

Script F with marks – paper 1

**IGCSE Business Studies
0450/01**

June 2002



UNIVERSITY *of* CAMBRIDGE
Local Examinations Syndicate

Centre Number	Candidate Number

Candidate Name ____

**International General Certificate of Secondary Education
CAMBRIDGE INTERNATIONAL EXAMINATIONS**

0450/1
MAY/JUNE SESSION 2002

BUSINESS STUDIES
PAPER 1

1 hour 45 minutes

Candidates answer on the question paper.
No additional materials are required.

TIME 1 hour 45 minutes

INSTRUCTIONS TO CANDIDATES

Write your name, Centre number and candidate number in the spaces provided at the top of this page.

Answer **all** questions.

Write your answers in the spaces provided on the question paper.

INFORMATION FOR CANDIDATES

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

The businesses mentioned in the questions are entirely fictitious.

FOR EXAMINER'S USE	
1	15
2	10
3	16
4	10
5	9
TOTAL	60

This question paper consists of 12 printed pages.

1

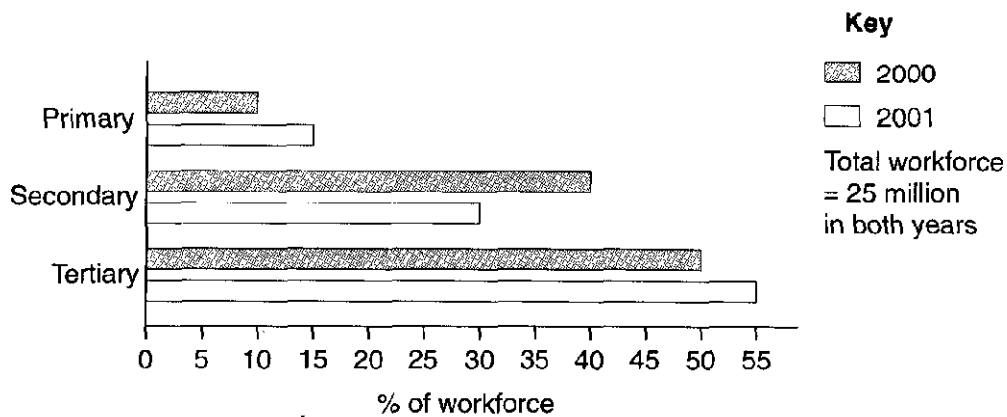


Fig. 1

13 15 00 00

(a) Using the data given in Fig. 1,

(i) state the % of the workforce employed in primary activities in 2000,

10%

[1]

(ii) calculate the number of people employed in tertiary activities in 2001.

$$\frac{55}{100} \times 25\,000\,000$$

$$= 13\,750\,000$$

[2]

(b) Explain why, in many countries, the percentage of the workforce employed in tertiary activities is increasing.

This is because many countries are developing, becoming more modernized, they therefore have replaced manual labour usually practiced in the primary and secondary sector with modern machines and therefore employ people in the tertiary sector.

[3]

(c) Two large drink manufacturing companies have just merged creating a monopoly.

(i) What is meant by a monopoly?

A monopoly is a large business that does not face stiff competition or any competition at all. They tend to have a large market share and clear out or take over potential competitors. [2]

2

(ii) Explain what advantages the companies would expect to gain from this merger.

The merger could bring about a wider range of customers. If both brands are well known then their customers will increase.

Their market share would increase. New ideas will be brought from both companies. They would take out competitors. [4]

3

(iii) Consumer groups objected to the creation of this monopoly. Why do you think they did this?

The creation of a monopoly would mean that other potential companies would have no chance competing therefore customers won't be exposed to a wider variety of products. In addition because of the lack of competition their efficiency may go down resulting in low quality goods/drinks. [4]

2

- (d) A market economy exists in many countries. Identify the main features of such a system.

In market economies the state or government does not do much but provide public facilities like hospitals, street lighting and roads. The private sector plays a major part using the market forces of demand and supply goods and services. In market economies private individuals run private firms dealing in different production of certain goods in order to make profit.

[4]

15

- 2 A balance sheet records the assets and liabilities of a business.

- (a) (i) Give an example of an asset usually found in a balance sheet.

Buildings

[1]

- (ii) Explain what is meant by a liability.

This is the capital a business makes which is either short-term or long-term. Short-term liabilities are capital, long-term are like debts, credits etc.

[2]

- (iii) Why do businesses often make use of trade credit?

They make use of trade credit in order to minimise their cost per unit of production or output. They make use of them when expanding. When firms are expanding externally they make use of trade credit in order to save money for expansion.

[3]

- (iv) Explain what is meant by shareholders' funds.

Shareholders funds is the money given to shareholders they are also known as dividends and are the payment or certain amount that they get to recover for the capital they invested in the business. [2]

0

- (b) 'Company Y made a profit of \$200 million in 2001. This is far too large,' said the Bombay Evening News.

- (i) What might a company do with the profits that it makes?

They could invest the money in the form of buildings or invest in the bank and let it make interest these are efficient methods to save money. They could ~~keep~~^{use} it as retained profit and use it for expansion at some later stage or at the moment. If the company intends to expand this money would be very useful as it may cater for the increased expenses of expansion. [4]

3

- (ii) \$200 million seems like a large profit. How might the Government judge if this profit was 'far too large'?

The government may assume that the business is exploiting their customers too much by setting high prices far much more than their cost per unit. They would assume they were exploiting their workers as well, paying them low wages to reduce their expenses or cost per unit in order to increase profit level. [4]

0

(c) When a company borrows money from a bank it sometimes has to give security for the loan.

(i) Explain what this means.

If in any case the firm borrows money and is unable to pay back the bank would be at a loss, but if they took some assets as security. In case they are not able to pay back the assets could repay the debt. [2]

(ii) Why might the bank require such security?

