

# BUSINESS STUDIES

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**Paper 9707/01**  
**Short Answer/Essay**

## General comments

Most candidates found this paper accessible and manageable. Many candidates seemed well prepared for most of the questions. In **Section A** there is a tendency for some candidates however to write too much for the two, three, and even the five mark question thus leaving insufficient time to write a fully developed essay question.

It is pleasing to note that more candidates are attempting to finish essays with an explicit conclusion and some critical/evaluative comment. What was not so encouraging was a reluctance or inability to apply well understood business studies concepts and issues to relevant contextual situations. This was particularly evident in the answers to **Question 5(a)** and **5(b)**. Many candidates produced answers that demonstrated sound knowledge and understanding of stock control and JIT but were unable to move the discussion away from a manufacturing context to that of a large retailer. It should be noted that future papers are likely to require a measure of contextualisation in some answers and, even when not specifically asked for, an ability to apply concepts to different contexts and scenarios will be rewarded.

## **SECTION A**

### **Question 1**

- (a) The majority of candidates clearly understood the difference between a skimming and penetration pricing strategy although some got the strategies the wrong way round.
- (b) A good number of candidates explained the choice of a skimming pricing strategy in terms of the likely innovative nature of the product, brand loyalty, and the need to earn profit to recoup money spent on research and development. Stronger candidates recognised the temporary monopoly position and hence that the price will lower in response to similar products entering the market.

### **Question 2**

- (a) Most candidates correctly defined capital expenditure and could give an example of capital expenditure such as land and machinery. Stronger candidates wrote in terms of fixed assets, the long-term use of the asset together with examples.
- (b) Some candidates failed to distinguish between long-term and short term sources of finance in identifying external sources of finance to fund capital expenditure and incorrectly suggested sources such as overdrafts and debt factoring. Stronger candidates recognised the long-term nature of the finance required and explained in appropriate detail sources such as: long-term bank loans, share capital, leasing and hire purchase. Some weaker answers often failed to distinguish between long and short term bank loans.

### **Question 3**

Many candidates initially defined the characteristics and purpose of multi-national companies and used this definition as a platform for identifying advantages and disadvantages for a country. This led some candidates however to explain the advantages to a multi-national company rather than to a country. The most popular advantage given was that of increased employment with perceptive answers suggesting that a MNC can not only reduce unemployment in the short term but also improve the skills base of a developing country, improve self reliance and increase competitiveness in the global market place. Some very good answers recognised that an increase in employment could lead to an increase in GDP and in the standard of living, and possibly increased tax revenues for a government so improving the infrastructure of the economy.

The most popular disadvantages given were pollution, the possible exploitation of the natural resources of a country, and the likely sending back of profits to the multi-national home country.

Stronger candidates recognised that exploitation by multi-national companies is often caused by inadequate legislation in the host country and the dependency that developing countries have on MNCs which can lead to a government “turning a blind eye”.

#### **Question 4**

- (a) Many candidates found this a challenging question. A good number defined corporate culture in terms of rules, codes, behaviour, and organisational procedures. Stronger candidates wrote in terms of values, norms, beliefs, the character/personality of a business expressed by all concerned with it from the top to bottom of an organisation. A common definition is “the way we do things around here”. It appeared evident that this is an area for which candidates were not as prepared as other areas.
- (b) Weaker candidates stated a reason with little development, such as management style, business size or objectives. More successful answers recognised the link between the management/leadership style within an organisation and organisational culture. Often stronger candidates explained how and why a leadership style impacted upon corporate culture. For example a consultative management style often leads to a culture open to new ideas and change and this trait can make it receptive and responsive to the changing needs of its customers.

### **SECTION B**

#### **Question 5**

- (a) Most candidates who answered this question had a reasonable understanding of why stock control is important. The costs of over-stocking were well explained as well as the potential loss of sales in the event of under-stocking. Factors such as out of date stock, waste, storage costs and opportunity costs were issues commonly identified. However, relatively few candidates were able to link stock control to the context of a large retail business. Textbook answers on the advantages of effective stock control were not developed and applied to the specific requirements of an effectively run retail business.
- (b) Similarly, in this section excellent descriptions of JIT were often given but exclusively in a production context. Candidates clearly understood JIT and included many salient points relating to potential advantages and disadvantages but failed to attempt any application of the approach to a large retail business context. Without relevant context references many candidates significantly limited the marks awarded for both sections of this question.

