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## FOREWORD

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This booklet contains reports written by Examiners on the work of candidates in certain papers. **Its contents are primarily for the information of the subject teachers concerned.**

# BUSINESS STUDIES

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## GCE Advanced Level and GCE Advanced Subsidiary Level

<p style="text-align: center;"><b>Paper 9707/01</b> <b>Short Answer/Essay</b></p>
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### General comments

Overall, the majority of candidates were able to attempt all required elements of this Paper, illustrating that the Paper was accessible.

In many cases the candidates demonstrated a balanced performance across **Section A** and **Section B**, although there was evidence of an inconsistent performance between the *Short Answer* section and the *Essay*, with the higher marks tending to be gained in **Section A**.

Candidates from some Centres showed extremely good technique in the structure of their essays with arguments being presented in a clear and logical manner. The quality of the essays in some cases was outstanding, both in terms of the content and the structure. The quality of written English was also extremely high in many cases.

Candidates are to be congratulated for writing essays that contain relevant business context examples and illustrations, together with appropriate analysis and evaluation. There was more evidence this session of candidates understanding the specific requirements of each question and applying and adapting relevant material – this was particularly evident in the *Essay* section of the Paper.

There was also evidence of good time management with very few candidates running short of time to complete the Paper.

### Comments on specific questions

#### **Section A**

##### *Short answer*

#### **Question 1**

- (a) Almost all candidates were able to define and distinguish between secondary and tertiary levels of production. Some candidates gave too much information and in some cases even defined primary level of activity. This approach takes precious time away from later questions and should be discouraged. However, most candidates were able to achieve maximum marks for this section.
- (b) This part was answered well by the majority of candidates, with only a small number of answers making reference to the benefits to a business rather than to a country. Many answers referred to the benefits of employment opportunities, economic growth, export potential and tourism arising from successful business activity. Some candidates recognised the value of extra tax revenue for a government.

Some candidates spent too long on their answers to this question with a consequent impact on time management for later questions. Better candidates were able to relate their answers to a strong context of business facts rather than simple generalisations.

**Question 2**

- (a) The term 'added value' gave some difficulty to candidates with several confusing it with value added tax. Others gave a marketing approach answer. However, many excellent answers were seen that correctly defined added value as the relationship between the cost of raw materials, the processes they are subjected to in order to turn them into a useful product and the selling price.

Weaker candidates confused 'added value' with 'mark up' or profit. The 'text book' definition – the difference between the value of 'inputs' and the value of 'outputs' in a productive process – was an approach that would have gained full marks for this section.

- (b) The candidates that had correctly defined the term in part (a) were able to identify appropriate points such as the higher profit margins that might be enjoyed and all the accompanying benefits.

Generally, the performance in (b) was linked to the accuracy of the answer to (a). Strong candidates recognised the potential benefit of high added value products in terms of factors such as competitive advantage, customer loyalty and unique selling points.

**Question 3**

This question on the functions of trades unions was answered well by the majority of candidates. Most candidates were able to gain good marks on this section. The better answers explained the role of collective bargaining within the functions of a trades union. Weaker answers were restricted to identifying the need to protect the rights of workers in terms of their pay and working conditions.

Some candidates, however, misinterpreted this question and developed a non-relevant discussion on trade groupings or trade associations.

**Question 4**

- (a) This was answered well by most candidates who were able to identify correctly that revenue expenditure refers to the day-to-day expenses of a business while capital expenditure relates to the purchase of fixed assets. Weaker candidates confused revenue expenditure with sales revenue and some interpreted the question purely in terms of Government spending.

- (b) Weaker answers to this part of the question asserted that different sources of finance were required due to the different uses of assets purchased but did not pursue the line of argument any further. Good answers related to the relative size of amounts involved and the difference in the time-scale involved. These issues were then related to a specific source of finance, for example, small amounts of revenue expenditure met from retained profits or short-term loans and large amounts of capital expenditure requiring longer-term external financial sources.

