

MARK SCHEME for the October/November 2007 question paper

7100/02	7100 COMMERCE Paper 2 (Written), maximum raw mark 80
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This mark scheme is published as an aid to teachers and candidates, 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.

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CIE is publishing the mark schemes for the October/November 2007 question papers for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level syllabuses and some Ordinary Level syllabuses.

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1 (a) chain of production [1]

(allow chain of distribution/stages of production/production process/description of production)

(b) primary/extractive [1]

(c) (i) Any two points –

large shed-like building used for storage
and a variety of other operations e.g. bulk breaking, packing
for goods awaiting distribution and any other functions
example of warehouse

any other relevant point [2]

(ii) Any two points –

shopkeeper/buys from wholesaler/sells goods to consumers
and may perform a variety of functions e.g. display, packing, breaking bulk
may be large scale e.g. supermarket owner
or small scale e.g. unit retailer

Any other relevant point [2]

(d) Any six points x 1 mark and up to 3 marks for a well developed point –

timber is felled/and sawn into planks/the planks are left to mature
the planks are made into furniture e.g. chairs/tables
using machines/nails/screws/glue/varnish/fabric/polish (any two x 1 mark)
the completed furniture is transported to either a wholesaler or retailer
either in flat pack form for self assembly/or packaged/for protection
the furniture may have a particular brand which adds value
the furniture may be stored/displayed
the retailer may operate a warehouse-type store or may own a department store so more
value is added to the furniture by the location of the place of sale.

Any other relevant point [6]

NB 0 marks for mention of profit, costs or expenses, price, buying, reselling

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(e) Level 3 (6–8 marks)

Has discussed both the wholesaler and the retailer giving a reasoned recommendation OR has discussed the advantages of one and the disadvantages of the alternative with a reasoned recommendation.

E.g. The manufacturer could continue to use a wholesaler because he will be able to clear his production lines so enabling him to continue manufacturing. He will transfer the risk of non-sales to the wholesaler and will be saved large storage costs. He will also be saved some marketing costs i.e. selling to individual retailers and will probably be able to sell bulk quantities. On the other hand he may not receive so much money for the furniture as he would by selling direct to the retailer.

By selling direct to the retailer the manufacturer will omit the middleman, so saving costs. He will probably incur extra costs e.g. transport to retailers and may be selling in smaller quantities. If he transports the furniture himself it is less likely to be damaged as it would be under the direct supervision of his own employees. He will also be able to charge higher prices as he is offering some of the services given by wholesalers e.g. packaging, small quantities, so he may make more profit. He may, however, have to offer considerable trade discount if he is selling to large-scale retailers. He can also push the sales of his own particular furniture.

I would recommend that he sells direct to the retailer but he may incur extra costs such as making particular items for individual retailers. His furniture is less likely to be damaged and he will receive regular feedback about customer tastes from the retailer. He could also consider opening his own retail outlet.

Level 2 (3–5 marks)

Has discussed either the wholesaler or the retailer with no comparison OR has given a superficial analysis of both the wholesaler and the retailer with a recommendation.

E.g. The manufacturer could continue to use a wholesaler because it would save him work. He would be delivering to one wholesaler instead of a number of retailers. He may not make as much money. If he sells direct to retailers his goods may arrive quicker but he will have to negotiate individual sales with individual retailers. He should continue to use a wholesaler who will save some of his storage costs.

Level 1 (1–2 marks)

Has listed some points for and/or against using a wholesaler/using a retailer with/without a recommendation.

E.g. The manufacturer should sell to retailers
 It would save him storage
 He might have to sell individual pieces of furniture
 Furniture is fragile
 The wholesaler takes part of the manufacturer's profit

[8]

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2 (a) Any three services x 1 mark each –

selling to customers	offering a wide range of goods
displaying goods	selling in small quantities
advice/information	selling goods that are in good condition
self service/personal service	air conditioning
Any other relevant point	

[3]

(b) Any two differences x 2 marks each but allow different features –

supermarket chain	multiple chain
sells food and household goods	may sell one particular item e.g. clothing or a variety
likely to be a large store often with car parking	likely to be a small shop with no parking
aims for quick rate of turnover	rate of turnover will depend on type of goods sold
aims for large turnover at low prices	prices depend goods sold
offers self service	may offer personal service depending on type of goods e.g. shoes

Any other relevant point

[4]

(c) **Level 3 (5-6 marks)**

Has analysed the arguments for using supermarkets rather than small independent shops or vice versa and expressed a reasoned opinion.