#### **Question 6**

A pleasing number of candidates were able to discuss two motivation theories and consider their usefulness to some degree to a manager seeking to improve employee motivation. A number of candidates however failed to restrict their answers to two motivation theories and wrote a very general essay on a whole range of theories and theorists.

Taylor, Maslow, Herzberg & McGregor were the most popular theorists selected to answer this question. The strongest responses not only explained the essence and features of two specific motivation theories but also made specific practical suggestions as to how these theories might be applied and explained the circumstances where these would be most effective. For example, reference was made to the type of industry or worker that the manager was seeking to motivate and hence the relative impact of the methods suggested. Also, more able candidates questioned the usefulness of certain theories in the work place.

**Question 7**

- (a)** The majority of candidates could comment on the kinds of problems experienced by businesses in the first year of trading. For example, securing finance and managing cash flow can be especially difficult for new businesses in the first year of trading. Factors often discussed included the lack of financial history and experience, the lack of consumer recognition, the extent of competition and owner knowledge and experience, poor marketing and the inability to attract suitable qualified staff.
- (b)** This question was less well answered. Many answers simply wrote a lot about market research without applying the concept to problems faced by a new start-up business. Stronger candidates effectively used some of the problems identified in section **(a)** to illustrate how market research could be applied to them. The better responses explained clearly how the activities and outcomes of primary and secondary research could be used to reduce the likelihood and impact of the problems experienced by a start-up business. Knowledge of the market generated by good research if well presented and explained could, it was often suggested, allay the concerns of lenders/creditors. It was also often suggested that market understanding is critical in determining business success and indeed might prevent a business starting up at all given the indicators of likely success. Such relevant contextual responses will always impress an Examiner who is looking for strong contextual examples.

**Location Entry Codes**

As part of CIE's continual commitment to maintaining best practice in assessment, CIE has begun to use different variants of some question papers for our most popular assessments with extremely large and widespread candidature. The question papers are closely related and the relationships between them have been thoroughly established using our assessment expertise. All versions of the paper give assessment of equal standard.

The content assessed by the examination papers and the type of questions are unchanged.

This change means that for this component there are now two variant Question Papers, Mark Schemes and Principal Examiner's Reports where previously there was only one. For any individual country, it is intended that only one variant is used. This document contains both variants which will give all Centres access to even more past examination material than is usually the case.

The diagram shows the relationship between the Question Papers, Mark Schemes and Principal Examiner's Reports.

Question Paper	Mark Scheme	Principal Examiner's Report
Introduction	Introduction	Introduction
First variant Question Paper	First variant Mark Scheme	First variant Principal Examiner's Report
Second variant Question Paper	Second variant Mark Scheme	Second variant Principal Examiner's Report

**Who can I contact for further information on these changes?**

Please direct any questions about this to CIE's Customer Services team at: [international@cie.org.uk](mailto:international@cie.org.uk)

# BUSINESS STUDIES

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Paper 9707/21  
Data Response

## General comments

Performance on this paper was similar to previous sessions. There was little evidence of candidates misunderstanding either the case material or the questions. However, for some candidates the scenario described in **Question 1** proved more accessible than that in **Question 2**. It is important that candidates are able to handle a wide variety of business situations for differing sizes of businesses in different sectors of the economy. There was little evidence of time being an issue with the overwhelming majority of candidates able to complete all of the questions. Examiners continue to be impressed with both the business studies knowledge demonstrated and the quality of written communication but there is still some evidence that many candidates need to improve their skills of application. Lack of evaluation remains an issue for all but the strongest candidates.

## Comments on specific questions

### Question 1

The case material proved accessible and there was evidence that a lot of candidates related well to the situation facing Jane. It is pleasing that candidates can relate well to a variety of business situations including a sole trader about to embark on a business venture.

