



Cambridge Assessment International Education
Cambridge International General Certificate of Secondary Education

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BUSINESS STUDIES

0450/11

Paper 1

May/June 2019

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 regulated for use in England, Wales and Northern Ireland as a Cambridge International Level 1/Level 2 Certificate.

This document consists of **9** printed pages and **3** blank pages.

- 1 Y2M is a bus operating company in the public sector. One of its objectives is to break even on every bus route. Most of its competitors are in the private sector. Y2M wants to increase the number of customers using its buses. The Finance Director has been looking at some cost data shown in Table 1. This is because Y2M plans to review its pricing methods. She is worried other businesses pay workers a higher wage rate and some of its drivers may leave. She said: 'To pay the same wage rate would increase variable cost to \$2.20 per passenger per journey.'

Table 1: Cost and price data for one Y2M route

Number of passengers per day	90
Price per passenger per journey	\$2.50
Fixed costs per week	\$300
Variable cost per passenger per journey	\$2

- (a) What is meant by 'break-even'?

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.....

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[2]

- (b) Calculate the revenue per day.

.....

.....

[2]

- (c) Identify and explain **two** objectives Y2M might have if it was in the private sector.

Objective 1:

.....

Explanation:

.....

Objective 2:

.....

Explanation:

.....

[4]

(d) Identify and explain **two** pricing methods Y2M could use.

Pricing method 1:

.....

Explanation:

.....

.....

Pricing method 2:

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Explanation:

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[6]

(e) Do you think Y2M should pay its workers the same wage rate as its competitors? Justify your answer.

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[6]

- 2 Kate is an entrepreneur. Two years ago she left her job as a fashion designer at a multinational company. She started up BBB, a women's sportswear clothing business. BBB targets a market segment of high income consumers. BBB's products are sold in 3 retail shops and also through its website. Kate said: 'I saw a gap in the market and took the risk. Obtaining the finance I needed from the bank was not easy. I enjoy making decisions such as using leaflets to promote the clothes.' BBB's revenue target for next year is \$500 000.

(a) What is meant by 'entrepreneur'?

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[2]

(b) Identify **two** reasons why obtaining finance may not be easy for a new business.

Reason 1:

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Reason 2:

.....

[2]

(c) Identify and explain **two** possible reasons why Kate decided to start up her own business.

Reason 1:

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Explanation:

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Reason 2:

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Explanation:

.....

[4]

(d) Identify and explain **two** reasons why segmenting the market might help BBB.

Reason 1:

.....

Explanation:

.....

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Reason 2:

.....

Explanation:

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[6]

(e) Do you think that using leaflets is the best way for Kate to promote her products? Justify your answer.

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[6]

- 3 BVC makes a range of paints. It exports 60% of its products. The Managing Director has been looking at BVC's cash-flow forecast shown in Table 2. He said: 'Success is not just about our return on capital employed.' The Managing Director is worried about the introduction of new legal controls to protect the environment. This will mean BVC will have to reduce the number of chemicals that are used to make paint. He thinks these new legal controls will be bad for business.

Table 2: Extract of cash flow forecast for the period July–September 2019 (\$000)

	July	August	September
Cash inflow	600	560	620
Cash outflow	560	540	580
Net cash flow	40	20	Y
Opening balance	X	60	80
Closing balance	60	80	120

- (a) What is meant by 'return on capital employed'?

.....

.....

.....

..... [2]

- (b) Calculate the following values:

X:

Y: [2]

- (c) Identify and explain **two** reasons why a cash flow forecast might be important for BVC.

Reason 1:

.....

Explanation:

.....

Reason 2:

.....

Explanation:

..... [4]

(d) Identify and explain **two** possible problems for BVC when exporting its products.

Problem 1:

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Explanation:

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Problem 2:

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Explanation:

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[6]

(e) The Managing Director thinks the new legal controls to protect the environment will be bad for business. Do you agree? Justify your answer.

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[6]

4 FGH is a private limited company. FGH has a tall hierarchical organisational structure. It is a book retailer which plans to take over one of its competitors for \$800m. If the takeover happens, FGH would have 6 500 bookshops across 20 countries. FGH's Managing Director said: 'We expect to reduce total costs by \$300m each year after the takeover. We will stop all off-the-job training of employees.' The Managing Director thinks FGH would benefit from becoming a public limited company but some of the other directors cannot decide if this is a good idea.

(a) What is meant by 'off-the-job training'?

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[2]

(b) What is meant by 'total cost'?

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[2]

(c) Identify and explain **two** advantages of FGH having a tall hierarchical organisational structure.

Advantage 1:

Explanation:

Advantage 2:

Explanation:

[4]

(d) Identify and explain **one** advantage and **one** disadvantage to FGH of becoming a public limited company.

Advantage:

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Explanation:

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Disadvantage:

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Explanation:

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[6]

(e) Do you think FGH should take over the other business? Justify your answer.

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[6]

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BUSINESS STUDIES

Paper 2

INSERT

0450/21

May/June 2019

1 hour 30 minutes

READ THESE INSTRUCTIONS FIRST

This Insert contains the case study material.
Anything the candidate writes on this Insert will not be marked.

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

This document consists of **3** printed pages and **1** blank page.

Soap Additions (SA)

SA is a public limited company. It was started 20 years ago in country Z. SA manufactures soap that is sold to the mass market. The soap is produced in a factory employing 100 production workers. The Operations manager thinks that well-motivated employees are important.

SA soap is sold for a low price to wholesalers and retailers throughout country Z. The product is sold and packaged either as bars of soap or liquid soap in a bottle. SA has a 50% share of the total market for low price soap.



