

MARK SCHEME for the May/June 2008 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.

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

CIE is publishing the mark schemes for the May/June 2008 question papers for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level syllabuses and some Ordinary Level syllabuses.

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- 1 (a) Any two explained points which should include examples × 2 marks or 4 points × 1 mark such as –

Most consumers have both needs and wants. A need is something that keeps a person alive such as food, water or shelter. A want is something that makes life worthwhile. It is not essential for life and makes it more pleasant. Many people want entertainment, travel, sport or transport. They want some of these things. Once people have satisfied their needs, they look at what else they may want.

Luxury items.

A different approach may be to emphasise needs – everyone has needs such as food, water and shelter. Without these people would die. Some people spend most of their lives trying to satisfy their needs because food and water is scarce. They have little opportunity to look for or consider their wants such as entertainment because of their need for survival.

Any other relevant point [4]

- (b) Any six points × 1 mark each which must include examples of each such as –

Primary production is obtaining raw materials or food from nature. It may be exhaustive – mining, quarrying, drilling or it may be non-exhaustive farming, fishing, forestry. Supplies secondary production.

Secondary production is making goods from raw materials, manufacturing in factories or refineries such as car manufacturing, furniture manufacturing. It may also be construction – road building, house building or ship building. Supplies tertiary production.

NB to obtain full marks a candidate must score at least 2 marks on each.

Any other relevant point [6]

- (c) **Level 3 (5–6 marks)**

Has discussed the question and given a reasoned conclusion.

Producers provide goods and services to sell both in their countries and in other countries. Without them, there would be nothing to sell. If there were no consumers, there would be no point in producing goods because consumers purchase goods and services. A successful producer supplies what consumers want and is paid for the goods or services sold. With this money, the producer can continue to produce or supply something else. It is essential that there are both producers and consumers in the global economy as they are dependent on one another and without each other there would be no trade.

- Level 2 (3–4 marks)**

Has commented on producers and/or consumers in the global economy with little reasoning and has made a judgement.

Producers provide goods and services for consumers. Some countries produce more than others. Consumers use these goods and services so they are dependent on one another and without each other they would not be able to survive.

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Level 1 (1–2 marks)

Has made a few statements about producers and/or consumers with or without a conclusion.
(No reasoning)

Producers produce goods. Consumers use goods.

Points to consider

Without producers there would be no goods or services available. Producers provide goods and services to sell in their countries but also for export to earn foreign currency. Some countries are not able to produce all they need so they rely on the producers of other countries to produce what they need, e.g. The Maldives imports 90% of all it needs. Many producers specialise in what they do best – national specialisation and comparative advantage or specialisation within a factory with division of labour and increased output.

Without consumers there would be no point in producing goods and services because consumer purchase goods and services. If there is a demand for something, a producer will produce it to satisfy consumer needs and wants. If demand falls, the producer may produce something else. With payments from consumers, producers can continue to produce. [6]

(d) Any four points × 1 mark or two explained points × 2 marks each such as –

Producers are less reliant on slower means of communication such as letters

They will use the Internet to advertise what they have for sale, they can show pictures of what is for sale

Consumers will buy online and pay by credit card

Producers will contact consumers using email – overcomes time differences and is quick and cheap to use

Producers may use mobile phones to keep in contact with consumers and to send emails

Producers will keep records of stock on computer so that they can contact consumers with more up-to-date information about goods ordered

Any other relevant point relating to computers and communication [4]

Easy/quick/fast/cheap = 0 marks unless qualified.

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2 (a) Any 4 points × 1 mark or two explained points × 2 marks such as –

- Because many producers try to sell goods which are unsuitable, not fit for the purpose or underweight
- Because some consumers make rash decisions and buy unsuitable things
- Because some producers give false descriptions of their goods
- Because consumers find it difficult to complain on their own
- Formation of cartels

Any other relevant point [4]

(b) Any two ways explained × 2 marks such as –

- Legislation + relevant example
- Government organisation e.g. Ministry for Consumer Affairs, Competition Commission
- Consumer Council – with consumers as members
- Consumer Association – testing products to find the best value for money
- Radio and TV programmes
- Local consumer groups

NB Many countries have little or no organised consumer protection so please accept suggestions that seem plausible.

