MARK SCHEME for the October/November 2008 question paper

9707 BUSINESS STUDIES

9707/01   Paper 1 (Short Answer/Essay), maximum raw mark 40

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.

All Examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes must be read in conjunction with the question papers and the report on the examination.

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SECTION A (SHORT ANSWER)

1 (a) <u>Definition</u> such as: the order of management in an organisation – lowest to highest – showing chain of command and the way authority is organised/distributed – levels of accountability.

A definition indicating some understanding. [1]
A definition indicating full understanding. [2]

(b) <u>Explanation</u> such as: roles and relationships made explicit – accountabilities and controls are established – information and communication channels are established – authority and responsibility levels established – line management authority made clear – very appropriate for some organisations (e.g. Army) with many levels and narrow spans of control – supportive of bureaucratic organisations requiring detailed control.

One advantage identified with limited explanation. [1]
Two advantages identified with limited explanation or one advantage with good explanation. [2]
Two advantages identified with good explanation. [3]

2 (a) <u>Definitions</u> such as profit placed in reserves on the liabilities side of the balance sheet – belongs to owners/shareholders until used to fund a future venture – a main internal source of funds for many companies – very dependent on the level of profits gained.

A definition that indicates some understanding. [1]
A definition that indicates full understanding. [2]

(b) <u>Explanations</u> could include: provides a summary and valuation of all business assets, capital, and liabilities – shows a business's financial position at a stated point in time – shows a business's net current assets (working capital) indicating liquidity – used to analyse capital structure of a business – provides a guide to the value of a company (accept references to the limitations of balance sheets, e.g. assets may be undervalued, intangibles not listed, a static snapshot).

Limited explanation of purpose of a balance sheet. [1]
Sound explanation of purpose of a balance sheet. [2]
Developed explanation of purpose of a balance sheet. [3]

3 <u>Explanation</u> could include a brief definition of payback – the length of time it takes for a business to recoup its original outlay – <u>strengths</u> – simple to understand – simple to calculate – useful for short-term investment decisions – in an environment when quick payback is required – investors may well demand fast returns on investment – very useful as an initial screening method – popular with many companies and investors – <u>weaknesses</u> a blunt instrument – requires accurate estimates of returns – no account taken of business profitability – sole concern is cash flow – ignores post-payback cashflows – time value of money is ignored – not suitable for a sophisticated investment decision.

An accurate contextual definition of payback. [1]
Explanation of strengths 1/2. [2]
Explanation of weaknesses 1/2. [2]
Developed explanation of strengths and weaknesses. [5]

4 (a) <u>Ways of measurement</u> could include: size of labour force, total output, market share, turnover, profit figure, amount of capital employed, market capitalisation.

One accurate measure stated. [1]
Two accurate measures stated. [2]

(b) <u>Explanation</u> could indicate that companies have a number of different objectives to pursue and not all objectives are appropriate for all firms – include market share, maximise profits, market leadership, diversification, retrenchment, survival, growth – it may well depend on the size of a business and the relative strength of different stakeholders. Growth may be an important objective – and many benefits – but internal and external difficulties may prohibit growth – long term vs short term objectives – age of business etc.

Limited discussion of business objectives/or growth. [1]
Explanation of growth as one among other objectives. [2]
Explanation that explicitly indicates why growth may not be the most important objective. [3]

5 (a) Answers may well include attempts to discuss and develop the description of management given in the question – other definitions are acceptable – management associated with the maintenance of organisational arrangements – management as a discipline and activity to ensure organisational performance – includes goal setting – motivating employees, planning, control, co-ordination, Fayol, Taylor, Mintzberg may well figure – McGregor 'X' and 'Y' – require application to a large business organisation for high level marks.

Sound analysis of importance of management for a large business organisation. [7–8]
Some analysis of the importance of management to any/or large organisations. [5–6]
Sound understanding of management. [3–4]
Limited attempt to discuss/define management. [1–2]

(b) Different styles of leadership will be <u>defined</u> with a focus on <u>democratic</u> – participative, persuasive, consultative, team work, trust, supportive culture – intrinsic motivation and <u>autocratic</u> – tight control – little delegation, concentration of power and authority – orders given, close supervision, directive etc. <u>Effectiveness</u> of either or both styles to be discussed – no hard and fast rule – context of time, situation, personnel important.

Evaluative reference to 'effectiveness' as a consequence of sound analysis of the two leadership styles. [11–12]
Sound analysis of democratic and autocratic leadership styles – with some attempt to consider 'effectiveness'. [8–10]
Shows good understanding of leadership styles (particularly democratic and/or autocratic). [3–7]
Shows some understanding of leadership style(s). [1–2]

6 Discussion to include a <u>definition</u> of break-even analysis – the point at which sales revenue equals cost – a way of predicting when a firm moves from making a loss into making a profit (some may give an example – diagrammatic and/or numeric – give credit). Comments on <u>usefulness</u> – e.g. forward planning and prediction – profit at different levels of production – establish a margin of safety – calculate in advance level of sales needed to break even – see how changes in output affect profit – see how changes in prices affect break-even and profit – see how changes in costs affect break-even and profit – a simple qualitative tool for managers – information produced can be used for a wide range of decisions, e.g. setting prices – preparing competitive bids – awareness of <u>limitations</u> – simplistic – often unrealistic assumptions made, assumes all output is sold and no stocks held – unable to cope with sudden increase in variables (wages, prices, technology) – very much dependent on accuracy and quality of data used – lots of variables to track best suited to analysis of one product at a time – not always possible to classify costs as fixed or variable.

Evaluative comment that recognises the potential usefulness and limitations of break-even as an aid to business decision-making in any large manufacturing business. [17–20]
Sound analysis of break-even analysis with reference to how it can aid business decision making. [11–16]
Shows good understanding of break-even analysis. [5–10]
Shows some understanding of break-even analysis. [1–4]

7 (a) The explanation could indicate the likely subject matter/<u>functions</u> of an HR department such as staff skills/staff training/recruitment selection/induction/appraisal/redundancy/skill needs – hence the type of information collected will be associated with these activities, plus information external to the organization, e.g. competitors' pay rates. <u>Use</u> of information could include: workforce planning, recruitment strategies, training and development strategies, remuneration strategies, succession planning strategies.

Sound analysis of use made of HRM information by a business. [7–8]
Some analysis of the use made of HRM information by a business. [5–6]
Sound understanding of HRM activities and information collection. [3–4]
Shows limited awareness of HRM activities. [1–2]

(b) The discussion could establish a distinction between numerical (quantitative data) and qualitative data and define the characteristics of each type.
<u>Examples</u> of numerical data may well be given such as sales figures, profit levels, stock levels. Some candidates may spin off 7(a) and cite HRM data such as levels of absenteeism, sickness, staff turnover.
<u>Limitations</u> might refer to issues such as the potential misleading nature of statistical data lacking a narrative commentary, questions of reliability (methods of collection), may be partial, skewed, extreme, possible misuse (creative accountancy) – may need to be enriched with qualitative comment that takes account of intangibles, context, trends rather than just stark data.

Some evaluative comment on the use and limitations of using only numerical data (e.g. need for a balance of qualitative and quantitative). [11–12]
Analysis of numerical data with consideration of the limitations of only using such data. [8–10]
Shows good understanding of numerical data. [3–7]
Shows some understanding of data. [1–2]