The directors of SA want to expand the business by starting to produce different types of soap aimed at niche markets. The products they want to develop are:

- Luxury soap aimed at high income consumers
- Soaps aimed at improving ageing skin
- Medicated soap to help improve bad skin often experienced by teenagers

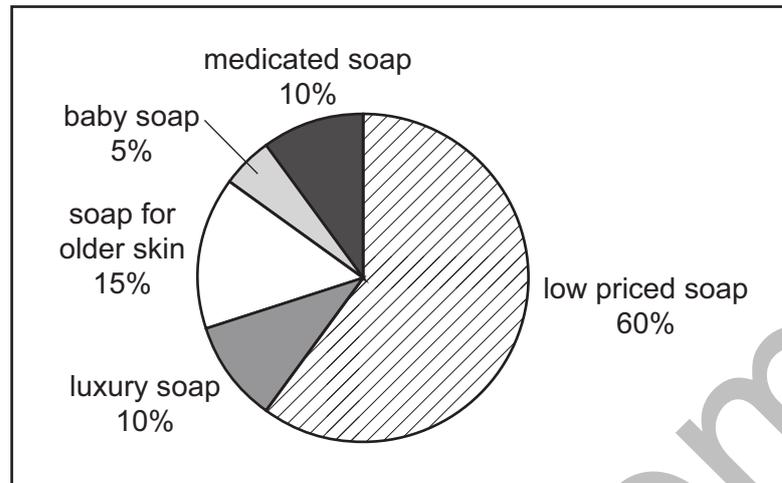
The manufacturing process for the mass produced soap is automated and uses flow production. However, if the new soaps are produced then they will be manufactured in a new factory using batch production. The new factory and equipment will cost \$15m and will require 50 more production workers and a new Operations manager.

SA does not use lean production in its existing factory. However, the Managing Director thinks SA would benefit from the introduction of lean production into the existing and the new factory.

Some of SA's managers think they are never involved when important decisions are made. The directors of SA disagree about which leadership style will lead to the best decisions being taken.

Appendix 1

Total soap sales in country Z of \$200m in 2018



Appendix 2

Newspaper article in Daily News - 15 April 2019

Economic growth in country Z is increasing and is now at 8% per year. Average wage rates are increasing. Many people now work in cities rather than on farms in rural areas.

Multinational companies sell products in country Z and also set up factories there. Increased globalisation has encouraged the government of country Z to sign a trade agreement with other countries. This trade agreement is meant to encourage increased trade between these countries and further economic development of country Z. However, not all businesses in country Z are pleased with this trade agreement.

Appendix 3

Financial information from SA's balance sheets for 2017–2018

	2017	2018
Non-current assets (\$m)	40	40
Inventories (\$m)	5	10
Trade receivables (\$m)	4	4
Cash (\$m)	1	1
Current liabilities (\$m)	5	5
Bank loan (\$m)	10	20
Current ratio	2:1	?
Acid test ratio	1:1	?

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BUSINESS STUDIES

0450/11

Paper 1 Short Answer / Structured Response

May/June 2019

MARK SCHEME

Maximum Mark: 80

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 2019 series for most Cambridge IGCSE™, Cambridge International A and AS Level and Cambridge Pre-U components, and some Cambridge O Level components.

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.

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Question	Answer	Marks	Notes
1(a)	<p>What is meant by ‘break-even’?</p> <p>Clear understanding [2]: Where total costs equal total revenue</p> <p>Where business makes neither profit or loss</p> <p>Some understanding [1]: Revenue same as costs</p>	2	Accept the formula Fixed costs / contribution [2]
1(b)	<p>Calculate the revenue per day.</p> <p>Good application: $90 \times \\$2.50 = \\225</p> <p>Some application: Correct method but incorrect answer</p>	2	\$ not required for [2]
1(c)	<p>Identify and explain two objectives Y2M might have if it was in the private sector.</p> <p>Knowledge [2] award 1 mark for each objective identified</p> <p>Application [2] award 1 mark for each explanation in context</p> <p>Relevant point might include:</p> <ul style="list-style-type: none"> • profit [k] so prices for journeys could be set higher [app] • reduce costs [k] as it is more concerned about profit than providing bus services [app] • increased returns to shareholders [k] • survival [k] • growth / increase sales [k] • increased market share [k] • improved service [k] 	4	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> • bus or related words e.g. tickets drivers, passengers, trips, routes, journey • appropriate use of numbers from Table 1 • public sector • increased number of customers • competitors • pricing methods • higher / same wage rate • break-even <p>Do not accept – Break even on all bus routes as this is their current public sector objective.</p>

Question	Answer	Marks	Notes
1(d)	<p>Identify and explain two pricing methods Y2M could use.</p> <p>Knowledge [2 × 1] – award 1 mark for each relevant method</p> <p>Application [2 × 1] – award 1 mark for each relevant reference to this business</p> <p>Analysis [2 × 1] – award 1 mark for each relevant explanation</p> <p>Points might include:</p> <ul style="list-style-type: none"> • competitive pricing [k] charging similar prices will retain existing [an] passengers [app] • cost plus pricing [k] as Y2M aims to break even [app] so price must cover costs [an] • promotional pricing [k] lower prices encourages more people to use [an] its bus services [app] • penetration [k] • skimming [k] 	6	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> • bus or related words e.g. tickets drivers, passengers, trips, routes, journey • appropriate use of numbers from Table 1 • public sector • private sector • increased number of customers • competitors • higher/ same wage rate • variable costs • break even <p>Accept dynamic pricing and psychological pricing as these are appropriate pricing methods for transport</p>