E.g. Many people now use supermarkets rather than small shops for their food and household goods because it allows them to do one-stop shopping and to buy large quantities of goods to last for some time. They are able to use self service so that they can examine the goods and shop at their own pace without pressure from sales staff. They are offered a wide range of goods at competitive prices and this helps shoppers on tight budgets. Because of the high turnover, the goods are likely to be fresher and also packaged and branded for easy recognition. They are also offering many of the services that small shops are known to provide – delivery of goods, specialist counters within the store e.g. bakery.

(On the other hand many people still prefer to use small independent shops. They value the personal service and the quality of the goods sold. There may be no supermarket available in their locality and they prefer to shop daily rather than weekly. They may also be allowed informal credit whereas the supermarket may accept credit cards.)

It is likely that shoppers will use supermarkets for their bulk shopping if a supermarket is available but that they will use specialist shops e.g. Sunshine Bakery for bread and also use One-Stop Stores when the supermarket is closed.

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Level 2 (3-4 marks)

Has given the advantages of using supermarkets instead of small independent shops (or vice versa) with/without an opinion.

E.g. Many people use supermarkets because they offer self service, they offer lower prices and they enable shoppers to buy branded goods easily. Supermarkets do not offer informal credit but many of them accept credit cards. Supermarkets do not offer personal service. They also do not deliver. I think that many people prefer using supermarkets because they provide easier shopping but in many parts of the world there are no supermarkets.

Level 1 (1-2 marks)

Has listed points on the use of supermarkets or small shops with/without an opinion.

E.g. Supermarkets offer lower prices
 Supermarkets allow shoppers to serve themselves
 Supermarkets do not offer credit
 Supermarkets do not deliver goods
 Many people use both. [6]

(d) Any three points x 1 mark each or up to three marks for a well developed point –

The shop will change it
 There is nothing wrong with the dress so she cannot claim it is faulty
 If she has the receipt and the wrapping/bag she could return it immediately to the shop and she is likely to obtain a refund
 The shop may have a returns policy e.g. refund if returned within 28 days unworn and so she should be able to return it
 She may receive a credit note rather than cash
 If she has bought it in a sale she may not be able to return it
 The shop may accept the dress because it wishes to build up customer goodwill
 She might sell the dress to a friend/sell on E-bay/internet auction site/give it away/keep it
 (1 mark max)
 Any other relevant point [3]

(e) Any four points x 1 mark each or two well developed points x 2 marks which may be for or against accepting credit cards or a mixture of both. No marks for the opinion.

For accepting credit cards –
 Increased turnover from people who cannot afford to pay immediately
 Casual Clothing likely to be accepting credit cards so needs to keep up with competition from them
 Less cash held on premises
 Giving credit cards is a status symbol

Against accepting credit cards –
 Commission payable to credit card company
 Will not receive payment from the credit card company immediately so this may set up cash flow problems
 Danger of credit card fraud resulting in non-payment/bad debts
 Increased paperwork dealing with credit card company

Any other relevant point [4]

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3 (a) Any four points x 1 mark each or 2 well developed points –

advertising is part of sales promotion
advertising is the spreading of information using the most persuasive methods
sales promotion is any attempt to boost sales either during a special occasion or for a limited period of time
it may be used to launch a new product/counter competition/counter falling sales
worthwhile example of either advertising or sales promotion

Any other relevant point [4]

(b) Level 3 (5-6 marks)

Has discussed the arguments for local newspapers and against using television and has given a reasoned recommendation.

E.g. Mrs Lim owns a small business so television would not be appropriate as it is very expensive and appeals to a mass audience. Mrs Lim's business probably operates in a small area and offers various services. She needs an advertising method that is reasonably priced as she is likely to be on a limited budget. She wants to be able to give information about the services she provides so that people can refer to the information when they want to. She may also consider other advertising media which are also cheap such as leaflets.