Any other relevant suggestion [4]

(c) (i) Any four points × 1 mark or two explained points × 2 marks such as –

- The supermarket is able to purchase cans of baked beans in very large quantities, obtain larger trade discount than the small corner shop and so offer the beans at a lower price (economies of scale) (3)
- The supermarket may be offering the beans on special offer or as a loss leader – better market share
- The supermarket may be purchasing direct from the processing company whereas the small corner shop may be buying through a wholesaler who adds his costs
- Low overheads e.g. self service
- Large turnover

Any other relevant point [4]

(ii) Any four points × 1 mark or two explained points × 2 marks such as –

- The small corner shop is convenient for them – close to home and saves travel costs and time
- Some shoppers are not able to travel to the supermarket – elderly
- Many shoppers like the personal service offered by the small corner shop which may also offer additional services such as informal credit and goods in the quantities required
- Some shoppers do not like change so they go to the small shop because they have always done so
- Informal credit, delivery, longer opening hours

Any other relevant point [4]

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(d) Any two points × 1 mark + any two relevant risks × 2 marks such as –

The owner will need financial compensation if a risk occurs
Without insurance the owner might suffer a large loss
It gives the owner business confidence
Some claims against the business e.g. public liability claims could be so large that the business would fail.
Spread risk

Any other relevant reason [4]

+ two relevant examples such as fire, flood, plate glass, public liability, product liability, fidelity guarantee, contents, buildings, consequential loss life, employer's liability, bad debts

3 (a) Any one channel of distribution + a relevant reason × 2 marks such as –

(i) Channel 1

Because small-scale retailers tend to buy from wholesalers
They do not buy in large enough quantities to buy directly from producers

(ii) Channel 3

Because bread is perishable and has to be delivered as quickly as possible to where it will be sold

Bread is delivered in sufficient quantities to make it economic to deliver directly to retailers

Any other relevant point [4]

(b) Any three points × 1 mark each such as –

The agent may be either a factor or a broker or forwarding agent
The agent will bring buyers and sellers together
The agent may deal in large quantities
The agent may possess the goods (factor)
The agent will earn commission

Any other relevant point [3]

(c) (i) Supermarkets/multiple chains/variety chains/franchise/chain of department stores/hypermarkets [1]

(ii) Any three points and up to three marks for a developed point –

They enable goods to be purchased in bulk – discounts
They provide storage
They enable goods to be supplied to the branches as needed
They can supply branches fairly quickly as located close to a good road network
They enable the retailer to perform the services of a wholesaler and so save costs
Other functions of wholesaler (1 mark max)

Any other relevant point [3]

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(d) Any one document × 1 mark such as enquiry/order/invoice/delivery note/statement of account/credit note/receipt

+ 2 marks for the functions of the document chosen

e.g. enquiry – to find out the prices/terms of goods supplied [3]

NB List of contents = 1 mark max

(e) Any two points very well explained × 3 marks or three points explained × 2 marks each or six points × 1 mark such as –

The retailer is so large that the company has the resources to perform the functions of the wholesaler itself

Large-scale retailers are able to purchase direct from producers. Producers deal in bulk orders and these retailers wish to buy in bulk – discounts, economies of scale

The wholesaler is perceived to add to the costs of the goods

Many goods are not suitable to sell through wholesalers – perishables, fragile goods, technical goods, one-off very large items

Some producers are trying to reduce their costs – making own brand goods for particular retailers, selling through their own retail shops or factory outlets so the wholesaler is not needed

Improvements to communication

More goods bought online

Any other relevant point [6]

4 (a) Any three features × 1 mark each such as –

one owner

flexibility

no legal formalities when setting up

no continuity

quick decision making

profits to the one owner

losses borne by the one owner

capital provided by owner

Any other relevant point which is different from any other business organisation [3]

(b) Any three points × 1 mark each and up to three marks for a well explained point such as –

A franchise agreement is a contract/between a person wishing to start a business and a large company/with a well-known name/logo/and product or service/who wishes to establish a branch of its business in a local area/paying fee