Question	Answer	Marks	Notes
1(e)	<p>Do you think Y2M should pay its workers the same wage rate as its competitors? Justify your answer</p> <p>Knowledge [1] – award 1 mark for identification of relevant issue(s)</p> <p>Application [1] – award 1 mark for a relevant reference made to this business</p> <p>Analysis [2] – award up to 2 marks for relevant development of point(s)</p> <p>Evaluation [2] – justified decision made as to whether Y2M should pay its workers the same wage rate as its competitors</p> <p>Points might include:</p> <ul style="list-style-type: none"> • Help retain employees [k] so fewer drivers leave [app] saving on recruitment costs [an] • Increase labour costs [k] leading to a higher break-even point [an] so need to attract more passengers [app] to be able to cover its costs [an] • Total costs may rise [k] which may lead to higher prices [an] which could reduce demand [an] for its buses [app] • Employees may be happy with their current pay [k] in the public sector [app] because they receive other benefits [an] • Higher pay may lead to reduced services [k] • Increasing pay may motivate workers [k] 	6	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> • bus or related words e.g. tickets, drivers, passengers, trips, routes, journey • appropriate use of numbers from Table 1 • public sector • private sector • increased number of customers • variable costs • break even • \$2.20

Question	Answer	Marks	Notes
2(a)	<p>What is meant by ‘entrepreneur’?</p> <p>Clear understanding [2]: A person who organises/ operates/ takes the risk for a new business venture.</p> <p>A person who combines all factors of production to make a product or service</p> <p>Some understanding [1] : e.g. Someone who starts a business</p>	2	
2(b)	<p>Identify two reasons why obtaining finance may not be easy for a new business.</p> <p>Knowledge [2 × 1] award 1 mark per reason</p> <p>Points might include:</p> <ul style="list-style-type: none"> • Asking for too much money OR seen as too high a risk OR not certain able to repay • does not have an accurate/ has an inaccurate business plan • no security/collateral • lack of experience/ relatively new to the market • unproven product/ lack of credit history/ no documents 	2	Do not accept ‘not well known ‘as it is unclear how this relates to finance.

Question	Answer	Marks	Notes
2(c)	<p>Identify and explain two possible reasons why Kate decided to start up her own business</p> <p>Knowledge [2 × 1] – award 1 mark for each relevant reason</p> <p>Application [2 × 1] – award 1 mark for each relevant reference to this business</p> <p>Points may include:</p> <ul style="list-style-type: none"> • To be her own boss [k] instead of working for a multinational business [app] • To make her own decisions [k] e.g. how to promote clothes [app] • She believes the business could be successful / make profit [k] as she spotted a gap in the market [app] • To work on something she enjoys [k] 	4	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> • Fashion / sports clothing or related words • 3 retail shops • 2 years • website • leaflets • multinational • market segmentation / high income/ women • entrepreneur • spotted a gap in the market • obtaining finance • \$500 000

Question	Answer	Marks	Notes
2(d)	<p>Identify and explain two reasons why segmenting the market might help BBB.</p> <p>Knowledge [2 × 1] – award 1 mark for a relevant reason</p> <p>Application [2 × 1] – award 1 mark for each explanation in context</p> <p>Analysis [2 × 1] - award 1 mark for each relevant explanation</p> <p>Relevant points might include:</p> <ul style="list-style-type: none"> • Able to tailor goods to specific needs OR know what to produce [k] e.g. clothes for high income women [app] so that costs / materials are not wasted producing wrong products [an] • To help decide best place to sell [k] as sportswear [app] needs a specialist shop to increase sales[an] • Research is simpler/help identify customer needs [k] as know which women to ask [app] so products better meet customer needs [an] • Help target advertising [k] such as where to use leaflets [app] to ensure maximum number of people see them [an] • Help set prices [k] • Identify gaps in the market [k] 	6	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> • Fashion / sports clothing or related words • 3 retail shops • 2 years • website • leaflets • multinational • high income/ women • entrepreneur • spotted a gap in the market • obtaining finance • \$500 000 <p>Identify gaps in the market [k or app]</p>

Question	Answer	Marks	Notes
2(e)	<p>Do you think that using leaflets is the best way for Kate to promote her products? Justify your answer</p> <p>Knowledge [1] – award 1 mark for identification of relevant issue(s)</p> <p>Application [1] – award 1 mark for a relevant reference made to this business</p> <p>Analysis [2] – award up to 2 marks for relevant development of point(s)</p> <p>Evaluation [2] – justified decision made as to whether using leaflets is the best way for Kate to promote her products</p> <p>Relevant points might include:</p> <ul style="list-style-type: none"> • Leaflets can contain lots of information about her products [k] these can be handed out outside gyms [app] to attract appropriate target market which could lead to increased sales [an] • Leaflets can be handed out in the local area [k] around the 3 retail shops [app] which is cost effective [an] • People may throw leaflets away or see leaflets as litter [k] • Cheaper than television or radio [k] <p>Award 1 knowledge mark for any other appropriate methods of promotion</p>	6	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> • Fashion / sports clothing or related words • 3 retail shops • 2 years • website • multinational • market segmentation / high income / women • entrepreneur • spotted a gap in the market • obtaining finance • \$500 000 <p>Can accept discussion of other appropriate methods of promotion e.g. sales promotions e.g. sponsorship, competitions.</p> <p>For evaluation, answers must have considered the suitability of leaflets.</p>

Question	Answer	Marks	Notes
3(a)	<p>What is meant by ‘return on capital employed’?</p> <p>Clear understanding [2]: measures the amount of profit made for each dollar invested.</p> <p>Profit of a business expressed as a percentage of capital invested</p> <p>Formula : Profit / Capital employed \times 100</p> <p>Some understanding [1]: e.g. profit / money made on investment</p>	2	
3(b)	<p>Calculate the following values: X and Y</p> <p>Application [2 \times 1] award 1 mark for each correct answer.</p> <p>X 20 (20 000)</p> <p>Y 40 (40 000)</p>	2	

