Edexcel International

London Examinations

GCE Ordinary Level

Mark Scheme with Examiners' Report

London Examinations Ordinary Level GCE in Commerce (7100)

January 2003

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Mark Scheme and Chief Examiner's Report
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COMMERCE 7100

Mark Scheme
Page 2 of 16

Chief Examiner's Report
Page 11 of 16

Grade Boundaries
Page 16 of 16

COMMERCE 7100, MARK SCHEME

Question 1

(a) **Industrial**
Primary (extractive) and secondary (manufacturing) production of goods, e.g. farming, car assembly.

Maximum 2 marks for 2 examples

(4)

Service
Commercial (indirect) services and direct services – provision of services, not goods, e.g. banking, hairdressing.

Maximum 2 marks for 2 examples

(4)

(b) **Service branch**

Commercial services provide the links/support in the chain of production;
Link between various industry stages, e.g. transport of timber to sawmill, insurance protects a manufacturing business against loss for some risks.
Provides distribution of finished goods to consumers, e.g. retailers provide a convenient source of goods, transport gets goods nearer to consumers.
Direct services satisfy working population's personal needs/wants, e.g. transport to work, training in skills for jobs, healthcare.

1 mark per example, plus 1 mark for development, maximum 4 marks for 4 examples

(8)

(c) **Service Sector**

More specialisation and exchange – more distribution;
Greater quantity of goods available for distribution;
Higher living standards reduce demand for more goods – more money to buy services;
Results in higher proportion of expenditure on services;
Wider range of services affordable.
Balance of payments position relies on positive invisible (services) balance to pay for imports of goods.

1 mark per example plus 1 mark for development of each

(4)
Total 20 marks

Question 2

 (a) **Open-air markets**

Low (cheaper) prices/bargains – possible haggling;
Very wide range of goods – food, clothing, books, chinaware;
Some goods not available elsewhere, e.g. second-hand goods;
Goods may be very fresh – from supplier;
Pleasant / friendly way of shopping – in good weather;
Colourful and lively environment – entertainment;
Nearer than shopping centres – less time / cost.

1 mark per example plus 1 mark for development of each   **(8)**

(b) **Advantages**

May operate only on one/two days per week;
Can move stall to different markets – different customers;
Very low overhead expenses – rent/rates;
Can sell some goods direct – no middlemen;
No need for premises – less capital;
Less risk of damage – low insurance.

1 mark per point plus 1 mark for development of each
                                                                                            (4)

(c) **Cash only**

Supplies mainly cheaper goods – less need for credit;
Avoids cost/time in having to clear cheques;
Cannot register for credit card payments – no fixed address;
Prefer to receive cash as no commission to banks;
Transient customers – difficult to trace;
Need for quick cash – to restock;
Can avoid paying tax by non-declaration;
Cannot provide other credit facilities, e.g. HP

1 mark per example plus 1 mark for development of each
                                                                                            (4)

(d) **Limitations**

No facility for delivery of large items, e.g. furniture;
No security for expensive goods, e.g. jewellery;
No licence available for some goods, e.g. alcoholic;
No weather protection for some goods, e.g. paintings;
No capital to buy stocks of expensive goods, e.g. designer watches;
No credit for more expensive goods, e.g. clothing;
No after-sales service available, e.g. for electrical goods.

1 mark per example plus 1 mark for development of each
                                                                                            (4)
                                                                          Total 20 marks

Question 3

(a) **Market research**

Finding out whether there are markets for particular goods – size/location.
Finding out consumer preference regarding design, colour, performance, etc – new or existing goods.

Advertising

Drawing consumers' attention to existence of goods;
Providing details / information, e.g. source, price, quality;
Persuading consumers to buy – techniques/media;
Maintaining brand loyalty.

1 mark per point of definition of each, maximum 3 marks for each　　　　**(6)**

(b) Desk research – from published data;
Field research – from external activity;
Test marketing / samples – limited release for consumer reaction;
Surveys – interviewing people;
Questionnaires – sent to selected people;
Use of consumer panels – testing reaction.
(Broad and/or specific methods of research allowed)

1 mark for each of 2 methods identified, plus 2 marks for 2 points of description each　　　　**(6)**

(c) Can identify products which will sell – before production;
Can identify style, design, etc, which is most likely to attract;
Can identify best distribution/promotion methods;
Can improve existing products;
More likely then to avoid losses from wasted investment and to achieve higher profits;
Helps development of a marketing strategy.