**Section B***Essays***Question 5**

- (a) Different approaches were taken to this part of the question and were acceptable. Some candidates discussed the personal qualities, such as honesty, that might be desirable/essential in a leader. Other candidates identified essential business-related qualities such as the ability to motivate their workforce together with the ability to communicate effectively in order to focus the efforts of the workforce on the key objectives of the business. Managing change was also seen to be an important leadership task. Weaker candidates failed to identify distinctive leadership qualities and simply discussed the functions of a manager in a very descriptive way.

- (b) The majority of candidates who attempted this question performed better in this part than in part (a). Weaker candidates did not always identify specifically a leadership style but by identifying some relevant factors, the style was implicit in their answer.

Most candidates chose to discuss Autocratic and Democratic leadership styles and were able to identify many of the appropriate characteristics of each style. However, many candidates did not address the issue of 'appropriateness' and thus their answers did not fully answer the question. Many candidates referred to Theory X and Theory Y workers and how different styles might be used depending on the type of worker believed to be in the workforce.

Good answers recognised that certain situations might be dealt with more effectively by one type of leadership rather than another. For example, candidates frequently quoted the need for Autocratic leadership in the armed forces where decisions must be quick and obeyed without question. Democratic leadership was correctly viewed as appropriate if a range of ideas would be beneficial to a business, e.g. in research establishments.

Good answers sometimes drew to a close by affirming that it is not always effective to adopt only one leadership style and that there are times when any leader must adopt a different stance with their workforce as a result of prevailing conditions/events.

### Question 6

- (a) Some very good answers were seen to this question with the most common pricing strategies being that of 'penetration pricing' and 'skimming pricing'. Some candidates attempted to cover too much in their answers by identifying 'market-based' and 'competition-based' as their two strategies. This then led them on to consider many individual strategies under each of these general headings. In such cases the answers were often superficial and lacked the depth of development that could have gained them higher reward. Good answers focused on the appropriateness of various techniques and related them to particular market situations. Some very good answers also focused on the fact that the question said 'consumer goods' and discussed pricing strategies in the context of, for example, fast moving consumer goods. Such an approach lent an immediate analytical tone to their answers.

Answers that were general in nature still managed to gain good marks by describing very clearly how and when each of their identified strategies might work in the market.

- (b) The majority of candidates were able to demonstrate some knowledge of the Product Life Cycle and most candidates then described possible price changes that might be appropriate in each stage. Weaker answers described some of the marketing strategies that might be employed in various stages of the product life cycle but made little or no reference to price. Good answers referred to possible reactions to the level of competition in various stages and how price might be changed to retain competitiveness. Candidates who wrote about competitive behaviour and questioned the validity of the product life cycle gained high marks.

### Question 7

This question was well answered by the majority of candidates who chose to answer it. Most of the answers made reference to the costs of holding stock but also offered some analysis of the potential costs of not holding stock, with many candidates able to develop their answers in a well-focused and analytical manner. Good answers also went on to discuss the benefits and drawbacks of some accepted stock management systems, such as JIT, giving full explanation of how they worked in a manufacturing context.

The contextual nature of some answers was very well developed with consideration being given to stocks of raw materials, work in progress and finished goods. Answers couched in a more general manner were, nevertheless, able to receive high marks due to the quality of their analysis and evaluation.

Many candidates added appropriate diagrams to their answers which they explained and used to good effect. This question gave a clear opening to candidates to include relevant diagrams and many took advantage of this. A few inaccurate diagrams were seen but these were very few in number, indicating that this is a topic that candidates were very familiar with.

<p style="text-align: center;"><b>Paper 9707/02</b> <b>Data Response</b></p>
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**General comments**

Standards of performance on this Paper continue to improve for many Centres, and there is evidence that previous advice in these reports is being followed.

The area of greatest improvement is in the use of context (data) in answering the questions. It was very pleasing that there were far fewer answers that were purely textbook-based and most candidates made reference to the material given in the Question Paper. In some instances there is little data that the candidate can use, but there is usually something of value, such as the nature of the business, its legal status, the type of product and so on that may help candidates to develop an answer. Evaluation remains a difficult area for most candidates. Time could usefully be spent by Teachers in helping candidates to identify opportunities for demonstrating evaluation skills in higher mark questions.