- (a) (i) Most candidates were able to define business objectives. Better candidates were able to briefly develop the concept usually by describing uses such as for setting targets and giving an organisation a sense of direction. Examples, such as profit maximising, survival and so on often aided the explanation.
- (ii) Market Research is generally understood but there were a number of “circular” definitions such as ‘market research is researching the market’ which does not demonstrate understanding. The best answers briefly described the purposes of market research and the two main types: Primary and Secondary.
- (b) (i) Most candidates were able to calculate break even as 700 books. Some candidates included the set up costs of \$10000 to arrive at the answer of 1700 books – this was accepted as a correct alternative. Those candidates who did not gain full marks usually did not know how to calculate break even. There were very few opportunities for Examiners to award method marks where wrong answers were given, as candidates who tended to get the answer wrong either did not show their workings or simply wrote calculations down without formulae or any clues as to what the numbers meant.
- (ii) Pleasingly, most candidates calculated profit correctly as \$93000 (the alternative of \$83000 was also acceptable). A few candidates simply calculated the revenue, overlooking the costs, or included the fixed costs but not the variable costs.
- (iii) It is now a well established practice that when candidates are asked to perform a calculation they are then asked to comment on the usefulness of the results. A disappointingly large number of candidates simply observed that the calculations would tell Jane how many books to sell to break even and what the profit would be at 10000 books. Some developed the answer a bit by observing that this would help Jane in her decisions. However, the best answers were those that described how the process would help Jane in her planning by, for example, seeing how break even changed with changes in assumptions such as price or how target profits would help Jane plan her marketing.

- (c) Most candidates clearly understand sources of finance. However, it remains disappointing that many candidates are unable to relate sources of finance to the situation presented in the case. The key issues in the case were that Jane had little finance and little collateral so sources such as bank loans were going to be difficult to obtain. Good answers referred to these difficulties and suggested ways around the problems. Weaker answers simply identified the range of possible sources without relating them to the case.
- (d) Marketing questions have often been asked in relation to the marketing mix so it was a departure to frame a question in relation to one aspect of the mix: promotion. Candidates generally handled this change well. Because of Jane's limited situation, options for promotion were similarly limited. It was surprising that some candidates did not grasp this important feature of Jane's situation and suggested such methods as advertising on television and radio which are both likely to be beyond Jane's financial resources. There were some very good answers to this question which discussed a variety of methods, ruling some out on grounds of cost etc., and recommending other methods as appropriate. There were good opportunities for candidates to make judgements and decisions in this question and, where these were justified by the analysis, high marks were awarded for evaluation.

## Question 2

The case material proved accessible to most candidates. Candidates were able to understand the issues involved in pricing decisions. The HRM issues for **part (d)** proved to be a good discriminator with good candidates able to discuss the issues effectively.

- (a) (i) There were few answers that gained full marks for the term profit margin. Many candidates confused profit margin with mark up, defining it as revenue minus cost. Good answers were able to define profit margin as profits as a percentage of revenues and then briefly develop the idea that businesses might seek to increase profit margins, or that the information can be used as a measure of performance.
- (ii) Those candidates who understood the term inelastic were generally able to gain full marks by defining inelastic, explaining the impact that price changes have on demand and revenues and perhaps giving an example of a product that has inelastic demand. However, there was some confused thinking from some candidates. A common misconception was that it meant that prices seldom change, and another misconception was that demand has little influence on price.
- (b) (i) It was pleasing that many candidates were able to manipulate cost and revenue data to calculate price. Those candidates who did not get the right answer usually overlooked the target operating profit in their calculations and calculated \$100 rather than the correct answer of \$225. Had candidates reflected on their answer they would have realised that to charge a lower price for a fewer number of seats could not have possibly achieved the required result of the same level of profits. It is important that candidates who undertake a calculation then ask themselves the question "does my answer make sense?"
- (ii) Candidates often made very general comments about their answers. Better candidates related their answer to the price increase of \$75, the inelastic demand, and the competitor's price of \$180. A significant number of candidates explained how they had performed the calculation which is not what was required.
- (c) Although there were some very good answers to this question, a significant number of answers were not in context but were general discussions of factors influencing price drawn from their notes or from a textbook. Sometimes these were limited to lists of factors with little development or explanation. Very often there were comments such as "if the demand was inelastic" or "if there are competitors". It would have been relatively easy for such candidates to have gained much higher marks had they recognised that the case tells them that not only is the demand inelastic but that the competitor is charging less for an inferior service in a relatively uncompetitive market.

