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**BUSINESS STUDIES**

**0450/11**

Paper 1

**May/June 2018**

**1 hour 30 minutes**

Candidates answer on the Question Paper.

No Additional Materials are required.

**READ THESE INSTRUCTIONS FIRST**

Write your Centre number, candidate number and name in the spaces at the top of this page.

Write in dark blue or black pen.

You may use an HB pencil for any diagrams, graphs or rough working.

Do not use staples, paper clips, glue or correction fluid.

DO **NOT** WRITE IN ANY BARCODES.

Answer **all** questions.

The businesses described in this question paper are entirely fictitious.

At the end of the examination, fasten all your work securely together.

The number of marks is given in brackets [ ] at the end of each question or part question.

The total number of marks for this paper is 80.

This syllabus is approved for use in England, Wales and Northern Ireland as a Cambridge International Level 1/Level 2 Certificate.

This document consists of **11** printed pages and **1** blank page.

- 1 GKA is a food retailer. It has 300 shops located in areas where average consumer incomes are low. GKA sells a limited range of own-label products including breakfast cereal and toothpaste. GKA does no promotion or market research. The Managing Director said: 'Last year our market share increased to 5%. Profit increased by 40%. Keeping costs low means GKA can offer customers quality products at low prices.' GKA is planning to open 100 shops in areas with high average consumer incomes. The Managing Director must decide whether GKA should change its pricing strategy (method) as the business expands.

(a) What is meant by 'market share'?

.....

.....

.....

..... [2]

(b) Identify **two** aims of promotion.

Aim 1:.....

.....

Aim 2:.....

..... [2]

(c) Identify and explain **two** methods of market research that GKA could use.

Method 1:.....

.....

Explanation:.....

.....

Method 2:.....

.....

Explanation:.....

..... [4]

- (d) Identify and explain **two** ways in which GKA could keep costs low.

Way 1:.....

.....

Explanation:.....

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.....

.....

Way 2:.....

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Explanation:.....

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..... [6]

- (e) Do you think GKA should change its pricing strategy as the business expands? Justify your answer.

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..... [6]

- 2 SJD is in the private sector. It makes steel for construction businesses. SJD plans to make 3500 of its 9000 employees redundant. The Operations Director said: 'Cheap steel imports and high business tax rates are affecting our business. There are also ethical issues that we must respond to. The Government should do more to help steel producers. Some of our competitors plan to close their factories and relocate to other countries. SJD may have to do the same.'

(a) Identify **two** situations in which downsizing the workforce might be necessary.

Situation 1:.....

.....

Situation 2:.....

.....

[2]

(b) Identify **two** possible ethical issues that SJD might have to respond to.

Issue 1:.....

.....

Issue 2:.....

.....

[2]

(c) Identify and explain **two** possible problems for SJD if it decides to relocate its business.

Problem 1:.....

.....

Explanation:.....

.....

Problem 2:.....

.....

Explanation:.....

.....

[4]

- (d) Explain how each of the following factors might affect SJD's business.

High business tax rates:.....

.....

Explanation:.....

.....

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Cheap imports:.....

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Explanation:.....

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[6]

- (e) Do you think the Government should help businesses like SJD? Justify your answer.

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[6]

- 3 IBH is a family-owned private limited company. It makes a range of shoes for children, using batch production. It is a competitive market. Like many businesses, IBH needs finance for a number of reasons. The Finance Director has been looking at some financial data. An extract is shown in Table 1. Some of the directors would like to expand into the women's shoe market and want to know whether IBH's performance is improving.

**Table 1: Extract from financial data for IBH (\$000)**

	<b>2016</b>	<b>2017</b>
Revenue	400	480
Gross profit	240	320
Profit	120	120
Non-current liabilities	100	200

- (a) What is meant by 'non-current liabilities'?

.....

.....

.....

..... [2]

- (b) Identify **two** reasons why a business might need finance.

Reason 1:.....

Reason 2:..... [2]

- (c) Identify and explain **two** possible advantages to IBH of being a private limited company.

Advantage 1:.....

.....

Explanation:.....

.....

Advantage 2:.....

.....

Explanation:.....

.....

[4]

- (d) Identify and explain **two** advantages to IBH of using batch production.

Advantage 1:.....

.....

Explanation:.....

.....

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Advantage 2:.....

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Explanation:.....

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[6]

(e) Do you think IBH's performance has improved in 2017? Justify your answer using profit margins.

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[6]

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- 4 Ben owns a small gardening business, which he started 15 years ago. Ben believes providing a quality service is important to his success. Ben's business has a number of stakeholder groups including 2 full-time and 4 part-time workers who have all been employed by him for a number of years. Each worker is expected to do any job that Ben orders them to do. All workers are paid an hourly wage rate. They also receive a bonus if customers recommend the business to other people. Ben is always thinking about other ways to improve the motivation of his workers.

(a) What is meant by 'stakeholder group'?

.....

.....

.....

..... [2]

(b) Identify **two** possible reasons why Ben's business has remained small.

Reason 1:.....

.....

Reason 2:.....

..... [2]

(c) Identify and explain **two** reasons why quality might be important for Ben's business.

Reason 1:.....

.....

Explanation:.....

.....

Reason 2:.....

.....

Explanation:.....

..... [4]

(d) Identify and explain **two** advantages to Ben's business of having part-time workers.

Advantage 1:.....

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Explanation:.....

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Advantage 2:.....

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Explanation:.....

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[6]

- (e) Explain **two** ways Ben could improve employee motivation. Recommend which way Ben should choose. Justify your answer.

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[6]

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**BUSINESS STUDIES**

**0450/21**

Paper 2

**May/June 2018**

**1 hour 30 minutes**

Candidates answer on the Question Paper.

No Additional Materials are required.

**READ THESE INSTRUCTIONS FIRST**

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DO **NOT** WRITE IN ANY BARCODES.

Answer **all** questions.

The Insert contains the case study.

The business described in this question paper is entirely fictitious.

At the end of the examination, fasten all your work securely together.

The number of marks is given in brackets [ ] at the end of each question or part question.

The total number of marks for this paper is 80.

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This document consists of **10** printed pages and **2** blank pages.

- 1 (a) Identify and explain **two** ways a business plan could have helped Peter when setting up Value Gym.

Way 1:.....

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Explanation:.....

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Way 2:.....

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Explanation:.....

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[8]

- (b) Consider the following **three** roles of marketing in Peter's business. Which one of these is the most important role? Justify your answer.

Identify customer needs:.....

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Satisfy customer needs:.....

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Build customer relationships:.....

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Conclusion:.....

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[12]

- 2 (a) Identify and explain **four** reasons why making a profit is important to Peter.

Reason 1:.....

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Explanation:.....

.....

Reason 2:.....

.....

Explanation:.....

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Reason 3:.....

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Explanation:.....

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Reason 4:.....

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Explanation:.....

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[8]



- (b) Peter is considering the following **two** options. Recommend which option he should choose. Justify your answer.

Employ his own personal trainers:.....

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Charge a fixed fee to personal trainers who work for themselves to use VG's facilities with their clients:

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Recommendation:.....

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[12]

- 3 (a) Identify and explain **two** legal controls that could affect Peter when recruiting and employing workers.

Legal control 1:.....

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Explanation:.....

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Legal control 2:.....

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Explanation:.....

