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# BUSINESS STUDIES

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Paper 0450/01

Paper 1

## General comments

The general standard of scripts was similar to previous years. The Paper differentiated effectively across the full ability range. All questions were accessible to candidates although some inevitably proved more challenging. The questions which candidates found most difficult were **1 (d)(ii)**, **2 (b)(ii)**, **2 (d)**, **3 (c)**, **4 (b)**, and **5 (a)(iii)**. Candidates might find the following points helpful in improving their performance.

- If a question asks for an explanation then a simple list of points is insufficient.
- Some questions require examples to be given. Try and give greater thought to what constitutes an appropriate example. Can the candidate justify their illustration?
- Read the key command word in the question carefully. Thus some questions ask candidates to consider “to what extent do they agree with a statement”. This type of question requires some judgement to be exercised. The candidate is being asked to express a justified opinion. They should attempt to come to a conclusion.
- The key to high marks is to demonstrate a range of skills. Many candidates show knowledge but their answers are often less impressive in terms of demonstrating understanding, analysis and evaluation.

## Comments on specific questions

### Question 1

- (a) Although generally well answered, a number of candidates gave examples of products rather than activities (e.g. coal as an example of a primary activity).
- (b) The most common error here was to suggest that a partnership provided limited liability for its members. Sometimes an advantage was identified but not explained.
- (c) Widely known and well answered.
- (d)(i) Many candidates were unclear as to the real purpose of an A.G.M. It is a means of two way communication between management and shareholders. It is not the basis upon which detailed plans are determined or lower level managers appointed.
- (ii) This question proved challenging. Most candidates were able to demonstrate knowledge regarding the data that would be contained in the accounts of a business. However few were able to consider what an analysis of the accounts might reveal in terms of things like liquidity, financial structure or profitability.
- (e) Candidates’ understanding of profits is often rather superficial. Profits are the reward for risk taking. As such they are a necessary return to encourage shareholders to retain their investment and to encourage new investors. In the long term they are needed to ensure the survival of a business.

### Question 2

- (a) The concept of a market segment was known to most candidates. However, weaker candidates often found it difficult to apply their knowledge to a particular product.
- (b) This question differentiated very effectively. Candidates were generally able to define advertising but found the concept of cost effectiveness difficult. The Examiners were expecting to see reference to things like poorly targeted spending that failed to attract much by way of new customers.

- (c) A disappointing number of answers to this question discussed tourists not business guests. Thus their suggested methods were not really appropriate. Careful reading of questions always pays dividends.
- (d) Good answers mentioned the advantages of charging lower prices and then went on to consider alternative ways of competing. Weaker answers tended to give a one-sided view of the dilemma.
- (e) Most candidates were able to identify at least two functions of packaging. There was a tendency sometimes to state the same advantage in two ways. Candidates would be better advised to try and identify clearly different functions like protection and promotion.

### Question 3

- (a) This was a high scoring question for many candidates. Most were able to identify three examples of current assets such as cash, debtors and stock.
- (b) This question caused surprising difficulty particularly as regards the concept of revenue. The Examiners were expecting a simple statement such as income received as a result of sales generated, while profit might be considered to be the surplus left after all allocated costs have been deducted from revenue.
- (c) To gain full marks candidates needed to progress through three stages. They had to identify appropriate ratios such as profit/capital. Then they had to use the data to calculate a ratio (Company A 20% and Company B 25%). Then they were required to comment on their answer. A number of weaker answers referred to absolute values and made no use of ratio analysis at all.
- (d) Although the concept of economies of scale is well known, the most common error is to refer to a fall in costs rather than unit costs as the scale of activity increases. Again, examples provided were not always appropriate.
- (e) Many good answers made reference to circumstances such as dated stock, loss leader strategies and the need to generate instant cash.

### Question 4

- (a) There was a tendency for answers to refer to higher productivity/profits. Few referred to factors like local labour market conditions.
- (b) Better answers were able to consider that in the short run low wages would mean low costs and hence larger profits, while in the longer run there might be problems of recruitment/retention of staff and hence higher costs and lower profits.
- (c) This was a high scoring question with most candidates able to provide examples of fringe benefits and have an appreciation of why they are given.
- (d) Most candidates were able to identify the span of control of manager M (4 or P1 to P4). However, the focus of the second part of the answer was often wrong. Too many candidates considered the issue purely from the point of view of the company, not from the standpoint of the individual manager N. There was also some misinterpretation over what the chart really represented. Thus some candidates felt that manager N could delegate a large amount of work. This does not follow from having a wide span of control. There was also a lack of clarity in some answers as to whether a point was an advantage or a disadvantage.

