



**BUSINESS AND ORGANISATION  
STANDARD LEVEL  
PAPER 2**

Monday 6 November 2000 (morning)

1 hour 45 minutes

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**INSTRUCTIONS TO CANDIDATES**

- Do not open this examination paper until instructed to do so.
- Answer four questions.

1. Pezfresh is a fish freezing and packaging plant based in South America. It is 1km away from the local port. Fixed assets include the plant, fishing boats and trucks (lorries) used to transport fish from the port. Workers have complained that they have to work in poor conditions, which do not conform to health and safety recommendations. Particular problems include:

- very low working temperatures
- no chairs, so they have to stand up for 8 hours
- no lunch or coffee breaks
- an unhygienic, dark and smelly environment

The manager has told the workers that the firm is finding it difficult to stay competitive in a global market and any improvement in conditions will have serious implications for the workers.

- (a) Explain what is meant by fixed assets and why Pezfresh has decided to buy boats and trucks (lorries) instead of leasing them. *[4 marks]*
- (b) Describe in detail **two** reasons why the workers accept the conditions in which they work. *[4 marks]*
- (c) The human resource manager of Pezfresh has agreed to listen to the views of the workers. Write a detailed memo to her, discussing how productivity would increase if conditions improved. Use motivational theories to support your answer. *[8 marks]*
- (d) Evaluate **two** reasons that explain why Pezfresh is finding it increasingly difficult to compete in a global market. *[4 marks]*

2. Fun Time is an organisation that provides entertainment for children’s parties. It has been developed by 3 friends on an informal basis who have decided to form a partnership, and have asked a lawyer to help them write the Deeds of Partnership (Association). They currently rent a big house that is used for parties on a daily basis. At weekends they sometimes have two parties, one in the afternoon and one in the evening. Business is increasing in such a way that they need to find a way of expanding. They are considering the following growth alternatives:

**Figure I - Growth Strategies**

I	keep renting the house where they operate at present and buy another house for the business
II	rent one house per partner, so that each partner manages one of the party houses
III	grow by franchise

- (a) Explain **three** benefits of forming a partnership. *[3 marks]*
- (b) Give **four** examples of the statements (articles) that would appear in their Deeds of Partnership (Association). *[4 marks]*
- (c) Give **three** reasons to explain why the friends decided against a private limited company. *[3 marks]*
- (d) Assess the **three** growth strategies in Figure I examining **two** advantages and **two** disadvantages of each. *[10 marks]*

3. Newland is a privately owned school; it is a profit-seeking organisation. The school has been growing steadily for the past ten years and has borrowed money from the local bank to build an extension to the high school. At the end of this academic year, the country where the school is located went into a deep recession, with the level of unemployment increasing to 23%. Suddenly enrolment for the following academic year went down by 10%. The school administrator is anticipating financial problems. He keeps saying that they will have cash flow problems during the summer months (January and February) and all through the coming year.

The school divides its annual costs in the following manner:

\$750 000 is spent on staff (teachers, assistants and other workers). Staff salaries are paid each calendar month (12 months).

\$250 000 is spent on overheads (fixed costs) divided over the 10 months during which the school is open.

The sales revenue for the current year is \$1 000 000 ( $\$500 \times 200$  students =  $\$100\ 000 \times 10$  months). The students pay monthly when they are at school.

- (a) Construct a cash flow forecast. Start the cash flow in January.  
(N.B. enrolment will be going down by 10%.) *[7 marks]*
- (b) Explain the purpose of a cash flow forecast. *[3 marks]*
- (c) Consider the cash flow forecast and identify **two** problems that might arise. Explain **two** options available to the school administrator if he decides to keep the school open all year. *[4 marks]*
- (d) Analyse each of the alternatives below and choose the best one for the school at this time.
- (i) put the fees down
- (ii) put the fees up
- (iii) leave the fees unchanged and devise a new marketing strategy *[6 marks]*

4. A European multinational telephone firm Eurobell has received information about the privatisation of an inefficient state telephone company Latinabell, based in a Latin American country. Eurobell has decided to bid (tender) to run the company. This will mean that they can double their profit margin. The government guarantees a 10 year contract protecting Eurobell from competition. It seems to be a golden opportunity. After 10 years the government will open the competition and allow other telecommunication firms to invest in the country.
- (a) Explain **two** reasons why you think the Latin American country decided to privatise Latinabell. *[4 marks]*
  - (b) Outline why governments might choose to sell property owned by the state by public tender. *[2 marks]*
  - (c) Explain how profit margins are measured and why they might be larger if there is no competition. *[4 marks]*
  - (d) Give **two** reasons to explain why the government is selling the firm with a ten year contract guaranteeing no competition. *[4 marks]*
  - (e) Advise Eurobell on the plans that they need to make as they near the end of their ten year contract. *[6 marks]*

5. The following are statements made by the Director of Foreign Sales of the firm Muriel Ltd. The firm makes wallpaper and has recently started to export.

