

# **Mark Scheme with Examiners' Report**

## **GCE O Level Commerce (7100)**

January 2005

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January 2005

Order Code: U0016217

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## COMMERCE 7100, MARK SCHEME

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### Question 1

(a) **Meaning of division of labour**

Work divided - into processes or occupations  
Individuals carry out one process / occupation - specialise  
Combined work produces the commodity / completes job  
eg process - assembly line worker, packer  
occupation - doctor, teacher

*1 mark per point plus 1 mark for development of each (maximum 4 marks)  
(plus 1 mark for each of two examples)* (6)

(b) **Increased output / reduced cost**

Workers become more skilled - work faster  
Repetition - 'practice makes perfect' (improved quality)  
No time wasted - moving between tasks  
Narrow range of skill - learned more quickly  
Less training needed - can start work earlier  
Special aptitudes of individuals - can be fully used  
Higher output per hour - goods cost less to make (greater efficiency)  
Machines can be more easily applied - more produced  
Saving of tools/equipment - one worker does not need set of tools for whole job

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

(c) **Disadvantages to employees**

Work repetitive - more boredom  
Work less interesting - less job satisfaction  
Narrow skill - more difficult to move to other jobs  
Simple work likely to be low paid - lower living standard  
Increased use of machinery - risk of unemployment  
Loss of craft skills - lower pay

**Disadvantages to employers**

Boredom leads to less concentration - poorer quality  
Less job satisfaction can lead to higher staff turnover / unrest  
Large groups of workers - more easily unionised/industrial action  
Small groups of workers can disrupt whole production line

*1 mark per point plus 1 mark for development of each  
(maximum 4 marks for employees or employers within overall 6 marks)* (6)

**(Total 20 marks)**

### Question 2

(a) **Direct selling methods**

(i) Mail order, internet, door-to-door (hawkers), automatic vending, telephone marketing, newspaper adverts, TV home shopping channels (allow also farms, warehouses, street traders (peddlers), 'party' selling, mobile vans)

*1 mark for each of two methods* (2)

- (ii) eg mail order - goods advertised in newspapers, on TV, etc  
order form sent by post, or order by telephone  
goods sent by post or carrier  
catalogues could be sent, goods ordered from catalogue  
part-time agents - commission basis

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

**(8)**

- (b) **Consumer attraction to direct selling**  
Can be done without leaving home - time / cost saving  
Prices may be lower - because no retailer's profit  
Choice can be made at leisure - over a period of time  
No need to visit crowded shops - also parking problems  
Disabled/elderly - cannot travel/carry easily  
Wider range of goods - some not sold through shops  
Bargaining may be possible - eg with street traders

*1 mark per point plus 1 mark for development of each*

**(5)**

- (c) **Importance of warehousing to direct selling**  
Provides storage of goods - until they are demanded  
Large stocks need to be held - in central location  
Allows bulk-buying - costs reduced  
Need to meet customer orders quickly - delay will discourage customers  
Goods need to be held safe from damage and secure from theft

*1 mark per point plus 1 mark for development of each*

**(5)**

**(Total 20 marks)**

### Question 3

- (a) **Container ships / bulk carriers**  
(i) Container ships - designed to carry standard-sized boxes - metal  
Very large numbers carried - in hold and on deck  
Containers loaded at source - transferred by crane onto ship  
Unloaded quickly at port - fast turnaround of ship  
Containers may be refrigerated - for perishables  
Goods carried - eg clothing, spare parts, computers - maximum 1 mark

Bulk carriers - very large holds for taking single commodities  
Goods carried - eg iron ore, coal, wheat, timber (allow oil)  
Goods loaded / unloaded 'loose' by mechanical 'grabs'  
Huge capacity / loads - special protection not needed

*1 mark per point plus 1 mark for development of each  
(maximum 5 marks for container ships or bulk carriers within overall 8 marks)*

