

MARK SCHEME for the May/June 2007 question paper

7100 COMMERCE

7100/02

Paper 2 (Written), maximum raw mark 80

This mark scheme is published as an aid to teachers and candidates, to indicate the requirements of the examination. It shows the basis on which Examiners were instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began.

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.

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

CIE is publishing the mark schemes for the May/June 2007 question papers for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level syllabuses and some Ordinary Level syllabuses.

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1 (a) primary/extractive. [1]

(b) $\frac{200}{1000} \times 100$ (1 mark) = 20%

If the correct answer is given without working, award full marks. [2]

(c) (i) Any three points including example x 1 mark each –

example – warehousing, transport, banking, communication, advertising insurance, trade the third stage of production which assists industry to function by providing commercial services covers direct/indirect services

Any other relevant point. [3]

(ii) Any three points including example x 1 mark each –

example – nursing, teaching, police, hairdresser services provided directly to the consumer without anyone else involved usually personal services satisfying immaterial wants change physical condition/attitude

Any other relevant point. [3]

(d) Level 3 (5–6 marks)

Has discussed two trends shown in the table making some attempt at showing why they have occurred. May/may not have used numerate techniques.

e.g. Manufacturing has increased in output over the two year period especially between 2005 and 2006 – by \$50m. This may be because of new developments – technology or because more raw materials have become available. There has been a marked increase in direct services, 33% increase between 2004 and 2005 and 30% between 2005 and 2006. This shows that there is an increasing demand for services from the population who may be becoming more affluent.

Level 2 (3–4 marks)

Has described two trends shown in the table or discussed only one trend.

e.g. Manufacturing has increased between 2004 and 2005 and again between 2005 and 2006. The value of tertiary activities remained the same between 2004 and 2005 but increased by \$70m between 2005 and 2006.

Level 1 (1–2 marks)

Has made a superficial comment on the figures.

e.g. Manufacturing has increased. Construction has remained the same between 2004 and 2005. [6]

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- (e) Any five points x 1 mark each and up to 3 marks for a well developed point to justify the opinion –

Manufacturing is concerned with producing goods from raw materials, tertiary activities are concerned with the distribution of finished goods from the factory to the final consumer.

Unless there were tertiary activities finished goods would not be sold because there would not be any advertising, no finance to build factories, no storage facility, no transport to the retailer/wholesaler and no communication between buyer and seller.

Manufacturing would not be able to take place as goods would be stockpiled and so it is dependent on tertiary activities to get the goods to the right person at the right time.

As manufacturing becomes more specialised, the manufacturer will become more dependent on others to provide tertiary services.

The manufacturer may set up some of the tertiary activities himself – advertise, have warehouses, have his own transport he may also have his own retail outlet, e.g. factory shop but usually he sells to wholesaler or retailer.

Tertiary activities are also concerned with trading in services, advertising and communicating these services and so is not entirely inter-related with manufacturing.

The manufacturer will need to insure the factory/its contents against risk, e.g. public liability, employer's liability.

Any other relevant point.

NB concentration on land to trade, e.g. warehousing = 3 max.

[5]

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2 (a) Any three points x 1 mark each –

they do not meet their customers face to face
and so have to be able to show what they are selling
the catalogue is a form of advertising for them
the catalogue gives details of their stock (2 max for examples of details)
and may contain an order form
no showroom

Any other relevant point. [3]

(b) (i) Any four points x 1 mark each or two points x 2 marks each –

can obtain goods immediately but postpone payment
do not have to send cash/cheques through the post
credit card company offers some protection against faulty goods
may be easier to obtain refunds if they return goods
can give credit card details at the time of ordering
credit card company provides insurance

Any other relevant point. [4]

(ii) Any two disadvantages x 1 mark each –

have to pay commission to the credit card company
delays in receiving payment for goods
bad debts because of credit card fraud
extra clerical work
have to have bank account

Any other relevant point. [2]

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(c) Level 3 (5–6 marks)

Has discussed the issue, made a recommendation with reasons and has mentioned problems that might arise in setting up on the Internet.

e.g. Frank and Polly should use the Internet because it will widen their markets. Many people now shop on-line so they would obtain more customers and more sales. They would be able to sell overseas.