1 mark per example plus 1 mark for development of each　　　　**(4)**

(d) Expenditure which does not benefit the consumer;
Higher costs to business, which raises the price of goods;
Much advertising is defensive – keeping up with other firms;
May not result in extra sales for a business, only cost;
Money wasted on ineffective advertising, e.g. junk mail.

1 mark per point plus 1 mark for development of each

(4)
Total 20 marks

Question 4

(a) **Insurance broker**

Helps clients to find insurance cover needed – example;
Approaches different insurance companies / Lloyds underwriters - to obtain lowest premium;
Also ensures that clients have adequate cover – example;
Helps customers to make claims – example;
Receives a percentage of premiums – as commission from insurance companies.
1 mark per example plus 1 mark for development of each

(4)

Stockbroker
Buys and sells shares for investors;
Deals directly with market-makers on the Stock Exchange;
Approaches different market-makers to obtain the best price;
Arranges payment/delivery of share certificates;
Receives commission based on value of transaction.
1 mark per point plus 1 mark for development of each

(4)

Shipping broker
Helps exporters to obtain shipping space for their goods;
'Space' may be on a cargo liner or may be a whole vessel charter;
Approaches ship-owner agents to obtain best deal;
Operates on Baltic Exchange for ship-owner commission.
1 mark per example plus 1 mark for development of each

(4)

(b) **(i)   Agents**
Employed by specific company, brokers approach many;
Agents represent their company, brokers their clients;
Agents receive a 'wage', brokers commission.

(ii)   Principals
Work for themselves, brokers for others;
Principals take the risk, brokers pass on the risk;
Principals receive profit if successful, brokers commission.

2 marks per difference clearly stated. 1 mark where reverse point only, maximum 4 for agents and for principals

(8)

Total 20 marks

Question 5

(a) **Road transport advantages**

Door-to-door delivery – no transfer needed;
Can reach most locations directly;
Flexible delivery times – no fixed schedule;
Can carry small unit loads or larger;
Quicker delivery over short distances;
Cheaper for smaller loads over short distances;
More competition – lower charges
Less chance of theft as closer supervision;
Less chance of damage as 'direct' handling;
Wider loads can be carried;
Motorways allow higher speeds over longer distances;
(N.B. Allow disadvantages of rail compared with road).

1 mark per example plus 1 mark for development of each   **(8)**

(b) **Examples** – coal, iron ore, timber, oil (maximum 2 – 1 mark each);   **(2)**

Can carry much larger/heavier loads;
Can carry low value/weight goods cheaply;
Special rolling stock, e.g. large oil tankers;
Some goods can be delivered direct to buyer's premises;
Dangerous goods safer by rail, e.g. nuclear waste
Goods can be left safely awaiting transfer.

1 mark per point plus 1 mark for development of each   **(4)**

(c) **Encouragement of rail**

Roads heavily congested – even with motorways;
Heavy lorries cause road congestion / damage and greater risk;
Environment pollution by road transport – noise/fumes;
Development of more roads damages countryside;
Rail has much spare capacity – available at low cost.

1 mark per point plus 1 mark for development of each   **(6)**
Total 20 marks

Question 6

(a) **Cheques**

Debtor draws / writes a cheque on her/his bank / current account;
Debtor passes cheque to creditor, who pays into own account;
Cheques cleared between banks – through Clearing House;
Creditor's account is credited, debtor's account debited;
Creditors can draw cash against this credit or can make own bank payment against it;
Open cheques can be cashed – over counter of debtor's branch

1 mark per example plus 1 mark for development of each **(6)**

(b) **Guaranteeing payment**

Can require debtor to provide cheque guarantee card – issued to current account holders;
Number of card written on reverse of cheque – must be by creditor;
Cheque must be signed in front of creditor – matching signatures
Bank guarantees to honour payments even if debtor does not have enough money in account.

