

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

General Certificate of Education O Level

MARK SCHEME for the November 2004 question paper

7115 BUSINESS STUDIES

7115/02

Paper 2 (Case Study), maximum raw mark 100

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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.

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November 2004

GCE O Level

MARK SCHEME

MAXIMUM MARK: 100

SYLLABUS/COMPONENT: 7115

BUSINESS STUDIES

Paper 2 (Case Study)



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- 1 (a) Identify and explain two possible reasons why the managers of Desert Mining Ltd might want to expand the business. (6)**

- Content:* Benefits of expansion explained e.g.
- possibly higher profits for owners
 - more status and prestige for owners
 - lower average costs
 - can mean controls a larger share of the market.

	Knowledge	Application	Analysis
Level 2	2 marks Two reasons.	2 marks Two reasons applied to case study.	2 marks Good discussion of why the owners of the business want to expand.
Level 1	1 mark One reason.	1 mark One reason applied to this case study.	1 mark Limited discussion of reasons for expansion.

- (b) Outline two sources of finance Desert Mining Ltd might use to finance its expansion. (4)**

- Content:* Suitable sources of finance might be e.g.
- sell more shares to family and friends
 - bank loan
 - retained profits
 - change to a plc.

	Knowledge and Application
Level 2	4–3 marks One–two appropriate types of finance outlined.
Level 1	2–1 marks One–two sources of finance stated.

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- (c) **Which method of finance would you advise Desert Mining Ltd to use? Explain your answer.** (10)

Content: Discussion of the advantages and disadvantages of the different methods of finance e.g.

- shares – permanent source of finance/dividends expected
- bank loans – quick to arrange/repaid with interest
- retained profits – does not have to be repaid/may not have sufficient profits to cover the expansion.

Evaluation of the best method for Desert Mining Ltd e.g.

- they have been in business for some time and been profitable so becoming a plc would be suitable because investors would be attracted to buying the shares in a successful company.

	Application	Analysis	Evaluation
Level 2	2 marks Methods of finance well applied to the case study.	4–3 marks Good discussion of advantages/disadvantages of at least two methods of finance.	4–3 marks Good judgement shown and decision made as to the most suitable method of finance to use.
Level 1	1 mark Limited application of methods of finance to the case study.	2–1 marks Limited discussion of advantages/disadvantages of at least one method of finance.	2–1 marks Limited judgement shown.

- 2 (a) **If several new coal mines open, what might happen to the price of coal on international markets?** (6)

Content: New mines opening means increased supply on world markets leading to lower prices. The extent of the price fall depends on the price elasticity of demand for coal. Demand likely to be inelastic as there will be few alternatives to coal and therefore the price fall will be by a greater percentage than the increase in supply.

	Analysis	Evaluation
Level 2	3 marks Good discussion of the effect of increasing supply of coal.	3–2 marks Conclusion drawn that price should fall but the extent of the fall depends on elasticity of demand for coal.
Level 1	2–1 marks Limited discussion.	1 mark Limited conclusion as to the resulting price fall.

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- (b) Refer to Table 1, what is meant by:
 (i) Return on capital employed (2)
 (ii) Training budget? (2)

Content: ROCE is net profit as a percentage of the net assets or capital put into the business by the owners. It shows the possible return on their investment.

Training budget is money the business puts aside to pay for training.

	Knowledge and Application
Level 2	4–3 marks Both ROC and Training budgets explained clearly.
Level 1	2–1 marks for explaining either ROCE or Training budgets.

- (c) Using all of the information available, which type of mine would you advise Desert Mining Ltd to open? Justify your answer. (10)

Content: *Discussion:* of the cost of opening, putting machinery in and building roads to the coalmine higher than for the gold mine.
 Labour more expensive and more labour needed in the goldmine.
 ROCE higher for the coalmine.
 The area where the coalmine would be located has higher environmental costs.

Evaluation: I would suggest opening the coalmine because it has a higher ROCE than the gold mine. However, it is more expensive to open with all the costs associated with it being higher, only labour costs are lower. So after the initial costs have been paid it will be more profitable and cheaper to run. The only other possible problem is overcoming the environmental costs and this might be a problem with the government. Therefore we will have to convince them of the benefits of providing income and employment in the area.

	Analysis	Evaluation
Level 2	5–3 marks Good discussion of table contents.	5–3 marks Conclusion drawn - well justified.
Level 1	2–1 marks Limited discussion of the table contents.	2–1 marks Conclusion drawn - limited justification.

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3(a) What is meant by (i) social costs and (ii) social benefits? Include examples that might arise from the development of a new mine. (8)

Content: *Social costs* are the costs paid by the rest of society, rather than the business, as a result of a business decision. Also known as external costs because they are the costs paid by the rest of society.

Social benefits are the gains to society, resulting from a business decision. Also known as external benefits.

Examples from the case study:

Costs – destruction of area of natural beauty, loss of home for rare animals, destruction of environment.

Benefits – unemployment falls, incomes rise so will create spending in associated businesses.

	Knowledge	Application
Level 2	4–3 marks Both social costs and benefits explained.	4–3 marks Examples for costs and benefits included from the case study.
Level 1	2–1 marks Only cost or benefit explained.	2–1 marks Examples for only costs or benefits from the case study.

