

Mark Scheme (Results)

Summer 2008

IGCSE

GCSE Business Studies and Economics (Nuffield) (1171) Paper 1F

1171/1F Mark Scheme June 2008

Question Number	Indicative content
1(a)	<ul style="list-style-type: none"> • To earn money - generate an income/ profit. • Personal fulfilment and satisfaction. • To take control over their own lives/ be their own boss/ improve flexibility. • The personal challenge/ desire to take a risk. • A desire to take responsibility/ work for themselves. • To exploit a gap in the market. • Satisfy consumer needs. <p>Any four appropriate reasons, 1 mark per reason. The question requires a list so there are no marks for the elaboration of a point.</p> <p style="text-align: right;">4 marks</p>

Question Number	Indicative content
1(b)	<p>If Marie had gone to a bank to borrow money, then the bank would have wanted some evidence that she would be in a position to be able to pay back whatever money they might have agreed to lend her or that managing her account would be a worthwhile risk for the bank. The business plan would provide some of that evidence as it covers information about cash flows, expected revenues, costs and so on. It would show the bank that Marie had thought through the issues relating to her business and good planning helps to improve the chances of business success. The business plan could also be used by the bank to determine the level of collateral/ assets the bank can use as security against the loan.</p> <p>1 mark for some recognition of the purpose of a business plan and up to three marks for the development of the explanation. The link between good planning and the reduction in the risk for the bank is essential for maximum marks although the terminology used might not be so specific. Candidates who consider the use of the business plan to determine the level of collateral/ rate of interest charged should be awarded at the top end of the mark scheme. At the lower end of the mark range, a simple link only will be made such as 'to show the business will be a success' but there will not be any recognition of the risk element.</p> <p style="text-align: right;">4 marks</p>

Question Number	Indicative content
1(c)	<p>Primary research refers to research carried out by the business concerned at first hand. It takes the form of surveys, questionnaires, focus groups, user test results and so on.</p> <p>Secondary research refers to research carried out by another business or organisation but which is used by the business. It is also referred to as 'desk research'. Examples might include research carried out by market research organisations (such as Mintel), surveys in magazines, census information, data collected by the government, statistics from the ONS, internet research etc.</p> <p>Up to 2 marks for an accurate definition of each type of research and a further 1 mark for the use of an appropriate example for each. An imperfect definition with some elaboration could enable the candidate to raise their definition to full marks.</p> <p style="text-align: right;">6 marks</p>

Question Number	Indicative content
2(a)	<p>A forecast would give Marie some idea about the prospective cash flows into and out of the business over a period of time. If these cash flows are negative then it is likely that she might have to find a way of supporting the business during that time. She might have to make contact with a bank to get support in the form of an overdraft. The bank might also want to see the forecast as evidence that Marie had carried out some valid market research and that her forecasts were realistic before offering some support. The forecast would also help her to anticipate potential problems before they arose and so plan ahead. She is likely to find out just how long it will take her to move into profit and therefore know just what she is letting herself in for.</p> <p>1 mark for some form of implied or explicit definition of cash flow and up to 3 marks for the explanation offered. Candidates who make the link between the provision of the forecast and the ability to plan ahead effectively are likely to be at the top end of the mark range. Those who merely suggest that it is used to 'see if she is doing OK' will be at the lower end of the range. Those who confuse a cash flow forecast with a profit/ loss account will not gain any reward.</p> <p style="text-align: right;">4 marks</p>

Question Number	Indicative content
2(b)	<p>ROCE = profit / capital employed x 100</p> <p>$(35,000) / 50000 \times 100 = -70\%$</p> <p>$(35,200) / 50000 \times 100 = -70.4\%$</p> <p>Candidates can use either of net profit/ loss or operating profit in their calculation of ROCE.</p> <p>Gross profit margin = gross profit / revenue x 100</p> <p>$2000 / 5000 \times 100 = 40\%$</p> <p>Each calculation is worth 4 marks with 1 mark for the formula, 1 mark for workings and 1 mark for the answer, and 1 mark for the correct units i.e. %. Subtract one mark for an arithmetic slip e.g. ROCE not being negative.</p> <p style="text-align: right;">8 marks</p>