1 mark per example plus 1 mark for development of each **(4)**

(c) **Credit transfer**

Business provides bank with list of creditors – shows amounts to be paid to each;
Credit transfer slip completed for each creditor – includes bank/branch sort code (and a/c number);
One cheque drawn by business on its account – covers total amount;
Bank arranges payment to accounts of each of the creditors listed – via clearing system.

1 mark per example plus 1 mark for development of each **(5)**

(d) **Examples**

Direct debit, standing order, debit card, credit card, electronic transfers (telephone / PC / internet).

1 mark for one correct method identified **(1)**

Debit Card – card given to creditor, swiped through machine, debtor signs slip, printed by machine, accounts electronically debited/credited, through BACS.

1 mark for each point of description or development

(4)
Total 20 marks

Question 7

(a) **Assurance** – payment is certain – because death is certain.
(2 marks)

Insurance – compensation only if risk results in loss - to insured.
(2 marks) **(4)**

(b) **Whole life** – payment to beneficiaries only on death of insured – on whatever date, no matter how long you live. (Allow term insurance).
(2 marks)

Endowment – payment on death of insured – within specified period – or on survival to end of period.
(2 marks) **(4)**

(c) **Level of premium**

Current age and therefore potential life span;
Current medical condition;
Previous illness history;
History of family survival/illness;
Gender – different male / female life expectancy;
Smoker / non-smoker;
Occupation – risk of accident levels;
Place of residence – dangerous locations;
Length of period insured (for endowment);
Level of cover required.

1 mark per point –plus 1 mark for development of each **(8)**

(d) **Examples**

Very high risk occupation;
Seriously/terminally ill person;
Very old person;
Failure to answer questions asked.

1 mark per point plus 1 mark for development of each, maximum 2 marks for 2 examples **(4)**

Total 20 marks

Question 8

(a) **Seaport**

Sheltered harbour with deep water for larger ships;
Easy access to harbour – pilotage provision;
Docks (quays/wharves) for ships to moor;
Unloading equipment for goods – e.g., cranes;
Container storage areas – special cranes;
Warehouse facilities for non-containerised goods;
Bonded warehouses – storage of goods without tax paid;
Customs offices – to allow rapid clearance;
Good road/rail connections with hinterland;
Berthing for refuelling;
Ship maintenance facilities, e.g. dry docks.

1 mark per point plus 1 mark for development of each (10)

(b) **Role of customs**

To ensure that import duties are collected;
To prevent smuggling – inspection / surveillance;
To ensure that correct duty charged based on goods' origin;
Disease control – infected goods;
Control of bonded warehouses – release of goods;
Provision of import licences – prevention of illegal imports;
Provision of export licences for special goods, e.g. arms;
Provision of advice on import / export regulations;
Maintenance of records of imports/exports – for statistical purposes.

1 mark per point plus 1 mark for development of each (6)

(c) **Import/export control**

To prevent excessive value of imports into the country;
To make sure that dangerous goods are not imported, e.g. drugs;
To ensure that imports do not compete unfairly with taxed home-produced
goods, e.g. cigarettes;
To protect 'infant industries' – new products;
To prevent the export of certain goods, e.g. works of art;
To limit imports / exports to specific countries for political reasons;
To maintain a healthy payments balance – exports > imports;
To obtain revenue from import duties.

1 mark per point plus 1 mark for development of each,
NB no marks for repetition of points between parts (b) and (c) (4)
Total 20 marks

Question 9

(a)　(i)　　50/100 x £100 000 = **£50 000** distributed (2 marks)

　　　(ii)　　£50 000 = 5 000 000/500 000 = **10p per share** (2 marks)

　　　(iii)　　Yield = 10p / 200p x 100 = **5%** (2 marks)

**1 mark for correct working or formula in each case where answer is
incorrect** **(6)**

(b)　Measure of return on capital compared with alternative investments. **(2)**

(c)　(i)　**Retaining profits**

To reduce previous accumulated debts;
To reduce need for future borrowing;
To provide funds for future capital expenditure (expansion);
To provide funds for external investments;
To provide a buffer against possible future losses;
To make provision for possible future bad debts;
To maintain/improve future dividends.