Level 2 (3-4 marks)

Has given the advantages/disadvantages of using television and/or local newspapers with a recommendation. NB Max. L2 if chosen television.

E.g. Television is very expensive. It would give visual display of Mrs Lim's services. I would recommend local newspapers. They cover the area where Mrs Lim is located. They are cheaper than television. She can advertise regularly.

Level 1 (1-2 marks)

Has made some comments on using newspapers/television (no context).

E.g. Television is expensive. The advert would be seen for only a few seconds. Newspaper adverts give details. They may be grouped on a particular page. [6]

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(c) Any three points x 1 mark each either for or against or both –

Arguments for having a website –
 Will help her to become better known
 Should have a website as she operates a computer business
 Competitors may have websites
 Many of the customers use the Internet
 Can give details of the services she offers
 Increases sales
 Email opportunities

Arguments against –
 May not have the skills to set it up
 May be costly to set up
 Customers may not use it
 Competitors can access it to see what Mrs Lim is offering
 Increases complaints

Any other relevant point [3]

(d) Any one method of communication x 1 mark + two marks for reasons for use –
 (NB Speed, ease of use, cheapness, 0 marks unless qualified)

email – computer business, most customers likely to be on-line
 fax – may want to send invoices to customers, produces a replica of document
 mobile phone – enables her to contact people while she is out of the shop, can send text messages
 telephone - may want to discuss a problem with a customer, immediate contact
 letter – provides written evidence, can give detailed information
 oral

Any other relevant method of communication [3]

(e) Any four benefits x 1 mark each or two benefits well developed x 2 marks each –

(NB candidates must score at least one mark on cash or trade discount to obtain full marks)

trade discount – enables her to make a profit by selling at an increased price
 not reliant on paying promptly
 encourages her to make bulk purchases

cash discount – encourages prompt payment from her customers
 enables her to improve her cash flow
 allows her to take advantage of cash discount offered by her suppliers
 may reduce danger of bad debts
 may encourage customers to use her business rather than another

Any other relevant point including definitions 1 mark each [4]

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- 4 (a) (i) Asian countries [1]
(ii) Japan [1]

(b) Exports = \$30 000 + \$15 000 + \$10 000 + \$5 000 + \$15 000 + \$15 000 (1 mark)
= \$90 000 (1 mark)
-
Imports = \$10 000 + \$5 000 + \$10 000 + \$20 000 + \$15 000 + \$5 000 (1 mark)
= \$65 000 (1 mark)
= \$25 000 million (1 mark)

So the country exports more than it imports (1 mark)

OFR applies. If the correct answer is given without working, award 5 marks, i.e. no conclusion [6]

- (c) Any six points x 1 mark each and up to 3 marks for a well developed point –

NB the customs authority may be in the home country or the countries to which the country exports

keeping statistical records of imports and exports – to help the government calculate its balance of trade and balance of payments and assess its trade policies and calculate its tax revenue from import duties

collecting revenue from import duties – may be ad valorem or specific controlling bonded warehouses – to enforce the payment of duties. Bonded warehouses provide storage for dutiable goods on which duty is unpaid

supervising the movement of goods across the country's borders – preventing smuggling, inspecting cargoes, inspecting documents, enforcing embargoes

enforcing quotas - physical limits on amount of goods allowed to be imported to prevent dumping

may cover immigration – control of people entering the country

may cover quarantine regulations – for animals

enforcing public health regulations – preventing certain goods being imported e.g. food

Any other relevant point [6]

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(d) Level 3 (5-6 marks)

Has discussed the importance of containerisation in international trade

E.g. Containerisation has become increasingly important in international trade. Many goods are able to be transported in containers, standard sized metal boxes, that protect goods from damage and from theft. This means the reduction in insurance costs and packaging costs. Containers enable goods to be packed at the factory, taken to docks or airports and transported without unpacking until they reach their destination. Containers act as warehouses so reducing storage costs. Customs clearance can take place at the factory again making for quicker processing. Containers can be stacked so saving dock-side space. They can be transhipped using air, sea, rail or road transport so saving money and manpower. Special unloading equipment has been devised so loading and unloading is quicker so making for quicker and cheaper turnaround of transport. Several kinds of goods can be packed in one container (groupage) again saving transport costs.

