

MARK SCHEME for the October/November 2008 question paper

7100/02	7100 COMMERCE Paper 2 (Written), maximum raw mark 80
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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.

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CIE is publishing the mark schemes for the October/November 2008 question papers for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level syllabuses and some Ordinary Level syllabuses.

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- 1 (a) (i) fishing/fisherman/fishing company/catching fish/fishing industry (Any one) [1]
- (ii) shop manager/wholesaler/delivery man/bank clerk/selling fish/banking/work in bank (Any one) [1]

- (b) Any three points x 1 mark each to show the difference –

Primary occupations extract natural resources and raw materials from nature
They may be exhaustive or non-exhaustive
Secondary occupations make finished goods from raw materials
By manufacturing/construction
Any primary example not rewarded in 1 (a)
NB Must comment on both kinds of occupation for full marks

Any other relevant point [3]

- (c) **Level 2 (3–4 marks)**

Has commented on one or both selling through the wholesaler and direct to shops with a reasoned recommendation in context.
(no reasoned recommendation = 3 max)

The fish processing factory might sell through the wholesaler because it saves the factory having to organise the sale of fish to various retailers.
If the factory sold direct to retailers it would save the costs of the wholesaler and possibly make more profit. Fish is perishable so it might be more suitable to sell directly to the retailers so the fish is on sale more quickly.
If, however, processing means canning, it will not matter if the fish goes through a wholesaler. The fish processing factory could sell to both as it would mean more opportunities for it to sell its products.

NB a candidate would not have to give all these arguments to gain full marks.

- Level 1 (1–2 marks)**

Has commented on one option OR has commented superficially on both options.

The fish processing factory should sell direct to shops because the fish will get to the retailer more quickly and the factory will make more profit. [4]

- (d) (i) Any three points x 1 mark each such as –

Yes (0 marks) because the shop is small and so will have a small budget.
It is likely to be selling to a local area and posters and leaflets can be circulated in that area.
They are cheap.
They can be colourful.
Leaflets can give detailed information.
Television and radio are likely to be too expensive for a small shop.
Argument for television = 2 marks max

Any other relevant point [3]

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(ii) Any two methods of sales promotion x 1 mark each –

Loss leaders
 Selling fish with another product
 Selling two fish for the price of one
 Special offers e.g. reduced prices at certain times
 Fish in special packaging
 Free gifts
 Free samples
 Discounts
 Sponsorship
 Competitions

Any other worthwhile promotion [2]

(e) Any three points well explained x 2 marks or six points x 1 mark –

Providing current account
 Providing payment services = 2 marks max
 Enabling the fishing company to withdraw money
 Payment of wages + credit transfer
 Providing advice
 Providing finance by means of loans and overdrafts
 Providing savings facilities + example
 Paying-in services
 Internet banking
 Night safe
 Insurance

Any other relevant point [6]

2 (a) Any two points x 1 mark each such as –

A group of different shops
 Either in a very large building/within a town or city centre
 Or in a large area on the outskirts of a town
 One stop shopping
 Covered area
 Different levels

Any other relevant point [2]

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- (b)** Any four points x 1 mark each which must mention both kinds of retailer and must show differences –

A hypermarket is a very large retail outlet selling a wide range of goods including food. It is usually located outside a town centre where land is cheaper, there is room for a large car park and there are good road links. May have additional facilities.

A supermarket is a large retail outlet selling mainly food and household goods.

It may be located in a shopping centre, in a town centre or on the outskirts of town.

It may/may not have a car park.

Allow some comment on floor size e.g. 5000 sqm v 200 sqm and checkouts but it does not have to be exact.

Any other relevant point [4]

- (c) (i)** Any two points x 1 mark each such as –

Wide range of goods/under one roof/extra services such as lifts, restaurant/luxurious surroundings/good customer service/delivery for large items/online shop

Any other relevant point [2]

- (ii)** Any two points x 1 mark each such as –

Branches found in many different towns/branches easily recognisable/can buy goods at one branch and return them at another

Variety of goods offered or one distinct kind

Any other relevant point [2]

- (d)** Any two points explained x 2 marks each such as –

Unit retailers may benefit by being in the shopping centre because people may be attracted to the shopping centre by the large-scale retailers and then use the unit retailers that are also there.

They will share the facilities of the shopping centre with the large-scale retailers e.g. escalators, restrooms.

Advertising may be done for them – by the owners of the shopping centre.