1 mark per point plus 1 mark for development of each **(6)**

　　　(ii)　**Shareholders support**

Investment of retained profit will allow company expansion;
Increased future profits generated – higher dividends;
Higher profits will raise market price of shares;
Potential for future capital gains on sale of shares;
Good dividend already received from distributed profit.

1 mark per point plus 1 mark for development of each **(6)**

Total 20 marks

COMMERCE 7100, CHIEF EXAMINER'S REPORT

General Comments

There was a substantial reduction in the number of candidates entering this examination compared with January 2002. This resulted from candidates from the Maldives not sitting the examination on this occasion.

The reduction in the entry was accompanied by a substantial rise in the mean mark. While this was partly explained by slightly increased accessibility of the paper compared with the previous year, it resulted largely from the substantially higher ability (on average) of the candidates sitting the paper. There was also some improvement in the performance of candidates from particular centres, so that the overall outcome was a significantly improved pass rate at all five grade boundaries compared with January 2002.

As reported for the June 2002 examinations, an encouraging feature of the January 2003 outcome was the large number of candidates who were able to answer questions at length and in some depth. At the same time, however, there was a relatively small proportion of candidates who showed little knowledge and who were struggling to find five questions which they could attempt, even in part.

There was a wide spread of question choice made by candidates, even within individual centres, and all questions on the paper were answered by a significant proportion of the total entry. This suggests that the syllabus content is being studied widely.

Following comments in previous examination reports for Commerce, candidates generally seemed to be more aware of the need to respond according to the 'key' or 'communal' words in questions. The only significant example of candidates' failure to do so was in question 6(a) which asked candidates to describe <u>how</u> cheques provided a money transfer service and where many candidates described the <u>features</u> of cheques rather than the <u>process</u> of use.

Candidates' standard of English was very good, in general, in terms of expression, grammar and spelling, and there was wide and correct use of commercial terminology and phraseology. For most candidates, ability in English was therefore no barrier to performance.

Broad weaknesses across many Centres

1. Candidates need to understand the importance of reading the wording of questions very carefully before answering. For example, question 2(d) was misinterpreted as limited 'quantities' of goods rather than 'types', and question 5(b) asked about rail suitability for certain <u>types</u> of goods rather than advantages in general over road. This resulted in responses which were not relevant to the question asked and nil marks for such.
2. There was a higher proportion of candidates this year who wrote long, rambling answers which were repetitive and often lost sight of the original question being asked. While such answers often scored some marks, candidates could have raised the level if they had been more focused and made better use of their examination time.

Specific weaknesses in Syllabus Content

In addition to these general weaknesses, the following specific syllabus topics tended to produce poor responses, indicating that they need more attention from candidates:

(i)   The importance of services along the chain of production, as well as at the final stage (question 1(b)).

(ii)   The reasons for the growth of tertiary production in developed economies (question 1(c)).

(iii)   The contribution of market research to business success (question 3(c)).

(iv)   The work of shipping brokers and the distinction between brokers, agents and principals (question 4).

(v)   The reasons why the U.K. Government would like more freight to be carried by rail rather than road (question 5(c)).

(vi)   The distinction between whole life assurance and endowment assurance (question 7(b)).

(vii)   The work of the U.K. Customs Authority (question 7(b)).

(viii)   The meaning of 'yield' on share investments (question 9(b)).

Specific strengths in Syllabus Content

Candidates tended to perform well on the following topics:

(i)   The advantages of road over rail transport (question 5(a)).

(ii)   The factors affecting the level of premium charged for individual life assurance (question 7(c)).

(iii)   The main features of a large seaport used for freight importing and exporting (question 8(a)).

(iv)   The benefits if the retention of prophets by companies (question 9(c)).

Summary

1. There was a significant improvement in the performance of candidates compared with that of the equivalent cohort in January 2002.

2. There were many excellent answers to questions on a wide range of topics, showing broad and in-depth study and sound understanding.