**(8)**

(ii) **Why both types needed (and examples)**

'Small' individual goods - could not be carried as 'bulk'  
eg clocks, clothing, washing machines  
Bulk items are low cost / high weight - containers expensive  
Containers not needed to protect - or secure  
eg coal, iron ore

*1 mark per point plus 1 mark for development / example*

**(4)**

(b) **Efficiency / safety of containers**

Large number of items unloaded as a single unit - quick  
Mechanised loading/unloading - faster/cheaper  
Vessels can turn around quickly - more trips possible  
Speedy unloading reduces costs - less labour needed  
Sealed after filling - good protection from elements  
Locked after filling - theft more difficult  
Reduced insurance costs - less risk  
Reduced Customs checks across borders - only at destination  
Can be quickly / cheaply transferred to sea / road transport - for onward carriage inland  
Can be delivered straight to buyer - without opening

*1 mark per point plus 1 mark for development of each  
(maximum 6 marks for reference only to efficiency or safety)*

**(8)**

**(Total 20 marks)**

**Question 4**

(a) **Legal tender**

- (i) Coins and notes (cash) - backed by Government
- (ii) Only method of payment which has to be accepted by creditor - if refused, creditor has no other claim - 'legally' approved
- (iii) Issues new notes and coins to the banks - takes back worn or 'old' currency - prints notes - coins made by the 'Mint'

*1 mark per point of explanation plus 1 mark for development  
(maximum 3 marks for any one part)*

**(8)**

(b) **Barter**

Exchange of goods for other goods, or goods for services, or services for services  
Farmer could exchange vegetables for clothing made by a tailor  
Builder could repair a roof and receive timber in return

*1 mark per point of explanation plus 1 mark for development (maximum 2 marks) plus 1 mark each of two correct examples*

**(4)**

**(c) How money has helped trade**

No need for buyer to find someone who has what s/he wants to buy and also wants what s/he has - double coincidence of wants (*maximum 3 marks*)

No need to have products / services of similar relative value to exchange - no loss on exchange (*maximum 2 marks*)

No problem in agreeing 'rate' of exchange for goods - no haggling (*maximum 2 marks*)

No problem with having to store goods - which might deteriorate /perish (*maximum 2 marks*)

No problem in carrying to transact - small, light (portable) (*maximum 2 marks*)

No problem in having a unit of account - allows credit/deferred payment (*maximum 2 marks*)

Instead money can be received in exchange, goods priced in money terms, and money held for future spending (*maximum 3 marks*)

NB Can be explained alternatively in terms of functions/characteristics of money (*within maximum 8 marks overall*)

**(8)**

**(Total 20 marks)**

**Question 5**

**(a) Public company / sole proprietorship differences**

(i) Raising finance - Company sells shares to public - SP has to provide basic capital himself / herself  
Company can issue bonds / debentures - SP has to borrow from friends / relatives  
Company can raise large sums - SP limited resources

(ii) Profit distribution - Company pays dividends to shareholders - SP has use of profits for himself / herself

(iii) Liability - Shareholders have limited liability - SP has unlimited  
Shareholders can lose only their share capital - SP can lose personal possessions (fully liable for all debts)

(iv) Ownership - Shareholders own the company - SP is sole owner of business  
Shareholders own in proportion to shares held - SP owns 100%

(v) Decision-making - Shareholders elect company directors - SP is in sole control  
Directors make major decisions - SP does own decision-making  
Group decision-making slower - SP does not have to consult

*1 mark per point plus 1 mark for development of each  
(maximum 3 marks for each section - must have at least one point for each organisation for full 3 marks in each part)*

**(15)**

- (b) **Sole proprietor businesses smaller**  
 Cannot raise as much finance - cannot borrow from public  
 Unlimited liability makes it very risky to have a large business - could lose all possessions  
 Does not have specialist expertise / breadth of experience compared with company directors / managers  
 Does not have sufficient profits to plough back - for expansion  
 May lack new ideas - limited from one individual  
 Business more risky - banks less willing to lend (or charge more)  
 Continuity less secure - business may die with owner (or illness)