They may be more secure in the shopping centre – security gates, guards.

They may find it easier to receive supplies because special delivery areas will have been provided when the shopping centre was designed.

They may find it better to be in the CBD because they may then avoid competition from large-scale retailers.

Many people like shopping in town centres rather than going to shopping centres.

They may find some of their overheads less expensive e.g. rents.

They may find it easier to recruit staff because of ease of travel.

They may be able to vary their opening hours.

They may feel safer – dangers of vandalism in shopping centres.

Any other relevant point [4]

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(e) Level 3 (5–6 marks)

Has discussed e-commerce both as a threat and/or an opportunity to the shops in the shopping centre and has given a reasoned opinion.

E-commerce is buying and selling online using the Internet. It is growing in importance as people find it very convenient to buy in the comfort of their own homes and as the dangers of credit card fraud have been reduced. It is a threat to the shops who are reliant on shoppers actually coming to the shopping centre. Many people are too busy to have time for shopping and find it convenient to order everything, including food, online. Others prefer to see the actual goods they wish to buy and regard a visit to the shopping centre as something that is pleasurable. They also think that buying online is likely to be more expensive. Some of the shops in the shopping centre may also obtain sales by offering online services. Some supermarkets allow shoppers to order food and household goods online and offer a delivery service. This has greatly added to their turnover. Some of the shops in the shopping centre may decide to offer only online services and close their retail outlets. This would save them costs of expensive rentals and reduce the wage bill as they could operate from cheaper premises. It is likely that many of the shops will regard e-commerce as both a threat to their existing business and an opportunity for more trade.

Level 2 (3–4 marks)

Has commented on e-commerce as a threat and/or an opportunity and has given an opinion.

E-commerce may present an opportunity for many of the shops in the shopping centre. It may enable them to target different groups of consumers and so achieve greater sales. It may enable them to close their retail outlet in the shopping centre and so achieve large savings. It may enable them to expand their business.

Level 1 (1–2 marks)

Has given some comment on e-commerce with little or no context.

E-commerce is shopping on the Internet. It is becoming more important and will soon become a threat to shops in the shopping centre.

[6]

3 (a) Any four points x 1 mark each or two well explained points x 2 marks –

To obtain financial protection
 Against the risk of an accident
 Which might damage Miss Solomon and/or third parties
 To enable her to obtain compensation
 So that she can replace the car
 To avoid huge losses for a relatively small premium
 Legal requirement
 Example of motor insurance e.g. comprehensive

Any other relevant point

[4]

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(b) Any point well explained x 2 marks or 2 points x 1 mark such as –

So that she can see what cover each insurance company offers, what conditions are imposed and what premiums are charged.

So that she can compare what is offered and make a more informed choice/find the best cover.

As different insurance companies offer different cover for the same risk and often the cost of cover varies.

Different insurance companies may apply different conditions e.g. no claims bonus.

Get the cheapest/best deal.

Any other relevant point [2]

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

Because it is the application for insurance cover

She needs to give details of what she wishes to insure, act in utmost good faith, tell the truth

And any other relevant facts which may affect the insurance premium

The insurance company needs the proposal to assess the risk

To decide whether or not to accept the risk

And to fix the premium to be charged

Any other relevant point [4]

(d) Any two reasons explained x 2 marks such as –

She has been refused by another company.

She has not declared some relevant fact e.g. that she has recently been involved in an accident (utmost good faith).

She has had convictions for dangerous driving/drink driving and is considered a bad risk.

She is outside the age ranges of the insurance policies offered by the company e.g. too young, too old.

She may have a poor credit record and so may be unable to pay the premium.

Contribution – already insured with another company

No insurable interest – not her car

Health reasons

Not able to drive

May be very high risk e.g. racing driver, so cover not offered by general insurance companies – need for specialist insurance.

Any other relevant reason [4]

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(e) Level 3 (5–6 marks)

Has discussed the use of an insurance broker and using several insurance companies and has given a reasoned recommendation.

An insurance broker will offer independent advice to Miss Solomon on which insurance company to use. If Miss Solomon has difficulty in obtaining insurance, an insurance broker would be able to recommend an insurance company willing to insure her. The insurance broker would organise the proposal form and other documentation relating to obtaining insurance and would arrange for the payment of the premium. The insurance broker would also assist if Miss Solomon had to make a claim. Miss Solomon might prefer to contact several insurance companies herself but this takes time and effort and she might not obtain all the information she needs. Insurance companies offer a range of different policies and she might benefit from expert advice on which policy offers the best value for money. I advise to use an insurance broker who will be able to offer the best policy to suit her needs.