Question	Answer	Marks	Notes
3(c)	<p>Identify and explain two reasons why a cash flow forecast might be important for BVC.</p> <p>Knowledge [2 × 1] – award 1 mark for each relevant reason</p> <p>Application [2 × 1] – award 1 mark for each explanation in context</p> <p>Relevant points might include:</p> <ul style="list-style-type: none"> • Can identify possible causes of cash flow problems [k] e.g. as in August, cash-in is 40 000 lower than July [app] • Help manage cash flow better OR help avoid cash flow problems [k] • Supports a loan application / attract investors [k] as opening balance should improve from \$20 000 to \$80 000 over the 3 months [app] • Show how much is spent each month [k] 	4	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> • paint • correct use of data from Table 2 • exports OR 60% • chemicals • new legal controls

Question	Answer	Marks	Notes
3(d)	<p>Identify and explain two possible problems for BVC when exporting its products.</p> <p>Knowledge [2 × 1] – award 1 mark for each relevant problem</p> <p>Application [2 × 1] – award 1 mark for each relevant reference made to this business</p> <p>Analysis [2 × 1] – award 1 mark for each relevant explanation</p> <p>Relevant points might include:</p> <ul style="list-style-type: none"> • Different tastes [k] e.g. different countries might prefer different paint colours [app] adding to production costs [an] • Different standards/legislation [k] so may not be able to use certain chemicals [app] stopping possible sales [an] • Effect of exchange rates [k] as an appreciation in own currency would mean its products are more expensive [an] so not able to export as much as 60% [app] • Knowledge of market OR competition [k] • Tariffs [k] • Quotas [k] will restrict numbers of products that can be sold [an] • Increased costs of transport/ increased risk of delay [k] • Increased competition [k] 	6	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> • paint • correct use of data from Table 2 • 60% • chemicals • new legal controls • return on capital employed • cash-flow forecast

Question	Answer	Marks	Notes
3(e)	<p>The Managing Director thinks the new legal controls to protect the environment will be bad for business. Do you agree? Justify your answer.</p> <p>Knowledge [1] – award 1 mark for identification of relevant issue(s)</p> <p>Application [1] – award 1 mark for a relevant reference made to this business</p> <p>Analysis [2] – award up to 2 marks for relevant development of point(s)</p> <p>Evaluation [2] – justified decision made as to whether the new legal controls to protect the environment will be bad for business.</p> <p>Points might include:</p> <ul style="list-style-type: none"> • Increased costs [k] from new paint production methods [app] which could lead to higher prices [an] and therefore less demand [an] • Reduces quality [k] by removing some of the chemicals [app] leading to customer complaints [an] • Competitors also affected by new laws [k] so BVC could still remain competitive [an] • New rules may not apply in some of their markets [k] as 60% are exported [app] • Customers may be willing to pay more for environmentally friendly products [k] so the business could increase their profit margin [an] 	6	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> • paint • correct use of data from Table 2 • exported OR 60% • chemicals • return on capital employed • cash-flow forecast

Question	Answer	Marks	Notes
4(a)	<p>What is meant by ‘off-the-job training’?</p> <p>Clear understanding [2]: Trained away from the work place by specialist trainers</p> <p>Some understanding [1] : Trained away from the work place</p>	2	
4(b)	<p>What is meant by ‘total cost’?</p> <p>Clear understanding [2]: Sum of (total) fixed cost plus (total) variable costs</p> <p>Sum of (total) direct and (total) indirect costs</p> <p>Some understanding [1]: All the costs of the business.</p>	2	
4(c)	<p>Identify and explain two advantages of FGH having a tall hierarchical organisational structure</p> <p>Knowledge [2 × 1] – award 1 mark for each advantage identified</p> <p>Application [2 × 1] – award 1 mark for each explanation in context</p> <p>Points might include: Many opportunities for promotion [k] in the 20 countries [app] Managers have narrower span of control OR fewer people to supervise [k] so have more time to focus on the takeover [app] Clear chain of command/ know their manager [k] in the book store [app] Clear line of communication [k]</p>	4	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> • book retailer • 6500 shops • 20 countries • \$300m • off the job training • \$800m • competitors • take over one its competitors

Question	Answer	Marks	Notes
4(d)	<p>Identify and explain one advantage and one disadvantage to FGH of becoming a public limited company</p> <p>Knowledge [2 × 1] – award 1 mark for each relevant advantage / disadvantage</p> <p>Application [2 × 1] – award 1 mark for each relevant reference made to this business</p> <p>Analysis [2 × 1] – award 1 mark for each relevant explanation</p> <p>Relevant points might include:</p> <p>Advantages</p> <ul style="list-style-type: none"> • Better access to capital [k] i.e. raising share capital from existing and new investors [an] to pay for the takeover [app] • Can give a company a more prestigious profile OR status [k] so more likely to be offered credit OR better interest rates as seen as lower risk [an] to raise capital to open more bookshops [app] • Shares tradeable on the stock exchange [k] <p>Disadvantages:</p> <ul style="list-style-type: none"> • Cannot control who buys the shares [k] so easier to be taken over [an] by other book retailers [app] • Shareholder may expect dividends to be paid [k] • Accounts published [k] allowing competitors to be able to see all their results [an] so the business FGH wants to take over might reject its offer [app] • Legal formalities need to be followed [k] • Divorce of ownership and control [k] 	6	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> • book retailer • 6500 shops • 20 countries • \$300m • on the job training • \$800m • take over one its competitors <p>Do not award limited liability or separate legal identity as already has this as a private limited company.</p>