Any other relevant point [3]

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(c) Any four points × 1 mark each or 2 × 2 marks such as –

It is likely to be cheaper because the franchisee probably invests money to help set up the business

It may save the company borrowing in order to expand

The franchisee is very motivated to make a success of the business compared with a salaried manager

There is likely to be a savings in costs e.g. labour costs, management costs, operational costs than having its own retail outlets

Through the franchise agreement it can exercise strict controls on the franchise – selling its supplies, annual payments to the franchisor, limited the sphere of operation

Helps test market

Helps spread name

Any other relevant point

[4]

(d) **Level 3 (5–6 marks)**

Has discussed both options and has made a recommendation substantiated by convincing reasoning

If Mr Patel sets up a sole trader he will be his own boss, can make his own decisions and can operate the business as he wishes. He will have unlimited liability and will be responsible for his losses with the risk of losing his personal assets. He will, however, enjoy any profits he makes. On the other hand setting up a franchise will be less risky. He will have the backing of a tried and tested business, a well known name and product or service and the back-up of a large business which can help him sort out any problems he may have. Franchises are more likely to succeed than sole trading business. If Mr Patel feels that he lacks the skills necessary to be a successful entrepreneur he should make a franchise agreement. If he has the resources to set up as a sole trader he should consider this as he will not have to make annual payment, a percentage of his turnover and he will have greater freedom of action. I would recommend that Mr Patel considers a franchise initially until he feels that he could be more successful on his own. Tyres and batteries required a large capital investment and the franchise company will provide this rather than Mr Patel borrowing very large sums from his bank.

Level 2 (3–4 marks)

Has commented on both options and has made a reasoned recommendation OR has discussed both options without a recommendation OR has made a reasoned recommendation based on the discussion of one of the options Mr Patel would be the sole owner and keep all the profits if he set up as a sole trader. He would have the backing of a large, well-established company if he became a franchise. I would recommend that he became a franchise because it will be less risky, he will have support from the large company and he is less likely to fail.

Level 1 (1–2 marks)

Has made some superficial comments on one or both of the options with or without a recommendation.

As a sole trader. Mr Patel has his own business. He does not have to answer to anyone so I recommend that he sets up his business as a sole trader. [6]

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- (e) Any four points × 1 mark each including one mark for an appropriate method of advertising such as –

posters – cheap, colourful, can be positioned in appropriate places
 local newspapers – read by the possible clientele, can give details, reasonable cost
 leaflets – distributed to targeted households, give details, offers
 local radio – cheap, local, heard by people in cars

The candidate may have recommended in (d) that Mr Patel sets up a franchise. In this case advertising using television, national newspapers or motor magazines by the franchisor would be appropriate.

NB To obtain full marks the candidate must have indicated the best method either by very good reasoning to support one choice or by mentioning others which might be less successful [4]

- 5 (a) Any two ways × 1 mark each such as –

40% reduction throughout our whole range
 our shoes offer you the very best in quality and value
 they are designed for comfort as well as style
 we will deliver your purchases to your door
 and will refund your money if you are not entirely satisfied
 so why wait?
 You can afford to treat yourself [2]

- (b) Any two points explained × 2 marks such as –

Mrs Singh is using the website because it enables her to view the shoes on offer and to buy what she wants all at the same time.
 It shows her pictures of the shoes and the transaction is quickly done.
 If she used telephone she might have to wait for the call to be answered.
 She would need the catalogue beside her.
 She can use the website at any time of the day or week.
 Not hurried
 Confusion or mishearing on telephone
 Can compare using different websites

Any other relevant point [4]

- (c) $\$90 \times 0.03 = \27 (1 mark) $\$90 - \27 (1 mark) = $\$63$ (1 mark)
 OFR applies Award full marks if correct answer is given without working (3)

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(d) (i) Choice = 0 marks

Any three reasons × 1 mark each and +1 for a well explained point such as –

Credit card –
postpones payment, can give the credit card number on the website, acceptable by the mail order company, easy to use, payment stopped if faulty, insurance protection