Level 2 (3–4 marks)

Has commented on using an insurance broker and insurance companies with or without a recommendation OR has discussed the use of an insurance broker or insurance companies.

An insurance broker is an expert in insurance and can offer Miss Solomon advice on the best policy for her needs. The insurance broker, who charges commission, will arrange the insurance and obtain all the necessary documents. The insurance broker should be able to offer her advice and information and deal with any claims. For these reasons I recommend that Miss Solomon uses an insurance broker.

Level 1 (1–2 marks)

Has made limited comments on insurance brokers or insurance companies with or without an opinion.

Insurance brokers offer advice to clients wanting insurance. They charge commission and can arrange insurance.

[6]

4 (a) Any two factors x 1 mark each such as –

car parking/good transport system/nearness to customers/nearness to suppliers [2]

(b) (i) Any two factors x 1 mark each such as –

nearness to raw materials/cheap labour supply/adequate power supply/availability of government grants/good transport system/nearness to suppliers [2]

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- (ii) Any two reasons for each one chosen x 1 mark or one well explained reason x 2 marks such as –

Raw materials – will need these for manufacturing, if they are near, it will save on transport costs.

Cheap labour – reduce expenses and so reduce the cost of the manufactured goods so lowering the prices charged.

Power supply – without power no machinery can be operated and so no manufacturing can take place, need for continuous production.

Government grants – help towards the set up costs and so reduce the costs of setting up to the company.

Transport – can obtain raw materials more easily/can move finished goods easily to markets either within the country or abroad.

Nearness to suppliers – saves transport costs, ensure deliveries, may be cheaper.

Any other relevant point [4]

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

They account for a large proportion of the world's production and so affect almost all consumers.

They provide employment for many people in many countries.

They help to improve the infrastructure/technology and skills in countries where they are located.

They provide goods and services to consumers in most parts of the world.

Because of organic growth/takeovers etc. they have achieved monopolies in many key industries e.g. oil industry, car manufacturing.

Spread of Internet use

Influence of consumers – prosperity, improved standard of living

Source of foreign exchange

Political power and influence on government

Payment of taxes

Any other relevant point [4]

- (d) (i) Any points x up to 3 marks such as –

A business based on the name, logo and trading methods of a successful company which is well established and uses licences.

Worthwhile example e.g. McDonalds, Kentucky Fried Chicken.

The parent company makes an agreement with the franchisee who has to obey restrictions on the area of operation, goods sold, trading methods.

Any other relevant point [3]

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(ii) Level 2 (3–5 marks)

Has discussed the advantages to the multinational company of operating franchises and may/may not have mentioned any disadvantages. Has given a reasoned opinion.

There are several advantages to the multinational company of operating franchises. It is an easy way to expand a business and to develop new outlets in different countries. It may prevent the heavy borrowing required to take advantage of market opportunities as the franchisees invest their money in the set up costs of a new outlet. It saves on costs e.g. managers of individual restaurants, as the franchisee provides the labour. The company benefits from sharing in the franchisee's profits from sales without having direct input into individual businesses. The company benefits from having local people with local knowledge operating its restaurants. These people have the financial incentive to work hard as their money is invested in the individual franchises.

On the other hand the multinational company may not have as much direct control of the restaurants as it would if it directly managed them. Some outlets may fail because of the lack of experience of the franchisee.

It is, however, a good way for the multinational company to operate its business. Many fast food businesses that are successful are operated in this way and it is an easier way of expanding the business than operating as a chain of fast food restaurants.

Level 1 (1–2 marks)

Has mentioned some advantages and disadvantages of operating a business as a franchise with little or no context.

The advantages of operating the business as a number of franchises are that money comes from those wanting to take on franchises. The company saves on costs such as labour.

Other answers – It is guaranteed a ready market for what it produces and it receives payments from the profits made by the franchisee.

[5]

- 5 (a) (i)** Any one commodity x 1 mark such as a bulk/cheap cargo or e.g. oil, sand, cement, timber, wood pulp, gravel, chemicals containers, cars, rubbish, furniture, meat, machinery [1]
- (ii)** Any one commodity x 1 mark such as valuable items, perishable items, animals, newspapers, fragile items, urgent items or named items such as gold, flowers, fine china, food aid, computers, mail, emergency items [1]

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- (b)** Any four reasons x 1 mark or two explained reasons including examples x 2 marks each such as –

They may be required urgently e.g. emergency aid because it is fast.

