UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Subsidiary Level and GCE Advanced Level

MARK SCHEME for the October/November 2010 question paper for the guidance of teachers

9707 BUSINESS STUDIES

9707/11 Paper 1 (Short Answer/Essay), maximum raw mark 40

This mark scheme is published as an aid to teachers and candidates, to indicate the requirements of the examination. It shows the basis on which Examiners were instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began, which would have considered the acceptability of alternative answers.

Mark schemes must be read in conjunction with the question papers and the report on the examination.

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

CIE is publishing the mark schemes for the October/November 2010 question papers for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level syllabuses and some Ordinary Level syllabuses.

Section A

1 (a) Definition could include: a tool used in management accounting – the point at which sales revenue equals cost – a calculation made below which point costs are greater than revenue – above the point costs are less than revenue. (Reward accurate diagram.)

- Definition indicates some understanding. (1)
- Definition indicates full understanding. (2)

(b) Explanation could (use diagram) show a business might be able to <u>predict</u> a movement from making a loss to making a profit – use for <u>forward planning</u> – <u>especially</u> valuable for small and medium-sized businesses where costs and revenues less complex – <u>predicts</u> what happens when variables change – quick and easy to use – helpful in planning production and selling levels – easy visual means of analysing business financial position at different levels of output – shows effect on break-even point of changes in costs or price.

- Limited attempt to explain the value/use of the tool. (1)
- Good explanation of reason(s) for the use of the tool. (2)
- Full explanation of reasons(s) for the use of the tool. (3)

2 (a) Definitions might refer to a business aiming a product or service at a particular, often tiny segment of a market – the opposite of mass marketing.

- Definition indicates some understanding. (1)
- Definition indicates full understanding. (2)

(b) <u>Disadvantages</u> might include: market too small – not enough opportunity – competition might be very strong – higher fixed costs per output – possible underutilisation of productive capacity – product portfolio may be restricted – unable to spread risks – small number of customers – big swings in consumer expenditure and preferences.

- One disadvantage identified with limited explanation. (1)
- One disadvantage identified with good explanation. (2)
- Two disadvantages identified with limited explanation. (2)
- Two disadvantages identified with good explanation. (3)

3 Explanation will recognise the context of a public limited company and hence the more likely sources of investment finance, such as: retained profits (instead of dividends) – possible sale of surplus assets – long-term loans, debentures – sale of shares, venture capital, government grants – depends of course on the particular position and context of the company.

- Limited explanation of potential source(s) of finance for capital expenditure. (1–2)
- Explanation of potential source(s) of finance for capital expenditure. (3–4)
- Full explanation of potential source(s) of finance in context. (5)

4 **(a)** Definitions might include: mostly small family companies – business name ends in Limited or Ltd – shares can only be transferred 'privately' and all shareholders must agree on the transfer – separate legal entity – shareholders have limited liability – no limit on number of shareholders – continuity assured.

- Definition indicates some understanding. (1)
- Definition indicates full understanding. (2)

(b) Disadvantages could include: loss of <u>ownership</u> – no longer owning 100% of the business – possible loss of <u>control</u> as may not be the majority shareholder – <u>cost</u> of conversion to a Ltd company – may lose <u>influence</u> on key decisions, e.g. dividend policy, retained profits – accounts need to be produced and made public – <u>profits</u> now need to be shown.

- One accurate disadvantage of a private limited company explained. (1)
- Two accurate disadvantages of a private company explained. (2)
- Two accurate disadvantages of a private limited company explained with an explicit connection to the change from a Sole Trader. (3)

Section B

5 **(a)** Explanation could include explicit definition of <u>autocratic</u> leadership – sole decision-making – subordinates informed and carry out decisions – leader sets out objectives – allocates tasks – insists on obedience – concentration of power and authority. <u>Democratic</u> leadership encourages participation in decision-making – consultative – can be time-consuming – loss of control – but potentially more motivating. Sound answers will recognise that the difference is not always as stark as these rather simplistic definitions suggest – depends on context and character of leader.