Question	Answer	Marks	Notes
4(e)	<p>Do you think FGH should take over the other business? Justify your answer</p> <p>Knowledge [1] – award 1 mark for identification of relevant issue(s)</p> <p>Application [1] – award 1 mark for a relevant reference made to this business</p> <p>Analysis [2] – award up to 2 marks for relevant development of point(s)</p> <p>Evaluation [2] – justified decision made as to whether FGH should take over the other business</p> <p>Points might include:</p> <ul style="list-style-type: none"> • Does not spread risk [k] as still in book retailing [app] so falling demand for books will reduce FGH's sales [an] • Benefit from economies of scale [k] as would have 6500 shops [app] helping to reduce average costs [an] • Increase its market share [k] by removing a competitor [app] • Can they afford to pay the cost of purchase [k] of \$800m [app] • Reduced total costs [k] means repayment of \$800m [app] within 2.66 years OR 2 years 8 months [an] • Risk of diseconomies of scale [k] as communication errors may arise [an] across 20 countries [app] • Different management styles [k] may reduce productivity [an] across all the shops [app] • Cost savings may not happen [k] 	6	<p>Application marks may be awarded for appropriate use of the following:</p> <ul style="list-style-type: none"> • book retailer • 6500 shops • 20 countries • \$300m • on the job training • \$800m • competitor <p>Note: Cost of takeover \$800m, saving \$300m therefore payback will be by 2 years 8 months. (2.66 years)</p> <p>Note: accept examples of appropriate economies of scale [k]</p>

BUSINESS STUDIES

0450/21

Paper 2 Case Study

May/June 2019

MARK SCHEME

Maximum Mark: 80

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 2019 series for most Cambridge IGCSE™, Cambridge International A and AS Level and Cambridge Pre-U components, and some Cambridge O Level components.

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>Identify and explain <u>one</u> advantage and <u>one</u> disadvantage to SA of starting to sell new products in a niche market</p> <p>Knowledge [2 × 1] Award one mark for each relevant advantage/disadvantage Analysis [2 × 1] Award one mark for a relevant explanation for each advantage/disadvantage Application [2 × 2] Award two application marks for each advantage/disadvantage</p> <p>Answers are likely to include:</p> <table border="1" data-bbox="327 689 1305 1245"> <tbody> <tr> <td data-bbox="327 689 549 936">Advantage</td> <td data-bbox="549 689 1305 936"> <ul style="list-style-type: none"> • Higher price charged • Less competition • Meet specific needs of customers • Increase sales/market share • Spreads risk/diversification • Attracts new/different customers </td> </tr> <tr> <td data-bbox="327 936 549 1245">Disadvantage</td> <td data-bbox="549 936 1305 1245"> <ul style="list-style-type: none"> • More expensive to produce the product – uses batch rather than flow production • Increased costs e.g. product development, new marketing strategy needed • Limited size of market/limited potential sales • Smaller market segment • Higher price does not match existing brand image for low priced soap </td> </tr> </tbody> </table> <p>Indicative response: SA can sell specialist products that meets these specific customer needs (k) and SA wants to sell soap aimed at people with older skin. (ap) This means that there are likely to be few competitors in this market as it is smaller and less attractive for larger businesses making it easier to have a higher market share and higher profits. (an). As incomes are increasing in country Z, older people will be able to afford this soap. (ap)</p> <p>Possible application marks: Produces soap; existing soap sold in a mass market; bars or liquid soap; new factory/equipment will cost \$15m; 50 workers in the new factory; country Z is a growing economy; older skin; luxury soap; baby soap; medicated soap; low priced soap.</p> <p>There may be other examples in context that have not been included here.</p>	Advantage	<ul style="list-style-type: none"> • Higher price charged • Less competition • Meet specific needs of customers • Increase sales/market share • Spreads risk/diversification • Attracts new/different customers 	Disadvantage	<ul style="list-style-type: none"> • More expensive to produce the product – uses batch rather than flow production • Increased costs e.g. product development, new marketing strategy needed • Limited size of market/limited potential sales • Smaller market segment • Higher price does not match existing brand image for low priced soap 	8
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Question	Answer	Marks														
1(b)	<p>Consider the following <u>three</u> roles of packaging for SA's new products. Which is the most important role for the successful launch of these new products? Justify your answer.</p> <p>Relevant points might include:</p> <table border="1" data-bbox="320 450 1307 1028"> <tbody> <tr> <td data-bbox="320 450 531 651">Protection</td> <td data-bbox="531 450 1307 651"> <ul style="list-style-type: none"> • So the soap does not get damaged in transit – however this might increase the costs of packaging • Easier to pack and store the soap in warehouses before sale– however this may take up more storage space </td> </tr> <tr> <td data-bbox="320 651 531 824">Brand image</td> <td data-bbox="531 651 1307 824"> <ul style="list-style-type: none"> • Makes the soap stand out from other products on the shelves • Differentiates products from competitors' products • Images on package reinforces brand </td> </tr> <tr> <td data-bbox="320 824 531 1028">Information about the product</td> <td data-bbox="531 824 1307 1028"> <ul style="list-style-type: none"> • Legal requirement – government protection for consumer • Customers need to know what is in the soap – may have a physical reaction e.g. allergies or ethical reaction e.g. animal testing </td> </tr> </tbody> </table> <p>Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.</p> <table border="1" data-bbox="333 1167 1294 1765"> <thead> <tr> <th data-bbox="333 1167 474 1227"></th> <th data-bbox="474 1167 1294 1227">Knowledge/Analysis/ Evaluation</th> </tr> </thead> <tbody> <tr> <td data-bbox="333 1227 474 1496">Level 3</td> <td data-bbox="474 1227 1294 1496"> At least 2 × Level 2 + 9–10 marks for well justified conclusion as to which is the most important role of packaging to choose to successfully launch new products compared to the other roles. 7–8 marks for some limited judgement shown in conclusion as to which is the most important role of packaging to successfully launch new products. </td> </tr> <tr> <td data-bbox="333 1496 474 1630">Level 2</td> <td data-bbox="474 1496 1294 1630"> 4–6 marks Detailed discussion of the benefits and/or drawbacks of each role of packaging. </td> </tr> <tr> <td data-bbox="333 1630 474 1765">Level 1</td> <td data-bbox="474 1630 1294 1765"> 1–3 marks Outline of the benefits and/or drawbacks of each role of packaging. </td> </tr> </tbody> </table>	Protection	<ul style="list-style-type: none"> • So the soap does not get damaged in transit – however this might increase the costs of packaging • Easier to pack and store the soap in warehouses before sale– however this may take up more storage space 	Brand image	<ul style="list-style-type: none"> • Makes the soap stand out from other products on the shelves • Differentiates products from competitors' products • Images on package reinforces brand 	Information about the product	<ul style="list-style-type: none"> • Legal requirement – government protection for consumer • Customers need to know what is in the soap – may have a physical reaction e.g. allergies or ethical reaction e.g. animal testing 		Knowledge/Analysis/ Evaluation	Level 3	At least 2 × Level 2 + 9–10 marks for well justified conclusion as to which is the most important role of packaging to choose to successfully launch new products compared to the other roles. 7–8 marks for some limited judgement shown in conclusion as to which is the most important role of packaging to successfully launch new products.	Level 2	4–6 marks Detailed discussion of the benefits and/or drawbacks of each role of packaging.	Level 1	1–3 marks Outline of the benefits and/or drawbacks of each role of packaging.	12
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1(b)	<p>Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Information about the ingredients of the soap is necessary as some people might be allergic to the soap.</p> <p>Level 2 – 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. Information about the ingredients of the soap is necessary as some people might be allergic to the soap. This might result in a poor reputation for the soap if customers put bad comments on social media about the soap giving them problems. If full information is provided then this should be avoided and only good comments about the soap should be posted. (L2 plus application for making reference to soap in the explanation)</p> <p>Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a conclusion which is the most important role of packaging to successfully launch new products.</p> <p>Award up to 2 additional marks for relevant application.</p> <p>Possible application marks: produces soap; sold in a mass market; soap sold as bars or liquid soap; bottles; niche market soaps; allergies/allergic reaction; medicated soap; baby soap; soap for older skin; luxury soap; retailers; wholesalers.</p> <p>There may be other examples in context that have not been included here.</p>	