Level 2 (3-4 marks)

Has given advantages of containerisation in international trade

E.g. (advantages of containerisation see Level 3)

Containerisation has many advantages. It protects goods against damage and theft. It enables goods to be transferred from one kind of transport to another. It enables goods to be packed at the factory and several kinds of goods can be transported together.

Level 1 (1-2 marks)

Has listed some points about containerisation

E.g. Containerisation is important.

It prevents damage to goods.

It reduces theft.

It enables goods to be transported more quickly.

[6]

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5 (a) Level 3 (5-6 marks)

Has considered the main features of loans and overdrafts in context and has given a reasoned recommendation.

A loan is a formal method of borrowing from a bank. It is taken for a fixed amount at a fixed interest. A loan account is opened which credited with the amount borrowed and instalments are debited from the current account. Interest rates are usually lower than for an overdraft.

An overdraft is usually used to pay unexpected bills or to help with cash flow. The business must have a current account and interest is charged daily on the amount overdrawn. The overdraft is payable at 24 hours notice.

E.g. Mr Wong will need a loan to build new premises as he will require a large amount of money and he has a definite purpose. He will also need an overdraft because he is likely to be buying on credit for the stock and equipment and will need instant finance to pay his bills and take advantage of cash discounts. I would recommend that he apply for both forms of finance.

NB if reasoned recommendation of loans only 5 max.

Level 2 (3-4 marks)

Has mentioned features of loans and/or overdrafts and with/without a recommendation.

E.g. Features mentioned as listed in Level 3. I would recommend that Mr Wong should have a loan because he needs a large sum of money and the bank will not lend so much with an overdraft.

Level 1 (1-2 marks)

Has listed features of loans and/or overdrafts with/without a recommendation.

E.g. A few features as in Level 3 listed e.g. Mr Wong needs a current account for an overdraft. He pays interest on the daily balance overdrawn. I recommend an overdraft. [6]

(b) (i) Any two means of payment x 1 mark each + 1 mark each for description –

- cheque – order to pay any amount
- credit transfer – payment of multiple bills using one cheque
- standing order – to pay fixed amounts at fixed intervals
- direct debit – to pay variable amounts at varying times
- bank draft – when the trader is unknown to the seller

any other relevant method of payment [4]

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(ii) Any two means of payment x 1 mark each + 1 mark each for description -

electronic/telegraphic/cable transfer – computerised transfer of funds
documentary credits – letters of undertaking to pay an overseas exporter on the production of shipping and other documents
bills of exchange – IOUs to pay on demand at a certain future date
bank drafts – drawn on the bank so payment guaranteed
cashier's order/bankers' cheque – bank's cheque so payment is guaranteed
foreign exchange/travellers' cheques

NB Allow credit card once for either home or overseas trade

Any other relevant method of payment [4]

(c) Any six points x 1 mark each and up to 3 marks for well developed points –
(List of services = 3 max.)

use of credit cards – postponed payment, payment settled monthly, can be paid using the Internet or by telephone

use of standing orders and more particularly direct debit – (count as two services)
preferred by creditors as they request payment and can avoid bad debts, enables them to computerise their billing and collect money electronically

use of debit cards – immediate payment at point of sale, trader assured of payment, no cash or cheques involved

Internet banking – can transfer funds between accounts, pay bills without using cash, available 24 hours a day

telephone banking – can transfer funds between accounts, pay bills without using cash, pay credit card bills

use of bank giro – to pay wages, safer than paying by cheque or with cash

use of ATM – for other services besides cash

Any other relevant development [6]

ATM + cash = 0

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6 (a) Any four of the points shown below x 1 mark –

50% of \$3m (1 mark) i.e. \$1.5m (1 mark)
because the firm has overinsured (1 mark)
the insurance company will indemnify the firm (1 mark)
and not allow it to make a profit from a loss (1 mark)

[4]

(b) Level 3 (5–6 marks)

Has explained both terms, discussed the statement and given a reasoned opinion. Pooling of risk enables people to share risk - the fortunate helping the unfortunate. In return for an insurance premium – a payment for insurance cover, insurance underwriters offer to cover a wide variety of risks. Many people pay premiums into a pool of funds from which those who make claims are compensated. The pool also pays for the expenses of the insurance company and provides profits to their shareholders. Any surplus funds are invested in shares in industrial companies or lent to government.