Question Number	Indicative content
3(a)	<p>A profit and loss account shows the money received from sales over a period of time and the costs of production to finance those sales over a period. It will show the profit (or loss) made as a result of trading over that period.</p> <p>A balance sheet is a record of a company's assets and liabilities at a specific point in time; as such it is a stock as opposed to a flow as represented by a P&L account.</p> <p>The key distinction that will tip the balance in this question relates to the recognition that a balance sheet represents the view of the business at a point in time. Use of the terms assets and liabilities in the definition of a balance sheet is also likely to be a sign that the candidate has some command of the relevant terms.</p> <p>Up to 2 marks for an appropriate recognition of the characteristics of a balance sheet and up to 2 for that of a profit and loss account. These are basic terms that students at all levels should have some awareness of. The quality of the language used is likely to be the key discriminator.</p> <p style="text-align: right;">4 marks</p>

Question Number	Indicative content	
3(b)	<p>Given that this is the first year of trading it is highly unlikely that Marie will be making a profit. The start up costs and the fixed costs involved will be a relatively high proportion of total costs and there will not have been enough revenue generated to make a profit - she will not have had time to break even. Most businesses have a period where they make losses in the early stage of the business and this is not a problem provided the businesses sales start to grow in subsequent years and costs are kept under a degree of control.</p> <p>She might take several years to break even. It is highly unlikely therefore that she will go into receivership. Businesses that go into receivership are those who have not been able to generate sufficient revenue to be able to pay debts. If Marie is not able to boost her sales in the next year then she might be in trouble.</p> <p>This is a challenging question and candidates who show some understanding of the application of break even or the situation when a business first starts are likely to be in the upper levels of the mark range. It also requires that the candidate makes some form of judgement and we are looking for some support for that judgement to be in evidence.</p> <p style="text-align: right;">6 marks</p>	
Level	Mark	Descriptor
Level 2	4-6	An answer that shows an understanding of the distinction between a firm going into receivership and one which has not yet broken even. The language used may not be sophisticated but there will be evidence of the understanding present in the answer. At the very top of the mark range a judgement will have been made (i.e. whether she will go into receivership or not) and some simple support made for the judgement. The quality of written communication will be of a high standard with minimal errors in spelling, punctuation and grammar and appropriate use of terminology throughout.
Level 1	1-3	An answer which misses the point of the question and does not show an understanding of the distinction between receivership and break even/ making a loss. There may be some judgement made in the answer but the quality of the support may be lacking. For example, 'she will go bust because she is not making any money'. The quality of written communication will be limited with frequent errors in spelling, punctuation and grammar and limited use of appropriate terminology.

Question Number	Indicative content
4(a)	<p data-bbox="427 264 1412 331">Given that Joseph decided to set up as a private limited company there are a variety of sources of finance he could have chosen. These include:</p> <ul data-bbox="671 367 1070 544" style="list-style-type: none"> • Shares (family and friends) • Own savings • Bank loan • Venture capital • Selling assets <p data-bbox="427 580 1412 884">There will be 1 mark for identifying the appropriate source of finance and up to 2 marks each for the development of the description. A well developed description that earns the full two marks will make reference to the detail related to the source of finance and show how it can be used as a source of finance to start up a business. Less well developed descriptions might simply say something like 'he could use a bank loan from a bank and they lend him the money to start the business. A more developed answer would recognise that he might be charged a rate of interest or that the loan would typically be long term and so on.</p> <p data-bbox="1313 887 1412 913" style="text-align: right;">6 marks</p>

Question Number	Indicative content
4(b)	<p data-bbox="427 1046 1412 1585">The answer will obviously depend on which two sources of finance the student has chosen in part (a). As a general rule, therefore, we are looking for an explanation that recognises the problem/s in using that source of finance. In the case of a bank loan, for example, the candidate might comment on the interest payments and how these might change over time. There might be a comment over the time and administration that needs to be given up to secure a bank loan or that the bank will act as one of the creditors and could force the company into liquidation if payments are not kept up. The marks will be divided into two sections - 3 for each problem offered. There will be 1 mark for identifying the problem and a further two for the quality of the explanation. Good quality explanation will show an awareness and understanding of the economic and business issues related to the problem with appropriate use of terminology. Weaker explanation will lack detail and be of the type: 'Shares are a problem because he does not have control over the business. This means he has to ask other shareholders before doing things.'</p> <p data-bbox="1313 1588 1412 1615" style="text-align: right;">6 marks</p>

