

Cambridge[®] IGCSE Business Studies Workbook Answers

● 1 Business activity

- 1 a labour [1]; land salon is built on [1]
- b The next most desired [1] alternative given up when a decision is made [1].
- c Skilled receptionist [1] to keep accurate records of appointments/treatments [1].
Specialist hair stylist [1] able to offer all styles/hair colouring, etc. [1].
- d Employs workers [1]. These three workers will earn wages paid by Farah [1] which they will then spend in other local shops, boosting the economy [1].
FS is a customer for other businesses [1].
It buys supplies of products such as shampoo [1]. This will lead to the expansion of these businesses and possibly the creation of more jobs [1].
- e (Up to 6 marks are available.)
Yes: cheaper products and materials such as shampoos will allow FS to create more added value/become more profitable.
No: customers might notice the cheaper products, for example, less effective hair products, and this might lead to reduced demand.
Overall conclusion/judgement needed, for example, Farah should only do this if she can buy the same quality products at lower prices from another supplier.
- 2 a Either: Finance used in a business [1] such as working capital [1].
Or: Machinery and equipment needed [1] for the production of goods/services [1].
- b new hairdressers' chairs [1]; new hairdryers [1]
- c Scarcity of capital [1], for example, if she buys the computer she will have to give up buying new hairdressers' chairs [1].
Scarcity of finance [1], if she recruits the specialist hairdresser she will not be able to afford to recruit the non-specialist hair and beauty job applicant [1].
- d (Up to 6 marks are available.)
Specialist hair stylist: efficient hairdresser able to deal with customers quickly and effectively / able to offer all hair services / may create good image for business.
Non-specialist: able to be flexible and undertake a number of beauty / hair jobs.
Overall conclusion/judgement needed, for example, might depend on the level of demand that Farah predicts from customers for specialist hairdressing services.

● 2 Classification of business

- 1 a Businesses that produce services [1] for either consumers or other businesses [1].
- b (Other answers are possible, 2 marks available.)
window cleaning [1]; insurance company (insuring the salon) [1].
- c (Other answers are possible, 4 marks available.)
Furniture manufacturer [1] making specialist chairs for hairdressing [1].
Maker of shampoos and creams [1] to supply the beauty products that FS depends on [1].
- d Deindustrialisation / decline of manufacturing due to lack of efficiency [1]. The country industrialised over 100 years ago [1] so the industries might not have kept updating their

equipment and become less competitive as a result [1].

As incomes are high in country X [1] many households will now be spending a high proportion of income on services [1] so the relative importance of manufacturing has declined [1].

e (Up to 6 marks are available.)

Yes: FS could gain if the nationalised industries put a limit on price rises for essential services / utilities, e.g. transport costs might be lower if a

nationalised transport business did not aim to maximise profit.

No: Taxes will have to rise, reducing individual incomes / FS retained profit; state-controlled industries can be inefficient if they aim for social / political objectives.

Overall conclusion / judgement needed, for example, unlikely to be beneficial if taxes are increased to pay for the inefficient operation of these industries.

● 3 Enterprise, business growth and size

1 a Someone prepared to take risks [1] by setting up own business with own capital [1].

b (Other answers are possible, 2 marks available.)

Commitment – works long hours [1].

Creative – has lots of ideas for expanding the business [1].

c (Other answers are possible, 4 marks available.)

Number of employees [1] – comparing the number of hairdressers and beauty salon staff employed [1].

Value of capital employed [1], for example, in terms of money invested in salon and beauty equipment [1].

d Helps potential investors decide whether to invest [1] in FS's expansion, for example, by giving details of the cost of buying Business A [1] and whether FS will require a bank loan [1].

Helps Farah plan the stages she will have to follow when expanding FS [1]. Such as undertaking market research before buying Business B to gauge the demand [1] for organic beauty products to see if buying this business will be worthwhile [1].

e (Up to 6 marks are available.)

Internal: New salon would offer same services and this is what Farah knows best. She can decide where to locate it, décor, etc.

External: Business A: Men's salon – does Farah have the skills / knowledge to operate this business? Business B: Cosmetic manufacturer

– this would be backward vertical integration and will ensure FS's supplies.

Conclusion / justification needed, for example, External as it spreads business risk away from women's beauty services – as long as one of these businesses can be bought for the 'right' price.

2 a Detailed document containing business objectives [1] and important details about finance and marketing of the expansion plans [1].

b To be independent [1]; because she is ambitious [1].

c There could be a finance problem [1] especially if she pays too much to take over either Business A or B [1].

There could be a management problem [1] especially if Farah does not employ another manager to look after the other branch / business [1].

d (Up to 6 marks are available.)

A: Develops the business in another related area of the hairdressing market; Farah knows about hairdressing; owner wants to sell quickly so might sell at low prices.

B: Able to control supply of and price of major supplies for FS; able to control quality of supplies; able to stop selling to competing hairdressing businesses.

Conclusion / justification needed, for example, Business A because Business B is involved in activities – such as harvesting – that Farah knows nothing about.

● 4 Types of business organisation

- 1 a A business owned [1] and controlled by a single person [1].
- b limited sources of capital/finance [1]; unlimited liability [1].
- c She seems to be independently minded [1] and being a sole trader means that she can take all decisions herself [1].
She can keep all of the profits [1] and this probably increases the level of Farah's commitment to the business [1].
- d It is too small [1] to justify the costs of setting up a public limited company [1] such as advertising shares for sale to the public [1].
Farah is an independent person [1] and selling shares in her business to members of the public [1] will reduce her overall control over her business [1].
- e (Up to 6 marks are available.)
Yes: Could provide finance to allow FS to expand without paying interest on bank loan; can consult for advice when taking decisions.
No: Farah will lose some control: One partner 'likes being in control'; the other one is 'often away on holiday'. Will she gain much from taking on one of these as partners? Better to raise finance from other sources.
Overall conclusion/judgement needed, for example, if she just wants finance and to keep full control then her friend might be the better partner (with no interest costs on bank loan).
- 2 a A shareholder in a company [1] cannot lose more than their original investment/all of their personal possessions [1].
- b owned by the state [1]; often have objectives other than profit [1].
- c Loss of control [1] as more shares are sold to the public this dilutes the ownership/control of existing shareholders such as Farah [1].
Cost of converting to public limited company [1], for example, the advertising of shares for sale to the public/issuing of prospectus reduces the finance available for investing, in this case, in the salons [1].
- d (Up to 6 marks are available.)
Yes: Can potentially raise large sums from selling shares to family/friends/business colleagues; no interest paid on bank loan to finance FS expansion.
No: Some loss of control to other shareholders; share of profits will be expected to be paid out as dividends.
Overall conclusion/judgement needed, for example, if interest rates are very low it might be better to raise the finance from a bank loan and then Farah can keep complete control over her business.

● 5 Business objectives and shareholder objectives

- 1 a Individuals who own shares [1] in a limited company [1].
- b receive dividends [1]; benefit from a rising share price [1].
- c When FS was first set up Farah aimed for it to survive [1] as the risk of new businesses failing is high [1].
Now that FS is a private limited company with shareholders [1] Farah will have to aim to make profits to satisfy the investors with high dividends [1].
- d Local community (one example of a stakeholder) – will benefit from more jobs [1] as Farah plans to create 'many new job opportunities' [1]. These new workers will earn income which might be spent locally to benefit other local businesses [1].
Local community – might suffer noise and pollution [1] as the existing building will be demolished and a large new apartment block will be built [1]. These apartments will create extra traffic to add to local pollution [1].

- e (Up to 6 marks are available.)

Yes: Shareholders – profit; workers – more jobs; customers – new gym facilities (other answers are possible).

No: Local community with traffic pollution; customers with higher prices; FS may dominate the local market thus offering less choice to customers.

Overall conclusion/judgement needed, for example, if Farah uses the profit from the gym to benefit the local community, for example, discounts for local elderly residents, then the chances of most stakeholders benefiting will be greater.

- 2 a An aim or target [1] that a business plans to achieve [1].
- b Social objectives, for example, ensure all people have access to energy supplies [1]; profit [1].

- c Survival [1] – as her business was newly established there was a high risk of failure [1]. Profit [1] – as she clearly planned to expand her business and finance would be needed [1].

- d (Up to 6 marks are available.)

Yes: These two stakeholder groups aim for different objectives, for example, higher profits can be gained from higher prices which is not what the customers want.