Insurance companies manage the pool. There must be sufficient funds to cover costs and claims. The insurance premium is small compared with the amount insured, but if the risk is great, the insurance premium will be high. If not many people want to cover a risk, the premium may also be high. The value of what is to be insured also affects the level of the premium. So the statement is in part correct, the central pool from which claims are made does affect the level of the insurance premium because financial loss is shared among a large number of people. It is also affected by the degree of risk involved.

Level 2 (3–4 marks)

Has explained one or both terms and may have given an opinion.

Pooling of risk is the level of funds from which compensation is paid. Insurance premiums are payments for insurance cover. The amount of premium paid is affected by the amount of risk involved. Financial loss is shared among a large number of people who help to pay the claims. I agree with the statement because this enables premiums to be kept low.

Level 1 (1–2 marks)

Has explained one term in a simplistic way and may/may not have given an opinion.

Explanation of terms – see Level 2 + I agree with the statement.

[6]

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(c) (i) Any three points x 1 mark –

insurable interest (1) – anyone insuring must incur financial liability
if a loss is incurred
you can insure your own property and life
you cannot insure other people's property
so you cannot insure property that you rent

[3]

(ii) Any three points x 1 mark –

risk is calculated from past records so that the insurance premium can be set
the higher the risk, the greater the premium
some risks are uninsurable
e.g. bad management

because there are no past records

and the risk is incapable of being measured

OR utmost good faith when completing proposal form from which insurance company
calculates risk

[3]

(iii) Any four points x 1 mark –

indemnity (1) – means to restore a person to the position that he was in before the event
concerned took place

no one is allowed to make a profit out of a loss

life assurance and personal accident are not contracts of indemnity because
the claimant cannot be restored to the former position

no one is allowed to insure the same risk with two insurance companies in
order to make a profit (contribution)

no one can be compensated and then retain rights to the property
compensated for (subrogation)

example

Any other relevant point

[4]

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7 (a) Level 3 (7–9 marks)

Has considered the advantages and disadvantages of both sites, has given a reasoned choice, either Site A or Site B and has/has not mentioned further information needed. (7 mark max if no mention of further information needed)

E.g. Site A is close to a large town and on the road to a highway so there should be plenty of customers. Site A is an existing garage so it may not need so much alteration as Site B. It is, however, more expensive than Site B but we do not know the purchase price or why the owner is selling. There are two other garages within a short distance from this site and they may be competitors.

Site B is on a road between two large centres of population. It is at the junction of two roads so there may be passing traffic for fuel sales. It is cheaper than Site A but we do not know the purchase price. As it was an old factory site, it likely to be in a rundown condition and may have to be demolished and rebuilt. This is likely to take some time and so there will be no profits made from the garage for some time. It could, however, be purpose built. There is also another garage within 3 km of the site.

I would recommend buying Site A as it may not need too much refurbishment.

I would need to know the size of the site and whether or not it is suitable for selling fuel before I could make a final decision.

I would need to know the price of each site.

Level 2 (4–6 marks)

Has made a comparison between the sites

OR has commented on the advantages of one site

OR has given the advantages of one site and the disadvantages of the other

OR has stated the advantages and/or disadvantages of both sites

AND may have given a recommendation

AND may have given additional information

Site A is on a busy road leading to a highway. It is close to a large town.

It is more expensive to buy than Site B. Site A is already a garage. It could be used for business quite quickly. There are two garages quite close to the site.

Site B is cheaper but the purchase price is unknown. It will need a great deal of redevelopment as it was an old factory site. It is on the corner of two roads and close to two towns. It should attract passing trade. There is another garage close by.

I would buy Site B because it is cheaper.

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Level 1 (1–3 marks)

Has listed some advantages and/or disadvantages of one site and may have given a choice.

Site A is on a road leading to a highway.

Site A is close to Urban

Site A is expensive

Site A is already a garage

Site B is close to towns

Site B is cheaper

Site B will need to be rebuilt

I would choose Site A or Site B.