Question	Answer	Marks
2(a)	<p>Identify and explain how the following <u>two</u> stakeholder groups might be affected by SA's plans to expand.</p> <p>Knowledge [2 × 1] Award one mark for each effect Analysis [2 × 1] Award one mark for a relevant explanation for each effect Application [2 × 2] Award two application marks for each effect</p> <p>Examples might include:</p> <p>Shareholders</p> <ul style="list-style-type: none"> • Higher dividend if the expansion is successful – may be lower dividend is retained profit used • They might be asked to provide share capital – \$15m required • Change the market price of shares • Increased risk of their investment <p>Local community</p> <ul style="list-style-type: none"> • Unemployment in the local area might fall/incomes in the local area might rise • More production jobs will be available • May cause environmental costs/damage/negative externalities <p>Indicative response: Shareholders – The cost of expansion is \$15m (ap) and they might be asked to provide share capital (k). This could reduce the market price of their shares in the soap company (ap) as it will take time for the new investment to lead to higher profits and possibly higher dividends (an).</p> <p>Possible application marks: Plc set up 20 years ago; produces soap; sold in a mass market; start selling niche market soaps; need a new factory/equipment; will cost \$15m; 50 workers.</p> <p>There may be other examples in context that have not been included here.</p>	8

Question	Answer	Marks														
2(b)	<p>Consider the following <u>three</u> benefits to SA of having well-motivated employees. Which benefit will be the most important to SA if it wants to increase profit? Justify your answer.</p> <p>Relevant points might include:</p> <table border="1" data-bbox="328 450 1305 913"> <tbody> <tr> <td data-bbox="328 450 501 613">Higher output</td> <td data-bbox="501 450 1305 613">More products available to sell – likely to increase revenue – increased profit as costs may not increase proportionately May increase productivity – lower unit/average costs</td> </tr> <tr> <td data-bbox="328 613 501 748">Fewer employees leaving</td> <td data-bbox="501 613 1305 748">Happier more satisfied employees less likely to leave for another employer – reduces recruitment costs/less need for training of new employees</td> </tr> <tr> <td data-bbox="328 748 501 913">Higher quality</td> <td data-bbox="501 748 1305 913">Fewer mistakes made – lower unit costs – improved gross profit – higher profits Gives a better reputation with regards to the product – may increase price/more customers attracted</td> </tr> </tbody> </table> <p>Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.</p> <table border="1" data-bbox="328 1048 1305 1547"> <thead> <tr> <th data-bbox="328 1048 501 1115"></th> <th data-bbox="501 1048 1305 1115">Knowledge/Analysis/ Evaluation</th> </tr> </thead> <tbody> <tr> <td data-bbox="328 1115 501 1350">Level 3</td> <td data-bbox="501 1115 1305 1350">At least 2 × Level 2 + 9–10 marks for well justified conclusion of the most important benefit that will lead to higher profit and why it is more important than the other two benefits. 7–8 marks for limited conclusion of the most important benefit.</td> </tr> <tr> <td data-bbox="328 1350 501 1451">Level 2</td> <td data-bbox="501 1350 1305 1451">4–6 marks Detailed discussion of each benefit.</td> </tr> <tr> <td data-bbox="328 1451 501 1547">Level 1</td> <td data-bbox="501 1451 1305 1547">1–3 marks Outline of each benefit.</td> </tr> </tbody> </table> <p>Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Higher output likely to increase sales</p> <p>Level 2 – 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. Higher output of soap is likely to lead to higher sales and may even lead to higher revenue. If costs do not increase in the same proportion as the increase in revenue then profit may also increase enabling SA to pay higher dividends. (L2 plus application for recognising that it is a company producing soap).</p> <p>Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a conclusion which justifies which is the most important benefit.</p>	Higher output	More products available to sell – likely to increase revenue – increased profit as costs may not increase proportionately May increase productivity – lower unit/average costs	Fewer employees leaving	Happier more satisfied employees less likely to leave for another employer – reduces recruitment costs/less need for training of new employees	Higher quality	Fewer mistakes made – lower unit costs – improved gross profit – higher profits Gives a better reputation with regards to the product – may increase price/more customers attracted		Knowledge/Analysis/ Evaluation	Level 3	At least 2 × Level 2 + 9–10 marks for well justified conclusion of the most important benefit that will lead to higher profit and why it is more important than the other two benefits. 7–8 marks for limited conclusion of the most important benefit.	Level 2	4–6 marks Detailed discussion of each benefit.	Level 1	1–3 marks Outline of each benefit.	12
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2(b)	<p>Award up to 2 additional marks for relevant application.</p> <p>Possible application marks: Produces soap; sold in a mass market; niche market soaps; new factory and equipment that will cost \$15m; employs 100 production workers in the current factory; employ 50 workers in the new factory; luxury soap.</p> <p>There may be other examples in context that have not been included here.</p>	

