

Edexcel International
London Examinations
GCE Ordinary Level

Mark Scheme with Examiners' Report

**London Examinations Ordinary Level GCE in
Commerce (7100)**

June 2002

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Mark Scheme and Chief Examiner's Report
June 2002

COMMERCE 7100

Mark Scheme

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Grade Boundaries

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COMMERCE 7100, MARK SCHEME

Question 1

- (a) Commercial service - eg exporting, insurance

Direct services - eg teaching, hairdressing

2 marks for 2 examples of each type of service

(4 marks)

- (b) Commercial - concerned with buying and selling of goods and those services directly assisting that process

(2 marks)

Direct - concerned with services for the person without goods being bought or sold

(2 marks)

- (c) Example: doctor, teacher, bus driver

1 mark for identifying one example

Healthier people can work better, educated people can produce more, transport gets people to work

1 mark for each of 3 points of explanation of one example

(4 marks)

- (d) **Producers** - can provide consumers with information about their products

Can persuade consumers to buy their products rather than a competitor's

Can help them to sell more and make more profit

Can help them to establish a brand and compete better

Consumers - can find out what goods/services are available

Can obtain information about particular goods, eg size, price

Can find out where to obtain particular goods

Increases competition and lowers price/raises quality

In general, allows producers and consumer to communicate over distance

1 mark per point plus 1 mark for development of each

(8 marks)

Total: 20 marks

Question 2

- (a) **Direct** - advertising, eg newspapers, magazines

Consumers respond directly to business for specific goods as advertised

Catalogue - catalogue sent out/advertised

Consumer chooses specific goods from range in catalogue

Goods purchased directly from catalogue provider

Part-time agents - operate through individuals operating from home usually on a part-time basis

Agents have catalogue to give to friends, relatives, neighbours

Orders/goods received are via the agent - for commission

2 marks for a clear description of each; 1 mark for partial

(6 marks)

(b) Can order goods from the comfort of one's own home

Goods are delivered to the door

Can spend time choosing which type goods to buy

Wide range of goods available - often different from shops

Easy credit available - spread monthly

1 mark for each of 2 reasons, plus 1 mark for development of each

(4 marks)

(c) Goods sold on a sale or return basis - can be returned within x days for full refund

Credit card repayments - card company liable if goods not received

Mail Order Protection Scheme - advertising newspapers will refund money if goods not received

Trades Description Act - goods must fit the description in the advertisement or catalogue

Sale of Goods Acts – goods must be of merchantable quality and fit for purpose

1 mark per point plus 1 mark for development of each

(6 marks)

(d) Provides immediate access to wide range of goods/suppliers

Real time information available on services – current schedule /availability

Ordering can be done via Internet electronically – immediate

No need to post letter - no stamps needed

1 mark per point plus 1 mark for development of each

(4 marks)

Total: 20 marks

Question 3

(a) **Offer for Sale**

Shares sold to general public through advertisement

Advertised in two or more newspapers by merchant bank/issuing house

Rights issue

Shares offered to existing shareholders in the company

In proportion to current holding, eg 1 for 5

Rights can be sold on to third parties

3 marks max for three points of distinction made about each method

(6 marks)

(b) (i) **Merchant Bank**

Makes all arrangements for the issue, including publicity

Funds the whole issue and fixes selling price

Effectively underwrites the issue by funding up-front

Notifies own clients about the issue

(ii) **Stock Exchange**

Company applies to SE to have shares listed/quoted

SE vets the company and the issue

SE agreement is stated in issue publicity

Investors know they can resell shares on market once issued

1 mark per point of explanation - 3 marks for (i) and for (ii)

(6 marks)

(c) To raise additional funds (capital)

To invest in the expansion of the company

To take over another company

To repay existing debts

1 mark per point plus 1 mark for development of each

(4 marks)

- (d) Company prospectus not good enough – prospects unclear
Current company profits too low (or losses) – poor return/dividend
Share price fixed too high – opening price possibly lower, therefore loss
Stock market in general is weak – share prices could fall including this share's

1 mark for each of 2 reasons plus 1 mark for development of each

(4 marks)

Total: 20 marks

Question 4

- (a) Payer - person paying out money - the debtor

(2 marks)

Payee - person receiving payment - the creditor

(2 marks)

- (b) Payer – E

(1 mark)

Payee – B

(1 mark)

- (c) Cheque cannot be cashed over bank counter

Cheque has to be paid into an account and cash drawn from there

A/c Payee cheque can be paid only into account of payee named on cheque

Cheque cannot be transferred to another person for paying into their account

1 mark per point plus 1 mark for development

Maximum 4 marks for "crossing" or "a/c payee only"