For questions that involve calculations, it is important that candidates show their assumptions and their workings, so that marks can be awarded appropriately if mistakes are made.

Time spent on parts of questions should reflect the marks available. The marks available also give a clear indication of the depth required (for example, a three-mark calculation question should be a straightforward application of the data).

On this occasion, there was little evidence that candidates ran out of time, with marks for **Question 2** being similar to those for **Question 1** for the first time.

**Comments on specific questions****Question 1**

Part (a) of each question can be answered without reference to the Case. This part was generally well answered in both questions although some candidates wrote long answers. This is not needed and could waste valuable time – a sentence or two defining the term together with an added explanation/illustration or an example should be sufficient.

- (a)(i) Many candidates could define and explain economies of scale, so there were generally good marks for this question. A common lack of understanding was demonstrated by a fairly large number of candidates who related falling average costs to production levels rather than the scale of the operations.
- (ii) Fiscal policy was sometimes confused with monetary policy with mention of interest rates, rather than the correct approach of using taxation and government expenditure to manage the economy.
- (b) This could be answered without reference to the Case. Most candidates answered this question well with good examples of why governments encourage businesses, such as through the benefits of increased competition, creation of employment, generating wealth and paying taxes. Better answers explained as well as stated the reasons. Candidates who gave a reason and then developed it before moving on to the second reason tended to get higher marks.
- (c) There were some excellent answers to this question. However, many candidates answered this question in terms of general location issues rather than putting their answer into the required context. The question was about locating near to a similar business so the question required discussion of issues of proximity and economies of concentration (external economies of scale). Good answers considered that because there was already a furniture maker at the location, there could be a ready made market, the likelihood of the necessary infrastructure/resources being available and a suitable pool of labour that could be attracted.

- (d)(i) Many candidates inverted the formula demonstrating a lack of understanding of the concept of market share (market share = firm's sales/total market sales). Candidates need to be reminded to show their working.
- (ii) Answers to this question were encouragingly good, showing a marked improvement on past performance in similar questions. Most candidates attempted to put their marketing knowledge into context, for example, by recognising that the product was furniture, and using the fact that the business already had a reputation for quality and high price. The best answers developed realistic ideas within some marketing objectives (i.e. they developed a strategy) or they attempted to demonstrate which ideas were the most likely to work in the circumstances, thereby demonstrating evaluative skills. Weaker answers tended to either simply list ideas (often lots of them) without analysis or to provide an answer that could apply to almost any business facing increased competition without reference to the particular circumstances involving this firm.

## Question 2

- (a)(i) The definition of fixed costs was generally well answered, but a significant number of candidates answered that "fixed costs are costs which are fixed". This is insufficient. A surprisingly large number of candidates thought that fixed costs did not change relative to time (incorrect) rather than to levels of production (correct). The best marks were awarded to candidates who distinguished between the short run and long run.
- (ii) A large number of candidates confused productivity with production so that they did not demonstrate that productivity concerned the relationship of outputs to inputs. However, many candidates answered this effectively, often using labour as an example of an input.
- (b)(i) Many candidates knew and could apply the break-even formula (fixed costs/unit contribution) using a variety of acceptable assumptions (e.g. that contribution per unit was \$8 or \$10 was equally acceptable, or that fixed costs might change). Some candidates were unable to recall the formula.
- (ii) Many candidates knew the elasticity formula and were able to apply it effectively. A surprisingly large number of candidates got the formula upside down, while others did not recognise that the necessary percentages were included in the data and so undertook unnecessary calculations. A few candidates tried to work with changes rather than percentage changes.
- (iii) Many candidates were able to interpret their answer to (ii) which was that the product was elastic (inelastic was allowed when the calculation in (ii) had been performed incorrectly). Few candidates were able to develop their answer further by describing the impact of price changes on revenue, i.e. a price reduction leads to an increase in revenue for an elastic product.
- (c) This was a difficult question, and many candidates struggled to put their answer into context. Most candidates knew the theory of investment appraisal well. One way to incorporate context was to make reference to the fact that the investment related to machinery (with implications for an acceptable ARR or Payback) or to recognise that a business of this size/type may well want a fast payback. Although not on the AS syllabus, a significant number of candidates referred to NPV or IRR – these were suitably rewarded.
- (d) This question was generally well answered. Many answers made good references to theorists such as Taylor, Herzberg and Maslow and ensured that their answers were in context. The best answers used evaluation skills. For example, some candidates observed that the reaction of the workforce will depend on whether the employees will be motivated by the possibility of extra money or de-motivated by the uncertainty that the new scheme created. The answer then sought to produce a balanced judgement or a strategy for introduction. A large number of candidates incorrectly discussed Theory X/Y workers whereas McGregor's theory is about *management attitudes* towards workers and not about the workers themselves.

