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

BUSINESS STUDIES **9707/02**

Paper 2 Data Response **October/November 2007**

1 hour 30 minutes

Additional Materials: Answer Booklet/Paper

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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.

UNIVERSITY *of* CAMBRIDGE International Examinations

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1 **Zeta Oil**

Extract from The National News

The Government is planning to introduce a tax on the excess profits of oil companies. Some of the largest oil producing companies have made record profits, about 80% higher than 5 years ago. The Government plans to spend the extra tax revenue to research and develop more environmentally friendly sources of energy. There have been rapid rises in oil prices over recent years. Consumers are angry at having to pay much higher fuel prices. Manufacturing industry is warning that higher costs could lead to inflation, higher interest rates and recession.

Extract from a report in The Business News

Zeta Oil (ZO) needs to finance a big expansion to develop a new oilfield, now that its largest oilfield is reaching the end of its life. ZO, a public limited company, has announced that it is to raise \$200 million from the Stock Exchange. ZO also expects to borrow \$300 million from banks for the project. Zeta expects a 20% average rate of return (ARR) on this project.

Extract from Zeta Oil's Annual Report & Accounts 2006

The Chairman reports 50% higher profits compared to the previous 12 months. Working capital problems have been overcome by getting debtors to pay sooner, delaying payments to suppliers and solving stock problems. The Chairman warns that profits will not be so high in the next few years because of the massive investments needed to develop oilfields. The Board has also received a demand for a 10% pay increase from the work force, so that labour costs may have to be cut by raising productivity, the Chairman said.

(a) Explain the following terms:

(i) Stock Exchange (line 11) [3]

(ii) average rate of return (lines 12–13). [3]

(b) Explain the arguments that the workforce of ZO might use to justify their demand for a 10% increase in wages. [6]

(c) Analyse the main uses of ZO's accounts for stakeholders other than ZO's workers. [8]

(d) Discuss how the Government might affect the activities of ZO. [10]

2 **Excellent Training**

Excellent Training (ET) is a partnership owned by Andy and Pat. ET provides a variety of training for local businesses. ET designs courses to meet the individual needs of each customer.

The Government has recently announced new policies for training including new grants available for organisations that train their workforce.

Andy and Pat are keen to use this opportunity to expand their business, and they have identified schools and colleges as their new target market. They see a need for management and computer skills training for teachers and support staff. Schools spend relatively small amounts on training their staff.

To provide this additional training, ET will need to employ an extra 5 trainers. Andy is worried about being able to recruit extra trainers because of the following factors:

- unemployment is low
- there is a shortage of good trainers
- pay for trainers is increasing
- larger training organisations are actively recruiting.

Table 1: The Proposed New Courses

Fixed costs per course	\$300
Variable costs per person attending	\$20
Price per person	\$50
Expected attendance	20 people per course

(a) Explain the terms:

(i) partnership (line 1) [3]

(ii) variable costs (Table 1). [3]

(b) **(i)** Using Table 1, calculate how many people ET need on each course to break even. [3]

(ii) Calculate the profit if 20 people attend a course. [3]

(iii) Briefly comment on the usefulness to the management of ET of the results in **(b)(i)** and **(ii)**. [2]

(c) Discuss the factors that ET will need to consider when marketing their courses to schools and colleges. [10]

(d) Identify and briefly analyse how ET might recruit suitable trainers. [6]

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