By offering an Internet service, they would be matching their competitors and offering a more complete service. They may also decide to stop the mail order business saving the costs of catalogues.

Their products are suited to Internet selling and are easily described on a website. They may, however, encounter problems with setting up on the Internet – they may not have the skills to set up a website, may have to employ specialists so adding to their costs. They may also not be very expert initially at operating an Internet business and so may lose customers through poor service.

Allow answers which reject Internet for Level 3.

Level 2 (3–4 marks)

Has commented on the issue with/without a reasoned recommendation and may/may not have commented on problems that might arise.

e.g. Frank and Polly should sell their products on the Internet because it will mean more customers. They should be able to make more sales and keep up with their competitors. They may have some problems with setting up a website such as costs and lack of knowledge.

Level 1 (1–2 marks)

Has made an unsubstantiated recommendation or has made some comment.

e.g. Frank and Polly should set up on the Internet. They should have more customers and make more sales. [6]

(d) Any five points x 1 mark each and up to three marks for a well developed point.

To store CDs = 1 max.

If they are going to expand they will probably have to move away from home and find premises elsewhere.

The premises will probably have storage but will also have to include offices.

Their products are quite small so a large warehouse would not be required.

They will have to perform other functions in the warehouse e.g. packing and preparing for despatch especially if sending overseas.

They will also have to have somewhere where they can take deliveries.

They are likely to require storage rather than a large warehouse – premises which can be used for a variety of purposes.

Protection against theft/damage

Any other relevant point. [5]

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3 (a) Any three points x 1 mark each –

enables Fatima to deposit money	to withdraw money
to pay bills	use cheques/so/ct/dd (any one)
to have overdraft facility	bank statements
may earn interest on credit balance	credit referencing

Any other relevant point. [3]

(b) **Level 2 (3–5 marks)**

Has shown that Fatima can have 24-hour banking by explaining at least two ways in which this can be done.

e.g. Fatima is able to have 24 hour banking by using the Internet which will enable her to have access to her account details at any time, to obtain the current balance and to transfer funds/pay bills. She could also use telephone banking which offers similar services. If she wished to obtain cash she could use an ATM which she might find outside shops, garages or in special cubicles at banks. Machines at the banks also enable her to pay in money, to obtain statements and to order cheque books.

NB If a candidate has explained one way award 4 marks max.

If a candidate has explained why she cannot obtain 24 hour banking – no access, these services not available in a particular country mark within Level 2.

Level 1 (1–2 marks)

Has listed ways in which Fatima can obtain 24 hour banking or has said that she cannot obtain 24 hour banking – no access to Internet, ATMs.

NB night safe = 0 marks. [5]

(c) one mark for service and two marks for reasons –

(i) direct debit – no need to complete documents each time payment changes, particularly suitable for making variable payments, creditor asks for payment so the creditor finds this service suitable as it minimises bad debts, computerised service so saves clerical work.

allow also cheque and credit transfer. [3]

(ii) cheque – suitable for variable amounts, cheque can be posted, guaranteed with cheque card. [3]

(iii) bank draft – cheque drawn on the bank after Fatima has paid the amount to the bank, bank has a better reputation than a single client so payment is guaranteed.

Any other relevant point, including negative points and other methods. [3]

(d) $(\$2000 + \$50 = \$2050)$ (1 mark) – $(\$1800 + \$500 = \$2300)$ (1 mark)
= \$250 credit (1 mark)

Or $\$2000 - \$1800 = \$200$ OD (1 mark) + $\$50 = \250 OD (1 mark)
+ $\$500 = \250 credit (1 mark)

OFR applies if the correct answer is given without working award full marks.

If the candidate gives the final answer as \$250 OD apply OFR. [3]

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4 (a) Any four points x 1 mark each – or 2 x 2 marks.

Informative (0 mark) – because it gives the name of the garage, contact details, what services it provides, the warranty on the cars, cars for sale.

Candidates may also suggest it is persuasive (0 mark) – because it shows that there is 10% discount on cars for sale and that stock is changing daily – to attract customers, friendly local service, warranty.

NB candidates may argue that the advertisement is both – please allow.
Any other relevant point.