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[8]

- (b) (i) Refer to Appendix 2. Complete the break-even chart below by drawing the Total Revenue line.



[1]

- (ii) Identify the break-even number of customers per day.

..... [1]

- (iii) Consider the following **two** ways Peter could use to try to increase profit. Recommend which way he should choose. Justify your answer.

Increase prices:.....

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Reduce variable costs:.....

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Recommendation:.....

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[10]

- 4 (a) Identify and explain **one** advantage and **one** disadvantage of leasing all the equipment used in the business.

Advantage:.....

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Explanation:.....

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Disadvantage:.....

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Explanation:.....

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[8]

- (b) Consider how the following **three** changes will affect VG. Which one will have the biggest effect on the business? Justify your answer.

A multinational chain of luxury gyms recently set up in country X:.....

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There is an increased proportion of elderly people in the population:.....

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Interest rates have increased:.....

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Conclusion:.....

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[12]

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**BUSINESS STUDIES****0450/11**

Paper 1 Short Answer / Structured Response

**May/June 2018**

MARK SCHEME

Maximum Mark: 80

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**Published**

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.

Cambridge International will not enter into discussions about these mark schemes.

Cambridge International is publishing the mark schemes for the May/June 2018 series for most Cambridge IGCSE™, Cambridge International A and AS Level and Cambridge Pre-U components, and some Cambridge O Level components.

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This document consists of **18** printed pages.

**PUBLISHED****Generic Marking Principles**

These general marking principles must be applied by all examiners when marking candidate answers. They should be applied alongside the specific content of the mark scheme or generic level descriptors for a question. Each question paper and mark scheme will also comply with these marking principles.

**GENERIC MARKING PRINCIPLE 1:**

Marks must be awarded in line with:

- the specific content of the mark scheme or the generic level descriptors for the question
- the specific skills defined in the mark scheme or in the generic level descriptors for the question
- the standard of response required by a candidate as exemplified by the standardisation scripts.

**GENERIC MARKING PRINCIPLE 2:**

Marks awarded are always **whole marks** (not half marks, or other fractions).

**GENERIC MARKING PRINCIPLE 3:**

Marks must be awarded **positively**:

- marks are awarded for correct/valid answers, as defined in the mark scheme. However, credit is given for valid answers which go beyond the scope of the syllabus and mark scheme, referring to your Team Leader as appropriate
- marks are awarded when candidates clearly demonstrate what they know and can do
- marks are not deducted for errors
- marks are not deducted for omissions
- answers should only be judged on the quality of spelling, punctuation and grammar when these features are specifically assessed by the question as indicated by the mark scheme. The meaning, however, should be unambiguous.

**GENERIC MARKING PRINCIPLE 4:**

Rules must be applied consistently e.g. in situations where candidates have not followed instructions or in the application of generic level descriptors.

**GENERIC MARKING PRINCIPLE 5:**

Marks should be awarded using the full range of marks defined in the mark scheme for the question (however; the use of the full mark range may be limited according to the quality of the candidate responses seen).

**GENERIC MARKING PRINCIPLE 6:**

Marks awarded are based solely on the requirements as defined in the mark scheme. Marks should not be awarded with grade thresholds or grade descriptors in mind.

Question	Answer	Marks	Notes
1(a)	<p><b>What is meant by ‘market share’?</b></p> <p>Clear understanding: e.g. percentage or proportion of the total market sales [1] held by one brand or business [+1]</p> <p><b>OR</b> business sales/total market sales <math>\times</math> 100</p> <p>Some understanding [1] e.g. share of sales made / percentage of customers a business has</p>	2	
1(b)	<p><b>Identify <u>two</u> aims of promotion.</b></p> <p>Award 1 mark per aim.</p> <p>Points might include:</p> <ul style="list-style-type: none"> <li>• inform / raise awareness / introduce new products</li> <li>• create brand image / improve image</li> <li>• compete with competitors</li> <li>• persuade / increase sales / attract customers</li> <li>• customer loyalty</li> </ul>	2	<p>Question must relate to Marketing Mix. <b>Do not award</b> answers related to staff promotion.</p>

Question	Answer	Marks	Notes
1(c)	<p><b>Identify and explain <u>two</u> methods of market research that GKA could use.</b></p> <p>Award 1 mark for each method identified Award 1 mark for each explanation in context</p> <p>Points might include:</p> <ul style="list-style-type: none"> <li>• observation / visiting competition [k] other food retailers [app]</li> <li>• questionnaires [k] about the low prices [app]</li> <li>• surveys [k] about the own-label products [app]</li> <li>• interviews [k] about the new shops [app]</li> <li>• experiments / free samples / test marketing [k] the cereal [app]</li> <li>• access government statistics [k]</li> <li>• focus groups / consumer panels [k]</li> <li>• use market research agencies [k]</li> <li>• loyalty card data [k]</li> <li>• articles / newspapers / magazines[k]</li> </ul>	<b>4</b>	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>• use of numbers such as 300 or 100 (shops)</li> <li>• food retailer</li> <li>• food / breakfast cereal</li> <li>• toothpaste</li> <li>• high income / low income areas</li> <li>• change its pricing strategy</li> <li>• low prices</li> <li>• quality products</li> <li>• limited range (of products)</li> <li>• no promotion</li> <li>• own-label products</li> </ul> <p>(TV) Internet / online on own (NAQ) Primary / Secondary / Field / Desk</p>

Question	Answer	Marks	Notes
1(d)	<p><b>Identify and explain <u>two</u> ways in which GKA could keep costs low.</b></p> <p>Award 1 mark for each relevant way Award 1 mark for each relevant reference made to this business Award 1 mark for each relevant explanation</p> <p>Relevant points might include:</p> <ul style="list-style-type: none"> <li>• choose low cost locations [k] for all 100 sites [app] leading to lower fixed costs [an]</li> <li>• pay minimum wage [k] to shop workers [app] keep variable costs low [an]</li> <li>• economies of scale [k] (only once) for its limited range of products [app] leading to lower average costs [an]</li> <li>• set lower marketing budget [k] as no money spent on market research [app]</li> <li>• replace workers with machinery / automation / reduce workforce [k]</li> <li>• cheaper supplier [k]</li> <li>• close some locations [k] which would reduce electricity cost [an]</li> <li>• set up online [k]</li> <li>• reduce waste [k]</li> <li>• Buy direct from manufacturer [k] so lower cost than buying from wholesaler [an]</li> </ul>	<b>6</b>	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>• use of numbers such as 300 or 100 (shops)</li> <li>• food retailer</li> <li>• food / breakfast cereal</li> <li>• toothpaste</li> <li>• high income / low income areas</li> <li>• limited range (of products)</li> <li>• no promotion</li> <li>• low prices</li> <li>• quality products</li> <li>• own-label</li> <li>• market share increased 5%</li> <li>• profit increased by 40%</li> </ul> <p><b>Do not award</b> analysis for answers that clearly refer to manufacturing such as Lean production.</p>