No: If the new beauty salon and gym are operated efficiently with well-motivated staff then profits might be high without high prices.

Overall conclusion/judgement needed, for example, it might depend on how Farah uses the profit earned from the new salon/gym. If some of the profit is paid in dividends and some invested in improving gym facilities then both groups can benefit.

● Understanding business activity: end of section case study (Paper 2 style)

- 1 a (Up to 8 marks are available.)

Economies of scale, for example, in buying supplies for the beauty salons.

Higher profit as return to Farah and shareholders for risk taking.

Conflict between stakeholders as a result of growth plans might damage FS's reputation.

Diseconomies of scale, for example, management problems from operating so many salons.

- b (Up to 12 marks are available.)

Redevelop existing salon including a new gymnasium: Brand new building/equipment.

High prestige and adds to FS's reputation. Possibly able to charge higher prices.

Sell FS franchise licences to other businesses:

Gains revenue from sale of licences and this makes it a relatively inexpensive form of expansion for FS. Brand name becomes more widely known quickly.

Take over another hairdressing and beauty salon business: Quick expansion; takes over existing customers and reputation; still controlled by Farah (unlike franchised operations).

Recommendation: Gives a clear supported recommendation including reasons why the other two options are rejected.

● 6 Motivating workers

- 1 a Workers want to work hard [1] and effectively for their employer [1].
- b The working conditions and the work itself [1] meet the needs of workers [1].

OR

Enjoyment derived [1] by workers from the feeling that they have performed a good job [1].

- c Café workers will give good customer service [1] as they are keen to work effectively for ICC [1].

Café workers are less likely to leave ICC [1] which reduces the need to recruit new workers [1].

- d In the café, employees are paid an hourly wage above the minimum wage [1] and this increases with the number of years they work for ICC [1] which rewards them for loyalty to ICC with increased pay [1].

In the factory, workers have the security of a fixed daily wage [1] but this can be increased if production targets are met [1]. This rewards factory workers for hard work when these targets are met [1].

- e (Up to 6 marks are available.)

Yes: It will reduce the fixed cost element of wages paid at a rate higher than the minimum wage; it will encourage workers to offer excellent service to customers to increase sales and encourage customer loyalty.

No: It reduces the security of the existing pay system and there will now be uncertainty for workers about whether they can earn as much per week as before. This might demotivate them.

Overall conclusion/judgement needed, for example, if the café workers are asked for their opinions about the commission system and

if their views are taken into account, then a change in the pay system could increase sales for ICC and wages for employees.

- 2 a Making the work performed by employees as satisfying [1] as possible by making work more rewarding/responsible [1].
- b (Other answers are possible, 2 marks available.) earn an income [1]; social contact [1].
- c Encourages workers to achieve a high level of output [1] as they will be paid a bonus if targets are met [1].

ICC loses some control over production and inventory levels/quality/output [1] as workers will always want to produce more even if demand is not high [1].

- d (Up to 6 marks are available.)

Pay: will reduce the number of workers leaving if they are paid more than other factory workers; will be most effective motivation method according to Taylor; quick to put into effect.

Non-financial: will make work more challenging and rewarding and will increase sense of achievement and self-esteem (Herzberg/Maslow). May not increase costs of ICC.

Overall conclusion/judgement needed, for example, final decision should be based on interviews with workers who are leaving to discover their reasons for quitting ICC.

● 7 Organisation and management

- 1 a The levels of management [1] and the division of responsibilities within an organisation [1].

- b Identify the span of control for:

Manager A = 2

Manager B = 3

- c It would shorten lines of communication between the top and bottom of the organisation [1]. This would make communication quicker between the café and senior managers [1].

Reducing the number of managers would force those that remain to delegate more authority to people below them [1]. This would encourage workers to show initiative and avoid problems such as Asif experienced when he was absent from the factory [1].

- d Coordinating [1] – she is preparing departments so that they are ready for the

opening of three new cafés [1]. This means that they all need to work together to ensure they are opened on time [1].

Decision making [1] – she takes all major decisions [1] and then communicates these to managers who can only act once she has decided on a course of action [1].

- e (Up to 6 marks are available.)

Yes: The autocratic style can be demotivating; lead to worse decisions as there is no consultation; lead to lack of initiative – as at ICC's factory.

No: The business seems quite successful; Sasha must have taken some correct decisions already – why discuss these with managers and workers: She can take decisions quickly.

Overall conclusion/judgement needed, for example, as business expands Sasha will almost certainly not be able to perform all management roles herself – she will need to change her style of leadership and involve others.

- 2 a Have direct responsibility [1] over people below them in the organisational structure [1].
- b (Other answers are possible, 2 marks available.)
Shows lines of authority – who to take orders from [1]. Shows links and relationships between different departments [1].
- c Negotiating position is stronger [1] as employer will now be discussing work conditions within the ICC factory with representatives of all workers [1].
Legal support from union [1], for example, in the case of unfair dismissal of a production worker in the ICC factory [1].

- d (Up to 6 marks are available.)

Yes: Involve workers, who have experience in production issues, in important decisions, for example, pay system; how to improve quality or machine reliability, etc. Can be motivating and allow for job enrichment.

No: Asif is an experienced manager – does not need to consult with workers; too time consuming – decisions might have to be taken quickly. Might have to pay workers for attending meetings.

Overall conclusion/judgement needed, for example, Asif should adopt different leadership styles for different situations, for example, fire in factory will need different style to talking to workers about pay system.

● 8 Recruitment, selection and training of workers

- 1 a (Other answers are possible, 2 marks available.)
Recruit and select new employees [1]. Manage the training of employees [1].
- b When a vacancy is filled [1] by someone who is already an employee of the business [1].
- c (Other answers are possible, 4 marks available.)
Salary [1] – applicants will expect to know if it offers a higher salary than their current job / whether their salary will include a production bonus [1].
Duties of the Factory Manager [1] – applicants will want to see if they are qualified / have enough experience for this post [1].
- d Curriculum vitae (CV) [1] – by reading the CV of applicants Sasha will be able to see if they have any relevant experience in managing a factory [1] and if they have qualifications in production management [1].
Interview [1] – by interviewing the applicants Sasha should be able to tell whether they will get on with her leadership style [1] and what their views are on workers joining trade unions [1].
- e (Up to 6 marks are available.)
Yes: New ideas on production management; new ideas on managing/motivating

production workers; no obvious internal candidate as delegation has not been used to train them in use of authority.

No: Chance of promotion for existing employee; may motivate other employees; no need for induction training with internal candidate.

Overall conclusion/judgement needed, for example, should consider both internal and external candidates and select the best one

- 2 a Introduction for new employees [1] explaining the businesses activities, structure and procedures [1].
- b (Other answers are possible, 2 marks available.)
Health and safety – it is a factory with potentially dangerous equipment [1].
Minimum wage – ICC must ensure that the 'fixed daily wage' equals/exceeds the minimum wage rate [1].
- c New automated machinery [1] – this would be more efficient and would require fewer workers to achieve the same level of output [1].
Seasonal demand for ice creams [1] – poor weather for a long spell might reduce demand for ice creams so fewer production workers are required [1].

d (Up to 6 marks are available.)

On-the-job: Gives real practical experience by watching /listening to existing workers, for example, customer service /operation of coffee machine. Less expensive for ICC.

Off-the-job: Gives knowledge of latest legal and industry requirements, for example, food safety; may obtain a qualification which can

aid self-esteem; can bring new information into the café for benefit of existing workers.

Overall conclusion/judgement needed, for example, it might depend on how busy the existing cafés are and whether existing workers can spare the time to train new recruits.

● 9 Internal and external communication

1 a Factors that prevent effective communication [1] of messages [1].

b Not sure who has read them [1]; no feedback [1].

c Suppliers, for example, milk and sugar suppliers [1] will need messages about how much to supply ICC with and when [1].

Trade Union – if workers join a trade union [1] then the factory manager will need to negotiate with the TU representative [1].

d No feedback [1]. When a customer complained about long waiting times she was not sure whether this had been passed to senior management [1]. Feedback would allow confirmation that a message has been received and understood [1].

Lack of effective communication media / methods [1]. There does not appear to be a website, social media contact or email address [1] which can be used by customers to contact ICC quickly [1] and allow for rapid feedback [1].

e (Up to 6 marks are available.)

