



UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS  
International General Certificate of Secondary Education

CANDIDATE  
NAME

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NUMBER

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**BUSINESS STUDIES**

**0450/02**

Paper 2

**October/November 2008**

**1 hour 45 minutes**

Candidates answer on the Question Paper.

No Additional Materials are required.

**READ THESE INSTRUCTIONS FIRST**

Write your Centre number, candidate number and name on all the work you hand in.

Write in dark blue or black pen.

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

DO **NOT** WRITE IN ANY BARCODES.

Answer **all** questions.

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.

For Examiner's Use	
<b>1</b>	
<b>2</b>	
<b>3</b>	
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<b>5</b>	
<b>Total</b>	

This document consists of **13** printed pages and **3** blank pages.



## Generation Elect

Generation Elect is a large company that generates electricity. The company has 6 power stations that use gas and 2 power stations which use water to produce electricity. The directors of Generation Elect are considering building a new power station near New City.

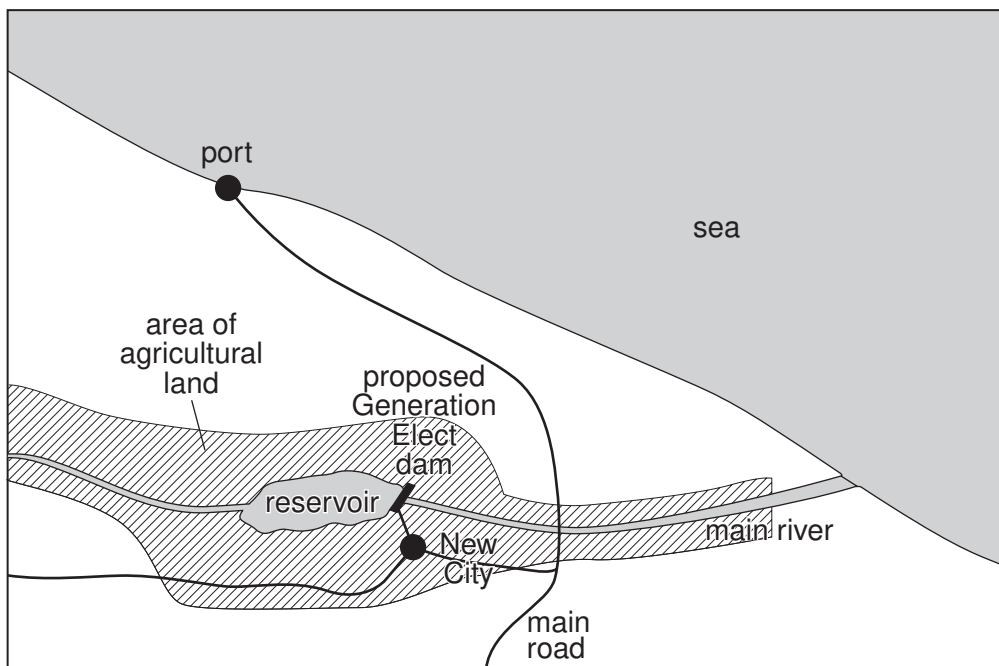
New City is the capital of Country X. It has been growing rapidly over the last 10 years as new businesses have set up and existing businesses have expanded. The population of the city also has grown as people from surrounding towns and villages have moved into New City in search of jobs. The supply of electricity has become a problem with more and more power cuts occurring. The income of employees has been rising due to wage increases and working more hours.

Generation Elect is planning to build a dam across the main river in the country. A dam blocks a river and creates a reservoir of water. Electricity is made as the water passes through the dam. This new power station would provide all the electricity needed by New City.

The reservoir behind the dam, if built, will be used by Generation Elect to provide leisure facilities for people from New City. They are considering having either the hire of power boats or fishing on the reservoir.

## Appendix 1

### Map of the proposed area for the dam



## Appendix 2

New City Times

3 November 2008

### Will we benefit from the new power station?

Environmental groups have been protesting as Generation Elect plans to build a dam over the country's main river. The government claims there will be more power cuts if the dam is not built. Businesses risk losing a lot of output and profit. Environmental groups claim the dam will destroy thousands of acres of good agricultural land and food supplies will be cut. Imports of food will have to be increased which will have a negative effect on Country X's exchange rate.

Many people will be forced to leave their homes and move to another area. However, a Government spokesperson said the future growth of the country could be reduced if the dam is not built.

## Appendix 3

### Estimated costs and revenue to operate the Power Boat and Fishing leisure activities per week

Power Boat costs \$	
Salaries of office staff	600
Rent paid for office	100
Lighting and heating of office	50
Cost of petrol for each power boat per day	50

Fishing costs \$	
Salaries of office staff	500
Rent paid for office	100
Lighting and heating office	50
Cost to clean and repair one set of fishing equipment per day	10

Price to hire each power boat per day	100
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Price to hire one set of fishing equipment per day	25
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Generation Elect would purchase 24 power boats or 100 sets of fishing equipment to be used 7 days a week.

It is estimated that the average demand will be 50% of the fishing equipment or 50% of the power boats per week.





2 (a) (i) Distinguish between social (external) costs and social (external) benefits.

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(ii) State **two** examples of social (external) costs of the dam.

Cost 1: .....  
Cost 2: .....[2]

(iii) State **two** examples of social (external) benefits of the dam.

Benefit 1: .....  
Benefit 2: .....[2]



3 (a) Generation Elect will need to recruit construction workers to build the dam.

Outline the recruitment and selection process Generation Elect will need to follow to employ these workers.

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(b) Explain **why** it is important for Generation Elect to recruit skilled construction workers.

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- (b) (i) There are no similar leisure activities near to the site of the reservoir. The Marketing Manager is considering using price skimming when setting a price for the new leisure activity. What is meant by price skimming?

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- (ii) Advise the Marketing Manager on alternative pricing strategies that could be used for the new leisure activity.

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- 5 (a) (i) Using the information in Appendix 3, explain the difference between fixed costs and variable costs.

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[4]

- (ii) Explain the possible financial problems that might arise for Generation Elect if the actual costs of the hire of power boats or fishing equipment were higher than the estimated costs shown in Appendix 3.

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