### Question 5

- (a)(i) There was a tendency for candidates to list points here. Candidates found it more difficult to identify benefits than costs. Such a proposal (road development scheme) would produce short run employment benefits in terms of direct employment. It would also have a positive impact on an area in terms of improvement in accessibility and thus there would be more customers for shops etc. and firms would be attracted to the area.

- (ii)(iii) Virtually all candidates were able to explain what is meant by a multinational company. However in part (iii) answers often showed considerable prejudice and assumed that such companies always overpriced their services and exploited their employees. The expected answers should have concentrated on the possible remoteness of the top management of the company and hence they might not understand local feelings. Also the repatriation of profits is clearly a potential problem associated with multinationals.
- (b) Too many answers here failed to focus on the export market specifically. Thus their points would have been equally valid domestically. Often when candidates did refer to things like tariff barriers they failed to develop their answer to explain why these would present problems.

**Paper 0450/02**

**Paper 2**

### **General comments**

The general standard of scripts was similar to last year. Candidates were able to understand the context of the case study and hence were able to appreciate the relevance of the questions. All questions proved accessible to most of the candidates while at the same time offering effective discrimination across the full ability range. Candidates might find the following helpful in improving their performance.

- In a case study paper answers should usually be in the context of the case.
- The case study should provide information that will help you with your answers and thus candidates should read it very carefully.
- The questions with the higher mark allocations will always require candidates to display a range of attainment skills. Answers must show a developed logical theme applied to the case study. Thus if the question asks for advice to be given to the manager of the business then such advice needs to be stated, explained and justified.
- In calculation questions candidates should show all their workings, as well as their final answer.

### **Comments on specific questions**

#### **Question 1**

The Paper always begins by asking for explanation of terms used in the case. The marks are allocated in relation to knowledge (1 mark) and developed understanding in context (2–3 marks). Candidates generally showed a good level of appreciation of the four terms.

- (a) This was the least well answered part of the question. Many answers referred to profits and defined these and ignored the margin element. A profit margin is usually the profit expressed as a % of sales turnover. It is a measure of the profitability of sales. If the profit margin is low (as in the case study) then it implies that mark up on costs is small.
- (b) A creditor is a person or organisation to whom the business owes money. In this context they would probably represent suppliers of materials.
- (c) A bonus represents a financial reward over and above contractual pay, usually in response for good performance. In this context it would imply additional payment for the workforce as a result of exceeding production targets.
- (d) Training was a concept that was very well known and there were many excellent answers provided to this question. The concept implies imparting extra skills to a workforce to allow them to carry out a greater range of tasks or to enable them to perform existing tasks more efficiently.

## Question 2

The case suggested some possible reasons for the fall in sales. The market was becoming more competitive, numbers of visitors to the country could be falling, the products produced by the company may no longer be as fashionable. Candidates had to identify possible reasons (knowledge) and develop them (understanding/application).

## Question 3

The focus of the answer here should have been on marketing strategies that could deal with the problem of falling sales. Better answers discussed options such as advertising/promotions or broadening the range of products, hence appealing to new markets. Some candidates seemed to suggest that the fall in sales was a production problem. There was no evidence in the case study that specifically supported this line of thought.

## Question 4

(a)(i) In 2000 the output per worker per shift was 1.5. A year later it was 1. Hence there was a fall in labour productivity of 0.5. Method marks were available for candidates who showed some understanding of the concept of output per worker.

(ii) The wage cost per suit in 2000 was \$53.3 and in 2001 was \$80. This was calculated by wage bill/output per shift.

Better candidates gained full marks on these calculations. Some weaker candidates were not able to make a meaningful attempt.

(b) Candidates had to demonstrate an understanding of the link between wage costs and unit costs and to show how a rise in unit costs would have an impact on the business. High level answers would also make evaluative comments discussing the likely consequences of this impact. Put simply, a rise in unit labour costs implied an increase in unit costs and hence an adverse impact on competitiveness/profit margins. This would be unwelcome news for the business as it was operating in an increasingly competitive market.

## Question 5

(a) Most candidates were aware of the nature of cash flow problems. They were generally able to refer to the fact that sales were falling and hence cash in to the business would be down. They also were able to refer to the fact that costs might be rising or at least static and hence the problems. Weaker candidates tended to just repeat the information given in the case without any comment.

(b) Better candidates were able to identify and explain two ways of dealing with the problem. Weaker candidates could sometimes identify a method but found it difficult to explain how it would actually help the situation.

