

Mark Scheme (Results) Summer 2008

IGCSE

GCSE Business Studies and Economics
(Nuffield) (1171) Paper 3H

1171/3H 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		<p>The intention of this question is to encourage candidates to be able to show their understanding of the use of a profit and loss account and what it tells about the business. The question focuses on the first year of operation and this is important in setting the context for the answer. There will also be some expectation of an implicit understanding of what 'effectiveness' means in this context. Given that the company has yet to break-even, some understanding of the role of fixed costs in setting up and establishing a business will be relevant.</p> <p>The answer will be in two parts; first, an analysis of the profit and loss account. It will be expected that the candidate will be able to recognise the key figures in the account and ascribe some meaning to them. The second part focuses on what it tells them. It may be that some candidates will suggest that the losses being made are terminal and that the business will close down. The more astute will appreciate that this represents the early stages of the business and use the evidence to point out that the deal with the supermarket is likely to see sales grow in future.</p> <p style="text-align: right;">12 marks</p>
Level	Mark	Descriptor
Level 3	9-12	A well constructed answer that offers a clear analysis of the account. The candidate will recognise the key figures in the data and be able to comment on these. The candidate will be able to recognise that the position the business is in represents the first year of operation and that it might be expected that losses would be made at this time. At the top end of this level there will be a thorough analysis of the p/l account and clearly developed comment on the businesses performance.
Level 2	5-8	An answer that shows some understanding of the structure and meaning of a profit and loss account. The use of the data is less convincing and the comment more simplistic than that in level 3. At the lower end of the band, this simplicity will be more evident whereas the top end of the band will give more of an impression that there is some underlying understanding present but the language use may be less convincing. At the top end of this band expect to see some comment on the performance of the business in its first year.
Level 1	1-4	A limited answer with only a very simple understanding of a profit and loss account. Candidates in this level are likely to make a comment that the firm is likely to have to close down. Thus the candidate does not show any understanding of the context of the business. A mere repetition of the data in evidence C would peg an answer in this band, along with candidates who believe the firm has made a net profit rather than a loss.

Question Number		Indicative content
4		<p>By choosing to opt for private limited company status, Joseph would have had to have enough of his own money to be able to buy shares in the company or if not to be in a position to be able to persuade others to invest in the business. This might be friends and family or other investors. In bringing in other people who effectively own the business he has to accept some share in the responsibility. This can be positive but at the same time can cause tension within the business. It might be relatively easy, if there are friends and family, to be able to raise capital and this is one of the advantages of setting up as a private limited company.</p> <p>Raising money through a bank loan has the obvious disadvantage that it attracts interest payments. If the loan has a flexible interest rate this can be damaging when interest rates rise. In addition, the process that a firm has to go through to secure a bank loan can be lengthy, time consuming and expensive with no guarantee at the end that the bank will lend the money needed. The bank then becomes a creditor of the company and this can put pressure on businesses, especially young businesses, trying to get established.</p> <p style="text-align: right;">10 marks</p>
Level	Mark	Descriptor
Level 3	8-10	A well balanced answer that shows a clear understanding of the two sources of finance and the respective problems they present. The style of the response in this level shows a degree of maturity in being able to draw the comparison between the two. 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 2	4-7	Some understanding of the two sources of finance is demonstrated and some problems are alluded to. The development of the problems will be more simplistic than in level 3 and the attempt to draw the comparison less convincing. At the lower end of the mark range simple statements with simple development might be given but with little or no extension of the idea provided. The quality of written communication will be reasonable but there may be some errors in spelling, punctuation and grammar and limited use of appropriate terminology. A maximum of 5 marks can be awarded where the response is heavily focused on just one source of finance.
Level 1	1-3	Answers in this level might just be in the form of a list or some simple statements about loans and shares with little or no development. Some candidates in this level might spend a great deal of time writing but not say a great deal, characteristic of waffling and a lack of understanding. The quality of written communication will be limited with frequent errors in spelling, punctuation and grammar and limited or no use of appropriate terminology.

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>Product innovation is one of the ways in which a firm can grow. If new products are developed and if they meet market needs then they can generate sales revenue. As sales continue to grow, the firm might need to expand to produce more and so the firm grows in size. Marie is going to be operating on a different scale because of the deal with Morrisons. Her product is new and innovative and it looks like she might be heading for some success with the product.</p> <p>1 mark for recognising that product innovation involves developing a new or enhancing an existing product. 1 mark for recognising that innovation will help generate sales/ extend product life cycle. 1 mark for the link with sales revenue/ demand and growth of profits. 1 mark for placing the explanation into context - the candidate can use either Stupid Bags or Electrowarm.</p> <p style="text-align: right;">4 marks</p>