3. Candidates need to read the wording of the questions more carefully.

4. Candidates should try to be more focused in their answers and avoid irrelevancy / repetition.

5. In general, the standard of English was very good, and commercial terminology was well used.

Question 1

In part (a), many candidates identified primary and secondary production as forming the industrial branch, but answers were weaker on the tertiary branch. Some candidates forgot to define the branch at all, while others made no reference to direct services as well as commercial services, which form the content of the syllabus being studied!

In part (b), the concept of the chain of production was widely understood, but candidates often lost marks by simply referring to various services without explaining **how** they are a part of, and support, the chain (for example transport enabling raw materials and finished goods to be distributed to manufacturers and companies effectively). Another common error was failure to explain how direct services help to support the chain of production.

Candidates in general had difficulty in answering part (c) for the final 4 marks, but there were some sound responses from the more able candidates. Weaker candidates simply saw services as replacing manufacturing output without explaining why or saw them as the **cause** of higher living standards, rather than vice-versa. The full 4 marks could have been scored by simple reference to the greater extent and complexity of specialisation and exchange and to the impact of higher living standards in developed economies on the demand for services in addition to goods.

Question 2

Many candidates scored from 4 marks to the full 8 marks for part 9(a), but weaker candidates made invalid comments such as quality being higher in open-air markets / street stalls or shopping being quicker. Nor is self-service a distinguishing feature.
In part (b), many candidates simply respected the benefits to customers in part (a) as being the advantages to the stallholders, rather than referring to points such as low overheads, mobility and smaller capital investment.

Many candidates could see in part (c) the problems of giving credit when operating from markets and street stalls and the full marks were often scored by reference to bad debts, cash flow needs and a lack of credit card facilities. The costs involved in accepting cheques and card payments were less frequently identified.

In part (d), candidates often misread the question as referring to a limited quantity of goods rather than limited types. References to goods requiring delivery, security, refrigeration and weather protection were examples of what was required to answer the question.

Question 3

Candidates understood the nature of advertising in part (a) much better than that of market research. Many answers simply recycled the phrase as 'researching the market' or 'carrying out research on the market', which failed to show their understanding and scored nil marks.

In part (b), weaker answers referred to questionnaires and interviews without showing any realistic understanding of how they might be carried out. However, there were also many excellent answers which covered various types of both desk and field research. Candidates who simply referred to agencies or departments were not awarded marks.

Candidates in general had difficulty with part (c) with many failing to state that market research helps to identify the 'correct' products before production takes place, thus

enhancing sales / profits and avoiding wasted investment. Reference to the identification of the best distribution / promotion methods was also uncommon.

In explaining why advertising can be wasteful, many candidates got sidetracked into irrelevant explanations about advertising being misleading and dangerous. For the 4 marks, answers needed to focus on the costs of advertising being passed onto consumers in the form of higher prices, unless it resulted in higher output / sales.

Question 4

This question proved to be the unpopular with candidates, possibly because of the reference in part (b) to principals and agents.

The role of insurance brokers was generally well understood, but weaker candidates saw them as working for the insurance companies rather than their customers. Also, few answers referred to brokers helping people to find the right insurance for their needs a well as the best in terms of price.

The role of stockbrokers on the Stock Exchange was often correctly explained, but some candidates contrived to refer to their dealing with 'jobbers' rather than market makers. A small minority thought that these brokers dealt with 'stock', i.e. with goods.

The work of shipping brokers was less well known, with some candidates referring to the buying and selling of ships. A further frequent error was to see these brokers a working for the ship-owners rather than the owners of the goods to be transported.

In part (b), many candidates were confused as to the distinct characteristics of agents and brokers, and there was very infrequent understanding of the principal being the decision-maker and the risk / profit taker.

Question 5

There were many excellent answers to the advantage of road over rail transport in part (a), but a number of misconceptions and simplifications surfaced in some answers. In particular, no marks were awarded for candidates simply stating that road is faster, cheaper and safer unless the reasons and circumstances were adequately emphasised. For example road being faster especially over shorter distances because direct delivery is possible and no transhipment is required.