They may be perishable and need to reach markets quickly.

They may be lightweight and valuable and so can bear the cost of air freight.

They may be valuable and so need to be out of the owner's supervision for as little time as possible e.g. diamonds.

They may need careful handling e.g. scientific instruments.

They may be required in landlocked countries where air transport is one of the main means of supply e.g. Nepal, Zimbabwe.

Any other relevant point

[4]

- (c)** Any six points x 1 mark each and up to 3 marks for any well explained point –

Larger aircraft with more powerful engines which can fly longer distances and carry larger loads and go faster.

Larger airports with longer runways and facilities for handling large quantities of freight.

More airports – growth of municipal airports – so air transport can be used for more destinations.

Development of air freight companies, e.g. DHL, who have their own planes.

Growth of the container trade with goods carried in containers by air.

Better facilities at airports for the handling of freight e.g. warehouses, better road/rail links from the airport, better handling equipment with quicker turnaround times.

Refrigerated aircraft for carrying perishables.

Any other relevant point

[6]

- (d)** Any four points x 1 mark each (two of these marks may be awarded for general functions of warehouses) such as –

Explanation of cold storage warehouses (1 mark)

Storage, protection, display, breaking bulk, constant supply (2 max)

Enables goods to be preserved for a long time awaiting demand or awaiting transport

Enables markets to be extended for perishable goods such as flowers, fruit and vegetables

So that the export of these commodities has become a very important part of the trade of some countries e.g. New Zealand lamb, South American roses, Maldivian fish.

Any other relevant point

[4]

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(e) Any four points x 1 mark each or two well explained points x 2 marks such as –

Rail transport may not be available.
Road transport is likely to be quicker than rail transport over short distances.
It can go directly to the market or buyer and the goods do not have to be transhipped.
It can make deliveries to several places.
It can be flexible – be used at times when required rather than follow a timetable.
It can take a variety of loads in different forms of transport.
It can carry most goods.
It is likely to be more secure as goods are under the supervision of the driver.
Goods may be less prone to damage.
Less handling.
Importer may have own trucks.
Cheaper for short distances.

Any other relevant point [4]

6 (a) Any two points x 1 mark each or one well explained point x 2 marks –

Profits left in a business after all expenses, dividends, taxation have been paid.
They are an important source of long term internal finance for a business and can be used in the future.

Any other relevant point [2]

(b) **Level 3 (6–8 marks)**

Has discussed the advantages and disadvantages of both options and has made a reasoned recommendation.
(Has discussed the advantages and disadvantages with no recommendation = 6 max)

Using retained profits and an overdraft for part of the purchase would mean that the company was not over-committed. Retained profits do not have to be repaid and interest would be paid only on the overdrawn balance on the current account. On the other hand, if all the company's retained profit was used, it might mean that the company could get into financial difficulty if an unexpected financial problem arose before it could build up its reserves again.

The bank loan for a fixed sum at a fixed rate of interest would be a formal method of borrowing for a specific project. Repayments would be known and could be budgeted for. Repayments might be made from any profits that the computer system generated. The retained profits could be used for other purposes. The bank loan would, however, be secured on the assets of the company and if the company were unable to repay, these assets would be seized.

On balance I would recommend using retained profits and the overdraft. The retained profits are available and it is better to use them than to borrow more than is needed.

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Level 2 (3–5 marks)

Has discussed the advantages of both options with or without a recommendation OR has discussed the advantages and disadvantages of one option which is recommended OR has commented on the advantages and disadvantages of both options with or without a recommendation.

Using retained profits and the overdraft would mean that less borrowing and so less interest was paid. The overdraft could, however, have to be repaid at very short notice. The bank loan would provide a fixed sum and fixed interest. It does, however, mean a commitment to large interest payments for the next three years. I recommend using retained profits and the overdraft.

Level 1 (1–2 marks)

Has mentioned one or both options with or without a recommendation.

Using retained profits and an overdraft would be a good thing because the borrowing would not be too high. [8]

(c) Any four reasons x 1 mark each or two well explained points x 2 marks –

A computer system is likely to become out-of-date within a short period so leasing, i.e. renting, would be useful as the computer system would be replaced when necessary and the old system removed.

The leasing agreement might also include servicing and repairs.