Yes: Emails /mobile phones, for example, quick ways of sending messages; phone – allows for feedback; email – in written form; overcomes problems with noticeboards.

No: These methods are fine for some communication, for example, asking for latest sales figures from café managers but ineffective for others, for example, team

briefings allow group discussion; noticeboards can be used for permanent notices.

Overall conclusion/judgement needed, for example, use a variety of communication media / methods – depends on the purpose of the message and the need for feedback.

2 a The method used [1] to send a message [1].

b Information is sent unofficially [1] and not through official / formal channels [1].

c Quick [1] – can be sent during each working day whereas team briefings might be once a day [1].

Written evidence [1] – can be referred back to when worker wants to make sure of content of message, for example, production levels of an ice cream flavour [1].

d (Up to 6 marks are available.)

Yes: Workers will know what form messages will be sent in and will look out for these, for example, if only noticeboards are to be used. Team briefings could be used for all messages that concern each café.

No: Manager may want to communicate with individuals not groups; different messages often require different methods, for example, disciplining a worker or asking for views on new menu suggestions.

Overall conclusion/judgement required, for example, using examples of messages within ICC that will need different methods / media.

● People in business: end of section case study (Paper 2 style)

- 1 a (Other answers are possible, up to 8 marks available.)

Manage staff effectively – to motivate them to give quicker customer service which will encourage customer loyalty and reduce the number of complaints about waiting.

Good management of resources, for example, making sure enough supplies of coffee and food is available to meet periods of high demand.

- b (Up to 12 marks are available.)

Ask existing employees if they know of anyone who is suitable: Cheap; informal; might just ask friends who may not be suitable as café employees.

Advertise in a national newspaper: Expensive; covers too wide an area – people will not travel long distances to work in a café; not aimed at potential employees.

Put up posters in existing cafés: Cheap; visible to many people – not just those in café but people who walk by (if posters in window); potential workers reading the poster can also see what the café is like.

Recommendation: Overall conclusion / judgement needed including reasons for rejecting the other options.

- 2 a (Up to 8 marks are available.)

Commission for café workers – based on additional sales.

Bonus payments for factory workers – if targets for high production during busy periods are met.

Job enrichment – giving workers more interesting, varied and challenging work to perform, for example, responsibility for machine maintenance.

Team working – which can encourage discussion and social interaction as well as being arranged so that there is some job rotation, for example, serving in café and preparing food.

- b (Up to 12 marks are available.)

Full-time: Secure job and income should motivate workers (Maslow's physiological needs); more likely to build a strong team; less likely to leave; more expensive as some workers will be underemployed at slack times of day.

Part-time: More flexible so more workers can be called in during busy periods; may be able to offer lower pay or fewer fringe benefits; more difficult to communicate with these workers; less of a sense of the workers being part of a team.

Recommendation: Overall conclusion / judgement needed including reasons for rejecting the other option.

● 10 Marketing, competition and the customer

- 1 a Attempting to identify [1] and meet the needs of customers profitably [1].

- b (Other answers are possible, 2 marks available.)

Undertake market research to identify customer needs [1]. Promoting products [1].

- c Change in consumer tastes [1], for example, consumers' preferences change to faster drones which TDC might have to design and produce [1].

Changes in technology [1], for example, much lighter / more powerful engines that TDC will

have to fit to its drones to be competitive [1].

- d Reduce prices [1] – increased competition means that consumers have more choice and rival firms producing drones may try to undercut TDC's prices [1]. If TDC did not reduce prices it could lose sales [1].

Spend more on developing differentiated drones [1] – by developing new models with additional features, for example, much longer range [1] TDC might maintain its competitiveness even if it did not lower prices [1].

e (Up to 6 marks are available.)

Yes: Able to develop specific drones for specific market niche demand, for example, special colours that other firms might not offer; may be able to charge higher prices and earn higher profit margins; promotion focused on relevant potential customers.

No: Limited sales compared to mass market; limited opportunity for economies of scale; niche demand could fall and then company would have few customers.

Overall conclusion/judgement needed, for example, if TDC is prepared to spend money on frequent market research to discover niche markets, this could be a profitable strategy.

- 2 a Selling undifferentiated products [1] to a large section of the market [1].
- b Existing customers [1] return to buy again from the same business [1].
- c (Other answers are possible, 4 marks available.)

Reduce production costs, for example, cheaper paint for drones [1] to allow for lower prices [1].

Use promotional methods [1] to encourage existing customers to return to buy another drone from TDC [1].

d (Up to 6 marks are available.)

No: Product-led strategy is rarely successful; market research needed to identify market trends and changes in consumer preferences; market-led strategy likely to be more successful.

Yes: Marketing is expensive and this money could be used to invest in designing/developing new drones; good product quality will lead to 'word-of-mouth' promotion.

Overall conclusion/judgement needed, for example, if market trends are changing rapidly then a product-led approach with 'no marketing department' is unlikely to be successful.

● 11 Market research

- 1 a Gathering information [1] and analysing/interpreting information about a market [1].
- b He used secondary research [1] as he used online sources [1].
- c The drone market is changing quickly and this data might be out of date [1] – some data online can be several years old which makes it less useful for basing business decisions on it [1].
It has not been collected for TDC's specific purposes [1] so it might not contain information about niche markets for drones [1].
- d The total population that might be interested in buying a drone is so large [1] that it would be too expensive to attempt to ask this whole population, so a sample should be selected [1].
A sample of, for example, 100 people would cost much less than not sampling [1].
A quota sample could lead to more accurate results than just asking 'as many people as possible' [1]. Quota sampling will use information about existing drone customers, for example, age [1], and make sure that the sample reflects the importance of each age group accurately to give more useful and

accurate research results [1].

e (Up to 6 marks are available.)

MR: All marketing should start with MR; it helps managers take effective product decisions; it helps to focus promotion campaigns on the main target group of consumers.

Promotion: Important to promote products especially new ones; can help develop brand image and customer loyalty.

Overall conclusion/judgement needed, for example, could waste scarce resources promoting the wrong products to the wrong people – so market research should be undertaken first but some resources should be retained for promotion.

- 2 a A form of market research [1] where a group of people representative of the total market discuss the product [1].
- b (Other answers are possible, 2 marks available.)
What, do you think, are the key features of the product? [1] How does it compare with product X made by a competing business? [1]
- c Pie charts: a good way of showing 'proportions' [1], for example, the total sales

of TDC split between different regions of the country [1].

Tables: an effective way of presenting a lot of data very precisely [1], for example, the sales of different drone models split between consumers' age groups [1].

- d (Up to 6 marks are available.)

Yes: Up to date and this is a fast-changing market; specific to TDC's needs; directed at potential consumers.

No: Secondary could be useful too, for example, population changes; evidence from other drone companies about models, sales, etc.; cheaper than primary research.

Overall conclusion/judgement needed, for example, both forms of research should still be used – secondary research can help identify changes in the market/competitors' actions which can then be supported by well-directed primary research.

● 12 Marketing mix: product

- 1 a A special feature about a product [1] that makes it different to the products of competitors [1].

- b i decline [1]

ii growth [1]

- c It can extend the life of the Tree Skimmer model [1] and this will help create revenue that could be used to invest in developing new models [1].

It might be cheaper to use extension strategies such as a new social media campaign [1] than rushing into developing a new more advanced drone model which can be expensive [1].

- d A well-known brand means that it has a 'personality' of its own that makes it easy to recognise [1]. Consumers may be attracted to the TDC brand because of its reputation for exciting drone designs [1] and this helps to establish brand loyalty [1].

A well-known brand can reduce advertising and promotion costs [1]. If the TDC brand is well-known for reliable and high-quality

drones [1] then this will reduce the need for constant advertising to encourage consumers to buy TDC products rather than those of competitors [1].

- e (Up to 6 marks are available.)

Extend product life cycle: Cheaper and quicker than developing new products; can help a product to achieve higher sales for a longer period – adding to the cash flow of the business and helping to pay back the high cost of developing the drone originally.

New products: This is quite a new and technically advanced industry – consumer tastes and preferences are changing quickly; new products essential to maintain TDC's brand image.

Overall conclusion/judgement needed, for example, keep Tree Skimmer 'going' as long as possible but avoid spending too much on extending product life cycle – finance needed for new drone developments.

● 13 Marketing mix: price

- 1 a Charging a low price, often for a new product [1], to build market share quickly [1].