- (d) This question was answered least well although there were some very good answers. The weakest answers explained the functions of human resource management with little or no application to the situation in the case. Most answers, though, did recognise that redundancy might be an issue but without explaining why. Many candidates were better at explaining why there would be a need for recruitment and training, but they needed to develop their discussion further to cover the likely impact on the business (e.g. in terms of cost) and its employees of such developments. The best answers not only recognised the likely impact of redundancy/recruitment/training on the business but also developed the need for effective management of change. These answers also evaluated the impacts, either in terms of the likely size of the impact or their importance in terms of the success of the idea.

# BUSINESS STUDIES

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Paper 9707/22

Data Response

## General comments

Performance on this paper was similar to previous sessions. There was little evidence of candidates misunderstanding either the case material or the questions. However, for some candidates, the scenario described in **Question 1** proved more accessible than that in **Question 2**. It is important that candidates are able to handle a wide variety of business situations for differing sizes of businesses in different sectors of the economy. There was little evidence of time being an issue with the overwhelming majority of candidates able to complete all of the questions. Examiners continue to be impressed with both the business studies knowledge demonstrated and the quality of written communication of many candidates but there is still some evidence that candidates need to improve their skills of application. Lack of evaluation remains an issue for all but the strongest candidates.

## Comments on specific questions

### Question 1

The case material proved accessible however it was disappointing that some candidates could not relate to the constraints likely to be placed on a student enterprise. Even if candidates are unable to actually undertake student enterprises, it is always useful for candidates to see a business enterprise from their own perspective.

- (a) (i) Many candidates were able to define margin of safety but fewer were able to explain the term. Better candidates were able to briefly develop the concept usually by describing uses such as for helping decisions and possibly setting sales targets. Candidates sometimes attempted to explain the term by means of a diagram (which is an acceptable way of doing it) but often did not show margin of safety correctly on the diagram.
- (ii) Target market was generally understood but there were a number of “circular” definitions such as ‘target market is the market which a business targets’. This does not demonstrate understanding. The best answers briefly described the target market as a small section of a market and related the term to segmentation. Some good answers gave examples of target markets.
- (b) (i) Break even questions are often asked in terms of calculating break even given the costs and prices. This question was unusual in that the level of break even was given and candidates were asked to calculate a price. Generally candidates responded very well to this different situation and many candidates gave the correct answer of \$7.67. Some candidates gave \$6.67 which is the contribution - this requires the addition of the variable costs. There were very few opportunities for Examiners to award method marks where wrong answers were given as candidates who tended to get the answer wrong either did not show their workings or simply wrote calculations down without formulae or any clues as to what the numbers meant.
- (ii) It is now a well established practice that when candidates are asked to perform a calculation they are then asked to comment on the usefulness of the results. A disappointingly large number of candidates simply observed that the calculations would tell the band how much to charge for tickets. Some developed the answer a bit by observing that this would help the band in its decisions. However, the best answers were those that described how the process would help the band in its planning, by, for example, seeing how prices changed with changes in assumptions such as costs. Some candidates mentioned the limitations to the usefulness brought about through the use of assumptions.



- (c) Most candidates clearly understand sources of finance. However, it remains disappointing that many candidates are unable to relate sources of finance to the situation presented in the case. The key issues in the case were that Bob's Band had no experience, little finance and little collateral so sources such as bank loans were going to be difficult to obtain. Also the amount of finance involved was relatively small. Good answers referred to these difficulties and suggested ways around the problems. Weaker answers simply identified a limited range of possible sources without relating them to the case.
- (d) Marketing questions have often been asked in relation to the marketing mix so it was a departure to frame a question in relation to one aspect of the mix: promotion. Candidates generally handled this well. Because of the band's limited situation and the fact that the business idea was relatively small scaled, options for promotion were similarly limited. It was surprising that some candidates did not grasp these important features of the situation and suggested such methods as advertising on television and radio which are both likely to be not only beyond the band's financial resources but inappropriate for a concert at a School. There were some very good answers to this question which discussed a variety of methods, ruling some out on grounds of cost and target market etc., and recommending other methods as appropriate. There were good opportunities for candidates to make judgements and decisions in this question and, where these were justified by the analysis, high marks were awarded for evaluation.