Debit card –
Easy to use, acceptable by mail order company, can give card number on website, may encourage speedier delivery as company assured of payment, no interest payable

Any other relevant point [3]

(ii) Any two reasons × 1 mark each such as –

Cannot send cash through the Internet
Not secure, would have to register the payment when using the post.
Not accepted by the mail order company
Currency exchange problem

Any other relevant point [2]

(e) Any two advantages to Maman Shoes × 3 marks or any three × 2 marks or six points × 1 mark such as –

It can make use of inexpensive premises e.g. warehouse rather than use shop premises in a busy street

It saves on other retail costs e.g. shop fittings, window displays, extra services for customers

It may be able to buy from manufacturers as it receives orders

It can use the internet to display its goods, to obtain orders and receive payment by means of credit card

It can serve customers all over the country and probably in many parts of the world

It can offer credit sales so encouraging sales

It can target those who are unable to visit shops e.g. working women, the housebound

It may deal directly with manufacturers so saving charges made by a wholesaler

It may not need to employ skilled labour – just people for packing, posting, taking orders on the telephone

No risk of shoplifting

Any other relevant point [6]

6 (a) Any two points x 1 mark each such as –

trade between countries
may be export or import

Any other relevant point [2]

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(b) Level 3 (5–6 marks)

Has presented a reasoned argument on how much international trade has contributed to the growing interdependence of countries.

International trade is very important to most countries in the world. It has enabled countries who are unable to provide everything for themselves to import goods they required from other countries e.g. oil and other raw materials. It has also enabled countries to dispose of surpluses so that they can earn foreign currency e.g. Pakistan's textile industry. Many countries specialise and have comparative advantage in what they produce. The Maldives specialises in fishing and fish products. Japan specialises in electronic goods and car manufacture. These countries are able to produce efficiently and rely on other countries to provide them with what they lack. They are therefore very interdependent and must trade in order to survive and prosper.

Level 2 (3–4 marks)

Has commented on international trade and the interdependence of countries.

Many countries trade because they cannot produce all that they need. They also wish to dispose of surpluses of the goods and services they can make. Consumers want a wide range of goods and usually demand imported goods as well as local goods. Countries therefore become dependent upon one another import and export with one another and so become interdependent.

Level 1 (1–2 marks)

Has stated that international trade is important to most countries.

International trade is very important because it allows countries to import what they do not have and to dispose of goods they do not need, so trade takes place. [6]

(c) (i) Any relevant definition × 2 marks such as –

free trade is trade without any restrictions/ such as tariffs or quotas/using trading bloc [2]

(ii) Any three measures explained × 2 marks such as –

Tariffs or duties – imposing import duties on goods to make them more expensive than home produced goods

Quotas – imposing limits on the amount of imports allowed into a country in a given year

Embargoes/Import ban – total exclusion of certain types of goods. This is often applied to harmful goods e.g. firearms

Exchange control – limiting the amount of currency that can leave the country

Increased documentation and bureaucracy at point of entry – making importing more difficult by increasing the rules and regulations for imports

Giving subsidies to local producers

Exchange control

Any other relevant method

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(d) Any four points × 1 mark each which may include methods of payment

bank draft – guarantee of payment by the bank because the draft is drawn on the bank. Can be used to pay a large sum.

electronic transfer – transfer of money by the bank using computer. Very fast method. Avoids the risk of theft or misdirection of funds as it takes place within the bank. It can, however, be very expensive. (transfer of money = 1 mark max)

documentary credits – exporter sends documents of transfer for goods via his bank to importer's bank. When payment is made, the documents are released so that the importer can claim the goods.

bill of exchange – Mr Ahman draws up the bill of exchange and gives to the importer who waits until the date on it to claim payment or discount it beforehand to pay someone else.