- b $\$220 + 50\%$ of $\$220$ [1], $\$330$ [1] (Only award 1 mark if final answer is not given or is incorrect.)

- c (Other answers are possible, 4 marks available.)

There are high costs involved in developing and building drones [1] and it is important

for the final price to cover these costs to avoid making a loss [1].

Lower prices should increase sales [1] and when the Eagle order was cancelled price should be lowered to avoid holding unwanted inventory [1].

- d TDC seems to have a good brand image and this should help to make PED low (inelastic) [1]. If TDC increased its prices for a popular

recently launched drone model then sales would fall [1] but revenue should increase [1]. When a competitor offers very low prices then TDC's sales are likely to fall [1]. If TDC raised its prices in this case PED would be high [1]. Sales would fall and so would revenue [1].

e (Up to 6 marks are available.)

Yes: High development and production costs to cover; good brand image – PED likely to be low.

No: Competition is increasing with lower prices; some TDC models might be designed as low priced models aimed at low-income consumer groups.

Overall conclusion/judgement needed, for example, final price charged for a new TDC drone should depend on the level of competition in the market niche it is aimed at.

- 2 a The average or unit cost of a product [1] plus a profit mark-up [1].
- b This means that demand is price inelastic [1] so a small change in price results in an even smaller proportionate change in demand [1].

- c Reducing the price as a special promotional offer [1] can be useful to TDC when an order is cancelled for some drones and the business does not want to hold them in inventory for a long time [1].

The Tree Skimmer is reaching the end of its product life cycle [1] so to avoid unsold units of the product the price could be reduced below the original price [1].

d (Up to 6 marks are available.)

Yes: There is evidence that different models are at different stages of their product life cycles; there might be more competition in some market niches than others.

No: It will mean more complex pricing decisions; consumers might wonder why some models appear to have a low price and others are high priced.

Overall conclusion/judgement needed, for example, if a skimming strategy was used for all models in the TDC range then some would have very low sales, for example, Tree Skimmer.

● 14 Marketing mix: promotion and technology in marketing

- 1 a The use of advertising [1] and sales promotions [1] to increase sales.
- b (Other answers possible, 2 marks available.) To achieve 25% market share for the Sky Buzz model [1]. To encourage 50% of customers to return to buy a second drone [1].
- c Viral marketing/social media [1] as young consumers who are likely to buy drones will have access to this [1].
- Specialist magazines about drones [1] that are read by TDC's target market [1].
- d (Other answers are possible, 6 marks available.) Competitions [1], for example, buyers could be entered into a free competition to win the latest TDC drone model [1]. So even though they might not be able to afford to buy the Typhoon they would have a chance of winning one [1].
- After sales service [1]; being technical products drones need some maintenance [1] so an offer of, for example, free after sales

maintenance for three years after purchase would encourage some people to buy the Tree Skimmer [1].

e (Up to 6 marks are available.)

Yes: These are the media used by 'tech savvy' consumers and most buyers of drones will be technically minded. Cheaper than some other forms of promotion.

No: If planning to sell to customers other than private individuals, other forms of promotion, for example, trade fairs, brochures, etc. will be essential.

Overall conclusion/judgement needed, for example, perhaps all promotion to private individuals could be transferred to social media but not promotion to other potential buyers, for example, commercial companies.

- 2 a Sales incentives such as special deals [1] which aim to increase sales in the short term [1].
- b To inform customers, for example, about

new products [1]. To persuade customers, for example, to buy 'our' product and not a competitor's [1].

- c Paid-for communication with customers helps to inform them about new products such as the Sky Buzz [1] which they would not otherwise be aware of [1].

Advertising can help to support extension strategies [1] as a product such as Tree Skimmer reaches the end of its life cycle [1].

- d (Up to 6 marks are available.)

Yes: Promotion is expensive and TDC needs resources to invest in developing new products as competitors are launching new products.

No: Even great products need some promotion to inform consumers of their features, prices, where they can be bought, etc.

Overall conclusion/judgement needed, for example, if TDC wants to save costs on promotion it should carefully measure the impact of each promotion campaign but it would not make sense to stop all promotion completely.

● 15 Marketing mix: place

- 1 a The channel of distribution [1] used for a product between the business and consumer [1].

- b (Other answers possible, 2 marks available.)
Selling to retailers then to consumers [1].
Selling to wholesalers then retailers then consumers [1].

- c Control over pricing [1] as a wholesaler/retailer might sell TDC drones at prices that TDC does not consider appropriate [1].
These are technical products [1] and direct selling means that TDC can explain to consumers what the key features of each product are and how they operate [1].

- d (Other answers are possible, 6 marks available.)
Technical product [1] so need to be able to offer consumers technical advice and after-sales assistance [1] which might be provided

by specialist retailers [1].

Widely dispersed market [1] as consumers all over the country (or world) might be interested in buying a TDC drone [1] so shops in just a few areas might be inappropriate which is why direct online selling might be beneficial [1].

- e (Up to 6 marks are available.)

Yes: Cuts out the profit earned by wholesalers/retailers; gives TDC control over marketing and direct communication with consumers.

No: TDC will have to employ more selling staff and hold higher inventories of drones.

Overall conclusion/judgement needed, for example, if competition increases in the market it might be essential for TDC to cut distribution costs as much as possible so online selling might become the best option.

● 16 Marketing strategy

- 1 a A plan of an appropriate marketing mix [1] to achieve a marketing objective [1].

- b Any **two** of the following, (2 marks available):
- product
 - promotion
 - price
 - place

- c Health and safety product controls [1] – drones are potentially dangerous and they will have to meet legal controls about how high

they can fly, maximum speed, etc. to protect consumers/user [1].

Price reduction controls [1] – claims of price reductions of drone products such as the Tree Skimmer must be a genuine reduction to avoid misleading consumers about the original price [1].

- d Increases potential sales [1] of products such as the Tree Skimmer that have reached decline stage in home market [1]. Consumers in drone markets in other countries might think that this is an up-to-date product [1].

The Typhoon is a high-cost product to make [1] so increasing sales in foreign markets could result in economies of scale [1] which reduce the average cost of making each Typhoon [1].

- e (Up to 6 marks are available.)

Joint ventures – with a retailer of drone products with knowledge of local market conditions and consumer preferences *but* will expect a share of the profits.

Licensing a local manufacturer to make TDC drones for its own local market. This would help TDC if it had no spare production capacity *but* the quality might not be as good.

Overall conclusion/judgement needed, for example, as TDC's brand image is so important it might be too risky to licence production to a foreign manufacturer to sell drones in foreign markets.

● Marketing: end of section case study (Paper 2 style)

- 1 a (Up to 8 marks are available.)

Advantage: Two-way discussion of answers can result in useful qualitative data, for example, what features are looked for when buying a drone for the first time?

Disadvantage: Time consuming and expensive and the market for this type of product is changing rapidly, so a very quick response to market research would be better.

- b (Up to 12 marks are available.)

Mass market: Using TDC's good reputation and brand image could lead to very high sales in the mass market; rapid growth of the business; opportunities for economies of scale, for example, marketing economies.

Niche marketing: TDC's reputation and brand image have been built up using this strategy; mass marketing could 'cheaper' the image of TDC and sales of high price/high profit margin niche products could fall.

Recommendation: Could be for either strategy but reasons should also be given for rejecting the other strategy.

- 2 a (Up to 8 marks are available.)

Cost: high-cost packaging will raise drone prices, especially if cost-plus pricing is used.

Appearance: the colours and graphics used on the box could help to support the promotional image of the drones.

Strength: especially if TDC sell online, strong boxes will be needed to protect the drones during transport from TDC to customers.

Materials: should they be recyclable to project an ethical image for TDC to help support its brand image?

- b (Up to 12 marks are available.)

Product is a small, low-flying drone that only flies at slow speeds and is easy to handle: NO – this seems ideal for young consumers. TDC do not want accidents to children using its drones because they are too fast.

Price strategy is competitive: NO – children might have limited spending power so a competitive price increases the chances that many of them will buy this model.

Promotion is buy one get one free, and advertised on evening national television: YES – this is a very costly sales promotion technique and most consumers only want one of each model; advertising is inappropriate as children will not watch this medium much – social media marketing instead?

Place – the model is only to be sold through large toy shops: YES – many children will not have easy access to large toy stores but they are likely to have a mobile phone – online distribution likely to be more effective?