Question	Answer	Marks	Notes
1(e)	<p><b>Do you think GKA should change its pricing strategy as the business expands? Justify your answer.</b></p> <p>Award 1 mark for identification of relevant point (s)  Award 1 mark for a relevant reference made to this business  Award up to 2 marks for relevant development of point(s)  Award up to 2 marks for a justified decision made as to whether GKA should change its pricing strategy as the business expands.</p> <p>Relevant points might include:</p> <ul style="list-style-type: none"> <li>• identification of a pricing strategy [k]</li> <li>• actions of competitors [k]</li> <li>• cost of new locations [k] in high income areas [app] may make it hard to control costs [an]</li> <li>• diseconomies of scale [k] from extra 100 shops [app] leading to a rise in average costs [an]</li> <li>• economies of scale[k] may allow them to charge lower prices[an]</li> <li>• current prices give the image of poor quality [k] because they are low prices [app] so may not attract new customers [an]</li> <li>• they would lose their USP if they change price [k] leading to a loss of the current customer base [an] in areas where average incomes are low [app]</li> </ul>	6	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>• use of numbers such as 300 or 100 (shops)</li> <li>• food retailer</li> <li>• food / breakfast cereal</li> <li>• toothpaste</li> <li>• high income or low income areas</li> <li>• limited range (of products)</li> <li>• no promotion</li> <li>• quality products</li> <li>• low prices</li> <li>• try to keep costs low</li> <li>• market share increased 5%</li> <li>• profit increased by 40%</li> </ul> <p>Note: question should focus on whether business should change its pricing strategy not just increase or decrease price.</p>

Question	Answer	Marks	Notes
2(a)	<p><b>Identify <u>two</u> situations in which downsizing the workforce might be necessary.</b></p> <p>Award one mark per situation</p> <p>Points might include:</p> <ul style="list-style-type: none"> <li>• introduction of automation / new technology</li> <li>• redesign work space / layout</li> <li>• demand factors e.g. falling demand, changing tastes, end of product life cycle, recession / economic slump, more competition, less revenue</li> <li>• factory closure</li> <li>• relocation to another country</li> <li>• business taken over / merger</li> <li>• excess workforce / unnecessary workers</li> <li>• financial problems e.g. lack of income, increase in costs, cash flow issues, cannot afford the workers,</li> <li>• changes in law</li> <li>• delayering / restructuring</li> </ul>	<b>2</b>	<p><b>Do not award</b> answers discussing who should be removed from the workforce e.g. poor attendance</p>
2(b)	<p><b>Identify <u>two</u> possible ethical issues that SJD might have to respond to.</b></p> <p>Award 1 mark per ethical issue.</p> <p>Points might include:</p> <ul style="list-style-type: none"> <li>• protecting the environment</li> <li>• fair wages to workers / pay <b>above</b> minimum wage</li> <li>• pay fair prices to suppliers</li> <li>• charge fair prices to consumers</li> <li>• not employing child labour.</li> </ul>	<b>2</b>	<p>Ethical issues raised must relate to SJD</p> <p>Do not reward aspects covered by law</p>



Question	Answer	Marks	Notes
2(c)	<p><b>Identify and explain <u>two</u> possible problems for SJD if it decides to relocate its business.</b></p> <p>Award 1 mark for each problem identified Award 1 mark for each explanation in context</p> <p>Points might include:</p> <ul style="list-style-type: none"> <li>• access to / cost of available space [k] for steel production [app]</li> <li>• legal controls / level of government support [k] in other countries [app]</li> <li>• access to suitable / cost of workers [k] for private sector business [app]</li> <li>• availability / cost of raw materials [k] such as iron [app]</li> <li>• access to / cost of infrastructure e.g. transport and energy [k]</li> <li>• level of competition [k]</li> <li>• exchange rates / currency issues [k]</li> <li>• cultural issues e.g. different working hours [k]</li> <li>• language / communication difficulties [k]</li> <li>• trade restrictions / obtaining permits [k]</li> </ul>	<b>4</b>	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>• cheap imports</li> <li>• steel</li> <li>• iron</li> <li>• high tax rates</li> <li>• ethical issues</li> <li>• 3500 or 9000</li> <li>• competitors plan to close factories</li> <li>• construction businesses</li> <li>• (other) countries</li> <li>• private sector</li> <li>• factory</li> </ul>

Question	Answer	Marks	Notes
2(d)	<p><b>Explain how each of the following factors might affect SJD's business.</b></p> <p>Award 1 mark for each relevant point Award 1 mark for each relevant reference made to this business Award 1 mark for each relevant explanation</p> <p>Relevant points might include:</p> <p><b>High business tax rates:</b></p> <ul style="list-style-type: none"> <li>• reduces profit [k] so may need to make more workers redundant [app]</li> <li>• increase prices [k] so may lead to lower demand [an] from construction businesses [app]</li> <li>• increases costs [k] leading to less profit [an] for this private sector business [app]</li> </ul> <p><b>Cheap imports:</b></p> <ul style="list-style-type: none"> <li>• reduced demand [k] for steel [app] as its customers are able to buy from rivals [an]</li> <li>• may reduce prices [k] so revenue is reduced [an]</li> <li>• lower costs of production [k] as this is a producer [app] as raw materials may be cheaper [an]</li> <li>• reduce market share [k]</li> </ul>	6	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>• steel</li> <li>• iron</li> <li>• ethical issues</li> <li>• 3500 or 9000</li> <li>• competitors plan to close factories</li> <li>• construction businesses</li> <li>• private sector</li> <li>• producer</li> <li>• (other) countries</li> <li>• government support</li> <li>• employees redundant</li> <li>• relocation</li> </ul> <p><b>Do not award</b> reference to cheap imports / high business tax rates, as application. This is in the question.</p>

Question	Answer	Marks	Notes
2(e)	<p><b>Do you think the Government should help businesses like SJD? Justify your answer.</b></p> <p>Award 1 mark for identification of relevant point (s) [max 1]  Award 1 mark for a relevant reference made to this business  Award up to 2 marks for relevant development of point(s)  Award up to 2 marks for a justified decision made as to whether the Government should help businesses like SJD</p> <p>Points for might include:</p> <ul style="list-style-type: none"> <li>• protect jobs [k] as they plan to make 3500 redundant [app] which would increase unemployment [an] and the cost of paying unemployment benefits [an]</li> <li>• protect the vital industry [k] of steel [app] to ensure supply in their own country [an]</li> <li>• impact on other businesses [k] who need the material for construction [app]</li> <li>• government could lose tax revenue if they fail [k]</li> </ul> <p>Points against might include:</p> <ul style="list-style-type: none"> <li>• there is an opportunity cost / helping businesses would require money from the government [k] money spent on helping SJD will reduce the money available for other projects [an]</li> <li>• can obtain materials from other countries [k] as have access to cheap imports [app]</li> <li>• environmental impact of business [k] as industry creates pollution [an]</li> <li>• it is not the role of government [k] to help private sector business [app]</li> <li>• disincentive for businesses to be successful [k] this could lead to them being inefficient [an]</li> </ul>	6	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>• cheap imports</li> <li>• steel</li> <li>• iron</li> <li>• high tax rates</li> <li>• ethical issues</li> <li>• 3500 or 9000</li> <li>• competitors plan to close factories</li> <li>• construction</li> <li>• private sector</li> <li>• producer</li> <li>• (other) countries</li> <li>• relocate</li> </ul> <p><b>Do not award</b> government support as application as referred to in the question.</p> <p><b>Do not award</b> answers which focus on how governments will help businesses</p>