(6 marks)

- (d) Payee puts cheque into account with own bank

Bank adds amount to account, but funds not available

Banks "sends" cheque to its Head Office for "clearing"

Head Office sends cheque to Central Clearing House with all other cheques drawn on other banks

Total value of cheques offset between banks and any final differences settled

Settlement is via adjustment of accounts held by central bank (Bank of England in United Kingdom)

Head Office of payer's bank returns cheque to branch and account is debited

Head Office of payee's bank confirms clearance of funds and value of cheque can be drawn by payee

1 mark for each stage identified plus 1 mark for development at each stage

(8 marks)

Total: 20 marks

Question 5

(a) Ability to provide door-to-door delivery - no transfer

Flexibility - to deliver at different times

Small units available - cost of small loads

Good security available - "personal" care

Direct access to most locations/address – personal handover

Cost of delivery of each unit - low against value

Protection of goods from damage - packing needed

Speed of delivery needed - urgent/perishable goods

1 mark per point plus 1 mark for explanation of each

(12 marks)

(b) (i) **Nationally**

Need for large units capable of carrying large loads

Large single loads needed to keep down costs

Vehicles need to be suitable for bulk loads/uploading

Low value/weight goods - security less important

Delivery delays - less critical

(ii) **Internationally**

United Kingdom is an island - except for Channel Tunnel link

Road/rail not available to most parts of the world

Air transport not capable of/available for bulk loads of low cost/heavy goods - too expensive

Sea transport suitable for carrying bulk loads cheaply over long distances

1 mark per point plus 1 mark for development of each

Maximum 6 marks for either part (i) or part (ii)

(8 marks)

Total: 20 marks

Question 6

- (a) Longer distance for transport - more risk or loss/damage

More time in transportation - more risk of theft

Buyers more remote - more chance of non-payment

Payment in different currencies - exchange rate risk

Markets less well known - more chance of goods not selling

Importation may be prevented by special regulations – goods cannot be legally sold

Outbreaks of war or other political actions – outside control of home government

1 mark per point plus 1 mark for development of each

(8 marks)

- (b) Cargo insurance (for sea/air) - for damage, loss, theft

Credit guarantees - for normal credit risks

Special guarantees for other risks, eg war (ECGD)

Freight insurance to cover transport charges of goods not delivered

Financial factor - transfer of invoice value

Forward selling of currencies to cover exchange risks

1 mark per point plus 1 mark for development of each

(6 marks)

- (c) Cannot cover risks where risk cannot be calculated as past statistics not available - eg used uranium disposal

No cover available if risk is too high - eg war certainty

Pure business risks - eg failure to export good demanded by local market, where market conditions change between production and delivery, general poor management of business causing loss

1 mark per point plus 1 mark for development of each

(6 marks)

Total: 20 marks

Question 7

- (a) Favourable - exports greater in value than imports in given period, eg 1 year

(2 marks)

Unfavourable - imports greater in value than exports in given period, eg 1 year

(2 marks)

Current account - concerned with payment for goods and services imported/exported (not borrowing/lending)

(2 marks)

(b) (i) Balance of Trade = visible exports - visible imports

$$£10\ 000\text{m} - £14\ 000\text{m} = \mathbf{£-4000\text{m}} \text{ (2 marks)}$$

(ii) Invisible balance = invisible exports - invisible imports

$$£7000\text{m} - £5000\text{m} = \mathbf{£+2000\text{m}} \text{ (2 marks)}$$

(iii) Current balance = balance of trade + invisible balance

$$£-4000\text{M} + £+2000\text{M} = \mathbf{£-2000\text{M}} \text{ (2 marks)}$$

1 mark for correct working in each case where answer is incorrect

Marks to be allowed against carry-forward errors

(c) Higher imports (tariffs) - higher prices discourage imports

Quota systems for import of goods - max value info per year

Higher direct taxes - to reduce overall consumption (consumers buy less)

Lower indirect taxes on home-produced goods - more bought and fewer imported

Export subsidies - lower export prices/higher demand

Reduction in home currency value against foreign currencies - exports cheaper, imports dearer

1 mark per point plus 1 mark for development of each

(8 marks)

Total: 20 marks

Question 8

(a) (i) Turnover - total values of sales in a period, eg 1 year

Rate of turnover - number of times average stock sold in a period, eg 1 year

2 marks for full definition of each, 1 mark for part-definition

(4 marks)

(ii) High rate of turnover - eg greengrocer, newsagent

(1 mark)

Low rate of turnover - eg furniture store, jeweller

(1 mark)

