

CAMBRIDGE

INTERNATIONAL EXAMINATIONS

Script C with marks – paper 1

**IGCSE Business Studies
0450/01**

June 2002



UNIVERSITY *of* CAMBRIDGE
Local Examinations Syndicate

Centre Number Candidate
Number 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	16
2	18
3	10
4	15
5	16
TOTAL	75

This question paper consists of 12 printed pages.

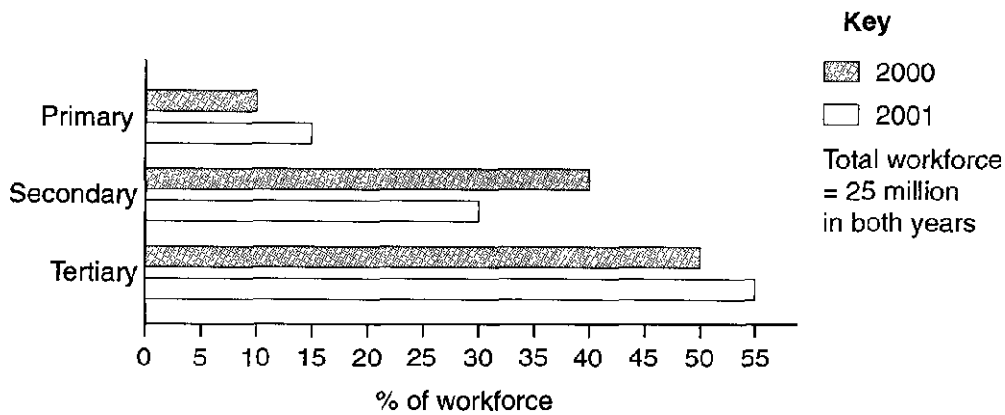


Fig. 1

(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.

The primary industry has become more mechanised and is mostly done by machines so there is less need for a big workforce. The demand for services has increased so more workers are needed in tertiary activities to meet this demand. [3]

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

(i) What is meant by a monopoly?

This is a business that has the whole ^{market} share and are in totally total control of ~~their~~ their line of market. There is also no competition. [2]

2

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

They would be able to have a bigger market share which would probably lead to an increase of sale.

They would be able to get economies of scale which would lead to increased profits because of lower unit costs.

3

[4]

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

Consumer groups are afraid that creation of the monopoly would exploit them e.g. high prices/would be set on drinks and they have no choice but to buy the drinks. Consumer groups are afraid the quality might drop since there is no-one to compete against them.

4

[4]

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

There is competition among businesses. Businesses are free to do what they want as long as they follow Government law. ^{Most} Businesses are privately owned and make a profit.

2

16

[4]

- 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 money the ~~more~~ business has to pay to creditors e.g. bank loans.

✓

[2]

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

Businesses use ^{trade} credit because the money doesn't have to be paid ~~then~~ ^{there and then} but you still get your goods. They also use trade credit because ~~they~~ ^{it} ~~are~~ ^{is} interest free.

[3]

1

2

3

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

This is money the business gets from the issuing of shares.

X

0

[2]

- (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?

The company could retain the profit and use it to expand the business which will get them a higher market share, lower unit costs, etc. The company would use the profits to give the profits to the shareholders as dividends which will encourage them to invest more.

4/

[4]

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

The government would look at the profits of other similar companies and compare them. They would look at the business's previous profits and compare them. The government would also look at the return of capital to see those profits are too high.

4/

[4]

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

- (i) Explain what this means.

..... This is an asset of some sort
that is given to bank ^{when borrowing a loan} just in case
the borrower is unable to pay back
the loan, they can sell it and retrieve
their money. [2]

- (ii) Why might the bank require such security?

..... They will require the
security just in case the borrower
is unable to pay back the loan. they
can retrieve ~~there~~ their money ^{sell of it} from [2]

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

..... Penetration and ~~psych~~ ^{skimming} psychological
pricing [2]

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

..... By using penetration pricing
the business will ^{get} ~~encourage~~ high
sales because prices are ^{low} ~~cheap~~
..... If they use skimming they
will establish their product as
being for the 'upper class' and also
prestigious plus they will make
~~signifacnt~~ large profits per sale [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.

They should consider where to sell the product. ~~They~~^{they} should look for a place where children that age go often e.g. toy shops. They should consider what form of promotion they're going to use to promote sales, they should advertise in children's magazines or advertise in between cartoons. They should consider what colour the bike will be or what features it will have so as to attract the attention of the children that age.

4

[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.

The company ~~have~~ are a market orientated business because they carried out market research ~~before~~ before developing their product.

[2]

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.

~~They~~ There cost per unit
would decrease because they
will be able to get quantity
discounts from suppliers. ✓

[6]

10

- 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.

<p style="text-align: center;">Garrett Automobiles plc</p> <p style="text-align: center;">Skilled Engineers Wanted</p> <p>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.</p> <ul style="list-style-type: none"> • 40 hour week • Salary \$25000 per year • Good promotion prospects • Great working environment ✓ • Company car ✓
--

Fig. 2

[2]

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

Including that a company
can will be able available/able make
the job look attractive and it will
motivate the persons to work hard
when they start. A good working/
environment needs to be there to
for the persons to be interested
because who would want to work in
a gloomy environment! [4]

3

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

They should advertise in the
newspapers because they are read
by people looking for jobs and they
relatively cheap to advertise in [2]

2

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

This is 'sacking' of an employee
for not following the business regulations
or for being inefficient ✓

This is the releasing of
employees from the business if
they are no longer needed cause of
mechanisation or because the economy
is in a slump [4]

4

- (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 would say motivation will be increased amongst workers leading to an increase in output which would probably help the company.

They would say that workers are not getting enough to buy what they want and that competitor business workers earn more.

[4]

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

partly
Yes, I agree with statements. When wages increase the total expenses will increase leading to decrease in profits.

But ~~this~~ ^{might} might not also be the case because workers ~~will~~ ^{might} be motivated and output might increase leading to increased profits.

[4]

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

They ~~have~~ ^{have} ~~more~~ ^{production lines} factories in different countries that ~~see~~ ^{produce} products that are similar. They have a ~~base~~ ^{home country} where the profits go back to. Example of a multi-national is Coke-Cola.

[3]

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

They don't have any importation tax or tariffs in the country there based. The size and profits of the business increase. The business becomes more prestigious.

[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.

The new business park will create jobs therefore reducing unemployment. New businesses will be opened so the government will get a higher income through tax. New businesses created will offer a wider range of goods and services. The new business will create competition in the market making goods and services better cheaper and of better quality. Social costs are as follows: there will be congestion in that area leading to air pollution which will disturb residents in that area. People might have to be displaced so that space can be attained for building the business park.

[8]

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

A law that ban certain ~~preservatives~~ ~~ingredients~~ from being added to food stuffs protect consumers from getting ~~bad~~ ailments or diseases. Setting high prices on harmful products like cigarettes discourages consumers from taking them. Laws that refuse monopolies shield consumers from not being exploited by ~~the~~ business.

[6]

3/
16