Question	Answer	Marks	Notes
3(a)	<p><b>What is meant by ‘non-current liabilities’?</b></p> <p>Clear understanding [2]: debts / loans repayable in more than 12 months [2]  <b>Or</b> Money owed for more than a year [2]</p> <p>Some understanding [1]: e.g. debts or money owed [1]  <b>Or</b> repayable in more than 12 months [1]</p>	2	<p><b>Do not award</b> ‘long term liabilities’ as this is the alternative name for the term</p> <p><b>Do not</b> credit ‘liability’ as stated in question</p> <p>Some understanding plus a relevant example can gain 2 marks. i.e. money owed for example bank loan</p>
3(b)	<p><b>Identify <u>two</u> reasons why a business might need finance.</b></p> <p>Award 1 mark per reason.</p> <p>Points might include:</p> <ul style="list-style-type: none"> <li>• start-up / start a business venture</li> <li>• cash flow problems / survive (BOD)</li> <li>• pay creditors</li> <li>• offer credit to customers</li> <li>• fund expansion</li> <li>• replace machinery / investment</li> <li>• working capital/ day-to-day</li> <li>• pay for advertising (promotion)</li> </ul>	2	

Question	Answer	Marks	Notes
3(c)	<p><b>Identify and explain <u>two</u> possible advantages to IBH of being a private limited company.</b></p> <p>Award 1 mark for each advantage identified Award 1 mark for each explanation in context</p> <p>Points might include:</p> <ul style="list-style-type: none"> <li>• can control who buys shares [k] so can keep control in this competitive market [app]</li> <li>• easier to raise finance / able to sell shares [k] as they want to expand [app]</li> <li>• seen as more creditworthy to suppliers [k] so could be more willing to supply leather [app]</li> <li>• limited liability [k] this keeps personal assets of family safe [app]</li> <li>• incorporation / separate legal identity [k]</li> <li>• no need to publish accounts [k]</li> <li>• continuity [k]</li> </ul>	<b>4</b>	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>• family (owned)</li> <li>• want to expand</li> <li>• shoes or related words such as leather, children, women</li> <li>• competitive market</li> <li>• needs finance</li> <li>• directors</li> </ul> <p><b>Do not award</b> private limited company as application, as this is stated in the question.</p>

Question	Answer	Marks	Notes
3(d)	<p><b>Identify and explain <u>two</u> advantages to IBH of using batch production</b></p> <p>Award 1 mark for each relevant advantage Award 1 mark for each relevant reference made to this business Award 1 mark for each relevant explanation</p> <p>Points might include:</p> <ul style="list-style-type: none"> <li>economies of scale [k] to reduce average costs [an] to increase the profit above \$120 000 [app]</li> <li>allows variety of products [k] so easier to meet demand for different styles [an] of shoes [app]</li> <li>flexibility / easy to switch production [k]</li> <li>limited quantity [k] so if children's tastes change [app] so not left with unwanted stock [an]</li> <li>variety of tasks for workers [k] which increase worker motivation and output [an]</li> <li>production may not be affected if machinery breaks down [k]</li> <li>spread risk [k] as they are not reliant on one product for all sales [an]</li> </ul>	<b>6</b>	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>want to expand</li> <li>shoes or related words such as leather, children, women</li> <li>competitive market</li> <li>correct references to data in Table 1</li> <li>needs finance</li> <li>directors</li> <li>private limited company</li> </ul> <p>The advantage needs to clearly relate to the business not the worker</p>

Question	Answer	Marks	Notes
3(e)	<p><b>Do you think IBH's performance has improved in 2017? Justify your answer using profit margins.</b></p> <p>Award 1 mark for identification of relevant point Award 1 mark for relevant reference made to this business Award up to 2 marks for relevant development of point(s) Award up to 2 marks for a justified decision made as to whether IBH's performance has improved or not</p> <p>Points might include:</p> <ul style="list-style-type: none"> <li>• revenue increased [k] by 80 000 [app]</li> <li>• non-current liabilities have increased [k] by 100 000 [app]</li> <li>• gross profit increased [k] by 80 000 [app]</li> <li>• profit has remained the same [k]</li> <li>• gross profit margin increased [k] from 60% [app + an] to 67% [an]</li> <li>• gross profit margin increased [k] by 6–7% [app + an + an]</li> <li>• (net) profit margin has fallen [k] from 30% [app + an] 25% [an]</li> <li>• (net) profit margin fallen [k] by 5% [app + an + an]</li> </ul>	<b>6</b>	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>• want to expand</li> <li>• shoes or related words</li> <li>• correct use of data from Table 1</li> <li>• (use of \$000 not required)</li> <li>• competitive market</li> <li>• directors</li> <li>• private limited company</li> </ul> <p>To gain analysis mark at least one profit margin must be calculated. % sign is not required.</p> <p>Accept 66% or 67% for gross profit margin.</p>

Question	Answer	Marks	Notes
4(a)	<p><b>What is meant by ‘stakeholder group’?</b></p> <p>Clear understanding [2]: any group or person with a (direct) interest in the performance / activities of a business</p> <p>Some understanding [1]: someone affected by a business [1] or anybody inside or outside the business who cares about its operations [1]</p>	2	<p><b>Do not award</b> examples as this does not answer the question.</p> <p><b>Do not award</b> affects/influences the decisions</p>
4(b)	<p><b>Identify <u>two</u> possible reasons why Ben’s business has remained small.</b></p> <p>Award 1 mark per possible reason</p> <p>Points might include:</p> <ul style="list-style-type: none"> <li>• personal wishes / owners objectives</li> <li>• size of market / niche</li> <li>• lack of finance</li> <li>• avoid diseconomies of scale / communication issues / co-ordination issues</li> </ul>	2	(TV) State of economy
4(c)	<p><b>Identify and explain <u>two</u> reasons why quality might be important for Ben’s business.</b></p> <p>Award 1 mark for each reason identified Award 1 mark for each explanation in context</p> <p>Points might include:</p> <ul style="list-style-type: none"> <li>• help establish loyalty [k] which can help improve his business success [app]</li> <li>• increase sales / revenue / attract new customers [k] through more recommendations [app]</li> <li>• improve reputation / brand image [k] for his gardening business [app]</li> <li>• no need for rework [k]</li> <li>• able to charge high prices [k]</li> <li>• maybe his USP[k]</li> </ul>	4	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>• small (business)</li> <li>• gardening or related words such as cutting grass</li> <li>• (business) success</li> <li>• bonus</li> <li>• recommendation</li> <li>• 15 years ago</li> </ul>



Question	Answer	Marks	Notes
4(d)	<p><b>Identify and explain <u>two</u> advantages to Ben's business of having part-time workers.</b></p> <p>Award 1 mark for each relevant advantage Award 1 mark for each relevant reference made to this business Award 1 mark for each relevant explanation</p> <p>Points might include:</p> <ul style="list-style-type: none"> <li>• more flexible / help meet demand during busy times [k] can cover when full-time workers not available [app] so work is completed on time [an]</li> <li>• help retain experienced employees [k] who have worked there for a number of years [app] so reducing his recruitment costs [an]</li> <li>• can add more skills / experience to business [k] to increase demand [an]</li> <li>• help attract / easier to find workers [k]</li> <li>• do not have to pay holiday / sick pay [k]</li> <li>• may be more motivated [k] so productivity would rise [an]</li> <li>• part-time workers don't work as many hours [k] Ben pays an hourly wage rate [app] therefore the total wage bill would be lower [an]</li> </ul>	<b>6</b>	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>• small (business)</li> <li>• gardening or gardening related words allowed once</li> <li>• (business) success</li> <li>• bonus</li> <li>• hourly wage rate</li> <li>• recommendation</li> <li>• 15 years ago</li> <li>• 4 (part-time), 2 (full-time)</li> </ul> <p><b>Do not award</b> answers which clearly confuse part-time with seasonal workers.</p> <p><b>Do not award</b> answers that suggest that part-time are easier to dismiss</p> <p><b>Do not award</b> answers such as cheaper unless explained as all paid an hourly wage rate.</p>