(b) (i) Purchases - closing stock + opening stock

$$£210\ 000 - £30\ 000 + £20\ 000 = \mathbf{£200\ 000} \text{ (2 marks)}$$

(ii) Average stock = opening stock + closing stock \div 2

$$(£20\ 000 + £30\ 000) \div 2 = \mathbf{£25\ 000} \text{ (2 marks)}$$

(iii) Rate of turnover = cost price of goods sold ÷ average stock

$$£200\,000 \div £25\,000 = 8 \text{ (2 marks)}$$

(iv) Gross profit = net turnover - cost price of goods sold

$$£250\,000 - £200\,000 = \text{£50\,000 (2 marks)}$$

1 mark correct working in each case where answer is incorrect

Marks to be allowed against carry-forward errors

(c) Small profits = low gross profit margins (or mark up) on items sold

Allows lower prices to be charged compared with competition

Larger number of items sold - compensate for small gross profit per item

Overall gross profit higher in given period

1 mark per point plus 1 mark for development of each

(6 marks)

Total: 20 marks

Question 9

(a) **Manufacturer** - uses raw materials to provide finished products for consumption

Wholesaler - provides goods for retailer by buying from manufacturer/other producers (middlemen)

Retailer - provides goods for consumers by buying from wholesalers/manufacturers

Consumer - uses finished products to obtain benefits/satisfaction/utility

2 marks for full definition; 1 mark for part definition

(8 marks)

(b) (i) **to retailers**

Provide a range of goods from different producers

Supply goods from stock and possible delivery

Breakdown bulk from producers into smaller quantities

Provide credit - improves retailers cash flow

Give expert advice on markets and products

(ii) **to manufacturers**

Take goods in large quantities - save costs

May provide transport for collection of goods

Hold goods in warehouses until demanded by retailers
Rapid payment of invoices - help cash flow
Provide expert advice on market trends - products demanded
1 mark per point plus 1 mark for development of each

Maximum 4 marks for part (i) and part (ii)

(8 marks)

- (c) Goods wanted more likely to be available
Prices may be lower because of more efficient distribution
Greater variety of goods available in shops
Shortages of particular goods less likely
1 mark per point plus 1 mark for development of each

(4 marks)

Total: 20 marks

COMMERCE 7100, CHIEF EXAMINER'S REPORT

General Comments

The number of candidates entering this examination was very similar to that in May 2001. While the paper was considered to be slightly more accessible to candidates, the small increase in the mean mark (compared with that in May 2001) was also attributable partly to an overall improvement in performance by candidates. The outcome was therefore a slightly improved pass rate at all five grade boundaries.

An encouraging feature of this year's examination was the larger number of candidates who were able to answer questions at some length as well as relevantly, i.e. through an improved ability to develop points. However, there continued to be many candidates who were unable to expand on their basic answers and who were unable to apply to particular situations the knowledge that they had gained.

A good standard of English was shown in terms of expression, grammar and spelling, and many candidates showed considerable fluency in the use of commercial terminology and phraseology.

Broad weaknesses across many centres:

1. Candidates often ignored the number of marks allocated to question parts and wrote at too great a length for the number of marks available. For example, question 1(a) had four marks available for giving two examples of commercial services and two of direct services. Four correct words would have sufficed to obtain full marks, but some candidates wrote two or more long paragraphs. Not only did this not gain marks, it meant that they had less time to score marks on other parts of the question or on other questions.
2. Reliance on rote-learning was also shown up by the wording of some questions which was a variation on what had been asked previously. Answers were therefore not always entirely relevant to the precise question being asked. Marks are not awarded for points which are outside the wording of questions. For example, in question 6 candidates wrote about insurance risks in general rather than about those specific to exporting.
3. The weaker performance of some candidates also resulted from their problems in finding five questions where they were able to answer all parts. For example, in question 1 candidates could often achieve some marks in part d) on advertising, but were unable to identify the nature and role of direct services in parts (a), (b), and (c).
4. Candidates in many cases continued to ignore the **context** in which questions are sometimes set. This was a particular problem in question five (5) (see separate comments), but there were other cases, for example in question 2 where candidates wrote about advertising and the Internet having forgotten that the question context was 'mail order' In addition to these general weaknesses, the following specific syllabus topics tended to produce poor answers, indicating that they need more attention from candidates:
 - (i) The nature and contribution of direct services (question 1(b) and (c)).