<p><b>Paper 9707/03</b></p>
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<p><b>Case Study</b></p>
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**General comments**

There were some encouraging signs that the level of Business Studies knowledge demonstrated by a majority of candidates was higher than in previous sessions. The Paper proved to be very accessible with very few areas of misunderstanding or misinterpretation of questions from average candidates. The great majority of candidates were able to gain marks by demonstrating knowledge on franchising, employer/employee relationships, market research and the just in time stock holding concept. As is so often the case, the great differences in the total marks finally awarded to candidates was due to the wide range of evidence provided concerning the other three assessment criteria – Application, Analysis and Evaluation. The best answers were provided by candidates who had not only been exceptionally well taught in terms of subject content but who had a very sound grasp of how to use their knowledge to analyse and discuss important issues in the context of the case study business. It is hoped that these candidates and their Teachers had benefited from previous Reports in which the central significance of putting answers into the context of the case study business has been stressed. Most candidates who fail to reach pass standard and many more who might be disappointed with low pass grades, answer all of the questions in isolation to the business in the case. It is almost as if they had read the questions but not the case study – and, as a result, answers tended to be all textbook based and not adapted to the problems faced by this business. The worst examples of this are illustrated in the next section.

As has been suggested in previous Reports, candidates and their Teachers are strongly recommended to use past case study Papers and the Mark Schemes in their examination preparations. By studying these and by concentrating on how Examiners award marks for answers that show application, analysis and evaluation most candidates are able to make progress in developing their own answers in the right direction. Acquiring Business Studies knowledge is an essential prerequisite for A Level success but it is never enough. The skill of *selectivity* is essential – what knowledge does a candidate need to answer this question? The skill of *application* is expected – what knowledge does a candidate need to apply to this problem for this business? *Analysis* can then be demonstrated by using Business Studies concepts, theories and techniques to assist in explaining the answer in detail. Finally, the skill of *evaluation* must be demonstrated in answering those questions that ask for discussion or a recommendation – and here the candidate is expected to show judgement in weighing up the evidence to come to a conclusion to the question in the context of the case study.

**Comments on specific questions****Question (a)**

- (i) This question produced the best answers in the whole Paper. Nearly all candidates had access to appropriate information and were able to draw upon the many hints and references made in the case study. Although some candidates were not aware of what franchising was, they were usually able to gain some credit for referring to the strengths and weaknesses of the two characters forming their own business.
- (ii) Some candidates appeared confused by reference to economic constraints. This is a crucial specification topic and is well covered by the recommended textbooks. Evidence was available in the passage but this was, on occasions, just lifted from the case with no further analysis or development. Better answers analysed the likely impact of both an economic boom and resulting inflation on this business. In addition, good references were made to the need to import supplies and so the level of the exchange rate could well prove to be an important constraint – this showed good application and analysis. Very few candidates gained access to evaluation marks. The question was really asking, “to what extent would this business be affected by these constraints?” The really able candidates were able to discuss the significance of price and income elasticity of demand for the restaurant’s products as being a really influential factor in determining the degree to which the business would be either positively or adversely affected by macro-economic changes. A few candidates referred to micro economic factors such as changing levels of competition in the industry and they were well rewarded. Others wrote about financial limitations instead of economic constraints and these points were not rewarded unless they were within the context of government changes in interest rates.

