

BUSINESS STUDIES

GCE Advanced Level and GCE Advanced Subsidiary Level

<p>Paper 9707/01 Short Answer/Essay</p>

General comments

This paper proved to be accessible to the majority of candidates. Many demonstrated a breadth of knowledge over a wide range of business and management concepts. This was particularly evident in **Section A**. In **Section B**, however, candidates from some Centres were not confident in applying knowledge to specific questions and were not able to demonstrate analytical and evaluative skills.

The following comments are presented to indicate the strengths and weaknesses of candidates' responses to each question on the paper.

Comments on specific questions

Section A

Question 1

Part **(a)** was generally answered well by most candidates. However, a significant number of candidates confused public limited companies with government/public sector companies.

In part **(b)** most candidates had a clear understanding of the issues, while strong answers did address the 'significance' of the concept for companies and individuals – for example, reduced PSR and the impact on raising finance.

Question 2

There were some excellent answers to this question. In part **(a)** an accurate, concise response in terms of the number of persons over whom a manager has control and responsibility was sufficient for maximum marks.

In part **(b)** many candidates were able to identify the advantages of a broad span of control such as clear lines of communication, opportunities for delegation and the impact on worker motivation.

Question 3

In part **(a)**, while the majority of answers demonstrated a sound knowledge of break-even analysis, not all could indicate how it is a useful tool for managers (e.g. in demonstrating profitability/production levels and opportunities). A reference to the relationship between Total Costs and Total Revenue was the key diagnostic of strong responses to this question.

In part **(b)** the majority of candidates provided evidence of a familiarity with a break-even diagram, though not all were labelled accurately. Weaker candidates used cost and revenue diagrams from their knowledge of economics rather than break-even analysis. There was also some confusion between fixed, variable and total cost.

Question 4

There was a considerable degree of confusion in relation to part **(a)**. Few candidates were able to explain the difference between a Balance Sheet and a Profit and Loss Account accurately and succinctly. Partial explanations were given by many candidates. Some Centres may feel it appropriate to focus a little more on this part of the syllabus.

Candidates were a little more confident in part **(b)** although once again, the discussions of the role of a Cash Flow Statement were somewhat limited. There was confusion among some candidates who drifted into a discussion of forecasting and/or budgeting; however, the concept of 'cash flow' appeared to have been understood by most.

Section B

Question 5

There was a considerable degree of variability in the answers to this question. Many candidates responded in a very general way with a focus on why a government might initiate policies rather than how such policies might impact on businesses. The result was too much emphasis on the objectives of government policies and not enough focus on the impact on business and their decisions.

Some candidates focused on fiscal and monetary governmental policies with an emphasis on macro consequences rather than on micro effects on business decisions.

Question 6

In part (a) most candidates understood the difference between primary and secondary market research (although some confused the terms). Many candidates, however, limited their responses to a detailed discussion of the concepts and neglected to discuss why firms might choose to engage in such research activity. Many candidates also ignored the new market aspect of the question and failed to discuss the need for information when entering a new market. Strong candidates recognised the opportunity to link market research with business objectives and strategies.

There were some excellent answers to part **(b)** with a clear understanding of the product life cycle. Strong responses included an awareness of the different marketing strategies that might be employed at the different stages. Weaker candidates limited their answers to a description of the product life cycle with little recognition of marketing strategies.

Question 7

In part **(a)** candidates were generally able to distinguish between batch and flow production but were less confident in identifying and discussing reasons for a change between the two. Candidates were expected to discuss issues such as the search for economies of scale, the development of more homogenous products and the impact of labour availability and cost.

In part **(b)** the aspect of human relations problems proved difficult for some candidates. Relevant HR issues that might have been identified and discussed include staff insecurity, resistance to change, de-motivation, role uncertainty, impact on quality of work life and a changed work environment.

Paper 9707/02

Data Response

General comments

The overall quality of candidates taking this examination was very broad. The examination had a range of straightforward questions where most candidates scored some marks, as well as questions which turned out to be very good discriminators. Some Centres had candidates scoring virtually full marks on the numerical side, with other Centres where candidates simply omitted such questions. Candidates who performed well achieved the application marks. Far too many candidates produced textbook answers for questions without actually making reference to the business or the individual situation the business found itself in. The specimen mark schemes clearly mention knowledge and application and a ceiling mark was imposed on candidates failing to make reference to the business situation in question. Although certain questions had more contextual reference to draw on than others, there was always something that the candidates could use where necessary. This is the nature of data response and candidates are advised to use application where the question requests it. That said, the application must be used within the context of good understanding; only then can analysis and evaluation marks be awarded.