[4]

(b) (i) Any two points x 1 mark or 1 developed point, such as –

so that the customer can speak to a particular person
so that the customer can hold a discussion
to obtain instant feedback/make a decision
customer may not have email
takes too long to receive reply

Any other relevant point.

[2]

(ii) Any two points x 1 mark or 1 developed point, such as –

in case of emergency
so can be contacted wherever the person is working
to receive messages while working
to be able to conduct business while away from the garage
other phone might be busy

Any other relevant point.

[2]

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- (c) (i) 10% of \$40 000 = \$4000 (1 mark)
\$40 000 – \$4000 = \$36 000 (1 mark)
OFR applies
If the correct answer is given without working, award full marks. [2]

(ii) Level 3 (5–6 marks)

Has discussed cash discount giving advantages and disadvantages and a reasoned opinion.

e.g. Handymotors Ltd gives discount for prompt payment to encourage people to buy cars from the garage. It may give a competitive edge. It also ensures that people pay quickly rather than using credit facilities. Handymotors Ltd can then use the money to buy more cars or pay other bills. On the other hand Handymotors Ltd loses 10% of the purchase price on each car. This could be offset by putting a higher purchase price on the car but if this is done, the customers will notice and go elsewhere. On balance it is probably better to offer the discount as it may improve sales and increase the rate of turnover. It is a way of promoting the business.

Level 2 (3–4 marks)

Has discussed either the advantages or the disadvantages and given an opinion with little or no reasoning, or has listed some advantages and disadvantages.

e.g. Handymotors Ltd gives discount for prompt payment to encourage more sales and promote its business. It gets the money more quickly. It can then pay its bills. I would recommend that Handymotors Ltd continue to offer discount for the above reasons.

Level 1 (1–2 marks)

Has commented on giving discount for prompt payment with or without an opinion.

Giving discount for prompt payment is a good idea because it gives more sales but you lose money offering it. [6]

(iii) Any four points x 1 mark each or 2 well developed points –

It depends how long Mr Sharif has had the car before it developed the fault and whether or not the fault was his fault.

Take the car back to the garage and the documentation (warranty).

Ask for the warranty to be applied if within the 12 months.

So probably no payment for the repair.

If outside the 12 month period, Mr Sharif will probably have to pay.

Any appropriate Act of Parliament – 1 mark max.

Go to other consumer protection agencies.

Any other relevant point. [4]

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5 (a) Any four points x 1 mark each or 2 well developed points –

trade is buying and selling with a view to profit
Riaz Storage Ltd buys from manufacturers and so is involved in trade
it also sells to retailers and so trades and aims to make a profit
if Riaz Storage Ltd did not supply retailers, they would buy from elsewhere
Riaz Storage Ltd also uses aids to trade – storage, transport

Any other relevant point. [4]

(b) Any four points x 1 mark each or 2 well developed points –

fruit is produced only at certain times of the year
stores fruit (0 marks) so that there is a constant supply throughout the year
keeps the fruit in good condition so that it is saleable
evens out price fluctuations
may keep a variety of fruit which is produced at different seasons
prevents glut on market
saved producers providing storage

Any other relevant point. [4]

(c) The three most likely documents are order, delivery note, invoice and statement of account –
1 mark each (3 are asked for)

consignment note would not be used as uses own transport
quotation could be awarded marks if well justified.

Award one mark for each reason for each document (3 are asked for)

Order – to request the goods and give details of what is required

Delivery note – to accompany goods, giving details of goods delivered
to obtain a signature on delivery

Invoice – gives details of the goods, acts as the bill for one transaction
gives the terms

Statement of Account – gives details of monthly transactions with the retailer, shows how
much he owes at the end of the month, enables the checking of
records

Any other relevant point. [6]

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(d) Level 3 (5–6 marks)

Has discussed the advantages and disadvantages of each option and has made a reasoned recommendation.

e.g. The company could use agents who would work on commission. This may save the costs of setting up distribution centres and be quicker to put into operation in individual countries. They would also speak the language of the country and have more knowledge of customs, laws and practices in the countries in which they operate. On the other hand agents would work in their own way and will have other clients so the company may not get the best service.

If the company sets up distribution centres there may be high initial costs but the operation can be purpose built and expanded as the need arises.