Candidates often misread part (b) as asking for **any** advantages of rail over road transport, whereas it referred only to reasons for its greater suitability for transferring certain **types** of goods, including examples of such. Only 6 marks were available for answers, including 2 for two examples, so that reference to bulky and heavy loads such as coal and iron ore being carried over long distances in large quantities would have achieved top marks.

Part (c) caused problems for many candidates because they thought that the Government owned the railways and would achieve higher revenues form a higher volume of traffic. Answers should have referred to road congestion, pollution, countryside damage and spare capacity. A further common error was to suggest that the Government wanted more use of the railways because they were economic and safer.

Question 6

While there were many good answers to part (a), many candidates failed to explain precisely **how** money transferred from one account to another or gave simplistic answers about

cashing cheques over the counter. A further common weakness was for candidates to ignore the 'how' word and simply describe cheques rather than the process of money transfer.

Surprisingly, many candidates failed to identify cheque guarantee cards as the basis of the answer to part (b), so that no marks were scored. Bank drafts were not allowed as correct as they are not the debtor's cheque as such but are drawn on the bank itself.

Very many candidates had a general idea about credit transfers, (part (c)), but were unable to explain adequately **how** it worked for groups of creditors paid against one cheque. Also, there was some confusion with the arrangement of a single credit transfer over the counter at a bank.

Part (d) was generally well answered, with many candidates identifying a method such as a standing order or credit card and giving a sound explanation of how it worked.

Question 7

A large majority of candidates understood the idea of assurance in terms of payment always being made, but many failed to explain the difference in insurance. Even where the possibility of loss was mentioned, most answers failed to state that there would be no payment (compensation) if there were no loss.

In part (b), many candidates had only a vague idea about whole life and endowment assurance, especially the latter which was often confused with term assurance (a form of whole life).

Part (c), on the factors affecting premiums for life assurance, was generally answered well, age, gender, medical condition, family history and occupation were frequently mentioned, but the duration of a policy was rarely identified as a factor. Ability to pay was a common incorrect answer, and there were also some irrelevant responses in terms of the principles of insurance.

Regarding the reasons why life assurance might be refused, (part (d)), age and serious illness were commonly mentioned. References to 'no insurable interest' were not allowed, as they did not answer the specific question asked. Nor was 'utmost good faith' if it was explained in terms of refusal to meet a claim where information was subsequently found to be inaccurate or incomplete. It had to be explained in terms of a lack of good faith when taking out a policy, e.g. by a failure to answer all questions asked.

Question 8

While this was not a popular question, there were many very well developed answers to part (a), with quite a few candidates scoring the full 10 marks available. Even good rail / road links with the hinterland was sometimes mentioned.

However, answers in general went downhill in the parts (b) and (c) of the question. It was clear that many candidates had not studied much about the work of Customs, and many answers went no further than reference to the control of smuggling of illegal goods. At the same time, there were a few candidates who scored the full 6 marks by reference, for example, to the collection of duties, bonded warehouses, provision of import licenses and the maintenance of statistical records.

Again, the quality of answers to part (c) ranged widely. Some candidates simply referred to dangerous goods as in part (b), but the better candidates understood the need for a sound balance of payments and for the protection of home industries from cheap imports, especially 'infant' industries.

Question 9

In part (a), a large majority of candidates correctly calculated the total dividend distributions, but many were unable to work out the dividend per share, and even fewer could calculate the yield.

Following from the problem with part (a), most candidates did not understand the idea of 'yield' as the return on capital value or its importance for comparison with other investments. However, marks scored on part (c)(i) and (ii) were often very good. Many answers made reference to, and explained, at least three reasons for the retention of profits in a company and gained the full 6 marks for section (i). Many candidates also grasped the idea that in section (ii) their re0investment could produce even higher profits and therefore higher dividends and share price in the future, thus benefiting shareholders.

Among weaker candidates, a fundamental weakness in (c)(i) was their failure to understand that the (net) profit figure for distribution already took into account all the expenses of the business, including the payment of long-term debt and as reserves for potential bad debts were, however, allowed as good answers.

COMMERCE SUBJECT REPORT 7100, GRADE BOUNDARIES

Grade	A	B	C	D	E
Lowest mark for award of grade	60	49	38	33	28

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