● 17 Production of goods and services

- 1 a** Any **two** of the following answers are correct. (Other answers are possible, 2 marks available.)
- To deal with uncertainty in customer demand [1]
 - To avoid delays in production and deliveries of supplies [1]
 - To meet unexpected demand [1]
- b** Batch production is where a quantity of an identical product is made [1], with all products passing through each stage of production together [1].
- c** A variety of different products is demanded [1] – there are several different styles of clothing produced for men, women and children to meet this demand [1].
A large quantity of one product is not demanded, therefore not produced in a large quantity [1] – as customers will require a certain size of children's clothing and a different size as they grow up leading to smaller quantities of different sizes being produced [1].
- d** (Other answers are possible, 6 marks available.)
- Increases productivity [1] – as more clothing of each size can be made per hour [1] – increases output and if clothes are sold then revenue will also increase [1].
 - Better quality products are produced [1] – as new machinery will produce standardised clothing with fewer mistakes [1] – less faulty goods returned reducing costs [1].
- e** (Up to 6 marks are available.)
Yes: Increases output – increases their pay – more competitive and so jobs more secure.
No: The nature of their jobs may change – some may be made redundant.
The conclusion may be yes or no but must be justified, for example, yes as long as their pay increases and there are not any redundancies.
- 2 a** Any **two** of the following answers are correct. (Other answers are possible, 2 marks available.)
- Improve employee motivation [1]
 - Introduce new technology [1]
 - Train staff to be more efficient [1]
 - Introduce automation [1]
- b** Any **two** suitable examples of mass-produced products, for example, chocolate bars, cars, tinned food, mobile phones, etc. [2].
- c** How long it takes for ordered inventory to arrive [1] – how far away the supplier of cloth is and how good the transport system is to deliver this cloth [1].
How much variation in demand there is for the product [1] – as some styles of women's and men's clothes will change depending on the season and so different fabric might be used to produce clothes for different times of the year [1].
- d** (Up to 6 marks are available.)
Yes: it is risky and relies on suppliers being able to deliver inventory at short notice or there could be problems in meeting demand from retailers/customers. It might be difficult to find where waste can be reduced such as finding ways to reduce the movement of inventory around the factory.
No: it will reduce inventory costs – increase profit. Waste will be reduced and so costs should be lower enabling clothes to be more competitively priced or profit increased.
The conclusion may be yes or no but must be justified, for example, yes as this will reduce inventory costs but only if BBC has reliable suppliers.

● 18 Costs, scale of production and break-even analysis

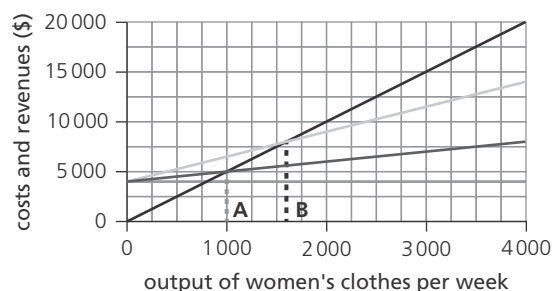
- 1 a i** \$3000 ($\$2 \times 1,000 + \$1,000$) [1]
ii \$3 each ($\$3,000 / 1,000$) [1]
- b** $(\$1 \times 4000 + \$4000) / 4000 = \$2$ each [2]
OR
 $\$1 + (\$4000 / 4000) = \$2$ [2] (Award 1 mark for correct method but incorrect answer.)

- c Any two of the following answers are correct. (Other answers are possible, 4 marks available.)
- Poor communication [1] – as there will be more managers and production workers in the factory which may mean that workers do not always receive all relevant information thus reducing efficiency and raising cost per unit [1].
 - Low morale [1] – with more workers in the factory they may feel that they are not important and feel ignored by management thus reducing efficiency and raising cost per unit [1].
 - Slow decision making [1] – as there may be a larger hierarchy for instructions to pass through thus reducing efficiency and raising cost per unit [1].
- d Any two of the following answers are correct. (Other answers are possible, 6 marks available.)
- Purchasing economies/bulk buying [1] – cloth can be purchased at a cheaper cost [1] as the supplier will give a discount for large volumes purchased [1].
 - Marketing economies [1] – the costs of advertising the clothing will be spread over a larger output of garments [1] resulting in a smaller cost per item of clothing [1].
 - Financial economies [1] – as BBC has expanded it will have less risks of going bankrupt as it will be selling a larger range of clothing [1] and so banks will lend to them at lower interest rates thus lowering borrowing costs [1].
 - Managerial economies [1] – expert managers can be employed at the new larger factory [1] and they will be able to reduce costs due to better organisation in the factory [1].
 - Technical economies [1] – more automated sewing machines can be purchased that produce more items per hour [1] which increases efficiency and reduces the cost per item of clothing [1].
- e (Up to 6 marks are available.)
- Yes: demand will increase – revenue will increase if elasticity is high – costs remain the same – therefore profit increases.

No: demand may not increase in the same proportion as the reduction in price if price elasticity is low – therefore revenue will fall – but this is unlikely with clothing as there are many substitutes/competitors.

The conclusion may be yes or no but must be justified, for example, yes as long as price elasticity is high so that revenue will increase.

2 a [4]



| | | |
|---|--------|---------|
| Output | 0 | 4000 |
| Total revenue line = | 0 | \$20000 |
| Fixed cost line = | \$4000 | \$4000 |
| Total cost line = | \$4000 | \$8000 |
| New total cost line = | \$4000 | \$14000 |
| Break-even output shown as 1000 (A) | | |
| New break-even output shown as 1600 (B) | | |

- b New Total cost line shown on graph paper – starting at \$4000 and ending at \$14000 at an output of 4000 [1].
- New break-even output marked on the graph at 1600 units of output (B) [1].
- c Maximum output 4000 – (break-even output) 1600 = 2400 items as the margin of safety [2]. (Award 1 mark for correct method but incorrect answer.)
- d Yes: Can easily see amount of output needed to cover all costs – therefore identifies target output when profits will be made – also shows margin of safety where sales could fall but costs will still be covered.
- No: Assumes no inventories of clothing are held – cost of cloth may not stay the same at varying amounts purchased – assumes all clothing is sold at a price of \$5 which it might not be.
- The conclusion may be yes or no but must be justified, for example, break-even analysis is useful in decision making as long as they can sell all output at a constant price and demand does not change.

● 19 Achieving quality production

- 1 a The product produced meets customer expectations [2].
- b Any two of the following answers are correct. (Other answers are possible, 2 marks available.)
- Establishes a brand image [1]
 - Builds brand loyalty [1]
 - Will maintain a good reputation [1]
 - Will help to increase sales [1]
 - Attracts new customers [1]
- c (Other answers are possible, 4 marks available.)
- Expensive as employees are paid to check the products [1] and will not be producing clothes whilst checking for faults [1].
 - Identifies the fault but does not find why the fault has occurred [1] and increases the cost of, for example, children's clothing being scrapped or repaired [1].
- d Any two of the following answers are correct.
- (Other answers are possible, 6 marks available.)
- Gives the product a bad brand image [1] – so customers will not be willing to buy the clothing items again [1], they tell their friends and so sales revenue falls [1].
 - Increased costs to repair or replace the faulty item [1] – as the clothing will be returned to the shop and then sent back to BBC factory for repair or replacement [1] therefore reducing profit [1].
- e (Up to 6 marks are available.)
- Yes: tries to find the fault and eliminate it – lower cost – all workers responsible for maintaining quality.
- No: expensive to train employees – relies on employees following instructions of standards set.
- The conclusion may be yes or no but must be justified, for example, yes as this should result in fewer faults in the clothes and lower costs as long as the training costs are not too high.

● 20 Location decisions

- 1 a When starting a new business [1] or relocating an existing business [1].
- b (Other answers are possible, 2 marks available.)
- Employees [1]
 - Local community [1].
- c (Other answers possible, 4 marks available.)
- The clothing retailer will want to be in an area where there are many people shopping [1] to have a better chance of attracting customers to buy their clothes [1].
 - Security of the area [1] so that the retailers are less likely to have their stock of clothing stolen [1].
- d (Other answers possible, 6 marks available.)
- Location of the market [1] if the market is a long way away then transport costs will increase [1] this may increase the cost of transporting the clothing items to retailers [1].
 - Location of raw materials/component suppliers [1] if they are a long way away then transport costs will increase [1] which may increase the price of the clothing items to retailers [1].
 - Availability of labour [1] skilled machinists may be required for the factory [1] leading to lower costs than if there is a shortage of skilled workers in the area which might lead to higher wages or training costs [1].
 - Government influence/grants/planning permission [1] will reduce the costs of opening the factory [1] as grants do not have to be paid back [1].
 - Transport and communications [1] poor links will increase the time and costs [1] of transporting raw materials such as cloth or finished items of clothing to retailers [1].

e (Up to 6 marks are available.)

