p>

Question	Answer	Marks	Guidance
4(e)	<p><b>Do you think the Government should allow CHONS to open the coal mine? Justify your answer using the information in Table 3.</b></p> <p>Knowledge [1] – award 1 mark for identification of relevant issue(s)            Application [1] – award 1 mark for relevant reference made to this business            Analysis [2] – award up to 2 marks for relevant development of point(s)            Evaluation [2] award up to 2 marks for justified decision as to whether the Government should allow CHONS to open the coal mine</p> <p>Points might include:</p> <ul style="list-style-type: none"> <li>• Jobs created [k] for 10 000 people [app] so more money to spend in community [an]</li> <li>• Use up local coal [k] as plan to export it all [app]</li> <li>• Impact on environment [k]</li> <li>• Traffic problems created [k] which could discourage people OR other businesses setting up in area [an]</li> <li>• Other businesses will benefit [k] e.g. Suppliers [app]</li> </ul>	<b>6</b>	<p>Application marks may be awarded for appropriate use of the following:            no government support,            correct use of data from table,            export, high unemployment,            protect the environment, PLC,            suppliers, shareholders, traffic            Either viewpoint is acceptable</p> <p>Do not award reference to coal mine as application as stated in question.</p>