Question	Answer	Marks	Notes
4(e)	<p><b>Explain <u>two</u> ways Ben could improve employee motivation. Recommend which way Ben should choose. Justify your answer.</b></p> <p>Award 1 mark for identification of relevant point (s)  Award 1 mark for relevant reference made to this business  Award up to 2 marks for relevant development of point(s)  Award up to 2 marks for a justified decision made as to which way Ben should use to improve employee motivation.</p> <p>Points might include:</p> <ul style="list-style-type: none"> <li>• change method of payment / increased rate of pay [k]</li> <li>• training [k] so feel more valued [an]</li> <li>• involve workers in decision making [k] so workers feel more important [an] to the gardening business [app]</li> <li>• change leadership style [k] Ben orders workers to do jobs [app]</li> <li>• chance for promotion / become full time [k]</li> <li>• job rotation [k] for the 6 employees [app] so employees are not bored doing the same thing [an]</li> <li>• job enlargement [k]</li> <li>• job enrichment [k]</li> <li>• employee of the month [k] therefore workers feel like their hard work is being recognised [an]</li> <li>• praise [k] meeting employees esteem needs [an]</li> <li>• team working / communication [k]</li> <li>• fringe benefits [k]</li> </ul>	<b>6</b>	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> <li>• small (business)</li> <li>• gardening or related words such as cutting grass</li> <li>• (business) success</li> <li>• service</li> <li>• customer recommendation</li> <li>• seasonal (as gardening may not be needed all year)</li> <li>• ordered to do jobs</li> <li>• 15 years ago</li> <li>• 4 (part-time), 2 (full-time)</li> <li>• hourly wage rate</li> <li>• employed for a number of years</li> </ul> <p><b>Do not award</b> bonus as knowledge (currently does offer this)</p> <p>For evaluation marks to be awarded two relevant ways must have been explained</p>

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**BUSINESS STUDIES****0450/21**

Paper 2 Case Study

**May/June 2018**

MARK SCHEME

Maximum Mark: 80

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**Published**

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.

Cambridge International will not enter into discussions about these mark schemes.

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This document consists of **13** printed pages.

**Cambridge Assessment**  
International Education

**Generic Marking Principles**

These general marking principles must be applied by all examiners when marking candidate answers. They should be applied alongside the specific content of the mark scheme or generic level descriptors for a question. Each question paper and mark scheme will also comply with these marking principles.

**GENERIC MARKING PRINCIPLE 1:**

Marks must be awarded in line with:

- the specific content of the mark scheme or the generic level descriptors for the question
- the specific skills defined in the mark scheme or in the generic level descriptors for the question
- the standard of response required by a candidate as exemplified by the standardisation scripts.

**GENERIC MARKING PRINCIPLE 2:**

Marks awarded are always **whole marks** (not half marks, or other fractions).

**GENERIC MARKING PRINCIPLE 3:**

Marks must be awarded **positively**:

- marks are awarded for correct/valid answers, as defined in the mark scheme. However, credit is given for valid answers which go beyond the scope of the syllabus and mark scheme, referring to your Team Leader as appropriate
- marks are awarded when candidates clearly demonstrate what they know and can do
- marks are not deducted for errors
- marks are not deducted for omissions
- answers should only be judged on the quality of spelling, punctuation and grammar when these features are specifically assessed by the question as indicated by the mark scheme. The meaning, however, should be unambiguous.

**GENERIC MARKING PRINCIPLE 4:**

Rules must be applied consistently e.g. in situations where candidates have not followed instructions or in the application of generic level descriptors.

**GENERIC MARKING PRINCIPLE 5:**

Marks should be awarded using the full range of marks defined in the mark scheme for the question (however; the use of the full mark range may be limited according to the quality of the candidate responses seen).

**GENERIC MARKING PRINCIPLE 6:**

Marks awarded are based solely on the requirements as defined in the mark scheme. Marks should not be awarded with grade thresholds or grade descriptors in mind.

Question	Answer	Marks
1(a)	<p><b>Identify and explain <u>two</u> ways a business plan could have helped Peter when setting up Value Gym.</b></p> <p>Award one mark for each way (maximum of two), such as:</p> <ul style="list-style-type: none"> <li>• To help gain finance from a bank/other investors/government grants</li> <li>• To set objectives/goals/targets</li> <li>• To encourage careful planning that will reduce risks of financial failure</li> <li>• To be clear how the business is going to operate and to identify the human and physical requirements of the business</li> <li>• To identify the target market from market research/identify the level of demand for the gym</li> </ul> <p>Award a maximum of three additional marks for <b>each</b> explanation of the way – <b>2 of which must be applied to this context.</b></p> <p>Indicative response: Peter will have written the business plan to help him gain finance. (1) Peter will have taken it to show the bank manager to help persuade him to give VG the loan needed to start the gym. (ap) The business plan will show financial forecasts to show that the business will be able to repay the loan. (1) Therefore after the bank has given Peter the loan he will have the capital he needs to set up the gym and start signing up members. (ap)</p> <p>Possible application marks: Fitness instructor; membership fee for many gyms is monthly; payment each visit to the gym; demand for low-priced gyms; a bank loan was used to finance the opening of the gym; as a sole trader; \$5,000 was put into the business; expects a good profit at the end of a successful first year; needs to employ 4 personal trainers; 2 receptionists; gym is open 7 days a week; Information from Appendix 1 listing gym equipment; information from Appendix 3 such as government grants are available to encourage the provision of gym facilities.</p> <p>There may be other examples in context that have not been included here.</p>	8

