UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Subsidiary and Advanced Level

MARK SCHEME for the November 2005 question paper

9707 BUSINESS STUDIES

9707/02   **Paper 2 , maximum raw mark 60**

This mark scheme is published as an aid to teachers and students, to indicate the requirements of the examination. It shows the basis on which Examiners were initially instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began. Any substantial changes to the mark scheme that arose from these discussions will be recorded in the published *Report on the Examination*.

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*.

The minimum marks in these components needed for various grades were previously published with these mark schemes, but are now instead included in the Report on the Examination for this session.

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Assessment Grid

Question	Knowledge	Application	Analysis	Evaluation	Total
1 (a) (i)	1	2			3
1 (a) (ii)	1	2			3
1 (b) (i)	2	1	1		4
1 (b) (ii)	1	1			2
1 (c)	2	2	4		8
1 (d)	2	2	2	4	10
2 (a) (i)	1	2			3
2 (a) (ii)	1	2			3
2 (b) (i)	1	1	2		4
2 (b) (ii)	1	1			2
2 (b) (iii)	2	2			4
2 (c)	2	2	2	4	10
2 (d)	2	2			4
Total	19	22	11	8	60
	18 +/–4	18 +/–4	12 +/–4	12 +/–4	

THE READ & LEARN BOOKSHOP

1 (a) Explain the following terms:

(i) Contribution [3]

Revenue less direct costs. Ignores indirect costs. Contribution contributes to indirect costs, and eventually profits. Used for assessing dropping products, new products, special orders etc. Allow price – variable cost (as in break even formula) but only allow 2 marks.

Level 2: Good understanding   **[2–3 marks]**
Level 1: Partial understanding   **[1 mark]**

(ii) Wholesaler [3]

A link between producer and retailer, allowing for economies of scale particularly in buying and communications.

Level 2: Good understanding   **[2–3 marks]**
Level 1: Partial understanding   **[1 mark]**

(b) (i) Calculate the price elasticity of demand for travel books between 2002 and 2004. [4]

Price change = +20%
Demand in 2002 = 8
Demand in 2004 = 6

Percentage change in demand = −2/8 *100 = -25%

Elasticity = %change in demand
               %change in price

= -25/+ 20 = −1.25

Level 2: Correct answer, or correct approach with mistakes   **[3–4 marks]**
Level 1: Understanding (e.g. formula) or some attempt   **[1–2 marks]**

(ii) Briefly explain the significance of your result for (i). [2]

Product is elastic so that an increase in price will lead to a proportionately greater decrease in demand, and revenue (but not necessarily profit).

2 marks: A comment referring to the result
1 mark: Demonstrates knowledge of PED

(c) **Analyse the factors that Sophia should take into account in deciding whether to stop selling travel books and to stock University books.** **[8]**

Sales trends (travel down, University up)
Better alternatives (CDROM's)
Risk
Known market
Travel still makes a contribution. Will University be bigger?
Cost of business books (working capital, available finance etc.)
Uncertainty in pricing business books.
External factors (recession etc.)

Context is likely to be the nature of the firm and the new product.

Analysis will explore consequences of the nature of the product for the marketing mix.

Knowledge and Application	Analysis and Evaluation
Level 2: Shows understanding of marketing in context of the business. **[3–4 marks]**	**Level 2**: Good analysis of factors in context. **[3–4 marks]**
Level 1: Shows understanding of factors. **[1–2 marks]**	**Level 1**: Limited analysis of factors. Either good analysis but not in context, or weak analysis in context. **[1–2 marks]**

(d) **Using Table 1, evaluate the usefulness of the Product Life Cycle to Sophia when deciding on the future product mix of her business.** **[10]**

Interpretation of data may give ideas to Sophia about discontinuing products, or introducing new ones.

e.g. Travel books in decline, University books in growth, CDROMS's in introduction.

School textbooks at maturity, possibly also other sales.

Sophia seems to have an appropriate product mix and decision to stop travel and extend university fits in with these ideas.

Might help suggest extension strategy for Travel books.

Context is the use of Table 1 and the decisions she is faced with.

Evaluation is likely to come via a supported statement either about Sophia's product mix (which can be argued to fit in well with the PLC concept), or whether it is useful in helping make the decision about her products and how to market them.

Knowledge and Application	Analysis and Evaluation
Level 2: Shows understanding of product life cycle in context of the business. **[3–4 marks]**	**Level 2**: Judgements on effectiveness of product life cycle in context. **[3–6 marks]**
Level 1: Shows understanding of product life cycle. **[1–2 marks]**	**Level 1**: Analysis of issues relating to product life cycle. **[1–2 marks]**

THE SUN HOTEL LTD

2 (a) Explain the following terms:

(i) Delegation. **[3]**

Content: Giving subordinates authority to perform certain tasks, although responsibility rests with the manager. Often involves formal accountability.

Level 2: Good understanding   **[2–3 marks]**
Level 1: Partial understanding   **[1 mark]**

(ii) Working capital. **[3]**

Content: Capital that is used for the day-to-day operations of the business rather than for long-term investment. Current assets less current liabilities. If too small, business may face liquidity problems.

Level 2: Good understanding   **[2–3 marks]**
Level 1: Partial understanding   **[1 mark]**

(b) (i) Calculate the current ratio. **[4]**

= current assets/current liabilities
= 900/300 = 3.0

3–4 marks: for appropriate calculation
1–2 marks: for an attempt, 1 for formula

(ii) Briefly explain the significance of your result. **[2]**

The current ratio shows the ability in the short term to pay off short-term liabilities. Ratio ideally between 1.5 to 2. This firm has no difficulties, were it needed to pay off debts, and has far too much by way of CA – inefficient.

(iii) Explain two ways in which Padman might improve the management of working capital. **[4]**

Cash management – change the (strange) way of getting rid of surplus cash at end of year.

Pay off trade creditors or short-term loans by reducing current assets as it is silly to have both large cash and current liabilities – it will not reduce CR but will improve management.

Reduce stocks, debtors e.g. through discounts.

Level 2: Shows understanding of working capital in context of the business **[3–4 marks]**
Level 1: Shows understanding of working capital management **[1–2 marks]**

(c) **Would you advise Padman to change to a salary-only based pay system at the Sun Hotel? Justify your answer.** **[10]**

Background
Staff unhappy with present system
Unfair

But customer care important and tips might be a good motivator for customer care.

Present system: uncertain income, limited ability to determine how much employee can earn, pay partly related to performance. Could be a motivator, lower costs to hotel.

Salary system: More predictable. Higher cost to hotel. Staff would be happier. Would it motivate as much? Fairer, staff might be happier. Stops staff moving to other hotel. Unusual for this industry.

Evaluation comes through identifying the key issues or prioritising the issues, thereby making a justified recommendation.

Knowledge and Application	Analysis and Evaluation
Level 2: Shows understanding of payment systems in context of the business. **[3–4 marks]**	**Level 2**: Evaluates pay systems based on analysis in context. **[3–6 marks]**
Level 1: Shows understanding of payment systems. **[1–2 marks]**	**Level 1**: Analysis of issues in context. **[1–2 marks]**

(d) **Outline briefly how a rise in the country's exchange rate might affect The Sun Hotel.** **[4]**

Hotel based on tourists from overseas. Stronger currency means holidays more expensive if you come from a country where exchange rates have not changed. Therefore, fewer tourists and lower profits or lower prices/profits.

Knowledge and Application
Level 2: Shows understanding of exchange rates in context   **[3–4 marks]**
Level 1: Shows understanding of exchange rates   **[1–2 marks]**