## Question 6

(a) This question was well answered. Most candidates were able to identify problems associated with high labour turnover. The usual ones given were training costs and an impact on output.

(b) Most answers here focused on motivational methods of a financial or non-financial nature. There were many excellent answers given showing high levels of knowledge and understanding.

## Question 7

This proved a challenging question. Many answers mentioned factors like the price offered and whether it properly covered the worth of the business. Some made reference to things like goodwill but often failed to explain its relevance. A number of answers showed a touching belief that the owner's decision should be influenced by the views of the workforce. Some candidates were suspicious of the offer thinking that the prospective buyer must know something that the owner did not! The Examiners were looking for an answer that recognised a range of financial and personal factors that would need to be considered. These would encompass things like the terms of the offer compared to the current profitability of the business (and future prospects), the balance sheet worth of the business and personal factors such as her age/new role/set up a new business/family considerations.

**Paper 0450/03**

**Coursework**

**General comments**

Centres set assignments covering a variety of areas of the syllabus. On the whole, the standard of work was very good including many examples of widely researched, well written assignments.

Candidates gathered information by questionnaires, interviews, visits, collecting maps, gathering newspaper articles and advertisements, observation and from textbooks. The information was converted to alternative and appropriate forms of communication such as charts, graphs, diagrams and annotated maps and resulted in high marks under this criteria. Several candidates included a summary of the research undertaken and/or a bibliography which was very helpful to the moderation process. The standard of presentation by the majority of candidates was high; assignments were well structured and clearly written.

Titles used in previous years and which had proved effective were again submitted. Assignment briefs included with the Centres' sample were helpful to the moderation process. The most popular topics were motivation, retailing, communication, marketing, finance, Trade Unions, feasibility studies. Where local conditions in the country gave rise to particular problems for business these had been effectively incorporated into the coursework by candidates. Some examples of assignment titles were:

'Is there scope for a .... in my neighbourhood?'

'Will the product whose package is more attractive and distinctive sell more?'

'Are wages/salaries the main factors which motivate workers?'

'Are Trade Unions useful to workers today?'

Descriptive titles such as 'How do businesses persuade their customers to purchase goods and services?' reduces the scope for analysis and evaluation and therefore limits candidates' ability to achieve the highest marks.

The assessment criteria were generally accurately applied by the majority of Centres. Detailed and constructive written feedback was provided for candidates by several Centres. This proved very useful to the moderation process as well as for the candidates as it was clear why particular marks were awarded and how candidates could improve in the future.

The coursework submitted for moderation was of a good standard and was the result of suitable analytical questions set by candidates and Centres.

**Paper 0450/04**

**Alternative to Coursework**

**General comments**

The Paper was accessible to all levels of candidates. Many of these candidates demonstrated a very good understanding of Business Studies theory and are to be congratulated on their hard work. The standard did vary between Centres. There are a number of points that might be helpful in enabling candidates to achieve higher marks by using the information they know in a better way.

- Candidates need to pay careful attention to the wording of the question. If the question says 'state' then no explanation is required. If the question says 'explain' then the candidate must give a fuller answer, not just a list. The number of marks for the question also gives an indication of the amount of explanation required. Full sentences and a paragraph for each point will often encourage candidates to write more detailed explanation.

- To gain the highest marks the candidates must answer the question asked. This seems obvious, but some candidates write what they know and hope they will gain some credit. The mark scheme is written to reward the answer required for the question and there is no allowance for alternative responses.
- Misreading words in questions can lead to marks being lost, for example public limited companies are often confused with public corporations. Candidates should be encouraged to learn a glossary of business terms in an effort to prevent this happening.
- As has been mentioned in many previous reports, candidates lose marks by not including a title to graphs and not labelling axes correctly. Therefore candidates should construct a clear scale, label both axes, add a title and plot the graph accurately.
- Weaker candidates can resort to copying the information provided when answering the report. This will not be rewarded and candidates should be discouraged from doing this. They should try to put their answers into their own words; this is particularly common in the introduction to the report.
- The conclusion and recommendations of the report are often done poorly even by better candidates. Encourage candidates to *compare* the alternative strategies discussed in the main body of the report not simply repeat the advantages and disadvantages of the different strategies in list form. Comparative statements should be present e.g. 'Issuing shares would be better than bank loans for financing the factory building because .....'. They should weigh up the pros and cons of these alternatives. Weaker candidates just repeat what they wrote in the main body of the report and this scores few marks. The recommendations should then be clear as to what the business should do to solve the problem and why. It is relatively easy to score some marks for the recommendations but for higher marks this recommendation must be justified and explained including how this will help the business overcome its problem and become more successful.