Question	Answer	Marks						
1(b)	<p><b>Consider the following <u>three</u> roles of marketing in Peter's business. Which one of these is the most important role? Justify your answer.</b></p> <p><b>Relevant points might include:</b></p> <table><tr><td>Identify customer needs  <b>The answer should be focused on how market research can find out what the customer wants</b></td><td><ul style="list-style-type: none"><li>• Carrying out market research to be sure the business delivers the service that customers want</li><li>• So that they would know what types of equipment customers would wish to use</li><li>• So they would know what exercise classes customers would wish to attend</li><li>• So they would know what price customers were willing to pay</li><li>• So they would know what hours/days the customers would want to use the gym</li><li>• However, it can be expensive to carry out the market research necessary to identify these needs accurately</li></ul></td></tr><tr><td>Satisfy customer needs  <b>The answer should be focused on how well the services are delivered</b></td><td><ul style="list-style-type: none"><li>• So the gym equipment works correctly to make the customers happy</li><li>• So the exercise classes are run well to make the customers happy</li><li>• The customers are content with the prices that are charged</li><li>• So the opening hours of the gym are convenient for customers' lifestyle</li><li>• However, Peter may need to buy more gym equipment and/or recruit more personal trainers to work in the gym</li><li>• However, it can be expensive to maintain the equipment</li></ul></td></tr><tr><td>Build customer relationships  <b>The answer should focus on how loyalty and good reputation of the business are developed</b></td><td><ul style="list-style-type: none"><li>• Peter needs VG to retain a good reputation with customers</li><li>• VG needs to maintain customer loyalty</li><li>• Customers need to feel like their opinions matter</li><li>• Customers need to feel valued</li><li>• However, if customers are dissatisfied they may go to a competitor</li><li>• However, it may be difficult to satisfy all customers and therefore some may still give the business a bad reputation if unhappy</li></ul></td></tr></table> <p>Level 1 <b>[1–3 marks]</b> 1 mark for each outline of the advantages and/or disadvantages of each of the roles of marketing. (Max of 3 marks)</p> <p>E.g. Carry out market research to find out what gym equipment customers want</p>	Identify customer needs  <b>The answer should be focused on how market research can find out what the customer wants</b>	<ul style="list-style-type: none"><li>• Carrying out market research to be sure the business delivers the service that customers want</li><li>• So that they would know what types of equipment customers would wish to use</li><li>• So they would know what exercise classes customers would wish to attend</li><li>• So they would know what price customers were willing to pay</li><li>• So they would know what hours/days the customers would want to use the gym</li><li>• However, it can be expensive to carry out the market research necessary to identify these needs accurately</li></ul>	Satisfy customer needs  <b>The answer should be focused on how well the services are delivered</b>	<ul style="list-style-type: none"><li>• So the gym equipment works correctly to make the customers happy</li><li>• So the exercise classes are run well to make the customers happy</li><li>• The customers are content with the prices that are charged</li><li>• So the opening hours of the gym are convenient for customers' lifestyle</li><li>• However, Peter may need to buy more gym equipment and/or recruit more personal trainers to work in the gym</li><li>• However, it can be expensive to maintain the equipment</li></ul>	Build customer relationships  <b>The answer should focus on how loyalty and good reputation of the business are developed</b>	<ul style="list-style-type: none"><li>• Peter needs VG to retain a good reputation with customers</li><li>• VG needs to maintain customer loyalty</li><li>• Customers need to feel like their opinions matter</li><li>• Customers need to feel valued</li><li>• However, if customers are dissatisfied they may go to a competitor</li><li>• However, it may be difficult to satisfy all customers and therefore some may still give the business a bad reputation if unhappy</li></ul>	12
Identify customer needs  <b>The answer should be focused on how market research can find out what the customer wants</b>	<ul style="list-style-type: none"><li>• Carrying out market research to be sure the business delivers the service that customers want</li><li>• So that they would know what types of equipment customers would wish to use</li><li>• So they would know what exercise classes customers would wish to attend</li><li>• So they would know what price customers were willing to pay</li><li>• So they would know what hours/days the customers would want to use the gym</li><li>• However, it can be expensive to carry out the market research necessary to identify these needs accurately</li></ul>							
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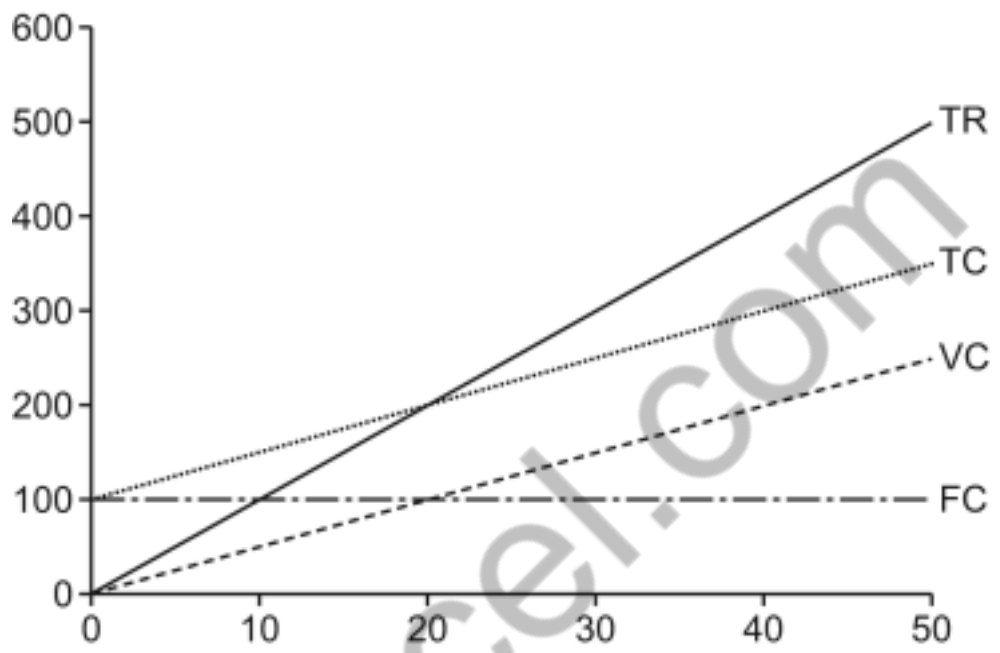
Question	Answer	Marks
1(b)	<p><b>Level 2 [4–6 marks]</b> Detailed discussion of the advantages and/or disadvantages of each of the roles of marketing. 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks)</p> <p>E.g. Carry out market research to find out what gym equipment customers want. The right equipment, such as a cross trainer, needs to be purchased so that customer needs are met. However, it can be time consuming and expensive to carry out the market research required to ensure this happens. (Level 2 plus one application mark for answering in the context of the gym and its equipment)</p> <p><b>Level 3 [7–10 marks]</b> For L3 to be awarded there needs to be at least two L2 marks awarded and then a conclusion of the most important role of marketing. 7–8 marks for limited conclusion of the most important role of marketing OR why the other roles are less important.</p> <p>9–10 marks for well justified conclusion of the most important role of marketing AND why the other roles are less important.</p> <p><b>Award up to 2 additional marks for relevant application.</b></p> <p>Possible application marks: Fitness instructor; helps people lose weight and get fit; membership fee for many gyms is monthly; payment each visit to the gym; demand for low-priced gyms; needs to attract more customers to continue to expand the gym; needs to employ 4 personal trainers; 2 receptionists; gym is open 7 days a week; Information from Appendix 1 listing gym equipment.</p> <p>There may be other examples in context that have not been included here.</p>	