- Analysis of the difference using accurate and realistic definitions. (7–8)
- Good explanation of the difference using accurate definitions. (5–6)
- Limited explanation of the two styles of leadership. (3–4)
- Little understanding of either or both of the different styles. (1–2)

(b) Discussion could examine and analyse the suggestion that a democratic style of leadership may be more <u>effective</u> in business for the following reasons: democratic leadership reflects the growing participation in social and public life – people now expect more freedom and better quality of working life – managers able to tap into ideas of knowledgeable workers – people more committed and motivated – ready to accept decisions – etc. Strong answers will recognise that this 'view' is not always applicable and is a generalisation.

- Evaluative comment on the word effective, or critique of the 'accepted' advantages of democratic leadership, or explicit connection to the idea of a 21st century business and its demands. (11–12)
- Analysis of the suggested more 'effective' outcomes of democratic leadership. (8–10)
- Shows understanding of the suggested effective advantages of democratic leadership. (3–7)
- Limited attempt to discuss democratic leadership. (1–2)

6 Discussion could include a definition of ethical objectives – 'right and proper' approach to business decisions and actions – with examples in relation to pollution, treatment of staff, suppliers, environmental issues and the potential impact of distinctive values and beliefs of a company on its actions.

Potential impact of ethical objectives and behaviour on securing greater market share/ profitability/image/reputation might include: marketing and publicity benefits of the perception of being ethical – high reputation say for treating an international supplier fairly and ensuring ethical standards by that supplier – customer perception nationally and internationally – unique selling point (USP) all help to enhance market share. (Some may point at the potential extra costs and the need to balance costs and benefits of ethical objective-setting.)

- Evaluative comment on the potential impact of ethical objectives on perceived performance and activity of a business. (17–20)
- Analysis of the potential value of setting ethical objectives. (14–16)
- Good understanding of the potential value of setting ethical objectives. (11–13)
- Some understanding of the potential value of ethical objectives. (5–10)
- Shows limited understanding of ethical objectives. (1–4)

7 **(a)** Explanation could include: definition of 'payback' – the length of time it takes for a business to recoup its original investment outlay – simple to use – based on the speed of repayment – estimates net income flow – has its limitations – cash earned after the payback is not taken into account and profitability of a project is ignored. 'Average rate of return' shows average return per year as a percentage of the initial cost: net return (profit) per annum ÷ capital outlay (cost) × 100. This technique shows clearly the profitability of an investment project – easier to identify the opportunity cost of investment and to compare the overall rate of return with other uses for investment funds. It does not, however, take into account the effect of time on the value of money. Both identified as quantitative methods of investment appraisal.

- Analysis of both methods of investment appraisal. (7–8)
- Good explanation of both methods of investment appraisal. (5–6)
- Limited explanation of both methods of investment appraisal. (3–4)
- Little understanding of investment appraisal methods. (1–2)

(b) Discussion could recognise that investment appraisal relies mainly on quantitative factors and methods but that qualitative factors must also be considered. Indeed non-quantitative factors could undermine or significantly influence quantitative predictions or speculation. Qualitative data include: reputation damage caused by switching to a low-cost supplier – state of business confidence – macro state of domestic/world economies, levels of inflation, government measures.

Quantitative factors provide a numerical basis for decision-making but other factors need to be taken into account, such as investing in wind turbines in a coastal area might be justified on financial grounds but qualitative factors might be important – e.g. reaction of local community – fit with government policy – social impact of noise, damage to ecosystems – impact of decisions on stakeholders – long-term v short-term impact – alignment with corporate objectives – ethical considerations – industrial relations.

- Some evaluative comment on the significance of qualitative factors in influencing investment decisions – relative to quantitative factors. (11–12)
- Analysis of qualitative factors that might influence investment decisions and could/should be considered. (8–10)
- Shows understanding of some qualitative/quantitative factors that might/could/should influence investment decisions. (3–7)
- Shows little understanding of qualitative/quantitative factors. (1–2)