### **Comments on specific questions**

#### **Section A**

#### **Question 1**

- (a) A lot of candidates gained full marks by stating two differences of private and public limited companies. However, a disappointingly large number of responses confused public limited companies with public corporations and discussed the role of the state in ownership. This should have been an easy question but there were many responses that only scored one or no marks. Sale of shares, ltd/plc, number of shares issued etc, were all rewardable differences.
- (b) The vast majority of candidates were able to identify some relevant factors, although many could not justify the building of a factory overseas rather than exporting. In this context candidates focused too much on market based arguments. Some suggestions made did not necessitate a move. Good answers used the text provided effectively. Some candidates did not realise that a relocation was not required in order to access the market in Europe. Transport, raw materials and relocating nearer to customers to gain a better knowledge of the market allowing future products to be more in keeping with the requirements of European customers, were the most common responses when full marks were awarded.
- (c) This was well answered by the majority of candidates. Good answers showed a sound knowledge of what is meant by 'capital intensive' and then explained why this was an advantage to the business. Points most often gaining marks were the benefits of faster output, a more standard quality and reduced labour costs. Incorrect responses tended to be discussion of job, batch and flow production and discussion of factors of production.
- (d) Many candidates recognised the time related differences between each of these resources and the way in which each needed to be financed. For example, that machinery required medium-term finance, the factory required long-term finance and that the stocks of raw materials required a short-term solution. Some candidates correctly identified the time issue but did not then identify a specific source of finance that would be appropriate given those circumstances. However, a lot of candidates did score some marks.

- (e) This question was less well answered and proved quite difficult. Many candidates were able to offer a judgement (either yes or no) but often they did not go on to explain their reasons. Some repeated facts from (d), for example the machinery required medium-term finance and therefore D & V Ltd should obtain a bank loan, but then failed to sustain the link through to the next two resources and merely restated that the factory building should be financed by a mortgage and the raw materials by an overdraft. Good answers made the link between the finance for all three resources either in terms of the time to repay the money or in the amount of money required.

## Question 2

- (a) The graphs were usually drawn well in terms of accuracy but rarely had a title and often the axes were not labelled. The \$'000 was occasionally ignored and therefore relatively easy marks were lost. Some candidates did not use accurate scales. Most marks were gained by the majority of candidates but the marks could easily have been higher with a little more care.
- (b)(i) Most candidates demonstrated some knowledge of the current ratio and many were also able to explain what the current ratio shows in terms of liquidity and the ability of a business to cover the current liabilities with its current assets. A minority of candidates calculated the acid test ratio and a few attempted the gearing calculation. The majority of candidates did gain some marks for this question.
- (ii) This was quite well answered by many candidates. The majority of candidates appreciated that the manager would consult the balance sheet to consider the ability of the company to repay the loan. The better candidates were able to identify specifically the relevant asset or liability which the manager would consult in determining the company's existing indebtedness, its ownership of acceptable collateral security and its ability to pay the interest on the loan as well as to repay the loan. Some discussed information that was not on the balance sheet such as cash flow. Lack of explanation once again led to lower marks by some candidates.
- (c)(i) This question proved quite difficult for some candidates. Suitable sources could have included market research agency reports, government reports, internal company sales information, and newspapers.
- (ii) The majority of candidates gained two marks, most commonly giving questionnaires, interviews, or consumer panels as rewardable answers.
- (iii) This type of question has appeared on Question Papers in the past and now, as then, many candidates wrote about what needed to be asked rather than identifying the stages a business would go through when undertaking primary research. Good answers did identify the need to decide on a set of questions, then make a decision about the sample of people to be approached followed by where they could access suitable respondents. Fuller answers followed the process through to the analysis of the results.

## Section B

### Question 3

It was pleasing to note that the majority of candidates were able to gain full marks on the format of the report. As always, weaker candidates tended to repeat the information already given with little comment for the introduction, although better candidates appreciated the problems which the company had to address such as the need to raise sufficient finance to expand.

Those who discussed the financial considerations were able to list, with some development, the advantages and disadvantages of the various sources of finance available to the company. There appeared to be some confusion over funding offered by the banks.

The weaker candidates wrongly discussed the relative merits of the methods of production being considered by the company and the reasons for locating in Europe.

For the conclusion, most candidates, as in previous years, merely repeated the facts already presented in the main body of their report, although the better candidates were able to provide some analysis.

Most candidates made some recommendation as to the appropriate sources of funding but generally there was little development in support of these recommendations.