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

(Total 20 marks)

### Question 6

- (a) **Share buying procedure**  
 Contact a stockbroker (authorised dealer) - state price (maximum)  
 Normally by telephone or by internet  
 Can be bought through bank - but still via broker  
 Broker may give advice on buying - business forecast  
 Stockbroker contacts market maker - selling price given  
 Broker may contact other market makers - lowest price taken  
 Broker sends contract note (invoice) - requesting payment  
 Commission charged - stamp duty paid  
 Settlement each account period - two weeks each  
 Share certificates sent later - by company (registrar)

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

- (b) **Dividend**  
 $\text{£}5000 \times 10\% = \text{£}500$  (2)

- (c) **Selling profit**
- |                           |   |         |                         |
|---------------------------|---|---------|-------------------------|
| 5000 shares x £3.00 each  | = | £15000  | or £15000 - £10000 =    |
| Commission £15000 x 1 ½ % | = | £225-   | £5000 (less commission) |
| Cost of shares £5000 x £2 | = | £10000- |                         |
| Profit                    | = | £4775   |                         |

*4 marks for correct answer, 3 marks maximum for correct workings only* (4)

- (d) **S.E. Protection**  
 All brokers have to be approved - by S.E. Council  
 Brokers required to take examinations - before practising  
 All shares are vetted by S.E. before can be quoted (listed) on S.E.  
 Quotation can be suspended / withdrawn where malpractice  
 S.E. has set rules/regulations - which members must follow  
 S.E. compensation in case of 'public' loss through default of S.E. member

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

(Total 20 marks)

## Question 7

(a) **Categories of insurance**

Fire, accident and life

*1 mark for each of two identified*

**(2)**

(b) **Types of marine insurance**

Hull - covers the ship itself - hull, superstructure, engines;  
covers for loss of ship - and damage to ship - caused by fire, storm  
(weather), collision

Cargo - covers the goods being carried - for other businesses;  
covers for total loss - and damage to goods - caused by fire, storm  
(weather), collision

Freight - covers amount charged for shipping goods - by shipping company;  
covers freight charge where not pre-paid - only on delivery;  
not paid if goods not delivered - shipping company has insurable  
interest

Shipowner's liability - covers losses caused to others - by shipowner's  
actions;  
covers for injury or death - passengers or others;  
covers damage to property of others - eg quays,  
ships

*1 mark per point plus 1 mark for development of each  
(maximum 3 marks for any one type)*

**(10)**

(c) **Lloyd's procedures**

Approach to Lloyd's broker - cannot go direct

Proposal form completed - detail

Broker contacts underwriter - for premium quotation

May contact other underwriters - for alternative quotes

Best quote accepted - underwriter signs 'slip'

May be passed between several underwriters - for large amount

Each underwriter signs for a percentage of risk - until all covered

Risk may be covered by individual underwriters - or by syndicates

Premium paid - policy issued

Lloyd's itself does not provide cover - or take the risk

*1 mark per point plus 1 mark for development of each*

**(8)**

**(Total 20 marks)**



## Question 8

(a) **Advertising - consumer benefits**

Get to know what goods are available - and details/use  
Provides information - about new goods  
Allows comparisons of different suppliers - price/quality  
Can identify suppliers - and locations / contacts  
Helps to make a choice - 'best buy' (brand) for individual  
Increases competition - lower prices / higher quality  
Saves time searching the market - can go straight to buy requirement  
Protects consumers - eg smoking risks, unhealthy foods  
Acts as a reminder - that goods are still available

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

(b) **Complaints about advertising**

Can mislead - may purchase unsuitable items  
Can cause overspending - persuasion to buy  
Can waste money - could be used to lower prices  
May encourage materialism - overemphasis on possessions  
May play on people's weaknesses - emotional appeal  
May 'force' parents to buy for children - eg new toys, sweets

