

Location Entry Codes

As part of CIE's continual commitment to maintaining best practice in assessment, CIE uses different variants of some question papers for our most popular assessments with large and widespread candidature. The question papers are closely related and the relationships between them have been thoroughly established using our assessment expertise. All versions of the paper give assessment of equal standard.

The content assessed by the examination papers and the type of questions is unchanged.

This change means that for this component there are now two variant Question Papers, Mark Schemes and Principal Examiner's Reports where previously there was only one. For any individual country, it is intended that only one variant is used. This document contains both variants which will give all Centres access to even more past examination material than is usually the case.

The diagram shows the relationship between the Question Papers, Mark Schemes and Principal Examiners' Reports that are available.

| Question Paper | Mark Scheme | Principal Examiner's Report |
|-------------------------------|----------------------------|--|
| Introduction | Introduction | Introduction |
| First variant Question Paper | First variant Mark Scheme | First variant Principal Examiner's Report |
| Second variant Question Paper | Second variant Mark Scheme | Second variant Principal Examiner's Report |

Who can I contact for further information on these changes?

Please direct any questions about this to CIE's Customer Services team at:

international@cie.org.uk

The titles for the variant items should correspond with the table above, so that at the top of the first page of the relevant part of the document and on the header, it has the words:

- First variant Question Paper / Mark Scheme / Principal Examiner's Report

or

- Second variant Question Paper / Mark Scheme / Principal Examiner's Report

as appropriate.



UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Advanced Subsidiary Level and Advanced Level

BUSINESS STUDIES

9707/21

Paper 2 Data Response

May/June 2009

1 hour 30 minutes

Additional Materials: Answer Booklet/Paper

READ THESE INSTRUCTIONS FIRST

If you have been given an Answer Booklet, follow the instructions on the front cover of the Booklet.

Write your Centre number, candidate number and name on all the work you hand in.

Write in dark blue or black pen.

Do not use staples, paper clips, highlighters, glue or correction fluid.

Answer **all** questions.

The businesses described in this question paper are entirely fictitious.

At the end of the examination, fasten all your work securely together.

The number of marks is given in brackets [] at the end of each question or part question.



This document consists of **3** printed pages and **1** blank page.



1 Jane's Book

Jane lost a leg in a land mine accident. With great determination she is becoming a leading athlete with the help of an artificial leg. She has written a book about her experiences. Her business objective is to make a profit, but she also aims to inspire other people.

All of the major publishers have rejected the book so she has decided to publish it herself, using the services of a local printing firm. 5

The printing firm has provided the following estimates:

Fixed costs for each print run: \$7 000

Print cost: \$10 per book.

Some market research suggests the book could be priced at \$20. 10

Jane comes from a poor family with little savings. She estimates that she will need an extra \$10 000 to finance the whole project to cover set up costs. Many athletes eventually earn high incomes through race fees, sponsorship, endorsements and support from the Government, but Jane has not yet achieved any of these.

Jane is planning how she will market the book. A friend has advised her that the main emphasis should be on promotion. 15

(a) Explain the following terms:

(i) business objective (line 3) [3]

(ii) market research (line 10). [3]

(b) (i) Calculate the number of books that Jane needs to sell to break even. [2]

(ii) What would be the profit if Jane were to sell 10 000 books? [2]

(iii) Explain the usefulness to Jane of your answers to (b)(i) and (b)(ii). [4]

(c) Briefly analyse possible sources of finance that Jane might use. [6]

(d) Discuss methods that Jane could use to promote her book. [10]

2 Cheapo Air

Cheapo Air (CA) is a low cost airline operating only on popular routes. These routes are facing more and more competition from rival airlines. CA's profit margin is falling.

CA is able to offer cheap flights by employing only the minimum number of staff. Customers get a flight and little more.

In order to restore profit margins, the Board of CA are considering changing from the low cost market to the market for business customers. CA would need to change the interiors of all their aircraft which would involve large capital expenditure. The change would mean a 33% reduction in the number of seats available on each flight. Business customers expect greater comfort and better service. This includes attentive cabin crew, meals and other refreshments, access to business services as well as more comfort and space. The business market is less competitive than the low cost market. The business market is relatively price inelastic.

CA have estimated the following financial information for the most popular route:

Table 1: Comparison Data

| | Low Cost | Business | 15 |
|-----------------------------|----------|--------------------|----|
| Available seats | 300 | 200 | |
| Operating cost per seat | \$100 | \$150 | |
| Price per seat | \$150 | \$ not yet decided | |
| Operating profit per flight | \$15 000 | \$ not yet decided | |

CA's main competitor is charging \$180 per seat for business customers but the service and comfort are not as good as what CA are planning.

(a) Explain the following terms:

(i) profit margin (line 2) [3]

(ii) price inelastic (line 12). [3]

(b) (i) Calculate the price that CA would have to charge business customers to achieve the same operating profit per flight as for low cost flights. [3]

(ii) Briefly comment on your answer to (b)(i). [3]

(c) Analyse the factors that CA would need to consider in setting a price for their business customers. [8]

(d) Discuss the human resource management (HRM) issues that would arise if CA did switch from low cost flights to business flights. [10]

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1 Bob's Band

Bob and his friends at college have formed a music band called FB. The band have performed at college events. The band now want to follow a career in music. At the moment their unusual style of music has a small number of fans but is growing in popularity.

The band are planning to hire the college hall for their first public concert. The college has agreed and will charge \$750 to be paid in advance before the concert. There will be additional costs of \$250 for new equipment and printing tickets. These costs are to be paid after the concert. Bob estimates that there will be further additional costs of \$1 per ticket sold on the night of the concert. 5

The band hope that 200 people will attend. They have set the target of 150 people to break even, giving them a large margin of safety. 10

Bob expects to sell 100 tickets in advance to friends and other college students. The remaining tickets will be targeted at people at other colleges as well as young people who have recently started work. These remaining tickets are likely to be sold on the night of the concert.

Bob's college is in a large city that has many opportunities for young people in the target market to get entertainment including clubs, radio stations and local Internet sites. 15

(a) Explain the terms:

- (i) margin of safety (line 10) [3]
- (ii) target market (lines 15–16). [3]

(b) (i) Calculate the price that FB should charge in order to break even at 150 ticket sales. [4]

(ii) Explain the usefulness to FB of using break even analysis. [4]

(c) Briefly analyse why FB may have difficulty getting finance for the concert. [6]

(d) Discuss the factors that FB need to consider in promoting the concert. [10]

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