(b) Should the government in Country B control business activity? Give reasons for your answer. (12)

Content: *Possible reasons for government control of business activity:*

- responsibilities of employers – working conditions, Health and Safety – protection for the mineworkers
- responsibilities to the natural environment – pollution – try to stop the destruction of areas of natural beauty and the habitat for wildlife
- location decisions – influence where businesses choose to locate – not particularly applicable in this case but they might stop mines being opened.

	Knowledge	Application	Analysis	Evaluation
Level 2	2 marks Knowledge of two or more reasons.	2 marks Reasons well applied to the case study.	4–3 marks Good discussion of advantages and/or disadvantages of government intervention.	4–3 marks Good judgement shown as to whether the govt should intervene.
Level 1	1 mark Knowledge of one reason.	1 mark Limited application of reasons to the case study/or one reason applied.	2–1 marks Limited discussion of advantages and/or disadvantages of government intervention.	2–1 marks Limited judgement shown.

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- 4(a)(i) Desert Mining Ltd will need to relocate some of its workers if it opens a mine in the remote region. List three ways in which this could be communicated to staff. (3)**

Content: Letter, notice board, telephone, face to face.

	Knowledge
Level 2	3–2 marks Three methods of communication listed.
Level 1	1 mark One method of communication listed.

- (ii) Explain each of these three methods of communication and advise the business on the best one to use. (7)**

Content: Explanation of letter – written form of communication, permanent record but expensive.
 Notice board – cheap to inform people and can inform a lot of people but can not guarantee everyone has seen it
 Telephone – expensive and time consuming but are sure all employees received the information
 Face to face meeting – inform a lot of people at once but have they all understood?

	Analysis	Evaluation
Level 2	4–3 marks Good discussion of three methods of communication.	3 marks Good judgement shown of which method to use and why.
Level 1	2–1 marks Limited discussion of the three methods of communication.	2–1 marks Limited judgement shown.

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- (b) Explain how the introduction of new machinery could affect the workers in this company. (10)

Content: Explanation of the effects of the introduction of new machinery:

- new machinery may result in some employees losing their jobs
- training may be required
- employees may have a pay rise due to increased productivity
- some employees may have promotion

Evaluation of these effects:

- loss of jobs may mean redundancy/retrenchment payments need to be made
- increased cost of training for the HR department
- pay rise and promotion may lead to increased motivation

	Application	Analysis	Evaluation
Level 2	2 marks Effects well applied to the case study.	4–3 marks Good discussion of the effects – at least two effects well explained.	4–3 marks Good evaluation of at least two effects.
Level 1	1 mark Limited application of the effects.	2–1 marks Limited discussion of the effects – just one effect explained.	2–1 marks Limited evaluation of the effects or just one evaluated.

- 5 (a) The Government wants to know how the public feel about the multinational company setting up in their country. Select one method of primary research to find out the public's opinions. Describe and give reasons for how they could carry it out. (8)

Content: Discussion of how the research is to be carried out e.g:

A questionnaire: plan the questions to make sure suitable responses are gained; decide the sample size to get accurate results; choose the place to carry out the research so target the right population; analyse the results

	Knowledge	Application	Analysis
Level 2	2 marks Good knowledge of one method of primary research.	2 marks Research method well applied to the case study.	4–3 marks Good discussion of the reasons for how the research is to be carried out.
Level 1	1 mark Limited knowledge of one method of primary research.	1 mark Limited application of the research method to the case study.	2–1 marks Limited discussion of the reasons for how the research is to be carried out.

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(b) **Why do you think most of Desert Mining Ltd’s workers belong to a Trade Union?** (6)

Content: Reasons for membership:

- to give strength in numbers
- to get improved conditions of pay and hours of work
- to gain an improved environment such as Health and Safety and noise
- to improve job satisfaction by encouraging training
- to gain advice if a member thinks they have been unfairly dismissed.

Evaluation of the reasons e.g.

Strength in numbers will mean that the mineworkers can all threaten to strike and the employers will be more likely to give in to their demands than if just one worker asked for a pay rise AND improved pay and conditions will mean that the mineworkers will work in better conditions and possibly have more holidays and more breaks

	Knowledge	Application	Evaluation
Level 2	2 marks Two or more reasons for being a member of a Trade Union.		3 marks Good judgement shown as to why they are members.
Level 1	1 mark One reason for membership of a Trade Union.	1 mark Application of Trade Unions to the case study.	2–1 marks Limited judgement shown.

(c) **Do you think piece rate is the best way to pay mineworkers? Justify your answer.** (6)

Content: Piece rate: pay mineworkers according to the amount of coal mined - this will encourage miners to work faster, however, they may pay less attention to safety.

Time rate: will mean safety rules are more likely to be followed but may be less motivated to work hard.

Salary: will be paid monthly but normally no overtime is paid.

Other methods of payment: bonus, profit sharing.

	Knowledge	Application	Evaluation
Level 2			4–3 marks Good judgement shown as to the best way to pay mineworkers.
Level 1	1 mark One or more types of pay system outlined.	1 mark Application of the methods of pay to the case study.	2–1 marks Limited judgement shown.

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Question	Knowledge	Application	Analysis	Evaluation	Total
1a	2	2	2		6
1b	2	2			4
1c		2	4	4	10
2a			3	3	6
2b	2	2			4
2c			5	5	10
3a	4	4			8
3b	2	2	4	4	12
4a (i)	3				3
4a (ii)			4	3	7
4b		2	4	4	10
5a	2	2	4		8
5b	2	1		3	6
5c	1	1		4	6
Total =	20	20	30	30	100