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Question	Answer	Marks
3(a)	<p>Identify and explain <u>two</u> ways SA could use lean production in its factory.</p> <p>Knowledge [2 × 1] Award one mark for each relevant way Analysis [2 × 1] Award one mark for an explanation for each way Application [2 × 2] Award two application marks for each way</p> <ul style="list-style-type: none"> • Just-in-time/JIT – inventory arrives at production line when wanted/ no warehousing of inventory • Kaizen – continuous improvement/eliminates waste/ better layout of factory improves flow of production • Cell production – small team working/responsible for complete unit of work • Kanban – inventory arrives at production line only when inventory has been used/reduces the holding of inventory <p>Indicative response: Just-in-time (k) means that inventory is reduced to no or very low levels held in storage. (an) This reduces the need for having warehouse space to hold the ingredients to make soap. (ap) SA will need to have good relationships with its suppliers to ensure that the flow production line is not interrupted by inventory running out. (ap)</p> <p>Possible application marks: Produces soap; sold in a mass market; wants to start selling niche market soaps; employs 100 production workers; flow production; batch production.</p> <p>There may be other examples in context that have not been included here.</p>	8

Question	Answer	Marks												
3(b)	<p data-bbox="316 248 1313 349">Consider <u>three</u> leadership styles the Operations manager could use in the new factory. Recommend which leadership style should be used to improve decision-making. Justify your answer</p> <p data-bbox="316 383 715 416">Relevant points might include:</p> <table border="1" data-bbox="316 416 1313 1447"> <thead> <tr> <th data-bbox="316 416 497 479"></th> <th data-bbox="497 416 903 479">Advantages</th> <th data-bbox="903 416 1313 479">Disadvantages</th> </tr> </thead> <tbody> <tr> <td data-bbox="316 479 497 819">Autocratic</td> <td data-bbox="497 479 903 819"> <ul data-bbox="512 501 887 801" style="list-style-type: none"> • Clear instructions given by manager/quick decision making • Less likely to make mistakes if clear what to do • Some employees like having no responsibility to make any decisions </td> <td data-bbox="903 479 1313 819"> <ul data-bbox="917 501 1299 734" style="list-style-type: none"> • Does not allow worker involvement/one way communication • May be demotivating for some employees as feel less involved in the business </td> </tr> <tr> <td data-bbox="316 819 497 1294">Democratic</td> <td data-bbox="497 819 903 1294"> <ul data-bbox="512 842 887 1272" style="list-style-type: none"> • Motivating as workers feel they can contribute to the decision making • Feel they are being listened to and views respected/two way communication • May have some good ideas for how to improve the work flow as they are the ones working on the production line </td> <td data-bbox="903 819 1313 1294"> <ul data-bbox="917 842 1299 1003" style="list-style-type: none"> • More time consuming to make decisions as time taken consulting the employees before decisions made </td> </tr> <tr> <td data-bbox="316 1294 497 1447">Laissez-faire</td> <td data-bbox="497 1294 903 1447"> <ul data-bbox="512 1317 887 1375" style="list-style-type: none"> • Motivating as workers feel in control </td> <td data-bbox="903 1294 1313 1447"> <ul data-bbox="917 1317 1299 1375" style="list-style-type: none"> • Some workers will not like this responsibility </td> </tr> </tbody> </table>		Advantages	Disadvantages	Autocratic	<ul data-bbox="512 501 887 801" style="list-style-type: none"> • Clear instructions given by manager/quick decision making • Less likely to make mistakes if clear what to do • Some employees like having no responsibility to make any decisions 	<ul data-bbox="917 501 1299 734" style="list-style-type: none"> • Does not allow worker involvement/one way communication • May be demotivating for some employees as feel less involved in the business 	Democratic	<ul data-bbox="512 842 887 1272" style="list-style-type: none"> • Motivating as workers feel they can contribute to the decision making • Feel they are being listened to and views respected/two way communication • May have some good ideas for how to improve the work flow as they are the ones working on the production line 	<ul data-bbox="917 842 1299 1003" style="list-style-type: none"> • More time consuming to make decisions as time taken consulting the employees before decisions made 	Laissez-faire	<ul data-bbox="512 1317 887 1375" style="list-style-type: none"> • Motivating as workers feel in control 	<ul data-bbox="917 1317 1299 1375" style="list-style-type: none"> • Some workers will not like this responsibility 	12
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Level 3	<p>At least 2 × Level 2 + 9–10 marks for well justified recommendation as to which leadership style will be most effective in improving decision making and why the other leadership styles will be less effective.</p> <p>7–8 marks for some limited judgement shown in the recommendation as to which leadership style will be most effective in improving decision making.</p>									
Level 2	<p>4–6 marks Detailed discussion of the benefits and/or drawbacks of each leadership style.</p>									
Level 1	<p>1–3 marks Identifies style of leadership and/or identifies features of leadership style</p>									

