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Centre Number	Candidate Number	Name

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
International General Certificate of Secondary Education

BUSINESS STUDIES **0450/02**

Paper 2

May/June 2006

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.

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.

For Examiner's Use	
1	
2	
3	
4	
5	
Total	

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

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UNIVERSITY of CAMBRIDGE
International Examinations

[Turn over

Patel Fashions

Patel Fashions is a small business located in Country Y, a low income country. It manufactures sports clothing including football shirts that are sold to sports clothing shops in Europe. These shirts are in the colours of famous football clubs, such as Real Madrid in Spain. Nife, a multinational sports clothing retail company, has approached Patel Fashions to produce football shirts for them.

Patel Fashions have low wage costs and the production methods are labour-intensive. Nife wants Patel Fashions to produce high quality football shirts for its overseas markets. To improve the quality of sports shirts, Patel Fashions may need to use more capital-intensive methods of production. If the order from Nife is accepted, Patel Fashions will also need more highly skilled labour to operate the machinery. Some of the existing workers may need to be retrained or made redundant. All the production workers are members of a trade union.

The new machinery will need to be imported, as there are no local businesses which manufacture or repair this machinery.

Appendix 1

Summary of cost and price information for Patel Fashions 2005 using labour-intensive methods

	Labour costs per item ($)	Material costs per item ($)	Patel Fashions selling price ($)
Sports shirts	3	5	16
Shorts	2	2	8
Football shirts	5	8	25

Appendix 2

Memorandum

To: Finance Manager (Patel Fashions)
From: Production Manager (Patel Fashions)
Date: 12 April 2006
Re: Nife football shirt order

We need to decide if we should accept this order from Nife. I was asked to let you know about the new machinery that would be needed to produce the football shirts and what the machinery will cost.

The machinery will have to be imported, so the costs are based upon the current exchange rate, but this could change. The machinery will cost $100,000 if we buy it or the machinery can be leased over 5 years. If it is leased we will need to pay $1,833 per month for 5 years.

With these capital-intensive methods we could produce 100 football shirts per hour using 10 workers. The labour costs are $5 per hour per worker.

We need to make a quick decision on this!

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Appendix 3

Daily News in Country Y 5 May 2006

The Government has just announced that it wants more of our businesses to trade with foreign companies. Our country should make itself better known in the world economy. There are several multinational companies wanting to locate in our country because the Government plans to reduce the minimum wage and to give workers less job security. Businesses will be able to make workers redundant more easily. Trade unions are not happy about these changes and are putting pressure on the Government not to introduce them.

Appendix 4

Newspaper Advertisement for Nife Football Shirts

Real Madrid Official Football Shirts

The only genuine football shirts

Choose which player's name you want on the back of the shirt.

These shirts are of the highest quality and are produced only by Nife.

For Examiner's Use

1 **(a)** Using the cost information in Appendix 1:

(i) calculate the 2005 gross profit for one **sports** shirt

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(ii) calculate the 2005 gross profit margin for **football** shirts

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(b) Using the information in appendices 1 and 2, what is the difference in labour costs per item between using labour-intensive and capital-intensive methods of production for football shirts?

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For Examiner's Use

(c) Patel Fashions are thinking about changing from labour-intensive to capital-intensive methods of production.

Do you think Patel Fashions should introduce capital-intensive methods of production? Explain your answer.

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For Examiner's Use

2 **(a)** If the large order is accepted from Nife, 75% of output will be for just one multinational customer. Do you think it would it be wise for the company to depend on one customer so much? Explain your answer.

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For Examiner's Use

(b) If the order is accepted, Patel Fashions will need to have good communications with Nife's head office which is in country X. Explain the advantages and disadvantages of TWO methods of communication Patel Fashions could use to communicate with Nife.

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Method 2

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For Examiner's Use

3 **(a)** Nife are only interested in purchasing high quality football shirts. How would you advise Patel Fashions on how they could make sure that its football shirts are of high quality?

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For Examiner's Use

(b) Explain a suitable marketing mix that Nife could use to sell these high quality football shirts to customers.

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For Examiner's Use

4 **(a)** If Patel Fashions decide to change to capital-intensive methods of production some of the workers will not have the right skills to operate the new equipment. Would you advise Patel Fashions to recruit new fully trained workers or retrain the existing production workers? Explain your answer.

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For Examiner's Use

(b) All of Patel Fashions' production workers are members of a trade union.

Explain the benefits to **both** Patel Fashions and the production workers of the production workers being members of a trade union.

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For Examiner's Use

5 **(a)** The Government wants to encourage more multinational companies to come to their country Y. Do you think the Government is right to do this? Explain your answer.

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(b) Explain why the trade unions might be against the changes in employment laws proposed by the government in country Y. (See Appendix 3)

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