Question 1 was better answered than **Question 2**. This might have been due to the slightly more accessible context, or the marginally more straightforward calculations. Some candidates clearly spent too long on the three mark definitions at the beginning of **Question 1**, suffering by being unable to structure a good answer to **Question 2 (d)**.

Comments on specific questions

Question 1

- (a)(i) A straightforward and well answered question, the more simple answers referred to the price being set lower than competitors or simply being set low, whereas the better answers focused on the fact that this might be a strategy which would be employed at the introduction stage of a new product or entering a new market, and the best answers referred to the objective of such strategy as being one where market share was gained. It was a shame that very few candidates chose to focus on the word strategy.
- (ii) This question proved to be an effective discriminator. Many candidates confused net cash flow with profit despite the specification making clear reference to the difference between the two. Not enough answers actually focused on the definition of cash, that is very few mentioned the issue of liquidity. The more straightforward answers focused on the difference between cash-in and cash-out whereas the better answers qualified cash-in in terms of its source and cash-out in terms of its use.
- (b) Most candidates identified the issue of autocratic leadership and developed the implications reasonably well. The discriminating factor in this question was reference to *managers* and *restaurants* and the implications for managers of Kevin's leadership style, as opposed to a straightforward list of implications of autocratic leadership. Very good answers referred to lack of ability to respond to local needs and tastes.
- (c)(i) This was a well-answered question. Although some candidates became a little confused with the proportion of the third year required to make pay back, the overall quality of this question was very good and the majority of candidates scored full marks.
- (ii) This was less well answered than (i), partly because it is a more difficult question requiring one or two more steps of calculation. The most common answer failed to acknowledge the fact that the initial investment needs to be deducted from the cash flows. This did prove to be an effective discriminator of the candidates' ability to perform calculations.
- (iii) Most candidates failed to comment on the results in sufficient detail to score good marks. The majority went back to basics and simply defined pay back and average rate of return, and although some talked about a relatively short pay back period, they did not provide a comparator. The better answers focused on the issues which should be considered other than the numerical factors.
- (d) It was very encouraging to observe the level of detailed understanding which candidates were able to bring into this answer. The more straightforward responses centred around economies and diseconomies of scale but the better answers used the context of The Eating Shop expanding into different countries and the issue of control, coordination and reduced prices for economies of scale. It was a shame that very few candidates attempted any evaluation. Those that did were well rewarded even if it was simply a summary of the advantages outweighing the disadvantages or vice versa. The two longer questions in this particular paper (**Questions 1 (d)** and **2 (d)**) are the only ones that will include evaluation and candidates in the future are advised to remember there are marks in these questions allocated to this higher level skill.

Question 2

- (a)(i) This was well answered. Candidates who produced a formula were rewarded, although the better answers referred to the concept of investing in capital and then using that capital to create profit. Marks were given to candidates who observed this particular relationship was a very important guide to performance and efficiency.
- (ii) This was less well answered than (i) and although candidates were rewarded for picking up the context of reduction in stock, lean production refers to something more than just stock reduction and candidates who brought in issues of Kaizen and time-based management usually scored well. Too many candidates did not recognise lean production as having an objective of minimising waste and improving quality.

- (b)(i) Despite the very frequent mistake that candidates produced (whereby they inverted the formula to put the change in price as the numerator), this was well answered. Some candidates had learnt the more complex formula and insisted on working out the old price which, in itself, was quite a complicated procedure. Obviously candidates that did this were rewarded.
- (ii) Of all the calculation questions this was the worst answered. Many candidates thought the question was asking for a level of output, others produced an answer in dollars. This did seem to vary from Centre to Centre. Some Centres had taught this extremely well and these candidates moved very quickly to full marks, although there were others where candidates were clearly unsure of what they were doing.
- (c) This was a straightforward question inviting analysis within a particular context although the vast majority of candidates did not produce any contextual reference to the Smart Tile Company. Despite there being many excellent text book answers, so many candidates did not refer to this particular company, and as a result this question was very poorly answered in relation to other questions.
- (d) There were various interpretations made of this question. In particular, some candidates failed to acknowledge the fact that the question had presented a premise of a price reduction and was looking for the changes to other parts of the marketing mix in context of the price reduction. The better answers focused on the need for possibly lower class retailers or perhaps greater advertising to inform customers of the price reduction. Very good answers brought in the issue of price elasticity and the need to increase volume in order to justify the extra money spent on advertising. Candidates who did not mention the price reduction were still awarded for making comments on the marketing mix, although candidates who clearly focused on the price reduction and then commented on the most significant part of the marketing mix (evaluation) or perhaps simply stated that given the level of elasticity that advertising was possibly not needed (also evaluation) were well rewarded.

