



UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS  
General Certificate of Education Advanced Subsidiary Level and Advanced Level

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**BUSINESS STUDIES**

**9707/02**

Paper 2 Data Response

**October/November 2008**

**1 hour 30 minutes**

Additional Materials: Answer Booklet/Paper

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**READ THESE INSTRUCTIONS FIRST**

If you have been given an Answer Booklet, follow the instructions on the front cover of the Booklet.

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.



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This document consists of **5** printed pages and **3** blank pages.



## Paperclips

Business Studies students at North College have decided to set up their own shop called Paperclips (PC). The Headteacher has agreed to their proposal provided that half of the profits from PC go to charity. They can raise finance through selling 'shares' – not the real thing, of course – to staff and students. Under the guidance of their teacher, they will sell pens, books and other equipment needed by students and staff at the College. 5

The Business Studies students will not pay themselves a wage, but they will all be 'shareholders' and, therefore, stakeholders. The students have elected a Board of Directors who will manage the business.

Dom will be responsible for finance. He has negotiated one month's credit for purchases from the wholesaler. Dom has presented to the Board the following cash flow statement and projected Profit and Loss for the next four months: 10

**Table 1: Financial estimates for the next 4 months (\$)**

Cash Flow					Profit & Loss	
Month	1	2	3	4		
Opening balance	50	0	(200)	?	Sales	1950
Sales	50	400	700	?	Purchases	1000
Rent	100	100	100	100	Rent	400
Purchases	0	500	200	300	Profit	550
Closing Balance	0	(200)	200	?		

Ling will be responsible for marketing. Market research has helped her decide on the product range. Her main concerns are pricing and promotion decisions. She has collected the following information on prices for some of the main products: 20

**Table 2: Typical prices (\$)**

	Price PC pays at wholesaler	Price charged at supermarket	Price charged at a local shop
Pen	0.50	0.70	0.80
Pencil	0.10	0.12	0.15
Recordable CDs	1.00	0.90	1.20
Textbook	10.00	Not available	20.00

- (a) Explain the terms:
- (i) Stakeholders (line 7), [3]
  - (ii) Market research (line 20). [3]
- (b) (i) If sales in month 4 are \$800, calculate the closing balance in Table 1 for that month. [2]
- (ii) State **two** reasons why the directors of PC might have difficulty raising the \$200 cash shortfall needed in month 2. [2]
- (iii) Explain the difference between cash and profit. [4]
- (c) Advise Ling on the factors that she will need to consider in recommending a marketing mix for PC. [10]
- (d) Briefly analyse the factors that might limit the success of PC. [6]

## CC Cosmetics

CC is a medium sized, public limited company. CC manufactures high quality cosmetics for a niche market in their own country. The Board of CC, like those of many similar businesses, is thinking about how to respond to globalisation. The Board has already decided that they will open production facilities in both developing and developed countries to cater for local fashions.

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Mark, the Managing Director, has drawn up the following table to clarify his thinking about future developments.

**Table 3: Analysis of CC**

<p><b>Strengths:</b></p> <ul style="list-style-type: none"> <li>• Loyal customer base</li> <li>• Excellent customer care</li> <li>• Highly motivated, committed workforce that willingly takes on responsibilities</li> <li>• 'Family' atmosphere</li> <li>• High quality products</li> <li>• Ethical approach to customers, employees and the environment</li> <li>• Only use natural ingredients</li> <li>• No testing on animals.</li> </ul>	<p><b>Weaknesses:</b></p> <ul style="list-style-type: none"> <li>• High costs, particularly wages and materials</li> <li>• No management experience of rapid growth</li> <li>• High prices compared to competitors</li> <li>• High cost of quality control.</li> </ul>	10
<p><b>Opportunities:</b></p> <ul style="list-style-type: none"> <li>• New markets in other countries</li> <li>• Lower production costs at facilities in developing countries.</li> </ul>	<p><b>Threats:</b></p> <ul style="list-style-type: none"> <li>• Competitors use cheaper materials and cheap labour</li> <li>• Competition less ethical and able to charge lower prices</li> <li>• Multinational competitors benefit from economies of scale and mass marketing.</li> </ul>	20  25

Bini, the Marketing Manager, thinks that price is the critical issue. She has some data on the impact of recent price changes:

**Table 4: Effects of recent price changes on demand**

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	% Change in Price	% Change in Demand
CC's main product	+10	-7
Main competitor's product	-10	+12

Carol, the Human Resources Manager, needs to prepare for the planned international expansion. She thinks it will be difficult to achieve a workforce as committed as the present one.

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- (a) Explain the terms:
- (i) Mass marketing (lines 26–27) [3]
  - (ii) Quality control (line 15). [3]
- (b) (i) Using Table 4, calculate the price elasticity of demand for CC's main product. [2]
- (ii) The price elasticity of demand for their main competitor is 1.2. How might CC use this information on elasticity and your answer in **(b)(i)** when deciding on their marketing mix? [4]
- (c) Analyse the Human Resource Management issues for CC if the planned international expansion takes place. [8]
- (d) Discuss the implications for CC of its ethical approach to business activities. [10]





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