

MARK SCHEME for the May/June 2006 question paper

9707 BUSINESS STUDIES

9707/02

Paper 2

Maximum mark 60

This mark scheme is published as an aid to teachers and students, to indicate the requirements of the examination. It shows the basis on which Examiners were initially instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began. Any substantial changes to the mark scheme that arose from these discussions will be recorded in the published *Report on the Examination*.

All Examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes must be read in conjunction with the question papers and the *Report on the Examination*.

The minimum marks in these components needed for various grades were previously published with these mark schemes, but are now instead included in the Report on the Examination for this session.

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

CIE is publishing the mark schemes for the May/June 2006 question papers for most IGCSE and GCE Advanced Level and Advanced Subsidiary Level syllabuses and some Ordinary Level syllabuses.

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1 Star Pharmaceuticals

(a) Explain the following terms:

(i) flow production (line 9) [3]

Production system that involves a continuous production line, compared with, job and batch. Often expensive to set up, cheap to run. Jobs may be monotonous. Often used for cars, fast moving consumer goods.

Level 2: Good understanding [2–3 marks]
Level 1: Partial understanding [1 mark]

(ii) variable cost (line 22) [3]

Costs that vary with the level of production, opposite of fixed costs. Variable costs may include materials, some wages, but are unlikely to include rents. Useful for break even calculation.

Level 2: Good understanding [2–3 marks]
Level 1: Partial understanding [1 mark]

(b) Explain the factors that SP might consider in deciding on an organisational structure if they relocate some of their production to Country B. [6]

Issues explained could include: Could be organised by country: separate and duplicate management functions, but benefits from local knowledge, using local people. Could be organised by function: centralised, more control, fewer managers.

Accept Reasonable Answer

Knowledge and Application	Analysis and Evaluation
Level 2: Shows understanding of organisation structures in context of the business [3–4 marks]	[3–4 marks]
Level 1: Shows general understanding of organisation structures [1–2 marks]	Level 1: Simple analysis of factors in context [1–2 marks]

(c) Discuss the extent to which ethical issues should concern SP. [8]

Medicines have to be **safe** – some candidates might refer to some examples when banned medicines have been sold in countries with less strict regulations. Poorer countries may have greater need but **less ability to pay**. Do medicine companies have a moral responsibility? Should different prices apply in different countries? To what extent is **bad publicity** an ethical issue? Business makes **very high profits**. Maybe an ethical question but has to be balanced against very high investment costs. Is the **proposed move** based on economics or ethics? If it is ethics is there anything in it for the company?

Knowledge and Application	Analysis and Evaluation
Level 2: Shows understanding of ethical issues in context of the business (3-4 marks)	Level 2: Demonstrates ability to judge ethical issues in context (3-4 marks)
Level 1: Shows understanding of ethical issues (1-2 marks)	Level 1: Analysis of issues in context or general analysis of issues (1-2 marks)

(d) (i) The break even level of production for the factory in Country A is 1.5 million units. Using the data from the case, calculate the break even level of production for the factory in Country B. [2]

$$\text{Break even} = \text{FC}/(\text{price}-\text{uvc}) = 4 \text{ m}/(6.0 - 2.0) = 1 \text{ m}$$

Correct answer:

[2 marks]

Correct method, but errors, or formula:

[1 mark]

(ii) Using your answer to (d)(i) and other information in the case, evaluate the decision to relocate some production to Country B. [8]

OFR applies

Lower breakeven, therefore less risky. Possibility of further lowering prices or making higher profits. May be workforce problems – skills, training, management. May be problems with existing workforce. Could significantly enhance companies reputation for ‘caring’. Medicines produced where they are needed most. Wrong place for existing products, right place for new products. Management issues? Evaluation likely to come from either a justified recommendation, or prioritisation of the factors.