- (ii) Methods of issuing new shares in a company and the reasons for such issues (question 3 (a) and (c)).
- (iii) The role of the Stock Exchange in the success of new share issues (question 3 (b)).
- (iv) The significance of cheque general and special crossings (question 4 (c)).
- (v) The difference between correcting and funding a current balance of payments deficit (question 7(c)).
- (vi) The meaning of the **rate** of turnover (question 8(a)).
- (vii) The meaning of a policy of 'small profits, quick returns' (question 8(c)).
- (viii) The benefits which consumers derive from the existence of wholesalers in the chain of distribution (question 9(c)).

Candidates tended to perform well on the following topics:

- (i) The contribution of advertising in a market economy (question 1(d)).
- (ii) The use of the terms payer and payee in business transactions and in relation to cheque payments in particular (question 4(a) and (b)).
- (iii) The calculation of the trade balance, the invisible balance and the current balance (question 7(b)).
- (iv) The calculation of average stock, rate of turnover and gross profit (question 8(b)).
- (v) The work of wholesalers in helping retailers and manufacturers (question 9(b)).

Summary Comments

1. There was a small improvement in the overall performance of candidates.
2. There was a significant improvement in the development of answers and therefore in their length.
3. The standard of English was good and was not generally a barrier to better performance.
4. There was a need for candidates to answer the specific question asked and not to try to apply rote-learned answers to a particular topic.
5. There was a need to ensure that questions are answered only within the context (where given).
6. There was still a tendency to write answers which were too lengthy for the number of marks allocated to a question part.
4. There was a clear failure, among many candidates, to cover the syllabus widely in their studies, in order to ensure that they can answer five questions to a reasonable standard.

Question1:

In part (a), candidates were generally able to name two commercial services, but were less sure about direct services. This weakness was compounded in part (b)

where many candidates were unable to explain what distinguishes direct from commercial services. The latter are concerned with trade and the aids to trade, i.e. with the distribution of goods and services, while direct services are concerned with the "person", e.g. health, hairdressing, education, entertainment.

Following from problems with part (b), many candidates were unable to explain how a direct service supports the other production branches, for example by education providing a knowledgeable and skilled workforce. However, part (d) on the role of advertising in a market economy was often well answered with some candidates achieving the full eight marks.

Question 2:

Many candidates were unclear in part (a) about the differences between direct advertising, catalogues and the use of part-time agents as methods of mail ordering. There were two frequently made mistakes. Firstly, some candidates confused direct advertising for mail order with advertising in general, and secondly part-time agents were seen incorrectly as carrying out "cold calling" on people's homes.

In part (b), many candidates were able to explain the reasons for mail order popularity, but there was less clarity about the ways in which consumers are protected from malpractices of mail order companies. Knowledge of key areas of legislation such as the Trade Descriptions Acts was very sparse.

Encouragingly, there was widespread understanding about the use of the Internet, but some candidates were lacking in the detail.

Question 3:

This question was not popular, presumably not because it was difficult per se, but because candidates had not studied the topics covered (or some of them).

There were some very good answers concerning the Offer for the Sale and the right issue and the role of merchant banks, but many candidates were clearly guessing and would have been better off answering another question.

The role of the Stock Exchange in new issues continued to perplex many candidates, who thought that new shares were actually issued by the Exchange. Its secondary role in supporting new issues by providing liquidity and some security was infrequently mentioned.

In part (c), candidates generally understood why companies issue new shares, but they were less sure about the reasons why investors might not support a new issue, for example general market weakness and poor company prospects.

Question 4:

A large majority of candidates were able to distinguish between the payer and the payee (the correct way round!) and to relate each to the correct letter on the cheque diagram.

However, in part (c), there was a surprising number of candidates who were unclear about the meaning of cheque crossings and 'A/c Payee Only'. The most

common errors were stating that A/C Payee Only cheques could be endorsed and passed on to third parties or that only the payee could 'cash' a cheque.

In part (d), a good proportion of candidates were able to score the full eight marks in explaining how cheques are cleared between different banks. However, there were also many weak/incorrect answers, for example suggesting that a bank physically took a cheque directly to the relevant branch of the payer's bank, and there was no conception of the sheer scale of daily cheque clearing.

Question 5:

While this question was very popular, it caused difficulties for many candidates and marks scored were often low. Regarding part (a), the main problem was that many candidates totally ignored the introductory statement to the whole question setting the context. Candidates were required to identify considerations in making a transport choice given the type of goods and distribution requirement specified in the opening statement. Instead, many appeared to provide rote-learned answers about **any** considerations. For example, they identified a consideration relating to whether there were large or small quantities to be delivered, even though the question specified that quantities **were** small. The same point applied to valuable or less valuable goods, even though the question stated that they **were** valuable. Such considerations were therefore excluded from being awarded marks, and answers should have focused for example on those forms of transport which **were** suitable for small quantities of valuable goods. Similarly, in answers to part (b), candidates often ignored the fact that the question was in the context of the United Kingdom which is a small country consisting of islands and therefore surrounded by sea. Answers referring to road and rail for international transportation were therefore irrelevant (unless related to roll-on/roll-off ferries and the Channel Tunnel!). Also, candidates often ignored the reference to bulk quantities and coal, and they wrote about all kinds of goods.