Paper 9707/03

Case Study

General comments

The standard of scripts for this Case Study paper varied widely. The best prepared candidates were able to understand the exact requirements of each question, identified the appropriate examination skills that were being tested and had detailed subject knowledge. The poorest scripts were from candidates who had very little subject knowledge, were unable to grasp the intention of any of the questions and who, in several cases, wrote very brief answers. The performance of Centres also varied greatly and there were some Centres that had clearly prepared their candidates very well indeed. These candidates had clear awareness not just of what should be included in an answer but of the skills that should be demonstrated too.

It may be that some Centres are not yet grasping the essential differences between the AS and the A level papers. The heavy weighting towards analysis and evaluation in Papers 3 and 4 mean that candidates will not perform well if they just repeat textbook material. Accurate subject knowledge is, of course, essential to do well in any examination. However, it needs to be used in context, clearly analysed towards answering the question and then judgement must be shown when applying it to the problem set. If candidates are able to use their knowledge analytically they will gain very good credit on these papers. If they are then able to show powers of evaluation, either in the text of their answer or in their conclusions, then they have access to the highest marks.

There was little evidence of the time limit on this paper being a constraint for most candidates. Most completed all five questions and this compares favourably with the situation that prevailed with the old Paper 1 Management of Business paper that preceded the current Business Studies Paper 3. The main issue concerning time management seemed to be the excessive length of some answers to (a)(i) which might have penalised the quality of later answers to questions worth more marks.

Previous reports, mainly those concerning Management of Business, highlighted the problem of many candidates failing to use ideas and material contained in the Case Study. This was, pleasingly, not so apparent in this session and most candidates were able to draw relevant context material from the case to incorporate into their answers.

Comments on specific questions

- (a)(i) This question caused very few problems. The material contained in the case was accessed by the vast majority of candidates. The best answers developed, briefly, two or three points in context while weaker answers just provided a list with no attempt to explain why these points might have caused low motivation.
- (ii) This question led to some very detailed and relevant responses. Some answers were actually over-long – the marks gained had all been earned at the end of the second or third paragraphs in some cases. The key point here was the absence of any evaluative comment in most answers. “Discuss” means “analyse and judge” and whereas most answers used good theoretical knowledge to analyse how motivation might have been improved, very few attempted to evaluate how suitable those methods might have been to Sportwize. For example, many candidates suggested offering all tutors a full time permanent contract – without considering whether such a small firm could afford this. Other answers suggested – perhaps unwisely – using piece rate payments, without asking whether the “units of output” could be measured in this case. These simple examples help to demonstrate how candidates can use the knowledge that they do have in an evaluative manner.
- (b)(i) A pleasing number of candidates were able to calculate both liquidity ratios correctly – this skill varied greatly from Centre to Centre. Those who could not were still able to earn marks if they had the debtor/cash position of this business and the problems that could result from this. The ratio results often led to a very emphatic assessment of the state of liquidity such as: “the acid test must be over 1:1 or else the firm is not liquid”. Centres are encouraged not to give much credit to responses such as this as any ratio result needs to be analysed in the context of that particular company, previous results and so on. By all means, candidates may refer to a typical “benchmark standard” for ratio results but should avoid very dogmatic conclusions if actual results differ from these.
- (ii) Despite the use of the prompt term “Evaluate” very few candidates did this. Subject knowledge was again quite strong here with much emphasis on debtor control, use of debt factors and extending repayment periods to creditors. Other suggestions such as lowering the prices of courses or increasing sales were not acceptable as the problem the firm faces is one of cash flow not revenue. The best answers, after explaining in detail how the two methods would improve this firm’s cash flow, then showed judgement. For example, debt factoring will mean that the full value of debts would not be received by Sportwize and extending creditor repayments could harm relationships with suppliers. Developing answers along these lines will always allow candidates to earn higher marks than those that fail to show judgement.
- (c)(i) Some candidates had no idea of sales forecasting techniques. Others just studied the data and spotted the upward lift in Quarter 3 – for which limited credit was awarded. Better answers referred to time series analysis, extrapolation into the future and the application of the moving average method. No calculations were necessary and a good description of how the moving average trend can be established and then how the average seasonal variation can be calculated from it would have earned full marks.
- (ii) Most candidates were able to gain some marks here. The key term “for a business such as Sportwize” offered candidates the opportunity to discuss how sales forecasts could help a small business, subject to seasonal sales fluctuations, plan its future operations. The timing of the employment of part-time tutors and decisions over the purchase of new fixed assets were often used as good examples of applying subject knowledge to the context of the question and case. “To what extent” is, again, an evaluative prompt. Why might sales forecasts not be that useful to firms such as Sportwize? Changing market and economic conditions were referred to by better prepared candidates. In addition, the fact that the further into the future forecasts are made the less reliable, and therefore less useful, they will become was included by some candidates.
- (d) The answers to this question were divided into two main groups. On the one hand many candidates noticed the reference to full cost pricing in the case and discussed, sometimes at some length, the advantages of contribution/marginal costing in decision making situations such as this. These answers received good credit, especially if they were supported by referring to other, qualitative, factors. These included whether the contract might lead to further orders and whether existing customers might get to hear about the contract and ask for similar special treatment. The other group of answers was less well rewarded as they either did not analyse contribution at all or made no reference to costs as being one of the factors to be considered by the firm.