## Question 2

The case material proved accessible to most candidates. Candidates were able to understand the issues involved in pricing decisions. The HRM issues for **part (d)** proved to be a good discriminator with good candidates able to discuss the issues effectively.

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- (ii) Those candidates who understood the term inelastic were generally able to gain full marks by defining inelastic, explaining the impact that price changes have on demand and revenues and perhaps giving an example of a product that has inelastic demand. However, there was some confused thinking from some candidates. A common misconception was that it meant that prices seldom change, and another misconception was that demand has little influence on price.
- (b) (i) It was pleasing that many candidates were able to manipulate cost and revenue data to calculate price. Those candidates who did not get the right answer usually overlooked the target operating profit in their calculations and calculated \$100 rather than the correct answer of \$225. Had candidates reflected on their answer, they would have realised that to charge a lower price for a fewer number of seats could not have possibly achieved the required result of the same level of profits given the increased costs. It is important that candidates who undertake a calculation then ask themselves the question "does my answer make sense?"
- (ii) Candidates often made very general comments about their answers. Better candidates related their answer to the price increase of \$75, the inelastic demand, and the competitor's price of \$180. A significant number of candidates explained how they had performed the calculation which is not what was required.
- (c) Although there were some very good answers to this question, a significant number of answers were not in context but were general discussions of factors influencing price drawn from their notes or from a textbook. Sometimes these were limited to lists of factors with little development or explanation. Very often there were comments such as "if the demand was inelastic" or "if there are competitors". It would have been relatively easy for such candidates to have gained much higher marks had they recognised that the case tells them that not only is the demand inelastic but that the competitor is charging less for an inferior service in a relatively uncompetitive market.

- (d) This question was answered least well of those on this paper although there were some very good answers. The weakest answers explained the functions of human resource management with little or no application to the situation in the case. Most answers, though, did recognise that redundancy might be an issue but without explaining why. Many candidates were better at explaining why there would be a need for recruitment and training, but they needed to develop their discussion further to cover the likely impact on the business (e.g. in terms of costs) and its employees of such developments. The best answers not only recognised the likely impact of redundancy/recruitment/training on the business but also developed the need for effective management of change. These answers also evaluated the impacts, either in terms of the likely size of the impact of an issue or its importance in terms of the success of the idea.

# BUSINESS STUDIES

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<p><b>Paper 9707/03</b></p>
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<p><b>Case Study</b></p>
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## General comments

There was a further significant increase in the number of entries for this A Level examination which again reinforces the status and popularity of this subject and this CIE syllabus in particular. The overall standard of scripts was very similar to June 2008 with a very substantial range proving that this case study paper discriminated well.

The business context was very accessible and there were no reported cases of candidates not understanding the nature of the products made by the company or the industry that Eastern Motors was in. There is encouraging evidence that some well established centres are giving much more attention to the skill of application when preparing their candidates for this paper but this remains a problem in some Centres.

The use of past papers to prepare candidates, for example, in the setting of at least one mock examination, is encouraged and if the candidates are asked to mark their own scripts using the published mark schemes then they will see for themselves how relatively few marks are awarded for responses not rooted in the context of the case study. This particular case study gave every opportunity for well prepared candidates to demonstrate not just their grasp of the full range of A Level subject content but also their skills of analysis and evaluation within the context of a detailed business scenario. Weaker candidates, unless they were very under prepared, were able to show knowledge in answering some of the questions set, for example, the two questions that required calculations. There were relatively few cases of really poor time management and average candidates were able to complete their answers in the time available.

The important skill of evaluation is still a problem for many candidates although some Centres are clearly preparing their own cohort very effectively for decision making type questions such as **Questions 3, 5 and 6**. This style of question asks candidates to make a recommendation and when this is well supported by the application and analysis of the evidence selected, then marks for evaluation will always be awarded. Evaluation or judgement in an answer is never awarded credit by Examiners unless it is clearly contextualised.