A very straightforward answer referring to the suitability of rail for bulk loads to be delivered within the country, to the choice of sea or air for international distribution and to their advantages/disadvantages for bulk loads would have yielded the maximum eight marks for the parts (G)(i) and (ii).

Question 6:

Part (a) specifically referred to the **increased** business risks which exporters had to face compared with home trade. Many candidates ignored this focus and wrote generally about risks such as theft, fire and accidental damage. None of these examples gained marks unless they were linked clearly to the exporting environment, for example that the risk of theft was greater because of the greater time/distance involved and the need for more transshipment.

Similarly, in part (b), there were no marks for referring, for example, to 'theft' or 'damage' insurance. Candidates had to refer to 'marine' or 'cargo' insurance and to explain the specific risks covered by such insurance in relation to exportation. The role of the ECGD was also relevant here. Also, the question referred to 'other arrangements', allowing candidates to write about forward selling of foreign currencies and/or about the use of financial factors.

Finally, in part (c), candidates often showed some understanding of why some risks were uninsurable, but weaker candidates sometimes suggested that insurers would not take on even the basic risks because they might happen, for example the sea being often very rough with the possibility of ships sinking.

Question 7:

This question was popular and often very well answered with some candidates scoring full or close to full marks. In part (a), the terms 'favourable' and 'unfavourable' were generally understood, but the 'current account' was often incorrectly or inadequately defined, i.e. there was no reference to goods and services or in a few cases it was thought to refer to a type of bank account! Many candidates scored the full six marks for the part (b) calculations, but some failed to identify whether an answer was plus or minus as specifically required by the question and therefore lost up to three valuable marks. Candidates must read questions carefully.

Part (c), was also often well answered with some candidates scoring the full eight marks. However, there was confusion in some candidates' minds as to the difference between measures to **correct** a current balance of payments deficit and those to **fund** a deficit on a temporary basis. References to tariffs, quotas, export subsidies, devaluation, etc. were therefore relevant to the question, but those to the IMF and other central banks were not. Also, general comments such as 'reducing imports' or 'increasing exports' gained no marks because they did not identify specific measures.

Question 8:

This question attracted a good proportion of candidates, but while answers to parts (a) and (b) were often very good, part (c) was poorly answered.

In part (a), most candidates understood the meaning of turnover, but more attention needs to be given to a clear understanding of the rate of turnover. Also, candidates often referred incorrectly to types of retail **organisation** rather than the **products** sold when giving examples of high and low rates of turnover.

The calculations in part (b) were frequently well done with the main weakness being a failure to adjust for changes in stock levels when calculating the cost of goods sold.

The meaning of small profits/quick returns eluded the majority of candidates. The key to understanding the phrase starts with the idea of lowering prices by reducing gross profit margins, thereby attracting more custom and achieving higher total sales and overall profits. A simple sequenced explanation such as this would have gained four of the six marks available without any further development.

Question 9:

This was a very popular question which candidates generally answered well in parts (a) and (b), but not in part (c).

In part (a), the terms wholesaler and retailer were very well understood, but while definitions of the consumer were less secure, there was some confusion over the term 'manufacturer'. Candidates sometimes referred to primary production rather than secondary and failed to distinguish the manufacturer as using raw materials for making finished (or semi-finished) products.

Most candidates scored well in explaining how wholesalers assist retailers and manufacturers, but there were also some misconceptions, for example that wholesalers generally advertised products on behalf of manufacturers. In part (c), candidates were often unclear about the link between the work of wholesalers and the benefits to consumers. Marks were **not** awarded for references to consumers buying directly from wholesalers or for making goods cheaper by giving discounts to retailers. The points required related to the overall efficiency which wholesalers can contribute to the distribution chain, thereby keeping prices down, providing variety and minimising shortages through maintaining stocks.

COMMERCE SUBJECT REPORT 7100, GRADE BOUNDARIES

| Grade | A | B | C | D | E |
|--------------------------------|----|----|----|----|----|
| Lowest mark for award of grade | 66 | 55 | 44 | 39 | 30 |

Note: Grade boundaries may vary from year to year and from subject to subject, depending on the demands of the question paper.

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