In case the firm cannot pay the borrowed amount the assets being used as security could be sold and make up for the debt or the borrowed money. [2]

3 (a) (i) Identify two pricing methods that a business could use.

Skimming price pricing is one they could use which is setting a high price for a product. The product is usually portrayed as of high value and good quality. Penetration pricing is setting very low prices for a product to generate demand for it. [2]

(ii) Explain the advantages to a business of each of your two chosen methods.

Skimming pricing could be an advantage as it would target the class intended and increase profits if the cost of producing the product is low. Penetration pricing would generate demand for the product as customers tend to demand more of a good at a lower price, therefore increasing the sales of the business. [4]

- (b) Let's Go Ltd have just launched a new bicycle aimed at the 5–10 year old market segment. Apart from price, explain other factors that the company should consider when deciding how to market this product.

....Promotion...they should create a certain image for the bicycle to entice or make the bicycle look appealing when promoting the bicycle. They should use the relevant media to portray and promote this image they should create for the bicycle.

They should pick a location where the targeted age are mostly found. The place where they are going to market the bicycle should be picked carefully in reference to the targeted age group.

The product itself, that is, the bicycle should be efficient in its use and of good quality. It should be long lasting, have spare parts and its maintenance should be inexpensive, this would appeal to their customers.

[6]

- (c) Let's Go Ltd have developed this bicycle in response to the results of market research.

- (i) Do you think that Let's Go Ltd is a market orientated business or a product orientated business? Justify your answer.

Let's go Ltd is a market orientated business as it tends to fulfill the market gap in the market sector. They do not m.

[2]

- (ii) If enough bikes could be sold, Let's Go Ltd could benefit from economies of scale. Using examples, explain what production economies of scale Let's Go Ltd could expect to achieve.

It could achieve technical economies of scale whereby they have machines and required equipment to produce the bicycles therefore reducing their average costs due to the lack of manual labour. They could achieve buying economies whereby they buy their raw materials in bulk therefore acquiring large discounts, reducing their costs per unit. They could also achieve managerial economies where they employ skilled specialized managers to run things efficiently and at low costs.

[6]

- 4 A car manufacturing business wants to recruit extra skilled engineers.

- (a) (i) In the spaces provided in the job advertisement, shown in Fig. 2, add **two** items of information that should be included in a good job advertisement.

Garrett Automobiles plc	
Skilled Engineers Wanted	
As a result of the continued expansion in our company we wish to recruit extra engineers to work on the installation of a new production line.	
• 40 hour week	
• Salary \$25000 per year	
• Good promotion prospects	
• Health care coverage available	✓
• Line of work	

Fig. 2

[2]

- (ii) Explain why you think that the information that you have added is important.

These engineers could be exposed to hazardous equipment and may get injured and therefore need to get healthcare coverage to ensure that the business takes responsibility for exposing their workers to such environments. The engineer would need to know what type or what specific job they would be carrying out, this is important to know whether the job would relate or correspond to his/her expertise. [4]

2

- (iii) Explain where you think the business should place such an advertisement.

In the local newspapers and magazines where people are likely to see it. They could also put up notices and posters too where people are likely to see them. [2]

2

- (b) Some businesses want to reduce the number of employees. Explain the difference between dismissal and redundancy (retrenchment).

Dismissal is when a worker is noticed that the company does not require their services any longer as a result of certain circumstances where as redundancy is when the company can do without you or has no need for you and therefore dismisses you without any warning or notices whatsoever. [4]

0

- (c) Trade unions often try to increase the wages of their members. What arguments might they use to justify such increases during their wage negotiations?

They could use the ^{company's} ~~company's~~ Trade profit and loss accounts to show that the company is making large profits and a percentage of it should be used to increase their pay. This argument would make the company look like it's exploiting their workers. They could argue that their level of output is high with the result of good quality products but their efforts are not being rewarded effectively.

[4]

- (d) 'If wages increase, profits must fall.' Do you agree with this statement? Justify your answer.

I agree with this statement to a certain extent as wages are an expense therefore increase cost per unit of goods produced, decreasing the amount of profits if the prices of the goods cannot be increased anymore as demand would fall. I also disagree to a certain extent as good quality products would generate demand increasing sales therefore the company is able to cover their average cost and also maintain profit levels.

[4]

- 5 (a) (i) What are the characteristics of a multinational (transnational) company?

A multinational company is a company that has branches in different countries. They usually employ ~~new~~ workers from the country in which the branch is set up on. They take back profits to the host country and usually have a wide range of customers as they are widely known e.g. BP petrol station, Coca Cola etc.

[3]

- (ii) Why do you think that the number of such companies is increasing?

Most companies tend to start small then want to expand therefore usually becoming multinationals as they want a wider range of customers therefore setting up branches in different countries. To increase profits, acquire a good image and reputation globally. In order to increase their market share, sales and profit. [3]

- (b) A construction company is planning to build a new business park (zone) on the edge of town Z. Identify and explain the social costs and benefits that need to be considered by the government planning authorities.

This would be very expensive for the company who could have used the money to build something else they would miss out on the best alternative future. The government could have used the space to build a public building for the benefit of the people like a hospital, therefore the opportunity cost for the new business park would be high.

The benefits would be that the local parking would be now used by the citizens or local people as the business park would cater for the business workers who would usually take up the space.

[8]

- (c) Often laws are introduced to protect consumers. Give three examples of how consumers might benefit from such laws.

These laws may benefit consumers as they would avoid firms from exploiting their customers by setting high prices for necessity goods that are necessary for day to day activities like bread, milk etc.

Consumers benefit as they would have a wide variety of products to choose from therefore not having to buy low quality products.

2

9

[6]