All Examiners reported reading a large number of very well constructed and well written scripts. The quality of language was often exceptional and the ability of some candidates to cope with the challenges presented by such a wide ranging examination paper with good time management skills was impressive. On the other hand, it is frustrating to read a script from a candidate who clearly has considerable knowledge of the subject and can analyse in detail but who has failed to appreciate the importance of both application and evaluation skills. It is strongly advised that all candidates are shown both past mark schemes and previous Principal Examiner's reports. Candidates could then be shown how to mark their own mock examination answers, or those of their peers, and this is a very good example of formative learning.

## Comments on specific questions

### Section A

#### Question 1

This question led to some very well analysed answers. Many candidates explained not only the potential negative consequences of legal constraints on Eastern Motors but also analysed the possible benefits to the company of being seen to observe these controls. For example, if legal restrictions on working conditions are fully observed then the business might benefit from a more motivated workforce and easier recruitment of well qualified workers. This analysis showed a very good appreciation of the doubled edged impact of many legal constraints on business activity.

A common problem was the lack of clear application to this car manufacturing business which, with potentially environmentally damaging production processes and with at least one factory in a low income country, was quite likely to be considerably affected by legal constraints. Weaker candidates tended to just mention the name of the company and assume that this would be adequate to gain application marks.

*Examiners' tip: Encourage candidates to include at least one sentence in their answers to case study questions that starts with: "This factor is particularly important to this business because .....". When encouraged to do this, candidates are often then forced to make a statement that is rooted in the context of the business in the case study and this will be rewarded with application marks.*

## Question 2

- (a) This straightforward calculation question was answered correctly by the majority of candidates. In many cases both the data used and the method of calculation were clearly shown too which is an examination answering technique that should always be encouraged.
- (b) A few candidates focused on the reducing wastage part of this question and gave an answer that was entirely based on operational management techniques such as lean production. As the question specifically asked for a Human Resources strategy this type of answer was not acceptable. The best answers gave a clear indication of the approaches that, in their opinion, should be adopted within the Northcape factory by identifying the essential differences between the HR strategies used within this factory and other Eastern Motors factories, as indicated in Appendix B. Most of the answers that gained high marks did not give a very long list of possible measures that could be adopted, such as replacing the piecework pay system, introducing team working, using quality circles and other suggestions. Instead, perhaps only two or three suggestions were made but they were clearly applied to the problems of wastage and absenteeism. The proposals were then analysed, often by using selective motivational theorists, but, crucially for a good mark, the ideas put forward were evaluated in terms of their effectiveness. This judgement was often shown more than once in very good answers. For example, replacing piecework with a salary based pay system could increase workers' sense of security but would probably require the use of more full time and permanent employment contracts too before it became really effective. In addition, as candidates were asked to make a recommendation, the most important measures that could be incorporated into a new HR strategy should be identified and justified. For example, one candidate suggested: " But perhaps the most important change that Eastern Motors should make would be to introduce quality circles which could have the combined effective of improving quality and cutting out waste as well as making the workers feel more important and giving them status. In a low income country where most workers have little opportunity to have any involvement in the production process this could actually be more important than just increased wages".

It should be noted that the Examiner does not have to agree with the conclusion put forward by candidates but, for marks to be awarded, the conclusion should be based on a reasoned and logical argument.

## Question 3

It is clear that some Centres, perhaps schools and colleges new to this syllabus, have not read previous years Examiners' reports on the issue of candidates' confusion between market research and research and development. If a candidate writes exclusively about market research when the question is focused on research and development then no marks will be awarded. There may, of course, be a link between these two ideas and if answers make this relationship clear then this could become a good analytical point. For example, it can be argued that to increase the chances of some research and development expenditure leading to successful innovative products, initial market research to identify potential demand for products that would fill gaps in the market could be appropriate.

For those candidates that understood R and D this question often scored highly for them. The clues in the text about technical development of new engines and models and the relevance of Appendix C in evaluating the effectiveness of R and D expenditure were often recognised effectively. The quote in the question was designed to provoke debate and discussion and it is rarely advisable for a candidate to begin an answer to a question such as this with a statement such as: "I completely agree with the Chief Executive...."