- (e) There were many very well informed answers to this question. Candidates were aware of the impact on demand for this service of a fall in disposable incomes and higher interest rates. The effect of higher interest rates on the firm's own borrowing was also explained. Reducing expenditure on schools would also hit demand for Sportwize. The main area of confusion was over direct taxes. Many candidates still confuse these with indirect taxes and this tended to lead to their answers being focused on the effect of these taxes on raising prices of goods and services. Again, evaluation was in short supply. It could have been demonstrated by candidates questioning how income elastic the demand for Sportwize services might be. In addition, how extensive are the increases in tax and interest rates – and are they likely to remain at this higher level for long? Raising and discussing these points would allow candidates to demonstrate the highly rewarded evaluative skills that are expected on Paper 3.

Conclusion

As a result of this examination it is clear that some Centres are advised to concentrate some of their efforts on:

- Quantitative techniques – one or more of these will always feature on Paper 3.
- Giving candidates the opportunity to show judgement in their answers for example, by insisting that the other side of an issue or argument is presented in candidates' responses to questions or problem solving exercises.
- Encouraging candidates to question the relevance or applicability of the subject's concepts and techniques in certain situations for example, is it appropriate to use moving averages when very little past data exists?
- Explaining to candidates the essential differences between AS level and A level questions.

This paper discriminated very well. It was very accessible to virtually all candidates. The frequent use of material drawn from the case in answers to questions demonstrates that Centres are focusing on the Case Study type of question in their revision and this is to be applauded and encouraged. It is hoped that newer Centres will quickly realise the need to encourage skills of analysis and evaluation from their candidates. It is also noted, with some satisfaction, that the CIE Business Studies AS/A level qualification continues to attract growing numbers of candidates. All Centres, old and new, are encouraged to study past papers, mark schemes and reports such as these to better inform their teaching and preparation of their candidates which, in many cases, is already of an impressive standard.

Paper 9707/04

Essays

General comments

The overall performance of candidates for this component was generally good, with some excellent scripts from those Centres who have been preparing candidates for this type of paper over several years. However, there was considerable evidence to support the view that too many candidates are not sufficiently well prepared for examination at this level, and in particular a large proportion of candidates were unable to demonstrate the higher level skills of analysis and evaluation.

The majority of candidates were able to answer two questions as required by the rubric and there was little evidence to suggest that candidates were unable to complete these tasks in the time available. However, a significant number of candidates appeared to misallocate time between questions, usually as a result of over long introductions and definitions of terms, or elaborate numerical examples, neither of which attract many marks.

Comments on specific questions

Question 1

This was a popular question, but one which produced a mixed response from candidates. It is perhaps a good example of candidates choosing a question because they had a good understanding of the topics in part **(a)**, without considering their limited understanding of the topic in part **(b)**. As a result, there were very few high scoring answers, which undoubtedly affected the overall grade achieved by candidates on this paper.

- (a)(i)** Most candidates had a good understanding of health and safety issues, though some spent far too much time on elaborate explanations of relevant legislation. Although knowledge was generally good, too many candidates chose to ignore the context of the question i.e. the 'significance of health and safety legislation for businesses'.

