

MARK SCHEME for the October/November 2006 question paper

0450 BUSINESS STUDIES

0450/02 Paper 2 (Case Study), maximum raw mark 100

This mark scheme is published as an aid to teachers and students, to indicate the requirements of the examination. It shows the basis on which Examiners were instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began.

All Examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes must be read in conjunction with the question papers and the report on the examination.

The grade thresholds for various grades are published in the report on the examination for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level syllabuses.

- CIE will not enter into discussions or correspondence in connection with these mark schemes.

CIE is publishing the mark schemes for the October/November 2006 question papers for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level syllabuses and some Ordinary Level syllabuses.

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N.B. Application marks are not awarded for the name of the business or person from the case material. Application is by answering in the context of the case or by using the information in the case to help answer the question.

1 (a) (i) *Identify TWO possible objectives of Bettabuild.*

[2]

Content: To make a profit; to survive; to expand/increase market share/increase sales; to diversify; to produce a quality product.

	Application
Level 1	1 - 2 marks 1 mark for each suitable objective.

(ii) *Explain why each of these objectives might be important for Bettabuild.*

[6]

Content: Profits allow a return for shareholders or reinvestment; survival is important for any business if it is to keep trading and be competitive; expansion as the business seeks to increase its profits in the future and gain a greater market share; diversification reduces risk and could also increase profits.

Application & Evaluation
Up to 3 marks for each objective explained as to why it might be important to Bettabuild.
3 + 3 marks

(b) *Managing the finances of a rapidly growing business is very important. Why do you think Sheena, the Finance Manager, is concerned about Bettabuilds' cash flow? Explain your answer.*

[12]

Content: Expansion requires large cash outflows for equipment and this needs to be financed. If it is financed by loans there will be cash inflows but also repayments going out. Cash inflows will be slow to flow in as it takes time to build new houses, hence large amounts of cash flow out and it can take a lot of time before cash flows back in.

	Application	Knowledge/Analysis and Evaluation
Level 2	2 marks Reasons well applied to the case study.	7 - 10 marks Explains why cash may flow out & why cash may not be flowing in. Makes it clear why there may be a problem in terms of timing of the flows.
Level 1	1 mark Limited application to the case study.	1 - 6 marks Lists why cash may flow out &/or why cash may not be flowing in. Definition - cash inflow/cash outflow (2 max for definition only).

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- 2 (a) Complete the advertising poster for Bettabuild in the box below. Use the information in the case study to help you decide on the advertising messages to use to sell their existing high quality houses.

[8]

Content: High quality emphasised by quality materials used or modern design; families emphasised for example by large kitchen, family bathroom or large garden. Other information could be: name of business; price; contact details; experience of the business; security/alarm; guarantee; high quality product; lead time; skilled workers/quality raw materials; location.

1 mark for each relevant point in the advertisement.

1 additional mark if the point is related to the case.

Up to a maximum of 8 marks.

- (b) Bettabuild are planning to diversify into building blocks of apartments. How would you advise Bettabuild on the **most** effective methods to research the market for low cost apartments?

[12]

Content: Primary research could include questionnaires, interviews, and consumer panels. These methods provide detailed qualitative information on what people want and it allows their opinions to be recorded. However, it can take a lot of time and expense to gather this information.

Secondary research could include government reports and statistics, newspapers, trade and employer journals, special reports into housing problems. These methods are a cheap way of gathering information and are on the market in general.

	Knowledge	Application	Analysis and Evaluation
Level 2	2 marks Knowledge of two or more research methods.	2 marks Research method(s) well applied to the case study.	5 - 8 marks Advantages &/or disadvantages of research methods discussed. Clear judgement made as to which would be the most effective method(s) and why. (6 max if no judgement made).
Level 1	1 mark Knowledge of one research method.	1 mark Limited application of method(s) to the case study.	1 - 4 marks Advantages &/or disadvantages of research methods listed. Limited judgement made as to which to use.

- 3 (a) Explain the problem that Bettabuild might experience from a high level of skilled labour leaving each year.

[10]

Content: Cost of advertising for new employees; cost of training new employees; production problems if staff leave suddenly; morale low for existing employees.

	Application	Analysis and Evaluation
Level 2	2 marks Well applied to case study.	5 - 8 marks Clear consideration of the disadvantages of high labour turnover on the business.
Level 1	1 mark Limited application to the case study.	1 - 4 marks Disadvantages of high labour turnover listed.