Question	Answer	Marks
4(a)	<p>Identify and explain two opportunities and two threats for businesses in country Z from globalisation.</p> <p>Award one mark for each opportunity/threat (max 4) plus one additional mark for an explanation of each opportunity/threat</p> <p>Opportunities</p> <ul style="list-style-type: none"> • New markets – increased revenue • Increased brand awareness • Increased sales –higher profit • Saturated home markets – new markets to develop • Spread risks – over more markets/products • New products developed – for new markets with different tastes • Higher incomes in growing economies – increased disposable income leading to higher sales • Free trade agreements – may allow domestic companies easier access to overseas market/Easier to export • Access to cheaper supplies/cheaper labour – lowers costs <p>Threats</p> <ul style="list-style-type: none"> • Increased competition in the home market – lose market share – may need to reduce prices • Free trade agreements – may allow foreign companies easier access to domestic market • Jobs lost in industries that cannot compete with cheaper foreign competition • Workers may choose to work for MNC which pays better wages – losing workers • Pressure to increase wage rates due to match MNC pay • Easier for exploitation by MNCs e.g. labour/natural resources • May be more vulnerable to external shocks e.g. recession in main export markets <p>Indicative response: Country Z has signed a trade agreement (1) which provides opportunities for businesses in country Z to sell in new markets abroad and increase revenue (1).</p>	8

Question	Answer	Marks												
4(b)	<p>Using Appendix 3 and other information, consider SA's financial position, using liquidity ratios. Recommend whether the bank manager should give a loan to SA for the new factory. Justify your answer.</p> <p>Relevant points might include:</p> <table border="1" data-bbox="325 450 1305 1171"> <tbody> <tr> <td data-bbox="325 450 788 757">L2 Liquidity ratios/L2 points</td> <td data-bbox="788 450 1305 757"> <ul style="list-style-type: none"> • Current ratio = 3:1 (3) in 2018 • Acid test ratio = 1:1 (1) in 2018 • Acid test ratio has stayed the same • Explanation that shows understanding of the meaning/significance of the ratio figures in 2017 and/or 2018 </td> </tr> <tr> <td data-bbox="325 757 788 1171">L1 Basic statements</td> <td data-bbox="788 757 1305 1171"> <ul style="list-style-type: none"> • Inventory has increased by \$5m between 2017–18 • Bank loan has increased by \$10m between 2017–18 • Liquidity formulas • Non-current assets has remained the same • Simple calculations e.g. current assets in 2018 = \$15m • Revenue in 2018 for low priced soap is \$60m </td> </tr> </tbody> </table> <p>Award up to ten marks using the levels-based mark scheme below.</p> <table border="1" data-bbox="333 1272 1297 1904"> <thead> <tr> <th data-bbox="333 1272 453 1337"></th> <th data-bbox="453 1272 1297 1337">Knowledge/Analysis/ Evaluation</th> </tr> </thead> <tbody> <tr> <td data-bbox="333 1337 453 1574">Level 3</td> <td data-bbox="453 1337 1297 1574"> At least 2 × Level 2 + 9–10 marks for well justified recommendation whether or not the bank manager should give a loan to SA for the new factory 7–8 marks for some limited judgement shown in recommendation as to whether the bank manager should give a loan to SA for the new factory </td> </tr> <tr> <td data-bbox="333 1574 453 1704">Level 2</td> <td data-bbox="453 1574 1297 1704"> 4–6 marks Liquidity ratios correctly calculated. Explanation of meaning and significance of liquidity ratios. </td> </tr> <tr> <td data-bbox="333 1704 453 1904">Level 1</td> <td data-bbox="453 1704 1297 1904"> 1–3 marks Outline of financial position without liquidity ratios calculated. Identifies the change in the figures from Appendix 3 Formula for liquidity ratios Makes financial calculation from figures in Appendix 1 </td> </tr> </tbody> </table>	L2 Liquidity ratios/L2 points	<ul style="list-style-type: none"> • Current ratio = 3:1 (3) in 2018 • Acid test ratio = 1:1 (1) in 2018 • Acid test ratio has stayed the same • Explanation that shows understanding of the meaning/significance of the ratio figures in 2017 and/or 2018 	L1 Basic statements	<ul style="list-style-type: none"> • Inventory has increased by \$5m between 2017–18 • Bank loan has increased by \$10m between 2017–18 • Liquidity formulas • Non-current assets has remained the same • Simple calculations e.g. current assets in 2018 = \$15m • Revenue in 2018 for low priced soap is \$60m 		Knowledge/Analysis/ Evaluation	Level 3	At least 2 × Level 2 + 9–10 marks for well justified recommendation whether or not the bank manager should give a loan to SA for the new factory 7–8 marks for some limited judgement shown in recommendation as to whether the bank manager should give a loan to SA for the new factory	Level 2	4–6 marks Liquidity ratios correctly calculated. Explanation of meaning and significance of liquidity ratios.	Level 1	1–3 marks Outline of financial position without liquidity ratios calculated. Identifies the change in the figures from Appendix 3 Formula for liquidity ratios Makes financial calculation from figures in Appendix 1	12
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Question	Answer	Marks
4(b)	<p>Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. The inventory has increased by \$5m (L1) as the inventory was \$5m in 2017 and \$10m in 2018 (1 × Ap).</p> <p>Level 2 – 1 x L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. The acid test ratio in 2018 is 1:1. (L2)</p> <p>Level 3 – For L3 to be awarded there needs to be at least two correct L2 liquidity calculations and then a recommendation as to whether or not the bank manager should give a loan to SA for the new factory.</p> <p>Award up to 2 additional marks for relevant application.</p> <p>Possible application marks: 2017 current ratio was 2:1; 2017 acid test ratio was 1:1; any other relevant use of financial data from Appendix 3 e.g. bank loan is now \$20m; produces soap; new factory and equipment that will cost \$15m; 50 workers in the new factory; country Z is a growing economy.</p> <p>There may be other examples in context that have not been included here.</p>	