NB allow for 2 marks max raising a bank loan to pay for the goods

And other comments e.g. advice, information on importing. [4]

7 (a) Any four points × 1 mark each such as –

large-scale retailer

a retail company with many branches/in many parts of country or abroad

selling identical goods

using centralised ownership and control

they may sell one range of goods or a variety of goods

each branch is controlled by a branch manager

stock is bought centrally

stock can be moved between branches

losses in one store may be offset by profits in another

all branches have a similar layout/shop front which is recognisable

Any other relevant point [4]

(b) Choice 1 mark, reasons 2 marks for (i) and (ii) –

(i) bank loan/ordinary shares

loan – long term source of finance, can be repaid from profits from shops, repayable in instalments, fixed interest

ordinary shares – does not have to be repaid, no interest, large sum required, large sum required

Any other relevant reason [3]

(ii) overdraft/trade credit

overdraft – short term borrowing, relatively small sum required, variable interest rate linked to daily overdraft, can take advantage of discounts by paying on time, can be repaid from profits from the other shops, immediate

trade credit – short term borrowing, relatively small sum required, no interest, does not have to be paid back immediately, likely to have a credit account with supplier, may finance the payments by profits from the other shops, name well known so good risk

Any other relevant reason [3]

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(c) Any two points × 1 mark each or one well explained point for each part –

- (i) the interest rates may change/must be able to afford to pay back [2]
 - (ii) may have to provide security e.g. title deeds of property against some forms of borrowing/failure to pay means the loss of these assets [2]
 - (iii) some forms of borrowing are long term and some are short term/for OD repayment can be required at 24 hour notice/linked with ability to pay over time and other commitments
- Any other relevant point [2]

(d) **Level 2 (3–4 marks)**

Has discussed retained profits in context and has given a reasoned opinion.

Retained profits are profits kept back from previous years to help fund future projects. No interest is paid. They do not have to be repaid. They could be used to pay for the shops and shop fittings but they may be insufficient and other sources of finance may be needed. They may, on the other hand, be required for other purposes or for unexpected bills. I would recommend that some retained profits are used but some are held back for to meet other commitments.

Level 1 (1–2 marks)

Has commented on retained profits and may/may not have given an opinion.

Retained profits are owned by the company and should be used to help fund the new shops and the fittings. [4]

8 (a) (i) bonded warehouse [1]

(ii) Any two statements × 1 mark each such as –

- (Suitable for air freight companies) moving dutiable goods overseas
- Samples may be removed under customs supervision
- Allow Bottling and packing facility available
- Secure space for perfumes [2]

(b) Any three general functions × 1 mark each such as –

Storage/breaking bulk/protection/display/preparing for sale/maintaining supply of goods/
stabilising prices [3]

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(c) Any 2 well explained points × 2 marks or 4 points × 1 mark each –

Most manufacturers wish to produce goods all the year round (1) but some of these goods are required only at certain times of the year (0 marks)

e.g. raincoats and umbrellas in rainy season

decorations and cards for festivals (2 marks max for good examples)

The warehouse provides storage for these goods while awaiting sale/demand

Stabilises prices

Provides samples before season begins

Any other relevant point

[4]

(d) **Level 2 (3–4 marks)**

Has presented a reasoned response to show why importers require warehouses.

Importers require warehouses because they may need to store goods that they have bought over a period of time and are awaiting buyers or awaiting transport to where they are going to be used. They need somewhere to display their goods and they need protection for their goods against theft or the weather. They may wish to prepare the goods for sale. The goods may be liable for duty and they may wish to postpone duty or find buyers who will pay the duty. They will, therefore need bonded warehouses. So warehouses are essential for most importers.

(If, however, the importer imports all his goods in containers, he will not need a warehouse because the container acts as the warehouse and protects the goods. An importer of services will also not need a warehouse.)

Level 1 (1–2 marks)

Has given some functions of a warehouse with little or no context.

The importer will need a warehouse to store goods and to have them ready for sale or ready for transport. [4]

(e) Any three points well explained × 2 marks or six points × 1 mark each such as –

Provides warehousing including bonded warehouses

Provides facilities for customs authorities

Provides space for air freight companies to run their businesses

Provides runways and taxiing areas

Provides fire fighting facilities

Provides loading and unloading equipment

Provides facilities for the repair of aircraft

Provides refuelling facilities

Provides navigational aids e.g. control tower

Provides facilities for handling containers

Provides facilities for transport out of the airport e.g. roads, rail link

Provides security

Provides car parking

Any other relevant point

[6]