Question Number	Indicative content
5(a)	<p>The problems might relate to the disadvantages of being a sole trader. Expect to see:</p> <ul style="list-style-type: none"> • Limited access to capital • Unlimited liability • Lack of support and help • Lack of expertise in certain areas of business - e.g. accounting <p>1 mark for identifying the appropriate problem and up to two for the subsequent explanation. At the top end of the mark range the explanation will use appropriate terms and show a clear understanding of the problem. At the lower end the candidate will offer a simple development of the problem only: 'Joseph will have unlimited liability and could lose everything'.</p> <p style="text-align: right;">6 marks</p>

Question Number	Indicative content
5(b)	<p>Businesses have to take out a variety of different insurance policies not only to cover for the likes of fire or damage to the premises but also to cover them for injury sustained on the premises, insurance for employees working in the business and so on. The problem will need to be explained in the light of a business not having such cover.</p> <p>1 mark for identifying the problem and up to 3 further marks for the explanation. Good quality explanation worthy of the full 3 marks will recognise the immediate consequence and be able to extend this to offer a link to the effect on the business. For example, not having cover against fire might mean that the business loses all its stock and as a result cannot fulfil orders. This creates a possible cash flow problem and could put the firm into serious difficulties.</p> <p>Weaker explanation will simply offer a development but will not extend this: 'If he is not covered against fire he could lose everything and go bankrupt'.</p> <p>Reward candidates with a maximum of 2 marks if they approach the question from the perspective of looking at what the firm could have received if they had insurance.</p> <p style="text-align: right;">4 marks</p>

Question Number	Indicative content
6(a)	<p data-bbox="427 232 1426 398">Any two relevant factors could be given - generically they could relate to falling incomes as a result of an economic slowdown, a change in tastes, successful advertising by rivals, cheaper substitute products, expensive installation charges, warmer weather and so on, as well as the seasonal nature of demand.</p> <p data-bbox="427 439 1426 674">1 mark for identifying the appropriate cause and a further 2 marks each for the explanation. As with previous questions, the distinction between 3 and 2 mark responses will be in the quality of the terminology used and the level of business and economic understanding displayed. Simple explanation will make a link but not offer any development of the link: Demand might have fallen because people's income has fallen and they have less money'.</p> <p data-bbox="1315 674 1426 703" style="text-align: right;">6 marks</p>

Question Number		Indicative content
6(b)		<p>A challenging question related to Unit 1, enquiry 3.</p> <p>The type of product that is Marie's bags might mean that price is important to her competitiveness. It is a 'luxury' product in many ways and if someone is giving a bottle of wine as a gift then if price is too high then people may not buy them.</p> <p>For Joseph, quality might be the really important thing - the radiators have to be reliable and work effectively and efficiently. People might be prepared to pay a little extra on the price for a good quality product.</p> <p>A judgement being offered will get 1 mark. The remaining marks are for the quality of the analysis and support for that judgement. Expect to see a balance to the answer with both products considered for top marks with some candidates echoing the comments made in the suggested answer above.</p> <p>At the lower end of the mark range, candidates will have a limited understanding of the role of price and quality in competitiveness. They are likely to treat both products the same and make relatively bland statements about how price and quality are important but with little support or evidence of understanding of the business/economic issues.</p> <p style="text-align: right;">6 marks</p>
Level	Mark	Descriptor
Level 2	4-6	An answer that shows an understanding of the role of price and competitiveness related to both products. There will be a well developed analysis of why / how price might be more important to Marie than to Joseph. Judgements made are well supported. The quality of written communication will be of a high standard with minimal errors in spelling, punctuation and grammar and appropriate use of terminology throughout.
Level 1	1-3	An answer which demonstrates a limited or confused understanding of the role of price and quality in competitiveness. Answers in this level will have limited development but might make simple and unsupported judgements or judgements which have weak support. The quality of written communication will be limited with frequent errors in spelling, punctuation and grammar and limited use of appropriate terminology.

Question Number	Indicative content
7(a)	Any two appropriate measures can be accepted. Expect to see advertising, price reductions, free gifts, promotional activities, changes to the product range e.g. air conditioning and fans etc. 1 mark for each appropriate way. 2 marks

Question Number	Indicative content
7(b)	The intention is to encourage students to offer some sort of evaluative comment. Answers are likely to start with a judgement based on the method chosen (1 mark). The supporting information, if appropriate and well argued, could then get up to a maximum of 5 marks. At this level the candidate will have offered a coherent argument in support of the method they have chosen. The response will be developed and well structured using appropriate terminology. To get beyond this, there has to be a direct comparison between the two methods or at the very least some comment about both methods. At the higher end of the mark range, the comparison will demonstrate clear evaluative comment. 8 marks