The company may have to send employees overseas or employ local people and may also find the finance hard to obtain.

If the company is looking to a long-term plan I would recommend setting up distribution centres but in the short term, agents may be used to see if the business is successful in individual countries.

Level 2 (3–4 marks)

Has considered the advantages/disadvantages of both options **or** the advantages/disadvantages of one option with a recommendation.

e.g. Parts of the answer given in Level 3.

Level 1 (1–2 marks)

Has commented on having agents/distribution centres with/without a recommendation.

e.g. Agents work on behalf of the company, a distribution centre would run by the company. I recommend setting up distribution centres. [6]

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6 (a) Any three risks described x 2 marks each –

public liability – to guard against claims made by the public visiting the factory
 employer’s liability – to guard against claims made by employees because of the employer’s negligence
 product liability – to guard against claims made because of faulty products
 fire – to protect Mrs Zahir in case the factory burns down
 theft – to meet claims as the result of a burglary
 consequential loss – to cover loss of profit because of a fire
 fidelity bond – to cover losses because of fraud by employees
 motor – to cover damage, accidents to the business’ vehicles
 flood/bad debts/accident/life/earthquake

Any other relevant risk. [6]

(b) Any three points x 1 mark each and up to three marks for a well developed point –

The insurance company receives the insurance premiums of many people, this goes into a central pool from which claims are made.
 There are likely to be more people paying premiums than people making claims.
 Mrs Zahir owns a small factory and so her resources are likely to be small. She may have invested heavily and borrowed to finance her business and would have no money to fall back on to rebuild her business.

Any other relevant point. [3]

(c) Any three points x 1 mark each –

a risk that is not insurable (0 marks) because the risk cannot be assessed
 there are no past records
 on which to calculate the premiums
 example, e.g. bad management

Any other relevant point. [3]

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(d) Level 3 (6–8 marks)

Has discussed all three statements showing whether or not they are true and mentioned insurance principles that apply.

An insurance agreement, according to the principle of indemnity, provides financial compensation but does not allow anyone to make a profit from a loss. If you have over-insured, you will be paid only to the level of the loss and no more.

According to the principle of contribution, you are not allowed to insure the same risk with more than one insurance company in the hope of making a profit. You could insure with more than one company but if you made a claim, the insurance companies will share the claim between them. You cannot receive double compensation.

This statement is true but also untrue. You can insure most things e.g. a ship or the fingers of your hand. You cannot insure items that are of little monetary value because it would not be worth it. You must have an insurable interest in anything you insure i.e. you must suffer a financial loss.

Accept comment on insurable/non-insurable risks.

Level 2 (3–5 marks)

Has discussed one of the statements in detail with superficial comment on the other two or has discussed two of the statements correctly or has made superficial comment on all the statements.

e.g. See some of the paragraphs in Level 3 +:

Statement one is true because insurance is a contract of indemnity.

Statement two is not true because of contribution.

Statement three is true but you must have insurable interest in what you insure.

Level 1 (1-2 marks)

Has commented on some of these statements in relation to insurance

e.g. Insurance provides compensation but you cannot make a profit e.g. by Insuring with more than one insurance company. It allows you to insure most things in case of loss. [8]

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7 (a) One mark each –

- A sole trader/sole proprietor
- C public limited company [2]

(b) One mark each –

- B partners/Ming and Mohammed
- C shareholders/privately owned by family [2]

(c) (i) Any two points x 1 mark each or 1 developed point –

from profits/from bank loans/from loans from friends and relatives/
from personal savings/from redundancy payments/from trade credit [2]

(ii) Any two points x 1 mark each or 1 developed point –

from shareholders/from bank loans/from debentures/from retained
profits/from trade credit [2]

If a candidate in (i) and (ii) explains one method of finance, award full marks – e.g. bank loan – formal borrowing from bank with fixed interest.

(d) Any three points explained x 2 marks each or two points x 3 marks each –

size of plot/building – is it suitable for expansion
number of potential customers in the area – so that they can make sales
communication and transport facilities in the area – so that the business is accessible
cost of rent/rates/taxes – so that they can afford it
employees – if they employ people they may not want to move
cost of making the premises suitable for an estate agents – may add too much to their costs
competition in area

Any other relevant point. [6]

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(e) Level 3 (6 marks)

Has discussed the benefits and the disadvantages of a multinational company such as Cosmos Ltd locating in several countries and has shown whether or not the benefits outweigh the disadvantages.