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

(c) (i) **Advertising Standards Authority**

Responsible for monitoring advertisements - only in 'press'  
Has a Code of Practice - sets out minimum standards  
Set up by advertising industry - and financed by it  
Requires adverts to be legal, decent, honest and truthful  
Also no advertising of harmful goods - eg cigarettes  
Complaints about adverts can be sent to ASA - for checking  
If upheld, ASA recommends change - to advertiser  
Has no power to ban adverts or impose penalties/require compensation - self regulatory

(ii) **Independent Television Commission (formerly IBA)**

Controls advertising on TV and on radio (IBA)  
Monitors advertisements and receives complaints  
Can require advertisers to change adverts, or can ban  
Can be required by Government to ban ads - e.g. cigarettes

*1 mark per point plus 1 mark for development of each  
(maximum 5 marks for (i) or (ii) within overall 8 marks)* (8)

**(Total 20 marks)**

## Question 9

(a) **Visible/invisible balances**

Visible - value of exports of goods (tangibles) compared with the value of imports of goods, eg cars, foodstuffs

Invisible - value of exports of services (intangibles) (sold) compared with the value of imports of services (bought), eg banking, transport, professional services, sportspersons

*1 mark per point of difference for each (2 x 2 maximum) plus 1 mark for one example of each*

**(6)**

(b) **Large UK invisible export trade**

Has well-developed service industries in the economy - more important than manufacturing industries

Many services sold to other countries - greater UK expertise - skills not available elsewhere at same level

eg provision of insurance internationally

provision of shipping / air transport facilities for other countries

*1 mark per point plus 1 mark for development of each (2 x 2) plus 2 marks for two examples (different)*

**(6)**

(c) **Government help for exporters**

Reduction in value of a country's currency - exports cheaper to foreign buyers

Lower interest rates to encourage investment / lower costs - goods sold more cheaply

Reduces taxes on exporters, eg nil VAT - export prices lower

Gives subsidies to exporters - allowing profits still to be made if lower prices charged

DTI provides exporters with commercial information - about markets overseas

Encourages other countries to buy their goods - eg by holding trade exhibitions

Setting up of free trade areas - no import duties into other member countries

Embassies/consulates - provide local market information/opportunities

Provides special insurance cover - through ECGD

Devaluation of home currency - exports cheaper to overseas buyers

*1 mark per point plus 1 mark for development of each*

**(8)**

**(Total 20 marks)**

# COMMERCE 7100, CHIEF EXAMINER'S REPORT

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## General Comments

This was the last examination under the 'old' Commerce syllabus, and the May 2005 paper will be based on the new syllabus as published in 2003.

Overall, the outcome of the January 2005 examination was a good farewell to the old syllabus, as there was a significant increase in the mean mark for candidates taking this paper. While it was considered to be slightly more accessible compared with the previous two papers, the general performance of candidates was also considered to have improved. This was reflected in the higher percentage pass rates occurring at each of the grade boundaries from A to D.

Encouragingly, candidates seemed to be more aware of the command words in the questions and responded accordingly, less so among weaker candidates. Candidates also adhered much better to the mark allocations to question parts, that is, not writing extensive answers for only a few available marks, although there were some exceptions to this. At the same time, candidates still need more help in understanding how to *apply* their knowledge in questions.

The following were general weaknesses across many centres. These need to be addressed by candidates and teachers, as they are generally likely to occur again, even though there is a new examination format from May 2005.

1. Candidates continued to have difficulty in answering all parts of the questions chosen. For example, in Q3 (a) candidates often knew about container ships but not bulk carriers, even though they are both types of ship, and in Q.4 the problems of barter and the benefits of using money were well known, but the nature of legal tender was often not understood. Similarly, in Q.6, many candidates could explain in part (a) how shares were bought on the Stock Exchange, but could not identify in part (c) the protection which investors obtain from the Stock Exchange. Subject areas need to be studied more comprehensively.

2. Candidates often seemed not to have considered all the questions on the Paper before deciding which ones to attempt. They need to give some careful thought as to whether they can satisfactorily answer questions before they attempt them. Briefly drafting a few ideas first in the answer book can help in deciding whether one has enough knowledge of a topic to produce a reasonable answer.