*“We are working hard to try and meet delivery deadlines and promises made to our clients. However, we find that obtaining financial credit is difficult and our local government does not give us any support. On the contrary, we are heavily taxed relative to other countries and our labour laws are very strict. We are finding it very difficult to compete internationally.”*

The Director of Foreign Sales has decided to meet with other exporting firms to write to the government with the purpose of:

- I showing the government that firms who export are important for the country
- II asking the government to take measures to assist these firms

- (a) The exporting firms have written to the government. Evaluate **three** arguments that the firms would have included in part I and **three** arguments included in part II. [6 marks]
- (b) Describe **three** benefits that firms seek when trying to sell internationally. [3 marks]
- (c) Explain why you think that financial credit is necessary for this type of firm. [3 marks]
- (d) A government can impose direct and indirect taxes on firms. Explain with an example what is meant by **direct** and **indirect** tax. [4 marks]
- (e) Explain the meaning of the phrase ‘*labour laws are very strict*’ and show how more flexible labour laws could be beneficial for the firm. [4 marks]

6. A large car-manufacturing firm is thinking of buying out (taking over) a smaller car manufacturer in a South Asian country. To be able to afford this purchase it is selling shares to the public and it also wants to sell some shares to existing shareholders. Some of the managers in the firm advise against selling shares to finance the purchase: they want the firm to finance the operation by obtaining a long term loan. As soon as the takeover rumour started spreading, the price of shares started to increase rapidly.
- (a) Why might the large firm be seeking to buy the smaller firm in South Asia? *[3 marks]*
  - (b) Why might existing shareholders be willing to buy shares? *[2 marks]*
  - (c) Give **two** reasons to explain why the takeover rumour pushed up the price of the shares. *[4 marks]*
  - (d) Explain what is meant by economies of scale and why this may be a factor for the large car manufacturer. *[3 marks]*
  - (e) Assess **two** advantages and **two** disadvantages of financing the purchase by:
    - (i) selling shares *[4 marks]*
    - (ii) obtaining a long term loan *[4 marks]*

7. Peter works in the purchasing department of a firm which manufactures furniture. The furniture is made to order. The buyer specifies what type of furniture is needed, the quantity, the delivery date and then the furniture is made. Management is trying to decide whether ordering wood “just-in-time” for manufacture represents an approach that could help cut inventory costs and improve productivity, rather than stockpiling wood. Peter has been assigned the task of comparing “just-in-time” to the present system of buying enough raw materials to satisfy long term needs.
- (a) Explain what is meant by “just-in-time”. *[2 marks]*
- (b) Define productivity and show why improving productivity will help the firm become more profitable. *[4 marks]*
- (c) Assess **two** advantages and **two** disadvantages of ordering wood “just-in-time” and stockpiling wood. *[4 marks]*
- (d) Suggest and explain **two** alternative plans that could be adopted to increase the productivity of the firm. *[4 marks]*
- (e) Assuming productivity does not change, explain **three** different ways in which the sale of furniture could be increased. *[6 marks]*



8. A multinational firm has decided to invest in a developing country in South America. It produces paint. It has built a state-of-the-art manufacturing plant that complies with all international regulations and will allow the firm to sell its paints all over the world. The firm has contributed to the well-being of the country by creating employment and purchasing domestic materials. It will also contribute to the inflow of foreign currency. However, a local pressure group has discovered that the waste products of the firm are being dumped into the river. There are two local non-governmental organisations (NGOs) trying to persuade the government to force the firm to either install a waste processing plant or leave the country. The multinational has however developed a strong community focus by opening homes for the homeless in a very poor area of the country.
- (a) Give reasons to explain why the multinational is choosing to dump its waste products into the river. *[4 marks]*
- (b) What is a non-governmental organisation (NGO) and why is this type of organisation growing in number and importance? *[4 marks]*
- (c) What are the possible measures a government could take in order to stop the firm polluting the river? Explain the effect that each one would have on society. *[7 marks]*
- (d) Assess, from a strategic point of view, the decision made by the government to force the multinational to install the waste processing plant or leave the country. *[5 marks]*
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