[9]

- (b)** Any four points x 1 mark each and up to four marks for a well developed point – (max 2 sources of finance)

forming a private limited company – so that he can have shareholders who will invest in the business

taking a bank loan – fixed interest, providing collateral in the form of the garages he already owns

taking a partner – who will invest in the business. May be a sleeping partner who invests but takes no part in the business

selling fixed/personal assets

mortgaging existing garages

Any other relevant point

[4]

- (c)** Any three relevant questions – (purpose/amount = 0 mark as already known)

Have you a guarantor?

What security/collateral can you provide?

How do you expect to pay back the money?

What other commitments do you have?

How successful has your business been up to now?

How do you intend to develop the site you are buying?

How long do you wish to borrow the money for?

What say in the business might I have, if I were to lend you the money?

Why do you want to buy another garage?

Any other relevant question

[3]

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(d) Any two advantages x 1 mark each and two disadvantages x 1 mark each –

Advantages – own boss	easy to set up
Flexibility	quick decision making
lower tax burden	accounts private
personal incentive to succeed	
personal supervision of employees	

Disadvantages – limited capital	unlimited liability
lack of continuity	difficult to take time off
problems of cover at work when ill	
have to be skilled at all aspects of the business	

Any other relevant point [4]

8 (a) Any four points x 1 mark each or two well explained points x 2 marks –

office machinery is valuable and so is able to bear the cost of air transport
it needs to be handled with care and air transport provides speedy transport
sand and timber are bulk cargoes with low value
air transport would be too expensive
but sea transport can carry them in bulk
there is probably no urgency for delivery

Any other relevant point [4]

(b) Any two points x 1 mark for each –

(i) one-off flights that are specially booked or hired
to carry freight or passengers
at particular time/for particular journey

Any other relevant point [2]

(ii) documents which accompany goods sent by air
gives information about the consignment
acts as an advice note
evidence of a contract of carriage
may be used as a receipt
it is not a document of title

Any other relevant point [2]

(c) Any four points x 1 mark each or two well developed points x 2 marks –

provides storage such as bonded warehouses
provides office space from which Rahman Enterprises Ltd could operate
provides waterways to enable ships to dock e.g. pilot services
provides unloading facilities for Rahman Enterprises Ltd's goods e.g. wharves, quays
provides facilities for handling containers
by providing an efficient service, it speeds the movement of imported/ exported goods
by offering ship repairs

Any other relevant point [4]

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(d) Level 3 (6–8 marks)

Has discussed the arguments for and against buying a cargo plane, has recommended a suitable course of action and may/may not have given any additional information needed. (6 mark max if no additional information given as only one side of the argument is given.)

E.g. There are several reasons why Rahman Enterprises Ltd should own its own cargo plane. It might be cheaper in the long run, although the cost of purchase may be prohibitive. It will give the company greater flexibility to operate when it wants to, go wherever it has business and handle cargo more safely. It can be used as an advertising tool – its own logo on the side of the plane. The company would not be restricted by unavailability of planes and so may be able to undertake more business.

On the other hand, the cost of purchasing and maintaining a cargo plane will be enormous. The company may have more business than can be handled by one plane or may have insufficient business at certain times. The company will also have to pay pilots and ground staff, pay landing charges and have a home airport.

To make a more informed decision, I would need to know what volume of goods is carried by air, to what destination, what other airlines charge and what difficulties have been encountered in the past. I would recommend that the company does not purchase a cargo plane. A better option might be to lease one plane and see what difficulties are encountered.

Level 2 (3–5 marks)

Has given some arguments for and/or against buying a cargo plane and has made a recommendation for a course of action.

E.g. The company may find that owning a cargo plane has some benefits such as being able to operate when you want to and giving more personal service to customers. They may be able to cut charges to customers. This will bring more business. The disadvantages are the high cost of buying a plane, the running costs and having to organise when and where it flies. I would recommend that the company buys a cargo plane to carry its goods.

Level 1 (1–2 marks)

E.g. Has listed some points for and against buying a cargo plane and may/may not have made a recommendation.

- May be cheaper to have your own plane
- May be able to advertise
- May breakdown
- May not be available when you want it

[8]