Answers should have considered the costs and benefits to a business of health and safety legislation e.g. costs of implementing the legislation, perhaps in terms of training, protective clothing etc., or the costs to a business of not implementing legislation e.g. industrial injury claims for compensation, lost production due to absence following an accident.

The benefits might have included a discussion of the effect on worker morale and motivation, fewer accidents and the effect on productivity, the effect on retention and recruitment of employees etc.

Some candidates produced valid answers through a discussion of the implications of health and safety for the marketing of goods.

- (ii)** This part of the question was generally well answered by most candidates. Answers included reference to issues such as the effect on productivity, quality, reduction in waste/rejects, less supervision of workers etc. However, only the better candidates recognised that these benefits of training do have a cost.
- (b)** This part of the question was less well answered by the majority of candidates. In some Centres candidates had clearly considered the ethical issues surrounding business activity and were able to discuss issues related to environmental concerns, the manufacture of demerit goods, testing of products on animals, attracting investors etc. However, many candidates had little or no idea of the issues involved and as a result produced answers that were often very short, lacking any depth of understanding or, in many cases, answers that were totally irrelevant. Examiners reported the misinterpretation of the term 'ethics' as 'ethnic' in some Centres.

Question 2

This was one of the least popular questions on the paper. Candidates displayed a good knowledge of a variety of relevant tools such as the Boston Matrix, Ansoff's Matrix and the Product Life Cycle, but in many cases were unable to explain how these might be used to manage a business' product portfolio and why such management is important. Weaker candidates failed to recognise that businesses need a succession of products at different stages in the life cycle if they are to remain competitive and how products at each stage might be used to support others, or require the support of others. Candidates should also have considered the implications for the use of resources on products at different stages in their development.

Question 3

This too was not a very popular question, though it was answered well by candidates from Centres who clearly attach importance to the financial management aspects of the syllabus.

- (a)** Candidates were often able to explain what a budget was and how budgets might be set, but only better candidates were able to evaluate their usefulness in terms of the costs and benefits to a multi-product business. Too often Examiners noted the absence of any reference to a multi-product business and as a result were presented with answers that lacked any particular focus. Centres should remind candidates to read questions carefully and to use the context of questions, which are there to help them demonstrate that they are able to apply their knowledge in a more analytical and evaluative way.

- (b) This was generally poorly answered. Too many candidates ignored the nature of the question and discussed the importance of types of promotion, rather than discussing how a business might set a promotional budget. Answers could have considered a variety of possible methods such as: based on competitors' spending, based on a % of previous year's sales/profits, based on forecast sale/profits. Candidates should then have evaluated each method i.e. made a reasoned judgement as to the merits of each method.

Question 4

This was a fairly popular question. Indeed in some Centres almost all candidates attempted the question, producing answers that displayed a very good understanding of the techniques of investment appraisal. Some candidates wasted too much time devising elaborate numerical examples from which to demonstrate their ability to calculate Payback Period, Accounting Rate of Return etc. Candidates could just have easily produced convincing answers by stating two different Payback Periods and Accounting Rates of Return for projects. Better candidates were able to evaluate by comparing the merits of one method with that of another. However, only the very best candidates recognised that there are other factors that a business might take into account, not to mention the possible limitations of the investment appraisal techniques themselves.

Question 5

This was a popular question which produced some good answers. However, the general response from candidates was to demonstrate good knowledge of the topic without displaying any real understanding.

- (a) Most candidates had a good understanding of the term quality, but surprisingly few candidates could link this to the issue of production methods. Candidates were expected to discuss how 'job', 'batch' and 'flow' production methods might affect the quality of the finished product. Many candidates made no reference at all to production methods, discussing instead issues such as the quality of raw materials, workforce training and the quality of machinery.
- (b) Most candidates were able to discuss at least one method of quality management, but very few could offer a range of methods and even fewer were able to evaluate the usefulness of these methods.

Question 6

This was a very popular question with some good answers once candidates had overcome the urge to define terms endlessly. Appropriate use of examples would have allowed candidates to score higher marks.

- (a) Most candidates had some understanding of the two terms, although weaker candidates seemed to think that they were interchangeable. Better candidates were able to define and explain the importance of distinguishing between the two terms as far as it related to the functions of management and the effect on business efficiency and effectiveness.
- (b) This was generally well answered by most candidates, with some excellent answers from candidates who were able to discuss the factors that might lead to decentralisation or centralisation of different functions.