Level	Mark	Descriptor
Level 2	5-8	A clear reference to both methods is made. The development is strong and well argued and at the top end of the mark range there is clear evidence of evaluative comment. The quality of written communication will be of a high standard with minimal errors in spelling, punctuation and grammar and appropriate use of terminology throughout.
Level 1	1-4	A judgement is made and the candidate offers some development of the point. At the top end of the mark range, the justification offered is well argued and clear but no reference is made to the other method. At the lower end of the mark range some simplistic development is offered but there will be evidence of a lack of understanding. The quality of written communication will be limited with frequent errors in spelling, punctuation and grammar and limited use of appropriate terminology.

Question Number	Indicative content
7(c)	<p>Marie could use facilities like an overdraft although this tends to be relatively short term and would depend on how understanding and flexible her bank was. She could have used some of her own savings or arranged a bank loan to cover the loss. She would have had to persuade the bank that the loan was a worthwhile measure for them to take which might not be easy. As it is her first year of trading her bank might be a little more understanding and it will depend on the strength of her business plan whether she will be able to persuade them to grant her the leeway she needs.</p> <p>This is an open ended question and we are looking for some evidence of business understanding in the answer. The intention is to get candidates thinking that businesses do make a loss but do not automatically go into receivership.</p> <p>The answer might be expected to have a method plus some explanation. There might be two methods offered plus some development of each point in which case the answer can be marked as 1 + 2 (x2).</p> <p>Do not reward candidates who look at ways of restoring profitability next year, since the question is specific in its aims of getting candidates to consider how a loss can be managed.</p> <p style="text-align: right;">6 marks</p>

Question Number		Indicative content
7(d)		<p>The pricing strategies that are outlined in the spec cover cost plus and competition pricing. Many candidates in the past have referred to such strategies as psychological pricing, penetration pricing, market skimming and so on. These are all acceptable but not expected.</p> <p>There will be 1 mark available for the pricing strategy identified and up to 5 further marks for the discussion. We will be expecting candidates to comment on how, and the extent to which, the pricing method would lead to an improvement in sales. Some understanding of the mechanism through which the pricing strategy leads to a rise in sales will be expected to reach the top end of the mark range.</p> <p style="text-align: right;">6 marks</p>
Level	Mark	Descriptor
Level 2	4-6	A clear understanding of the pricing strategy selected with a clear link made between it and the rise in sales. There will be some evidence of evaluative comment relating to the command word 'discuss' in this level. The terminology used will be appropriate and there will be a sense that the candidate understands the business/economics behind their answer.
Level 1	1-3	Some understanding of a pricing method is shown but the supporting analysis is weak and simplistic. There will be a lack of appropriate terminology used. This simplistic understanding might be of the form: 'if they charge a lower price than other firms, people will buy their products and their profit will go up'.

Question Number		Indicative content
7(e)		<p>This question is designed to offer an extension to the first question in Section B where advertising might be mentioned by candidates. Advertising can be an effective method of increasing sales and it could be argued that if it did not work then businesses would not use it. However, the command word here is 'assess' and so we will be looking to reward candidates who demonstrate this skill.</p> <p>Balance to the answer is essential to get to the higher level. Advertising might well be very successful but it might miss the point in lots of ways. Consumers might not understand it, it can be expensive, it makes little difference how good the advertising is if the product is poor or if the pricing is wrong and even if the place is inappropriate, e.g. even if you advertise Joseph's sales will not rise because its summer. We would hope, therefore, that candidates could use at least one of the other elements of the marketing mix (including other promotional methods) to be able to offer the balance necessary to enable a judgement to be made and supported.</p> <p style="text-align: right;">8 marks</p>
Level	Mark	Descriptor
Level 2	5-8	A clear and well constructed answer that has balance and which offers a clear and well supported judgement. The effectiveness of advertising in comparison to other forms of promoting sales will be an obvious strand throughout the answer at this level. At the lower end of the mark range, the support may be less confident and the quality of the explanation offered less coherent. The quality of written communication will be of a high standard with minimal errors in spelling, punctuation and grammar and appropriate use of terminology throughout.
Level 1	1-4	An answer which is able to cover some of the basic elements of advertising but which does not offer any balance to the answer and thus does not fulfil the assessment objective being targeted. The quality of written communication will be limited with frequent errors in spelling, punctuation and grammar and limited use of appropriate terminology.