**Question (b)**

Answers to this question suffered severely from simple concentration on textbook material with the majority of candidates failing to apply or analyse their answers in the context of the fast food business. Candidate knowledge was extensive and covered the full range of Human Resource and motivational subject topics but it was rare for a candidate to stand back from their proposals and ask themselves “Would these work in this business?” It does not require extensive knowledge of the catering business to ask whether “quality circles”, “works councils”, “democratic leadership” and the many other suggestions put forward would be appropriate for Shivani and Rashid and their small business. Here is a small section of a good answer and it contains all four of the assessment skills:

*“As Shivani has experience of the catering business she should be able to offer training courses for some young employees. This would mean they could do a number of different jobs and this would allow job enrichment which, according to Herzberg, would motivate staff. However, being a busy small business Shivani might be too busy to do much training.”*

**Question (c)**

- (i) There was a pleasing number of completely correct answers to the cash flow forecast. Candidates had obviously gained experience of this accounting technique in many Centres. Most candidates were able to gain some marks – and this is important. Candidates should be encouraged to attempt every numerical question as, even if the correct answer is not obtained, it is often quite easy to get some of the “workings” marks. The best example in this case was the mark awarded for equipment costs.
- (ii) Again, many candidates gained just two marks for subject knowledge as no attempt was made to refer either to their own cash flow forecast result (correct or not) or to the circumstances of this newly formed business that was keen to raise a bank loan. Relatively straightforward application marks were, therefore, lost.

**Question (d)**

- (i) This question was designed to encourage candidates to lift two references from the case: the use of telephone surveys and the dependence on “friends” for research data. Both of these approaches would be likely to lead to biased results.
- (ii) Most candidates gained credit for referring to two or more market research methods although some wrote about data rather than methods of collecting it. The question asked for “advice” so candidates were expected to evaluate the methods they were proposing. This was, generally, not well done. For example, how appropriate is it to ask a market research agency to engage in national research (as suggested by one candidate) for a small business operating in a small local environment? The ability to apply market research methods to Shivani and Rashid’s business was, surprisingly, restricted to few candidates.

**Question (e)**

This was a very accessible question and very few candidates failed to score marks. However, there was often a ceiling of 4 marks for those who failed to apply, analyse and evaluate. Several clues were contained in the case – distance from suppliers and perishable foods being the most frequently quoted. The best answers considered both sides of the debate – judgement cannot be effectively shown without doing this. On the basis of this discussion they were then able to recommend the extent to which this business should or should not be dependent on JIT. One of the best answers suggested using different stock holding methods for different types of stock and gave examples of the stock items that might fall into both groups to support the recommendations made.



<p style="text-align: center;"><b>Paper 9707/04</b></p>
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<p style="text-align: center;"><b>Essays</b></p>
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**General comments**

There was no evidence to suggest that candidates were unable to answer the required number of questions in the time available. However, some candidates clearly misallocated time between questions as evidenced by overlong answers to their first question and rather short answers to the second question, with some candidates resorting to a list style. Centres should remind candidates of the importance of allocating their time equally between their two answers and, furthermore, should be guided by the marks available when allocating time between parts (a) and (b) to questions.

The overall level of knowledge displayed by candidates was very encouraging and provided clear evidence of candidates who had prepared well for their examination. However, candidates are still failing to achieve the higher marks for evaluation and this is a skill that Centres need to develop within their candidates. In particular, many candidates were unable to apply their knowledge to the context given in the questions.

**Comments on specific questions****Question 1**

This was a very popular question and produced some excellent answers. Most candidates had a very good understanding of the benefits of training but were less secure in their understanding of the methods that businesses might use to train workers.

- (a) This was generally well answered by most candidates, many taking the view that the statement in the stem to the question was untrue. Issues such as productivity, quality, health and safety, flexible workforce, motivation and recruitment were discussed. Better candidates discussed the possibility that training could be considered an unnecessary cost. For example, why train workers if they can be 'poached' from other firms, is it more cost effective to pay higher wages to attract trained workers than to incur the costs and other disadvantages of training workers?
- (b) This part of the question was less well answered. Most candidates had some understanding of on-the-job and off-the-job training, although this was by no means a good understanding. Few candidates were able to provide any understanding beyond the basic textbook list of advantages and disadvantages. They were unable to explain why each point raised was an advantage or disadvantage to businesses and as a result failed to attract any of the marks available for evaluation.