3. This year there seemed to be more candidates who attempted more than the required five questions, that is, six, seven, or even more. In such cases, all answers are marked by examiners and the best five marks chosen for the overall mark, but candidates are wasting valuable time and are losing potential marks as a result.

In addition to these general weaknesses, the following specific areas of the syllabus content need more attention from candidates:

1. The disadvantages to **employers** of the division of labour (Q1(c)).
2. The range of 'direct selling' methods available in retailing (Q2(a)).
3. The nature of bulk carriers (Q3(a)).

4. The nature of legal tender (Q4(a)).
5. The ways in which the Stock Exchange protects investors (Q6(c)).
6. The different types of marine insurance available (Q7(b)).
7. The role of the Advertising Standards Authority in protecting consumers against misleading and indecent advertising (Q8(c)).

However, candidates tended to perform well in their answers on the following topics:

1. The meaning and importance of the division of labour (Q1(a)(b)).
2. The benefits derived from the use of containers in transport (Q3(c)).
3. The ways in which the use of money in trade overcomes the problems of barter (Q4(c)).
4. The differences between public company and sole proprietor businesses (Q5(a)).
5. The benefits to consumers from advertisements and the nature of their complaints about advertisements (Q8(a)(b)).
6. The ways in which governments can help the export trade of their countries (Q9(c)).

#### **Question 1**

Part (a) was generally answered well, with candidates frequently giving two suitable examples. Although not necessary to gain the full six marks, very few candidates made the distinction between occupational and process division of labour.

There were also very many good answers to part (b), with a fair proportion of candidates gaining the full eight marks, including reference to the link between higher output per worker and lower costs. However, a common weakness was for answers to show examples of higher output/lower costs without answering the question as to *why* division of labour produced these results. Very low marks were scored for such responses. In addition, candidates sometimes wrote irrelevantly about economies of scale, for which no marks were given.

In part (c), candidates were frequently aware of some disadvantages of the division of labour, including the link between employee boredom and lower output/poorer quality, although they were generally less confident when writing about the employer side.

#### **Question 2**

In part (a), even though 'shops, stores and markets' were specifically excluded by the question, a significant proportion of candidates wrote about 'retail outlets' as a direct selling method, as though shops and stores were something different. Another common error was to suggest that consumers could simply walk into wholesalers' or manufacturers' premises and buy goods more cheaply. Some candidates, even though they did not make these errors, also struggled to identify two direct selling methods from a wide range of possibilities, including mail order, the internet, telephone ordering, door-to-door selling, street traders and automatic vending.

Candidates answered part (b) better, in particular the attractions of shopping from home. A common error was, however, to suggest that advice was more easily available through direct selling than buying from a shop.

In part (c), answers often failed to identify the specific link between direct selling and the importance of warehousing, that is, the need to keep a store of goods to meet customer demand quickly, as compared with the stocking of shops and stores, and answers tended to be very general, often straying into wholesaler functions other than storing.

### Question 3

Surprisingly, answers to this question were frequently weak, whereas candidates normally revel in the chance to write about containerisation. Also, some candidates thought that container ships and bulk carriers were the same type of ship, and they wrote about them as one. Even more candidates were unable to describe bulk carriers, and many thought that they carried cars and other large 'single' items. Others thought that containers also generally carried cars (and lorries), and there was some confusion with ro-ro (ferries).

In part (a)(ii), for four marks, candidates generally failed to understand that both types of ship are needed because they are designed for the effective carriage of very different types of good and are not alternatives.

Part (b) was answered better, and many candidates were able to identify the benefits of containers in terms of efficiency (reduced costs) and safety (less damage/loss). However, very few saw the link between sea and land transport in the use of containers and wrote about the two types as though they were separate.

### Question 4

Questions on legal tender have been asked in past examination papers, but many candidates for this session's paper seemed not to have heard of it and they attempted the question in the hope of scoring good marks on parts (b) and (c) for four and eight marks respectively. Other candidates wasted time by writing widely and irrelevantly about the Bank of England's functions in general.