Question Number	Indicative content	
6(b)	<p>This question is looking to get candidates to draw on factors that might help businesses become competitive as well as price. Unit 1 Enquiry 3 is the key specification area that this is targeting. We are looking for an explanation of the importance of the role of price in being competitive. If one firm's price is lower than another, similar, firm then it is likely to be considered more competitive and can expect to gain sales.</p> <p>However, the command word is 'discuss' so we are also looking for candidates to balance the response on price with other factors that affect competitiveness such as quality or after sales service. Both of these might be very important for Electrowarm. The price of the heaters might not be the key factor that people are looking for when buying such a product. For Marie, price might be more of a factor but if the product itself is of poor quality (i.e. the bottle falls out the bottom or the handles come off) then people are not going to buy them.</p> <p style="text-align: right;">8 marks</p>	
Level	Mark	Descriptor
Level 2	5-8	A well developed explanation of the link between price and competitiveness with a recognition of the effect on sales if price is lower than a competitor. This level will also be characterised by a recognition of at least one other factor affecting competitiveness. At the top end of the range, the answer will be clearly linked to the evidence, and will have a clear analytical slant, although it is not important which firm is referred to.
Level 1	1-4	An answer that shows some recognition of the link between price and competitiveness but which tends to make simple links only. At the top end of the range there might be some reference to other factors but, again, will make a simple link only. At the middle to bottom of the range there might be some reference to price only.

Question Number		Indicative content
7(a)		<p>The scope for the solutions to the problem here are very wide. They could incorporate any of the four Ps but expect to see plenty of advertising campaigns and pricing strategies offered as the main suggestions. The command word is 'discuss'. This implies that there is some element of evaluative comment expected. Such comment might mention that the solution offered '<i>would depend...</i>'; it might be that the candidate offers some justification for the strategy or suggest which of the two they have suggested would be the better one. All of these things are signs of evaluative comment.</p> <p style="text-align: right;">8 marks</p>
Level	Mark	Descriptor
Level 2	5-8	A well argued answer that clearly covers two solutions and offers a coherent development of them both, Answers in this level will have some evaluative comment clearly identified but at the lower end of the mark band less convincing or more simplistic in tone.
Level 1	1-4	Answers in this level will provide two solutions but will offer only limited development of the solutions raised. Any evaluative comment that is made will be simplistic and lack any development. An answer that only deals with one solution but which gives some convincing development and evaluative comment can get a maximum of 4 marks.

Question Number		Indicative content
7(b)		<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(c)	<p>The command word is 'discuss' which implies some element of evaluative comment is required in the answer. There will be 1 mark for identifying the appropriate pricing strategy and a further 5 marks for the quality of the development. At the top of the mark range the candidate will show a clear understanding of how the pricing strategy chosen would enable Marie to be able to grow her business.</p> <p>This might take the form of cost plus pricing or competitive pricing for example. She might be able to find some way of reducing costs which would allow her to be able to set a competitive price and gain some market penetration. It is a relatively new product so pricing may be important. Evaluative comment might take the form of the candidate suggesting that the success of the strategy depends on whether there are any other competitors or the extent to which Marie wants to make profits. If she added a large mark up onto her product she might not be as successful as if she only added a small margin. Other pricing strategies that could be adopted include: penetration pricing, skimming and even predatory pricing if explained logically and in context.</p> <p>At the lower end of the mark range the answer will make some simple statements and offer some simple development and there will be no evidence of evaluative comment.</p> <p>Candidates who consider promotion or special offers e.g. BOGOF should be given no credit since the question clearly requires a pricing strategy.</p> <p style="text-align: right;">6 marks</p>

Question Number		Indicative content
7(d)		<p>This question is linked to Unit 1, Enquiry 5. We will be expecting some explanation of the role of competitiveness in business failure. This could be signalled by falling sales, having too high a price or simply not meeting customer needs by having a poor quality product.</p> <p>We will also be expecting candidates to offer some balance to their answer in the form of other factors that can lead to failure - especially cash flow problems or perhaps an economic downturn/ recession. The best candidates will have a clear evaluative slant which is based on solid analysis and will consider the degree to which lack of competitiveness can cause a small business to fail.</p> <p style="text-align: right;">10 marks</p>
Level	Mark	Descriptor
Level 3	8-10	A well structured response which shows a clear understanding of factors leading to competitiveness. The balancing factor may well be cash flow and such answers are likely to be at the top of the mark range but not exclusively so. If the argument put forward is sound other factors can be accepted. E.g. recession, lack of capital etc. 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 2	4-7	Some understanding of the factors affecting competitiveness is shown but the answer will tend to make an assumption that this is the only reason why a small business might fail. Some evaluative comment will be present but in simple form: 'If a firm is not competitive then it is likely that it will not do very well and go into receivership'. At the top end of the range there is likely to be some element of balance but the explanation or development is limited. The quality of written communication will be reasonable but there may be some errors in spelling, punctuation and grammar and limited use of appropriate terminology. A response which has a pure focus on competitiveness alone with no evaluative comment is pegged to the bottom of this band.
Level 1	1-3	Limited understanding of competitiveness will be evident in this level. The development of points, if made, will be simplistic and lack understanding of the context of the businesses. There will be no evaluative comment in this level. The quality of written communication will be limited with frequent errors in spelling, punctuation and grammar and limited or no use of appropriate terminology.