*Examiners' tip: Encourage candidates to debate both sides of a statement when it suggests that business decisions will: "definitely lead to success" - nothing is guaranteed to succeed in the world of business.*

**Question 4**

- (a) Most candidates correctly answered these two profit margin questions. There were fewer marks than average for just calculations on this paper and this must not be taken as a sign of things to come. There was a considerable amount of numerate data that candidates were expected to refer to and analyse in other questions so this helped to add to the quantitative nature of the paper overall.
- (b) In contrast, many candidates failed to demonstrate essential knowledge about the relative nature of the profit margin concept. It is one thing to calculate a ratio, such as net profit margin, and another to be able to assess how the business might improve the result. The key point about both gross and net profit margins is that they cannot simply be increased by selling more products as so many candidates assumed in their answers. Similarly, a fall in the gross profit margin cannot simply be explained by a fall in sales or a fall in sales revenue unless the costs of goods sold decrease at a slower rate. This last point was missed by many candidates. Good answers focused on both the possible increase in cost of raw materials, especially as Eastern Motors do not source most of their supplies from low wage suppliers, and the impact on Eastern Motors car prices resulting from increasing competition. Answers that suggested that the gross profit margin had fallen either because prices had been reduced with no reductions in the cost of goods sold or the cost of goods sold might have increased with no corresponding increase in prices, were well rewarded.
- (c) Similar points applied to most answers to this question. Good answers tended to focus on possible price increases for Eastern Motors' cars and the impact on net profit was analysed based on this suggestion. Other responses focused more on reducing overhead costs. Very few candidates were able to effectively evaluate their suggestions in the context of this company. For example, how likely would it be for higher prices to be acceptable to Eastern Motors' customers? Would cutting the costs of supplies risk a fall in quality? Would this be an appropriate strategy at a time when the company was considering expanding its product range into sports and luxury cars?

**Question 5**

A notable minority of candidates did not read this question carefully enough before starting their responses. Many answers were focused just on Eastern Motors selling cars to Country Z and no, or little, consideration was given to the own retailing business section of the question. Some marks were often awarded for this approach but the key thrust of the answer had to be concerned with the potential benefits and limitations of direct selling in Country Z through manufacturer owned retail outlets (car showrooms). The case study gave some generous hints to assist candidates but those who ignored the vertical integration forwards part of the question missed these hints. A clear final recommendation was again essential if an answer was to be awarded high marks for evaluation. Some candidates had clearly read the case study carefully and suggested that the management of Eastern Motors had enough problems with falling profit margins and possible new product developments and they questioned whether this was an appropriate time to be changing marketing strategy too. When this type of final evaluation is supported by judgement in the main body of the answer as well, then high marks are awarded for evaluation.

*Examiners' tip: Candidates should be encouraged to gain practice at reading case study questions and essay questions and then discussing what the key elements of the each question are. It is very important that all key terms and phrases in each question are understood and their importance appreciated before starting to answer.*

**Question 6**

This was the more popular of the two essay titles by a considerable margin. On the whole it was well answered with effective use made of the quantitative and qualitative factors mentioned in the case. Many arguments both in favour of and opposing this proposal were analysed including: the time and finance needed to develop these new models; the lack of consumer awareness of Eastern Motors as being a producer of such cars; the changing legal and environmental constraints which might impact on such models; the need for Eastern Motors to take bold strategic decisions to reverse the decline in profit margins; the higher value added likely to be earned on such cars.

Evaluation was often shown within the body of the answer, such as explaining why one factor was more important than another or assessing the risks of product development, and in the conclusion. Interestingly around 50% of candidates who answered this question suggested that it would be a good idea to produce such cars, and about the same proportion who did not. This indicates that the data provided was well balanced and accessible.

### **Question 7**

There were some good answers to this question but many answers seemed to be based on the premise that Eastern Motors was not itself a multinational corporation. It clearly was, and the opportunities that further international investment offered to such a business should have been examined. Similarly, even for a large multinational company there will be threats from low cost producers in other countries who now have the chance of expanding and investing abroad. There seemed to be a common lack of understanding about the impact of MNC investment on the business itself and the industry of which it is a part. A significant proportion of answers were really focused on a different question altogether – the consequences of MNC investment on the host country. This is the standard question on this topic, but it was not the question set on this occasion.