Knowledge and Application	Analysis and Evaluation
Level 2: Shows understanding of factors influencing the location decision in context of the business (3-4 marks)	Level 2: Evaluation of decision or good analysis in context (3-4 marks)
Level 1: Shows understanding of factors influencing location decisions (1-2 marks)	Level 1: Limited analysis of factors (1-2 marks)

2 Home Farm

(a) Explain the following terms:

(i) wholesale outlet (line 2)

[3]

A part of the distribution chain between producers and retailers. Often break bulk and improve efficiency of distribution.

Level 2: Good understanding

[2–3 marks]

Level 1: Partial understanding

[1 mark]

(ii) export market (line 3)

[3]

Goods/services sold in different countries through international trade. Usually riskier because of exchange rates, possibly quotas, but leads to a larger potential market.

Level 2: Good understanding

[2–3 marks]

Level 1: Partial understanding

[1 mark]

(b) Explain how an increase in the country's exchange rates could affect the farm's profits.

[4]

Effect could be positive or negative. Stronger currency = cheaper raw materials (e.g. fertilisers etc.) which would boost profits, but could affect incomes as domestic price would have to be lower to compete. Export sales more expensive for importer, more difficult to export, and hence lower profits.

Level 2: Application in context

[3–4 marks]

Level 1: Understanding of impact of exchange rates

[1-2 mark]

(c) (i) Calculate the values of X and Y in the following table:

	Average rate of return (ARR)	Payback
Van	40%	X
Supermarket Contract	Y	2 years

[4]

X = payback for van: After 2 years, 6 is paid back requiring 4 more. So payback = 2 2/3 years or 2 years and 8 months

Correct answer:

[1 mark]

Y is the ARR for the Supermarket contract = $(50-20)/5/20 \times 100 = 30\%$

Correct answer:

[1 mark]

Correct method, but errors:

[2 marks]

Attempt:

[1 mark]

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- (ii) Using relevant information from the case and these ARR and Payback figures, advise Tom and Mary on whether to choose the van or the supermarket contract. Justify your answer. [10]

OFR applies

Investment appraisal shows much **faster payback for Supermarket** contract – suitable as loan needed, but lower ARR. Therefore accept as the money is to be borrowed. Supermarket contract **reduces risk and exposure to foreign exchange** movements. Also greater **security** (5 year contract). But greater controls on them (**quality, size**). What happens to **prices after 1 year**? However, staff would be happier carrying on as they are, with added van, because of **redundancies and productivity** increases. Tom happier with this approach. Greater freedom to change if necessary.

Context: Will be shown by using the factors identified in the case.

Analysis: Will be shown by examining the two options.

Evaluation: Either through a justified recommendation or justifying key factors.

Knowledge and Application	Analysis and Evaluation
Level 2: Shows understanding of issues involved in the choice in context of the business (3-4 marks)	Level 2: A justified recommendation, or some other demonstration of evaluative skills (3-4 marks)
Level 1: Shows understanding of issues involved in the choice (1-2 marks)	Level 1: Analysis of the options (1-2 marks)

- (d) Analyse reasons why the employees might join The Farmworkers Union (TFU). [6]

Advantages to workers:

Able to negotiate on pay, conditions. Stronger voice on health and safety. May be very useful voice in presenting workers' views on **proposed changes** (redundancies, lower wages, productivity).

Knowledge and Application	Analysis and Evaluation
Level 2: Shows understanding of issues involved in trades unions in context of the business (3-4 marks)	(3-4 marks)
Level 1: Shows understanding of issues involved in the trades unions (1-2 marks)	Level 1: Analysis of the relevance of trades unions in context (1-2 marks)

Assessment Grid

Question	Knowledge	Application	Analysis	Evaluation	Total
2 (a) (i)	1	2			3
(ii)	1	2			3
(b)	2	2			4
(c) (i)	1	1	2		4
(ii)	2	2	2	4	10
(d)	1	2	1	2	6
Total	8	11	5	6	30
1 (a) (i)	1	2			3
(ii)	1	2			3
(b)	2	2	2		6
(c)	2	2	2	2	8
(d) (i)	1	1			2
(ii)	2	2	2	2	8
Total	9	11	6	4	30
Paper total	17	22	11	10	60
	18 +/-4	18 +/-4	12 +/-4	12 +/-4	