Part (b) was generally answered quite well, and two suitable examples were given, but a common weakness was to refer simply to 'the exchange of goods' rather than 'the exchange of goods *for* goods' (or services). Another error was to stray into giving the disadvantages of barter which fell into part (c).

There were many very good answers to part (c), which explained how the use of money overcame the problems faced in bartering. Answers which approached the question by describing the characteristics and/or the functions of money were awarded marks because they implicitly identified the problems of barter without explicitly giving them.

### Question 5

This was a very popular question, and the average mark scored was quite high. In distinguishing between public companies and sole proprietorships, candidates were helped by the aspects for comparison being given in the question, but even so, there were still many weak answers.

The usual common error of confusing public companies with the public sector was made by weaker candidates, who wrote about government ownership and control. Also, there was some confusion among candidates about the difference between 'ownership' and 'decision-making', and they sometimes reversed them in their explanations.

Weaker candidates found part (b) difficult because they were unable to *apply* their knowledge in part (a) to explaining *why* sole proprietor businesses are generally much smaller than public companies. Instead, they often simply repeated descriptive points made in part (a) and therefore scored no extra marks.

### Question 6

This was not a popular question. A majority of candidates had a sound general understanding in part (a) of how shares are bought on the Stock Exchange, but some had very dated information and referred to 'jobbers' rather than 'market makers', even though the change occurred nearly 20 years ago and is well documented in textbooks. Also, a small proportion of candidates wrote incorrectly about the procedures for issuing new shares, for example by prospectus or offer for sale, rather than the Stock Exchange which is a market for 'second-hand' shares.

In part (b), many candidates correctly gave £500 as the dividend total, but some stated £1000 because they based the percentage on the market value rather than the nominal value. Part (c) was less well answered, the main error being the calculation of the 1½ % commission on the cost of the shares rather than the selling price. Candidates also sometimes forgot to deduct the original buying price when calculating the *profit*.

In part (d), a majority of candidates were very vague about how the Stock Exchange protects investors, but there were some references to the approval of brokers, dealing regulations and the vetting/monitoring of companies having their shares listed. Some, however, thought wrongly that the Exchange guaranteed investors from market losses.

### Question 7

Even though marine insurance was identified as one category of insurance, many candidates did not point themselves in the right direction and often referred to particular types of insurance, such as motor, rather than the general categories (or classes). In addition, even though the question simply said 'name' two categories for two marks, some candidates could not resist writing details about each, for which no extra marks could be given.

Similarly in part (b), even though the types of marine insurance were given in the question, many candidates were unable to explain them correctly. Cargo insurance was often explained without any reference to 'goods', while freight insurance was often seen as referring to the goods rather than the carriage charges. Regarding the latter there were, however, a fair number of candidates who understood correctly the nature of freight insurance. Explanations of shipowner's liability ranged from excellent to non-existent.

In part (c), many answers were about obtaining insurance in very general terms, that is, referring to the proposal form, the premium and the policy, for which a maximum of four marks out of eight was given. Answers had to refer specifically to Lloyd's procedures to be eligible for full marks, but there were some excellent answers.

### Question 8

Candidates scored quite well in part (a) on the benefits of advertisements to consumers, but some strayed into reasons why businesses advertise, which were not relevant to the particular question, for example persuasion and higher sales. Clearly, there was some rote-learning driving this.

In part (b), there were also many good answers about consumer complaints concerning advertisements, but some candidates over-stretched the point by writing that advertisements *forced* people to buy goods they didn't want.

In part (c), while one might have expected some candidates not to know about the Independent Television Commission, a surprisingly large number seemed not to have heard of the Advertising Standards Authority. Even those who had done so often wrongly thought

## COMMERCE 7100, GRADE BOUNDARIES

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Grade	A	B	C	D	E
Lowest mark for award of grade	61	50	39	34	26

**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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