Question	Answer	Marks									
2(a)	<p><b>Identify and explain <u>four</u> reasons why making a profit is important to Peter.</b></p> <p>Award one mark for each reason (maximum of four), such as:</p> <ul style="list-style-type: none"> <li>• Source of finance/retained profit/Peter could use the profit for reinvestment – expand the gym by buying new equipment</li> <li>• To ensure survival of the business/avoid closure</li> <li>• Reward for enterprise – reward for Peter’s hard work/good ideas to start the business</li> <li>• Reward for risk taking – Peter risked losing his investment of \$5,000</li> <li>• Indicator of success – the more profit Peter makes the more his success will be recognised by customers/employees</li> </ul> <p><b>Note: Do not reward payment of day-to-day expenses</b></p> <p>Award a maximum of one additional mark for each explanation suitable for this context.</p> <p>Indicative response: It is a reward for risk taking (1) as Peter has risked \$5,000 of his own money in the business and could have gained interest on this money if he had put it in the bank.(1)</p>	8									
2(b)	<p><b>Peter is considering the following <u>two</u> options. Recommend which option he should choose. Justify your answer.</b></p> <table border="1"> <thead> <tr> <th></th><th>Advantages</th><th>Disadvantages</th></tr> </thead> <tbody> <tr> <td>Employ his own personal trainers</td><td> <ul style="list-style-type: none"> <li>• Full control over trainers</li> <li>• Higher profit especially when busy with many clients</li> </ul> </td><td> <ul style="list-style-type: none"> <li>• Pay trainers whether or not they have clients</li> <li>• More expensive when not busy</li> </ul> </td></tr> <tr> <td>Charge a fixed fee to personal trainers who work for themselves to use VG facilities with their clients</td><td> <ul style="list-style-type: none"> <li>• Fixed amount paid to VG</li> <li>• Risk of low demand taken by the trainer</li> <li>• Less expenses as no wages to pay each month</li> </ul> </td><td> <ul style="list-style-type: none"> <li>• Additional revenue/profit lost to gym</li> <li>• Cannot control the quality of the training provided for clients</li> <li>• Maybe unreliable and this could affect reputation of VG</li> </ul> </td></tr> </tbody> </table> <p><b>Level 1 [1–3 marks]</b> Outline of advantages and/or disadvantages of each option. (max of 3 marks)</p> <p>E.g. Peter has full control over his own trainers if he employs them.</p> <p><b>Level 2 [4–6 marks]</b> Discussion of advantages and/or disadvantages of each option. 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks)</p>		Advantages	Disadvantages	Employ his own personal trainers	<ul style="list-style-type: none"> <li>• Full control over trainers</li> <li>• Higher profit especially when busy with many clients</li> </ul>	<ul style="list-style-type: none"> <li>• Pay trainers whether or not they have clients</li> <li>• More expensive when not busy</li> </ul>	Charge a fixed fee to personal trainers who work for themselves to use VG facilities with their clients	<ul style="list-style-type: none"> <li>• Fixed amount paid to VG</li> <li>• Risk of low demand taken by the trainer</li> <li>• Less expenses as no wages to pay each month</li> </ul>	<ul style="list-style-type: none"> <li>• Additional revenue/profit lost to gym</li> <li>• Cannot control the quality of the training provided for clients</li> <li>• Maybe unreliable and this could affect reputation of VG</li> </ul>	12
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2(b)	<p><b>Level 3 [7–10 marks]</b></p> <p>For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation of which option to choose.</p> <p>7–8 marks for limited recommendation on which option to choose OR why not the other option.</p> <p>9–10 marks for well justified recommendation of which option to choose AND why not the other option.</p> <p><b>Award up to 2 additional marks for relevant application.</b></p> <p>Possible application marks: Fitness instructor; membership fee for many gyms is monthly; payment each visit to the gym; demand for low-priced gyms; needs to attract more customers to continue to expand the gym; gym is open 7 days a week; information from Appendix 3; qualifications to meet health and safety requirements.</p> <p>There may be other examples in context that have not been included here.</p>	

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3(a)	<p><b>Identify and explain <u>two</u> legal controls that could affect Peter when recruiting and employing workers.</b></p> <p>Award one mark for each legal control (maximum of two), such as:</p> <ul style="list-style-type: none"> <li>• Pay minimum wage</li> <li>• Employer liability insurance required</li> <li>• Legal citizenship/work permit/licence required</li> <li>• Ensure a safe working environment/Health and Safety laws observed</li> <li>• No discrimination when recruiting workers</li> <li>• Not employing children</li> <li>• No unfair dismissal</li> <li>• Number of hours worked may have a maximum limit</li> </ul> <p>Award a maximum of three additional marks for <b>each</b> explanation of the legal control – <b>2 of which must be applied to this context.</b></p> <p>Indicative response: It is important to pay at least the minimum wage (1) set by the government or the owner will be prosecuted. (1) This may mean that Peter has to pay higher wages than he wants to pay and the wage costs of the gym might be high. (ap) It might mean that Peter cannot afford to employ as many trainers as he wants at the gym due to the high cost. (ap)</p> <p>Possible application marks: Fitness instructor; needs to employ 4 personal trainers; 2 receptionists; gym is open 7 days a week; Information from Appendix 1 listing gym equipment; information from Appendix 3; health and safety regulations must be met; shortage of personal trainers; need to have qualifications in personal training; most personal trainers are paid the minimum wage.</p> <p>There may be other examples in context that have not been included here.</p>	8

Question	Answer	Marks
3(b)	<b>Refer to Appendix 2. Complete the break-even chart below by drawing the Total Revenue line.</b>	<b>12</b>
3(b)(i)	<b>1 mark for correct TR line – starts at 0 and goes up to \$500</b> <b>Identify the break-even number of customers per day.</b>	
3(b)(ii)	<b>1 mark for break-even number of customers = 20</b> 	

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3(b)(iii)	<p><b>Consider the following <u>two</u> ways Peter could use to try to increase profit. Recommend which way he should choose. Justify your answer.</b></p> <p><b>Relevant points might include:</b></p> <table border="1"> <thead> <tr> <th></th><th>Advantages</th><th>Disadvantages</th></tr> </thead> <tbody> <tr> <td>Increase prices</td><td> <ul style="list-style-type: none"> <li>• Increase in revenue if same number of gym members remain</li> <li>• Increase inflows of cash</li> <li>• Reduces break-even number of customers</li> </ul> </td><td> <ul style="list-style-type: none"> <li>• Possible decreased demand – as situated in low income area – so overall effect may not be to increase revenue and inflows</li> <li>• Expect higher quality facilities so may need to invest in more equipment</li> </ul> </td></tr> <tr> <td>Reduce variable costs</td><td> <ul style="list-style-type: none"> <li>• Less outflows</li> <li>• Increased profit</li> <li>• Reduces break-even number of customers</li> </ul> </td><td> <ul style="list-style-type: none"> <li>• Lower quality provision</li> <li>• Deter customers as perceived as reduced service</li> </ul> </td></tr> </tbody> </table> <p><b>Level 1 [1–3 marks]</b> Outline of advantages and disadvantages of each option. (max of 3 marks)</p> <p>E.g. Increasing prices will increase inflows from increased revenue.</p> <p><b>Level 2 [4–6 marks]</b></p> <p>Detailed discussion of advantages and disadvantages of each option. 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks)</p> <p>E.g. Increasing prices will increase inflows from increased revenue which will help to increase the profit at the gym. However, if prices are much higher than similar competing gyms then VG will lose customers and cash inflows will fall.</p> <p><b>Level 3 [7–10 marks]</b> For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation that justifies which option to choose. 7–8 marks for limited judgement shown in recommendation as to which option to use OR why the alternative option is not chosen. 9–10 marks for well justified recommendation as to which option to use AND why the alternative option is not chosen.</p> <p><b>Note: Do not award application marks in (iii)</b></p>		Advantages	Disadvantages	Increase prices	<ul style="list-style-type: none"> <li>• Increase in revenue if same number of gym members remain</li> <li>• Increase inflows of cash</li> <li>• Reduces break-even number of customers</li> </ul>	<ul style="list-style-type: none"> <li>• Possible decreased demand – as situated in low income area – so overall effect may not be to increase revenue and inflows</li> <li>• Expect higher quality facilities so may need to invest in more equipment</li> </ul>	Reduce variable costs	<ul style="list-style-type: none"> <li>• Less outflows</li> <li>• Increased profit</li> <li>• Reduces break-even number of customers</li> </ul>	<ul style="list-style-type: none"> <li>• Lower quality provision</li> <li>• Deter customers as perceived as reduced service</li> </ul>	
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4(a)	<p><b>Identify and explain <u>one</u> advantage and <u>one</u> disadvantage of leasing all the equipment used in the business.</b></p> <p>Award one mark for each relevant advantage/disadvantage (maximum of one each), such as:</p> <p>Advantage</p> <ul style="list-style-type: none"> <li>• The business does not have to find a large sum of cash to purchase the equipment</li> <li>• Care and maintenance is carried out by the leasing company</li> <li>• When the lease expires the latest equipment could be obtained</li> </ul> <p>Disadvantage</p> <ul style="list-style-type: none"> <li>• Total cost of leasing higher than to purchase the equipment outright</li> <li>• The equipment is not owned by VG</li> <li>• Cannot sell the equipment if not needed any more</li> </ul> <p>Award a maximum of three additional marks for <b>each</b> explanation of the advantage/disadvantage – <b>2 of which must be applied to this context.</b></p> <p>Indicative response: The business does not have to find a large sum of cash in one go (1) as the equipment can be leased even if VG does not have the cash to buy it outright. (ap) This means VG can have better quality equipment such as treadmills for the gym at the start (ap) which will allow Peter to get the gym set up quicker and with better equipment than if he had to find all the cash at the start. (1)</p> <p>Possible application marks: Fitness instructor; a bank loan was used to finance the opening of the gym; as a sole trader; \$5,000 was put into the business; a business plan was written to support the bank loan application; expects a good profit at the end of a successful first year; Information from Appendix 1 listing gym equipment.</p> <p>There may be other examples in context that have not been included here.</p>	8

