Centre Number	Candidate Number	Name

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Ordinary Level

BUSINESS STUDIES **7115/01**

Paper 1

October/November 2005

1 hour 45 minutes

Candidates answer on the Question Paper.
No Additional Materials are required.

READ THESE INSTRUCTIONS FIRST

Write your Centre number, candidate number and name on all the work you hand in.
Write in dark blue or black pen in the spaces provided on the Question Paper.
Do not use staples, paper clips, highlighters, glue or correction fluid.

Answer **all** questions.
At the end of the examination, fasten all your work securely together.
The number of marks is given in brackets [ ] at the end of each question or part question.
The businesses described in this question paper are entirely fictitious.

For Examiner's Use	
1	
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Total	

This document consists of **15** printed pages and **1** blank page.

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1 Omar owns and manages a small business making carpets. He knows that the market for carpets is very competitive. His business is not very profitable so he is thinking of changing some of his marketing policies. Fig. 1 shows the revenue that he gains from selling his main product.

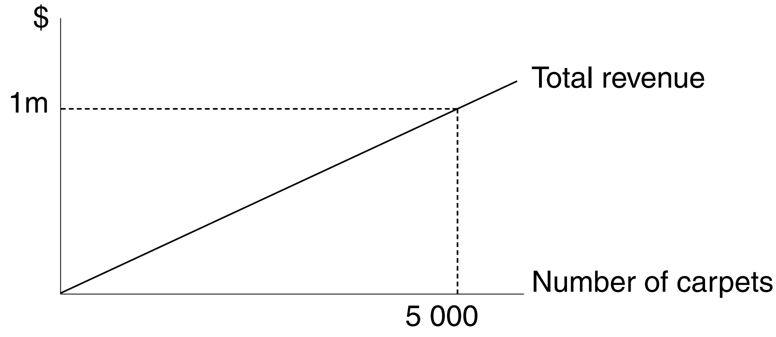

Fig. 1

(a) (i) Calculate the price that Omar is charging for one carpet.

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(ii) Plot the new revenue line if Omar raises his price by $20.

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(iii) Would you advise Omar to increase his prices? Explain your reasons.

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Omar has also been thinking of advertising his products more widely. He thinks that this will increase his sales.

(b) (i) Explain why more money spent on advertising might increase his sales.

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(ii) Explain why a decision to increase advertising might reduce profits.

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(c) The government has recently introduced laws to protect consumers. Explain how such laws might affect Omar's advertisements.

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For Examiner's Use

2 Stockton is a company that produces fashion clothes. The Managing Director, Sarah, frequently likes to introduce change in the way the factory is run. The company currently uses job production methods and Sarah is thinking of changing production to batch methods. She thinks that this will increase productivity in the factory. Table 1 gives some information about production levels in the business.

Table 1

Output and employee data
Stockton

Year	2003	2004
Output produced	200 000 units	216 000 units
No. of employees	100	120

(a) **(i)** Calculate the output per employee in both 2003 and 2004.

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(ii) How might the business be affected by the change in labour productivity between the two years?

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(b) Explain the main features of job production.

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(c) How should Sarah communicate the change in production methods to the employees? Give reasons for your suggestions.

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For Examiner's Use

Sarah plans to change the way employees are paid. At present they are paid on a time rate but she wants to alter this to a piece rate.

(d) Do you think that the employees will like this change? Explain your answer.

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For Examiner's Use

3 The Lyons family set up their business over 50 years ago. Over time the business has changed and it is now a public limited company. Table 2 is a summary of their most recent Profit/Loss account.

Table 2

Profit/Loss Account
[year ending Oct. 2005]
Lyons

	$000's
Sales	950
Cost of Sales	500
Gross Profit	450
Overhead Costs	?
Net Profit before tax	300
Tax	?
Net profit after Tax	220
Dividends	150
Retained profit	70

(a) Calculate

(i) Overhead costs;

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(ii) Tax.

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(b) **(i)** Explain what is meant by 'dividends'.

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(ii) Explain why retained profit is important to a business.

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(c) In 2004 the net profit margin ratio for Lyons was 16%.

(i) Calculate the net profit margin ratio for Lyons in 2005.

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(ii) Explain **one** possible reason for the change in this ratio in 2005.

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The business became a public limited company in 1990.

(d) How might this change have benefitted the business?

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At the last Annual General Meeting in 2004 some shareholders said they were unhappy that the share price of the company had been falling.

(e) Why might the share price of a company fall?

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For Examiner's Use

4 Tara is a qualified lawyer. She is setting up a legal practice business in partnership with Gowri. They are looking for a suitable location for their business.

(a) Identify and explain **three** factors that they should take into account in making this location decision.

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Tara needs to employ a secretary to manage the office. She decides to produce a job description for the position.

(b) (i) Explain what is meant by a 'job description'.

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(ii) Why might a job description help when recruiting the secretary?

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(c) Tara is a specialist in employment law while Gowri is qualified in consumer protection law.

(i) Do you think that their different skills will help the partnership be successful? Explain your answer.

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(ii) Explain **two** problems that can occur in any business partnership.

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For Examiner's Use

5 A number of large companies have closed their factories in Britain and transferred production to Asian countries.

(a) Outline **two** reasons that might explain these decisions.

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(b) Assume that a multinational company is planning to open a factory in your country. Do you think that this development will benefit your country? Explain your answer.

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(c) Companies that trade internationally often have problems with changes in exchange rates. Table 3 shows exchange rate changes between two currencies: £ sterling and the Ombaja $.

Table 3

2004	£1 = $10
2005	£1 = $25

Swanfield supermarket stores operate in the UK and they buy some of their fruit from Ombaja. In 2004 they bought $100m of fruit from Ombaja. Explain how the exchange rate change between 2004 and 2005 would have affected Swanfield stores.

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(d) Large businesses often benefit from economies of scale.

(i) Using an example explain what is meant by an 'economy of scale'.

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For Examiner's Use

(ii) It may be possible for a company to become too large. Outline **one** possible diseconomy of scale.

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