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- (b) *Bettabuild wants to reduce this level of labour turnover. How would you advise Bettabuild to reduce this level of staff leaving?*

[10]

Content: Increase wages; change to piece-rate; increase fringe benefits; give longer holidays; provide safer working condition; introduce worker participation; introduce job enlargement. Discussion of ways to increase motivation should be credited.

	Application	Knowledge/Analysis and Evaluation
Level 2	2 marks Well applied to the case study.	5-8 marks Ways of reducing labour turnover explained as to why they are effective. Reward evaluation of these ways.
Level 1	1 mark Limited application to the case study.	1 - 4 marks Ways to reduce labour turnover listed. Brief consideration of how these ways could reduce labour turnover.

- 4 (a) *Explain, using examples of social costs and social benefits, how the government could use Cost Benefit Analysis (CBA) to help it decide whether to allow a new shopping centre to be built.*

[10]

Content: Social costs could include loss of farming land, destruction of wildlife habitat, increased congestion, pollution.

Social benefits could include reduced unemployment, improved road system.

CBA allows all these external costs and benefits to be taken into account when making a decision. Private sector business wouldn't take these into consideration. The effects on society are therefore taken into account. There are difficulties when assigning money values to external costs and benefits.

	Application	Knowledge/Analysis and Evaluation
Level 2	2 marks Well applied to the case study.	7-8 marks Explanation of how CBA is used by government to make a final decision.
Level 1	1 mark Limited application to the case study.	1- 6 marks Examples of social costs and benefits listed. Definition of social costs and social benefits. Some knowledge of CBA.

- (b) *Consider the advantages and disadvantages to a business, such as Bettabuild, of government laws and regulations.*

[10]

Content: Advantages could include makes competition fair, makes all businesses use fair work practices, restricts foreign competition, ensures quality raw materials are sold, provides laws to sue other business or customers if they don't pay.

Disadvantages could include have to meet regulations on health and safety which could be expensive, have to comply with planning regulations and may not get permission to build, have to ensure advertising is truthful.

	Knowledge	Analysis and Evaluation
Level 2	2 marks Knowledge of two or more laws or regulations.	5-8 marks Advantages &/or disadvantages of government laws and regulations to a business explained as to how they affect the business.
Level 1	1 mark Knowledge of one law or regulation. NB the law does not have to be named.	1 - 4 marks Advantages &/or disadvantages of government laws and regulations to a business listed.

- 5 (a) Using the information in Appendix 3, calculate Bettabuild's gross profit made on:
- (i) building one house
- (ii) one shopping centre

[8]

One house - selling price = \$50,000

Labour cost $\$80 \times 10 \times 35 = \$28,000$ [1]

Materials cost $\$28,000 \times 50\% = \$14,000$ [1]

Total cost = \$42,000 [1]

Gross profit $\$50,000 - \$42,000 = \$8,000$ [1]

One shopping centre - selling price = \$3,500,000

Labour cost $\$80 \times 100 \times 230 = \$1,840,000$ [1]

Materials cost $\$1,840,000 \times 50\% = \$920,000$ [1]

Total cost = \$2,760,000 [1]

Gross profit $\$3,500,000 - \$2,760,000 = \$740,000$ [1]

4 marks for correct calculation of gross profit for one house.

4 marks for correct calculation of gross profit for one shopping centre.

3 marks if correct total cost is given without any working out of labour and material costs shown.

- (b) Do you think the economic data in Appendix 2 is favourable or not favourable for Bettabuild? Explain your answer.

[12]

Content: Consumer spending increasing and so may mean that more houses are being sold.

Interest rates are rising which may mean people are less willing to borrow money and buy houses.

Unemployment is falling which means people have more money and again this may be spent on buying houses.

Economic growth is rising which should mean people have more money to spend.

Three out of the four indicators would seem to be good for Bettabuild because they may lead to increased sales of their houses, particularly their high quality houses.

More money being spent in the economy may also mean more shopping centres are built.

	Application	Knowledge/Analysis and Evaluation
Level 2	2 marks Well applied to the case study.	5 - 10 marks Good judgement of the economic indicators and their effects on Bettabuild as to whether they are favourable or unfavourable.
Level 1	1 mark Limited application to the case study.	1 - 4 marks Limited discussion of up to 4 economic indicators and/or what they will mean for Bettabuild.