Cosmos Ltd may bring several benefits to the host country. It may provide employment for many people, it may bring prosperity, increases in income and economic growth to the country. It may contribute to the infrastructure of the country e.g. building roads. It may provide business for small firms who supply it so adding to the wealth of the country. It may offer training to its employees so adding to the skills base of the country. It is likely to be more technologically advanced than many companies in the country and there may be transfer of these skills. By providing a wide market for its televisions it is promoting the countries where it is based and adding to their prosperity.

On the other hand, there are drawbacks. Cosmos Ltd is a large company and may not always follow the laws and regulations of the country. It may be so powerful that it is difficult to control. Its operations may add to pollution in the host country e.g. disposal of waste products. It may also decide to leave the country after a period of time so creating unemployment. It is likely to move its profits out of the country so not always contributing to the well-being of the country.

On balance, the benefits probably do outweigh the drawbacks. There are many multinational companies in the world and if a country does not have multi-national companies based there, it is not participating in parts of the global economy and its economy may be depressed. The benefits the country derives from employment and increased money circulating in the economy should outweigh problems caused by the strength of the multinational company.

Level 2 (3–5 marks)

Has discussed the benefits and/or disadvantages of a multinational company locating in several countries

e.g. Less detailed version of paragraphs 1 and 2 in Level 3.

Level 1 (1–2 marks)

Has listed the benefits or disadvantages of a multinational company locating in several countries.

It provides employment and technical knowledge. It may add to pollution and be difficult to control. [6]

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8 (a) (i) Any three points x 1 mark each –

specialists in exporting of goods/arrange the transport of goods/
 arrange insurance/storage/documentation/customs clearance
 earns commission

Any other relevant point. [3]

(ii) Any three points x 1 mark each –

A port or part of a port where there no customs duties
 are charged/on goods coming into or leaving the port
 e.g. Singapore, Rotterdam
 have to pay port dues
 used in entrepot trade

Any other relevant point. [3]

(b) (i) Any two points x 1 mark each –

A group of countries which have made a trade agreement to trade with each other
 without imposing customs duties and with an outside common customs tariff may also
 make agreements on other issues (e.g. movement of labour, e.g. ASEAN, European
 Union, SADC)

Any other relevant point. [2]

(ii) Any four points x 1 mark each or two points explained x 2 marks –

More opportunities for trade with neighbouring countries so wider markets
 Easier movement of goods across borders because of relaxation of customs regulations
 Greater opportunities for individual companies to do business so more tax income from
 company profits for the country
 Part of a larger organisation so the country has more power politically
 Helps towards more friendly relations with neighbouring countries
 Common currency

Any other relevant point. [4]

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(c) Level 3 (6–8 marks)

Has discussed the merits of using both road and air transport and has given a reasoned recommendation mentioning any additional information that would be required.

e.g. The shipping and forwarding agent could use road transport as it is a reasonably short distance to the company. The forwarding agent may own transport and so could deliver the consignment when convenient. The agent might also use air transport if the goods are needed urgently or if the goods are lightweight or valuable as air transport is suitable for these kinds of goods. Additional information that would be required would be details of the consignment, volume and weight of the consignment, how good the roads were and how close the forwarding agent was to an airport.

On balance it is likely that road transport would be used as it is likely to be cheaper and the driver has more direct control over the consignment.

Level 2 (3–5 marks)

Has discussed the advantages of using either road or air transport and may/may not have given some additional information to make a more informed recommendation.

OR has listed advantages or disadvantages with additional information.

e.g. The forwarding agent could use road transport as it is reasonably quick, the consignment can be taken direct to the company from the port and the distance is reasonably short. The agent will need to know the kind of goods and whether or not a lorry would be suitable.

Level 1 (1–2 marks)

Has listed some advantages and/or disadvantages of using road and/or air transport with/without a recommendation without additional information.

e.g. Road transport is quick and easy. The goods could be loaded at the port. The lorry could deliver the goods. The agent will need to know how many goods there are. [8]