Site A: nearby to existing factory so may not lose existing workers; higher cost than the other site; a long way to the port which will increase transport costs for 75% of the clothes produced.

Site B: cheaper cost than other site and nearby to the port. This will reduce time and transport costs of output being exported; high cost of transporting output to the main city as it is far away.

The conclusion may be either of the two sites but answer must be justified, for example, Site B should be chosen as it is the cheapest site reducing the need to borrow money and near to the port making it easier for their clothes to be exported.

- 2 a Planning regulations make it more difficult/easier to locate in particular places [1]; grants and subsidies available reduces costs [1]
- b Any two of the following answers are correct. (Other answers are possible, 4 marks available).
- Size of the new market abroad [1] – if there is a large market for BBC's clothes then transport costs will be lower/easy access to retailers or customers [1].

- Difficulties in recruiting labour [1] – if skilled labour not readily available then costs of training sewing machinists will be higher [1].
- Trade and tariff barriers [1] – if these barriers are high then this will increase the price of imported clothing by BBC but if the clothes are produced in country Z then this will make them more competitive [1].
- Cheaper/new sources of raw materials/components [1] – if available then costs will be lower and may lead to higher profit or lower prices of clothing which make BBC more competitive [1].

c (Up to 6 marks are available.)

Yes: cost savings if all production is in one place – economies of scale. The majority of the clothes produced are sold in country Z.

No: experienced workers will be lost; some of the output is sold in country X and will still have transport costs.

The conclusion may be yes or no but must be justified, for example: No, as they could lose very experienced skilled workers and they may not be able to recruit such experienced workers in country Z leading to lower efficiency or increased training costs.

● Operations management: end of section case study (Paper 2 style)

1 a (Up to 8 marks are available.)

Advantage: dress will meet exact requirements of customer – increase customer satisfaction – as dress will fit perfectly – customer willing to pay a higher price.

Disadvantage: costs of making the dress will be higher – labour intensive production – may take longer to produce the product – cloth may have to be specially purchased for this individual dress and this may increase costs further.

b (Up to 12 marks available.)

Introduce new technology: such as new sewing machines to sew the cloth together faster – means more cloth per worker can be produced but high cost of new machinery.

Improve layout of the machines in the factory: to reduce wasted time between processes – therefore increases the efficiency of clothes produced but disrupts and possibly stops production whilst changing the factory layout.

Improve labour skills by training workers: become more efficient – and increase the number of clothing items they can produce each hour but increased costs of training workers.

Recommendation: Justification could be for any of the three ways but reasons should also be given for why the other two ways are less effective at improving productivity.

2 a (Up to 8 marks are available.)

- Lower prices: if price of clothing is lowered then the number of items of clothes that needs to be sold to cover all the costs will increase – lowers gross profit – reduces profit for the company.
- Increased cost of cloth: reduces the contribution from each item of clothing – lowers profit – and may lead to lower dividends.

b (Up to 12 marks available.)

- i Buy in cheaper raw materials: reduces costs of making each item of clothing – could

lower quality of clothing – poor reputation – lower sales.

- ii Use quality assurance to cut costs of wastage from faulty products: reduces costs of repairing or replacing faulty items of clothing – improves reputation of clothing and may increase sales – increased training costs to train factory workers to check the garment they are making to ensure it meets quality standards.

Recommendation: Justification could be for either of the two ways but reasons should also be given for rejecting the other way.

● 21 Business finance: needs and sources

1 a It is the net profit reinvested back into a business, after deducting tax and payments to owners, such as dividends [2].

b Any two of the following answers are correct. (Other answers are possible, 2 marks available.)

- Overdrafts [1]
- Trade credit [1]
- Factoring of debts [1]

c Advantage: no interest is paid so cheaper [1] – available quickly to buy vehicles [1].

Disadvantage: savings may be too low [1] – as he had to take out a bank loan as well [1].

d How much capital Ted is putting into the business relative to the loan he was asking for [1] – if he is willing to risk a lot of his own money [1] then the bank may be more willing to lend to Ted [1].

Does the cash flow forecast suggest that TT will earn enough revenue from taxi services [1] – to repay the loan with interest [1] – therefore low risk of loan not being repaid [1].

e (Up to 6 marks are available.)

Yes: it will allow Ted more working capital for TT – as it may be short of working capital at certain times of the year if fewer taxi services are demanded.

No: as interest will be charged on a daily rate and this is more expensive than the interest rate charged on a bank loan – Ted might be better to use alternative sources of finance, such as loans from family and friends or take

on a partner to provide additional working capital for the business.

The conclusion may be yes or no but must be justified, for example, this depends on whether Ted thinks the business will run short of working capital.

2 a Leasing an asset allows a business to use an asset [1] but it does not have to purchase it [1].

b TT is too large a business [1].

Micro-finance is the making of very small loans and therefore would not be enough for expansion of TT [1].

c To pay for trucks [1] as these cost a lot of money to buy [1].

Having an increased number of taxi drivers and taxi cabs will require more working capital [1] to pay for day-to-day expenses such as wages and payment for fuel [1].

d (Up to 6 marks are available.)

Loan: large amount of money available as TT is quite a large business – Ted keeps majority ownership and therefore control of the business.

Sell more shares: no interest to be paid but brings in more shareholders and they might want the company managed in a different way with Ted losing some control.

The conclusion may be yes or no but must be justified, for example, only sell more shares if he knows people he can trust to become shareholders.

● 22 Cash flow forecasting and working capital

1 a [4]

| \$000s | July | August | September | October | November | December |
|--------------------------|------|--------|-----------|---------|----------|----------|
| Cash inflow | | | | | | |
| Cash from taxis | 50 | 50 | 40 | 40 | 10 | 10 |
| Credit sales from trucks | 10 | 10 | 10 | 10 | 10 | 10 |
| Capital and loans | — | — | 200 | — | — | — |
| Total cash inflows | 60 | 60 | 250 | 50 | 20 | 20 |
| Cash outflow | | | | | | |
| Purchase of vehicles | — | — | — | 250 | — | — |
| Wages | 20 | 20 | 20 | 20 | 10 | 10 |
| Fuel | 5 | 5 | 4 | 4 | 1 | 1 |
| Other expenses | 20 | 20 | 20 | 20 | 20 | 20 |
| Total cash outflows | 45 | 45 | 44 | 294 | 31 | 31 |
| Net flow | 15 | 15 | 206 | (244) | (11) | (11) |
| Opening balance | 10 | 25 | 40 | 246 | 2 | (9) |
| Closing balance | 25 | 40 | 246 | 2 | (9) | (20) |

b Any two of the following answers are correct.

- Cash needed to pay for materials, labour, rent, etc. [1]
- Goods purchased [1]
- Goods sold [1]
- Cash payment received for goods sold [1]

c Benefit: tells Ted how much cash is available [1] for paying bills, repaying loans or for buying more taxis/trucks [1].

Problem: it will take time to draw up [1] and Ted could be doing other things in the business such as going out to find new customers for the trucks [1].

d Increase cash inflows [1], for example, increase revenue by increasing the number of customers using his taxis [1] by promoting the service through hotel receptions [1].

Lower cash outflows [1], for example, arrange trade credit to buy fuel [1] so that the cash outflows will be lower initially [1].

e (Up to 6 marks are available.)

Yes: ensures sufficient liquidity to pay all bills, not problems obtaining supplies.

No: the cash could be earning a return if invested in the business, no return on cash if just left in bank.

The conclusion may be yes or no but must be justified. For example, Ted should ensure there is sufficient liquidity in the business to not run the risk of insolvency but not too much, as this gains no return.

2 a Working capital is the capital available to a business in the short term [1] to pay for day-to-day expenses [1].

b Any two of the following answers are correct. (Other answers are possible, 2 marks available.)

- Bank manager [1]
- Owner [1]
- Manager [1]
- Suppliers [1]

c (Other answers are possible, 4 marks available.)