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4(b)	<p><b>Consider how the following <u>three</u> changes will affect VG. Which one will have the biggest effect on the business? Justify your answer.</b></p> <p><b>Relevant points might include:</b></p> <table border="1"> <thead> <tr> <th></th><th>Advantages</th><th>Disadvantages</th></tr> </thead> <tbody> <tr> <td>A multinational chain of luxury gyms recently set up in country X</td><td> <ul style="list-style-type: none"> <li>Encourages increased gym membership for all gyms as it becomes more fashionable to go to a gym</li> <li>May have no effect as aimed at different market segment</li> <li>Little effect as low income workers cannot afford luxury gym membership</li> </ul> </td><td> <ul style="list-style-type: none"> <li>Increased competition so may lose some existing gym members</li> <li>May lose some staff such as personal trainers to the new gyms so will need to be replaced</li> <li>May need to increase wages to retain staff</li> </ul> </td></tr> <tr> <td>There is an increased proportion of elderly people in the population</td><td> <ul style="list-style-type: none"> <li>Increased demand for exercise classes for the elderly because they have more leisure time</li> <li>More potential elderly customers leads to increased revenue</li> <li>Elderly people more likely to lead a healthier lifestyle – encouraged by government campaign</li> </ul> </td><td> <ul style="list-style-type: none"> <li>May change the image of the gym and puts off potential younger customers</li> <li>Increased costs of providing trainers specialised in providing classes or tuition for elderly members</li> <li>Revenue may fall if the elderly do not go to the gym</li> </ul> </td></tr> <tr> <td>Interest rates have increased</td><td> <ul style="list-style-type: none"> <li>Higher costs of borrowing means pressure on family income – less demand for high priced luxury gyms – increased demand VG</li> </ul> </td><td> <ul style="list-style-type: none"> <li>Increased costs of borrowing if VG needs to take loans to purchase more gym equipment for expansion or replacement of equipment</li> <li>Less discretionary income by members reduces less important spending</li> </ul> </td></tr> </tbody> </table> <p><b>Level 1 [1–3 marks]</b></p> <p>Outline of the advantages and disadvantages of each change. (max of 3 marks)</p> <p>E.g. Lower demand for gyms as less income left over after essential bills paid.</p>		Advantages	Disadvantages	A multinational chain of luxury gyms recently set up in country X	<ul style="list-style-type: none"> <li>Encourages increased gym membership for all gyms as it becomes more fashionable to go to a gym</li> <li>May have no effect as aimed at different market segment</li> <li>Little effect as low income workers cannot afford luxury gym membership</li> </ul>	<ul style="list-style-type: none"> <li>Increased competition so may lose some existing gym members</li> <li>May lose some staff such as personal trainers to the new gyms so will need to be replaced</li> <li>May need to increase wages to retain staff</li> </ul>	There is an increased proportion of elderly people in the population	<ul style="list-style-type: none"> <li>Increased demand for exercise classes for the elderly because they have more leisure time</li> <li>More potential elderly customers leads to increased revenue</li> <li>Elderly people more likely to lead a healthier lifestyle – encouraged by government campaign</li> </ul>	<ul style="list-style-type: none"> <li>May change the image of the gym and puts off potential younger customers</li> <li>Increased costs of providing trainers specialised in providing classes or tuition for elderly members</li> <li>Revenue may fall if the elderly do not go to the gym</li> </ul>	Interest rates have increased	<ul style="list-style-type: none"> <li>Higher costs of borrowing means pressure on family income – less demand for high priced luxury gyms – increased demand VG</li> </ul>	<ul style="list-style-type: none"> <li>Increased costs of borrowing if VG needs to take loans to purchase more gym equipment for expansion or replacement of equipment</li> <li>Less discretionary income by members reduces less important spending</li> </ul>	12
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4(b)	<p><b>Level 2 [4–6 marks]</b>  Discussion of the advantages and disadvantages of each change. 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks)</p> <p>E.g. Lower demand for gyms as less income left over after essential bills paid. Therefore the number of members and therefore revenue might fall for VG. However, as VG is a low cost gym it might attract members from luxury gyms and so membership might increase. (Level 2 plus one application mark for answering in the context of the gym membership)</p> <p><b>Level 3 [7–10 marks]</b>  For L3 to be awarded there needs to be at least two L2 marks awarded and then a conclusion as to which change will have the greatest effect on profit. 7–8 marks for limited judgement shown in the conclusion as to which change will have the greatest effect on VG AND why the alternatives will have less effect on VG.  9–10 marks for well justified conclusion as to which change will have the greatest effect on VG OR why the alternatives will have less effect on VG.</p> <p><b>Award up to 2 additional marks for relevant application.</b></p> <p>Possible application marks:  Fitness instructor; helps people lose weight and get fit; membership fee for many gyms is monthly; payment each visit to the gym; demand for low-priced gyms; a bank loan was used to finance the opening of the gym; as a sole trader; needs to attract more customers to continue to expand the gym; needs to employ 4 personal trainers; 2 receptionists; gym is open 7 days a week; Information from Appendix 1 listing gym equipment; information from Appendix 3; government worried about increasing health problems of the population.</p> <p>There may be other examples in context that have not been included here.</p>	