**Question 2**

This too was a very popular question. However, it was one that provided Examiners with the greatest evidence of candidates' inability to apply their knowledge to a given context.

- (a) Most candidates had a very good understanding of a range of methods that might be used to segment markets, e.g. gender, income, age, geographical, purpose etc. The majority of candidates also used the context of the shoe manufacturer to illustrate their understanding of each method.
- (b) This part of the question was less well answered by many candidates. Better candidates were able to discuss a range of possible benefits that might be derived from market segmentation. For example, better targeting of customers; more efficient use of resources; better targeting of the marketing mix; identifying gaps in the market, to assess the level of competition, increases market share/profitability and spreads risk. Centres should encourage candidates to consider the usefulness of techniques and how they might be applied in a range of different business contexts. Better candidates had clearly been taught in this way and as a result produced answers that earned the higher marks for displaying analysis and evaluation.

**Question 3**

This question was fairly popular and produced some good answers from candidates who were clearly used to applying their knowledge to specific business contexts. However, too many answers simply outlined the main features of flow production without considering the appropriateness to a bakery.

Answers should have considered a range of issues such as the high capital set-up costs of flow production, the need for a high and constant demand for the products, the standardisation of products and the effect on workers. Examiners were disappointed to note the number of candidates who simply accepted that flow production would be an acceptable method of production for a bakery, without any consideration of the issues outlined above. Some weaker candidates also wasted time and effort by outlining the main features of the job, batch and flow production, often without any reference to the context of the bakery.

**Question 4**

This was not a popular question and one that produced few good answers. Although most candidates had a reasonable understanding of the methods of depreciation, only the very best candidates had any understanding of why firms depreciate fixed assets.

- (a) Very few candidates displayed any real depth of understanding about the nature and reason for depreciation. Although most candidates did have a general understanding of the topic and were able to gain some reward for a discussion of the need to depreciate fixed assets to allow for wear and tear and obsolescence, only the best candidates discussed the matching principle, sinking fund provision and true and fair view of business worth.
- (b) The majority of candidates were able to explain, or illustrate by numerical example, their understanding of how to calculate the annual depreciation charge using both the straight-line method and declining balance method of depreciation. Candidates who used other methods, e.g. sum of the digits, were also rewarded. However, the vast majority of candidates were unable to evaluate these methods and as a result the marks obtained for this part of the question were often very low indeed. Candidates should have discussed the relative complexity of each method and how the annual depreciation charge differs over the life of an asset depending on the method used. Some discussion about the appropriateness of having a higher depreciation charge in the earlier years to recognise the greater efficiency of the asset would have been well rewarded by Examiners.

**Question 5**

This was probably the least popular question on the Paper, though it often produced good answers from candidates who clearly had a good understanding of the need for forecasting and the technique of time series analysis.

- (a) Candidates might have discussed a range of benefits of forecasting such as production planning/scheduling, cash flow management, manpower planning needs, whether to enter a new market and whether to launch a new product. The computer industry is one that candidates answering this question had a good understanding of, and for once the context was well used by most candidates.
- (b) Most candidates were able to identify the main features of time series analysis, e.g. the use of moving averages, trend and seasonal variation. The technique was then generally well applied to the context of the computer manufacturer. Better candidates were able to evaluate the usefulness in terms of exploring, within the context of the computer manufacturer, the advantages and disadvantages of the technique, for example the problem of basing future forecasts on past data, short term versus long term forecasting, changing economic conditions and the appropriateness for new markets.

**Question 6**

This was not a very popular question, but one that did produce some excellent answers from candidates who had clearly prepared well for their examination. Almost all candidates were able to explain the nature of budgets and how they are constructed, with appropriate reference to master budgets, zero budgeting, flexible budgets and departmental budgets. Most candidates were then able to develop their answer by considering the usefulness of budgets in terms of resource allocation, motivation of workers, monitoring, coordination and control, often referring to variance analysis or management by exception. The very best candidates discussed the problems of placing too much reliance on budgets, especially in the absence of flexible budgeting.