- Cash outflows may increase [1] from the increased costs of maintaining and running the trucks [1].
- Cash inflows may increase [1] from the increased revenue from the hiring out of trucks to customers [1].

d It is a forecast and may be wrong [1] – poor budget control for fuel used for taxi journeys [1] may lead to costs being higher than forecast [1].

Something might happen between the forecast and the actual cash flow [1] – as unexpected things such as an increase in the minimum wage for drivers [1] may cause the actual figures to be different [1].

e (Up to 6 marks are available.)

Take out a bank loan: increases the cash available in the business – budget for repayments – although interest payments will raise costs.

Or seek to increase permanent capital in the business through selling more shares to family and friends: this does not have to be repaid but dividends will probably need to be paid to shareholders.

The conclusion must be justified, for example, sell additional shares if he has family and friends willing to invest in his business and may not demand a dividend straight away.

● 23 Income statements

- 1 a A = \$450 000 [1]
B = \$360 000 [1]
C = \$50 000 [1]
D = \$40 000 [1]
E = \$40 000 [1]
F = \$20 000 [1]
- b It is a document that records the income of a business and all costs incurred [1] to earn that income over a period of time (for example, one year) [1].
- c To allow dividends to be paid to shareholders [1] as this is the reward for them investing in this transport business [1] and without this new shareholders would not invest in TTL [1].
It is a source of finance [1] for Ted to purchase new taxis or trucks instead of borrowing the money [1] and having to pay interest on the loans [1].
- d (Up to 6 marks are available.)
Profit: to provide more finance for expansion without the cost of interest payments and to pay higher dividends to the shareholders to keep them happy with the business.
Revenue: trying to increase revenue will focus the business on gaining more customers and if successful will help to increase profit at a later date.
The conclusion may argue that profit or revenue is more important but must be justified, for example, without increased revenue it is unlikely profit will be increased.
- 2 a sales [1] × price of the product [1]
b (Other answers possible.)
Salary of transport manager [1]. Lease payment for trucks [1].
- c Reduction in dividends paid [1] – as the family might have been happy for Ted to use profit as a source of finance to expand the business in the future [1].
Sales increased by more than the increase in cost of sales or expenses [1] leading to higher profit before tax [1].
- d To calculate the return for shareholders [1] on their investment in TTL [1] to see if it is worth keeping their investment in TTL [1].
For workers to see if there is enough profit to make them feel secure in their job [1] and for these taxi drivers to possibly argue for an increase in their wages [1] as they have helped increase the profit of TTL [1].
- e (Up to 6 marks are available.)
Reduce dividends: as the shareholders are family and friends and will not be able to sell their shares without the approval of the other shareholders. This will mean there is no chance of a takeover of the business if the shareholders are unhappy and costs of sources of finance will be lower as no interest will need to be paid.
Increase prices: increases revenue as long as the revenue does not fall by a greater percentage than the price increase, that is, price elasticity is inelastic.
The conclusion may be reduce dividends or increase prices to increase retained profit but the answer must be justified, for example, he should only reduce dividends if he is sure his shareholders are happy with this and understand that the retained profit may be used to increase dividends in the future.

● 24 Balance sheets

- 1 a A document that shows the value of a business's assets and liabilities [1] at a particular point in time [1].
- b Asset is an item of value that is owned by a business [1]. Liability is a debt owed by the business [1].
- c Any two of the following answers are correct. (Other answers are possible, 4 marks available.)
- Bank manager [1] to see what assets are owned by TTL in case it does not repay loans and these assets, such as taxis, need to be seized to repay the loans [1].
 - Owner [1] to see the value of his investment [1].
 - Suppliers of fuel [1] to see if the business has assets that could be claimed if TTL does not pay for supplies [1].
- d Advantage: it makes sure TTL has fuel [1] when it might have an increase in demand for taxi services [1] when service stations are closed which could make it difficult to obtain fuel [1].

Disadvantage: it ties up cash in the form of fuel [1] it could make the business run short of working capital [1]. This could make it difficult for Ted to pay the wages of his taxi drivers [1].

- e (Up to 6 marks are available.)

Balance sheet: it will show the value of the assets owned by the business – this will indicate what the business is worth – and how much to pay to take over the business.

Income statement: will show the profitability of the business – it will show how much revenue is being made by the truck or taxi services – and if the expenses are being kept under control.

The conclusion may be either the income statement or the balance sheet but must be justified, for example: The balance sheet as it depends on the amount required to take over this other business and if the amount is justified by the value of this business as shown by the balance sheet.

● 25 Analysis of accounts

- 1 a $\text{Gross profit [1]} \div \text{sales revenue} \times 100$ [1]
- b $(\text{Net profit [1]} \div \text{sales revenue} \times 100)$ [1]
- c Sales revenue might have fallen [1] – due to lower sales or lower prices charged for each taxi ride [1].
Higher costs of sales [1] – such as the cost of fuel might have increased [1].
- d Increase revenue [1] – by increasing the sales of truck transportation to other businesses [1] – using promotion methods to attract more customers [1].
Reduce costs [1] – such as the expenses for his offices [1] and if revenue stays the same then profit will increase [1].
- e (Up to 6 marks are available.)
Yes: the profit margin is higher than Business A. The margin is still high and suggests that Ted is keeping the overhead costs of the business low.
No: his gross profit margin and ROCE are both lower than Business A by 5% and 2.5% respectively indicating that Business A is controlling its raw material / direct costs better than Ted and is better at making a profit on assets invested.

The conclusion may be yes or no but must be justified, for example, it depends on how these profitability ratios compare with previous years and the industry average.

- 2 a It is the ability of a business to pay back [1] its short-term debts [1].
- b Inventory levels might have been reduced [1].
Current liabilities might have increased [1].
- c Advantage: ensures current liabilities can be paid [1] so Ted may have enough cash to pay for trade credit that is due to be paid [1].
Disadvantage: it means that TTL might have a lot of accounts receivable owing such as businesses using the truck services that have not paid [1] making the cash flow worse [1].
- d (Up to 6 marks are available.)
Yes: the current ratio is good in that TTL has enough current assets to pay its current liabilities by one and half times – it is better than Business A as this business can only just meet its current liabilities.

No: the acid test ratio shows that without inventory it cannot pay all its current liabilities. Business A has enough or nearly enough current assets after inventories have been taken away to cover the current liabilities that need to be paid.

The conclusion may be yes or no but must be justified, for example: Yes, as long as its trade creditors give TTL sufficient time to repay its liabilities.

● Financial information and financial decisions: end of section case study (Paper 2 style)

1 a (Up to 8 marks are available.)

- To take to the bank – when applying for a bank loan – to show the manager that TTL can afford to repay the loan – after there will be an increase in revenue from the investment of purchases of trucks.
- To use it to budget – so that Ted does not run out of cash – but monitors how much he expects to receive in revenue from the taxi and truck business each month – and how much he thinks will need to be paid out for fuel and wages each month.

b (Up to 12 marks are available.)

- Ted takes out a bank loan to buy two new trucks: increased interest payments shown on the income statement – reduced profit unless revenue from the trucks increased – balance sheet shows bank loan as non-current liability and non-current assets increased by the value of the trucks.
- Ted now buys inventory using trade credit: no effect on the income statement but the balance sheet would show increased current liabilities.
- There has been an increase in the number of TTL's taxi customers: increased revenue on the income statement and increased direct costs from wages and fuel paid for the additional journeys. Balance sheet no effect unless any increased profit is added to the reserves of TTL.
- Conclusion of which of the three changes will have the biggest effect on profitability of TTL with reasons given for the choice and reasons for why the other two changes will have less, if any, effect.

2 a (Up to 8 marks are available.)

- Internal: retained profit – purchase new trucks as large amount of money and is a non-current asset of the business.

- Internal: sale of surplus assets – to pay for fuel or wages.
- External: sale of shares to family and friends – extension on the garage where repairs are made.
- External: bank loan – pay for new trucks or taxis.

b (Up to 12 marks are available.)

(Gross profit margin)

Revenue – Cost of sales = Gross profit

$\$600\,000 - \$30\,000 = \$570\,000$

$\$570\,000 \div \$600\,000 \times 100 = 95\%$ (last year = 90%)

Improved: suggests higher prices or lower cost of sales

(Profit margin)

Gross profit – Expenses = profit

$\$570\,000 - \$520\,000 = \$50\,000$

$\$50\,000 \div \$600\,000 \times 100 = 8\%$ (last year = 10%)

Worsened: suggests lower gross profit or higher expenses

(Current ratio) Current assets ÷ current liabilities

$\$6250 \div \$5000 = 1.25$ (last year = 1.5)

Worsened: but can still cover all current liabilities so no problem

(Acid test) Current assets – inventory ÷ current liabilities

$\$6250 - \$1250 \div \$5000 = 1$ (last year = 0.75)

Improved: as can now cover all current liabilities without inventories so no problem with liquidity

Conclusion: gives a clear supported conclusion including the calculations and reasons for saying if the results are better or worse.

● 26 Government economic objectives and policies

1 a [4]

| | |
|--------|-----------|
| growth | boom |
| slump | recession |

- b Unemployment exists when people who are willing and able to work [1] cannot find a job [1].
- c Increased prices in the shops leads to pressure to raise wage rates [1] increasing the costs of employing drivers and taxi drivers [1].
Increased cost of fuel [1] leading to TTL having to increase its own prices and possibly reducing demand [1].
- d More difficult to find skilled workers [1] as many other motorbike manufacturers in country X are also expanding [1] leading to increased wage rates and increased costs for ABC [1].
Local component manufacturers may increase their prices due to higher demand [1] leading to increasing costs for ABC and lower profits [1] if prices of ABC motorbikes are not increased as well [1].
- e (Up to 6 marks are available.)
Yes: as this will mean incomes are rising and so sales of motorbikes should increase
No: because it will be harder to recruit skilled workers for the factory if ABC wants to

expand output.

The conclusion may be yes or no but must be justified, for example, it depends on the level of unemployment and if the unemployed workers have the right skilled required for ABC.

2 a It is a tax [1] on an imported product [1].

b It is a physical limit [1] to the quantity of a product that can be imported [1].

c Components from abroad will now cost ABC more [1] – the increased costs may lead to increased prices of motorbikes [1].

Imported motorbikes will increase their prices [1] making ABC motorbikes more competitive in price and so sales are likely to increase [1].

d (Up to 6 marks are available.)

Yes: if the imported components are cheaper than home-produced components especially as other motorbike manufacturers also purchase components from abroad as well.

No: as locally produced components can be delivered quickly and help ABC meet any unexpected increases in demand.

The conclusion may be yes or no but must be justified, for example, it depends how quickly imported components can be delivered to the factory.

● 27 Environmental and ethical issues

1 a Is an economic activity where the gains [1] are to a business/consumer itself [1].

b Is the gain to the rest of society, other than the business or consumers [1], resulting from business activity [1].

c Produce pollution from the factory [1] – that affects the local people who live around the factory [1].

Gases are produced which harm peoples' health [1] from the motorbikes produced by ABC [1].

d Encourage a consumer boycott [1] – of the motorbikes produced by ABC [1] – so ABC might change the production processes to regain their customers [1].

Advertise to the public about the harm done by exhaust fumes [1] – this will give ABC a

bad reputation [1] and make consumers less likely to buy from these producers [1].

e (Up to 6 marks are available.)

Yes: as this will improve its reputation and encourage more customers who are keen to only buy products that have been produced using environmentally friendly methods.

No: it will increase its costs as it spends money developing new motorbikes that have lower emissions.

The conclusion may be yes or no but must be justified, for example, it depends on the customer preference and how much prices may have to rise.

- 2 a** Not acting with a moral code [1] – the business is not ‘doing the right thing’ [1].
- b** Any two of the following answers are correct. (Other answers are possible, 2 marks available.)
- Offering or taking bribes as part of business decisions [1]
 - Employing child labour [1]
 - Buying supplies that are produced by processes that damage the environment [1]
- c** Supplies from ethical suppliers might cost more [1] – which means higher costs of motorbike components leading to higher prices [1].
- Wage costs might also be higher [1] – as children will not be employed on the production line – less competitive – especially if competitors employ children [1].
- d** (Up to 6 marks are available.)
- Yes: it will make the environment safer and reduce the external costs on society from the production of goods and services.
- No: it may make the goods and services produced in country X less competitive as the costs will be higher whereas imported goods and services may be cheaper as production costs may be lower.
- The conclusion may be yes or no but must be justified, for example, it depends on how socially responsible businesses are from other countries that compete with businesses located in country X.

● 28 Business and the international economy

- 1 a** This occurs when the exchange rate of a currency rises [1] – it buys more of another currency than before [1].
- b** The price of imported goods will be lower [1], the price of home produced goods that have imported components will fall in price as well [1].
- c** Increase sales [1] of motorbikes in overseas markets as well as the domestic market [1].
- Little opportunity to increase sales in the domestic market [1] if the economy goes back into recession [1].
- d** ABC understands the culture of the home country [1] – they can produce the style of motorbikes that are popular in country X [1] – therefore the sales revenue will be higher for ABC [1].
- ABC will understand the laws in country X [1] – this means the motorbikes will meet the requirements for emissions [1] – so it will mean ABC will not have any problems in meeting requirements and therefore sales will be higher [1].
- e** (Up to 6 marks are available.)
- Yes: increased variety of goods and services and at lower prices.
- No: some goods and services may not be of such a high quality and safety standards may not be met.
- The conclusion may be yes or no but must be justified, for example, it depends on the government regulations that protect consumers from harmful goods being imported.
- 2 a** Produces its goods or services in many countries [1]; sells its goods or services in many countries [1].
- b** Increased revenue from higher sales [1]; increased profit due to higher sales [1].
- c** Advantage: more jobs created [1] and therefore more opportunities for factory managers or production workers to be promoted and receive higher pay [1].
- Disadvantage – may lose job [1] if the production facilities for motorbikes is moved abroad to lower wage cost market [1].
- d** (Up to 6 marks are available.)
- Yes: increased investment – jobs created – lower unemployment – increased economic growth.
- No: increase competition – reduced employment in some industries – increased unemployment in some sectors.
- The conclusion may be yes or no but must be justified, for example, it depends on the size of the multinationals, what they produce and whether they can be controlled by the government in country X.

● External influences on business activity: end of section case study (Paper 2 study)

- 1 a Reduce emissions from new motorbikes produced [1] – less CO₂ in the atmosphere [1].

Reduce waste from the factory [1] – leads to less waste being disposed of [1].

Purchase motorbike components from other businesses that are environmentally friendly [1] – reduced overall waste produced [1].

Use less energy [1] – by using renewable sources in its factory such as solar panels [1].

- b (Up to 12 marks are available.)

i **Falling unemployment:** may be more difficult to recruit production workers leading to rising wage rates – but higher incomes from more people being employed may lead to higher demand for motorbikes – so sales of ABC motorbikes might increase.

ii **Falling interest rates:** cost of loans reduced – lower costs – easier to obtain finance for expansion of production.

iii **Depreciation in the exchange rate of country X:** export prices of motorbikes reduced but cost of imported components will be increased as will the price of competing imported motorbikes.

Conclusion gives a clear supported conclusion as to which economic change will have the biggest effect on the profits of ABC.

- 2 a (Up to 8 marks are available.)

Bad reputation: fewer customers want to buy motorbikes produced by ABC – lose sales to competing motorbike companies either imported or home produced.

Employees now not wanting to work for ABC as thought of as a bad employer – harder to recruit new workers for the factory – if output is expanded and ABC decide to export if it

becomes a multinational company.

- b (Up to 12 marks are available.)

i **Set up its own factories to manufacture its products in the main foreign markets:** more control over the manufacturing process – set up using the capital intensive systems used in country X – increased costs and difficulties with regulations abroad – may need to increase the wages of production workers so they will go and live abroad to work in the new factory.

ii **Form a joint venture with motorbike companies in the main foreign markets to manufacture and sell ABC motorbikes:** reduces the risks and problems from setting up production facilities in a foreign market – can use the experience and advice of the business which has formed the joint venture – but may lose some control and have to share profit.

iii **Produce new different styles of motorbikes for the main foreign markets but keep production in country X:** maintains control over production processes and keep experienced production workers – new model will be aimed at new markets – can be designed to meet customer needs in overseas market and so increase sales – but more difficult to research these needs and may get it wrong – expensive investment in new facilities.

Conclusion: shows clear judgement as to the best way to choose and why the two alternative ways are likely to be less successful in selling ABC products into global markets.