The company would not have to make a large initial cash outlay to purchase.

Instead charges must be paid monthly.

The company would be able to use its retained profit for other purposes.

Any other relevant point [4]

(d) (i) $\$480\,000 \times 0.10 = \$48\,000$ (1) $\times 3 = \$144\,000$ (1)
 $\$480\,000 + \$144\,000$ (1) = $\$624\,000$ (1)
 OFR applies If the correct answer is given without working award full marks. [4]

(ii) $\$624\,000 : 36$ (1) = $\$17\,333.33/\$17\,333$ (1)
 OFR applies from (i). If the correct answer is given without working award full marks. [2]

7 (a) (i) Any one document x 1 mark such as enquiry/order [1]

(ii) Any one document x 1 mark such as statement of account/invoice [1]

(b) Any two circumstances explained x 2 marks each such as –

When goods are returned + example such as faulty

When goods are supplied in smaller quantities than shown on the invoice

When packing cases or crates, for which a charge has been made, are returned

When goods wrongly supplied are returned and the buyer is credited with the amount

When the customer has been overcharged

Any other relevant point [4]

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(c) (i) Any two points x 1 mark each or one explained point such as –

It is the reply to an enquiry.

It gives a detailed description of goods available and their prices.

It sets out the terms of sale such as delivery dates and terms of payment.

It enables the buyer to compare prices and conditions offered by several suppliers/make choices.

Any other relevant point

[2]

(ii) Any two points x 1 mark each or one explained point such as –

It is a request for payment.

It shows a description of the goods.

It shows the quantity supplied.

It shows the terms of sale.

It shows the buyer the amount owed.

It enables the buyer to verify if everything ordered has been sent.

It is used for book-keeping purposes.

Proof of transactions.

Proof of ownership.

Any other relevant point

[2]

(d) Any one method of communication (1) described (2) such as –

fax – quick method of sending exact copies of documents

letter – cheap method of sending documents, can be printed paper rate, many being sent

email – scanned copies sent quickly, fast, cheap

[3]

(e) Any reasoned answer up to three marks such as –

The delivery note is a copy of the invoice without the prices. It is used when goods are sent using the supplier's transport. It gives a detailed description including the number of packages. The person receiving the goods signs the delivery note to show that he/she has received the goods in good condition. If they are damaged, the buyer should sign the delivery note saying they are damaged. The seller should then take action. The signed delivery note acts as proof that the goods have been delivered and in what condition they were delivered. The buyer is able to spot any errors in delivery quantities. So the delivery note does safeguard both buyer and seller. Some times goods are delivered and left on doorsteps. No delivery note is signed.

Any other relevant point

[3]

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

To save having to make several payments during a period of time for individual payments.
 To postpone payment for goods which may then be sold before the date of payment becomes due and the revenue can then be used to pay for the goods.
 To aid cash flow.
 To give time for the examination of goods to make sure they do not have faults.
 May be able to take advantage of discounts.
 Increased use of Internet using credit cards.
 Establish/Improve relationship between buyer and seller.

Any other relevant point [4]

8 (a) Any three points x 1 mark each or up to three marks for a well explained point -

Definition of re-export trade – allow one mark.
 It provides employment.
 It earns foreign currency for the countries where it takes place and so improves their balance of trade.
 It enables certain goods to be prepared for sale.
 It enables goods to be distributed from where they are plentiful to where they are needed.
 It creates particular industries and specialisation in certain countries or cities
 e.g. diamond cutting in London, tea blending in Rotterdam.
 It enables some countries to obtain goods through a third country, overcoming problems of trading with countries within a trading bloc.

Any other relevant point [3]

(b) (i) Any three points x 1 mark each and + 1 for a developed point such as –

Customs officials supervise bonded warehouses.
 Where imported goods are stored without paying duty and where these goods can be prepared for sale e.g. bottling.
 Customs officials supervise the re-export of these goods and no duty is payable.
 Allow samples to be taken to find a market.
 Checking for illegal goods.
 Supervision of sealing of containers.

Any other relevant point [3]

(ii) Any three points x 1 mark each and + 1 for a developed point such as –

Freight forwarding agents specialise in arranging transport of goods.
 They will book space on ships/aircraft.
 They will organise the insurance of these goods.
 They will organise the documentation of these goods e.g. certificates of origin.
 They will organise the storage of these goods while awaiting re-export.
 They handle customs clearance.
 They pack goods.

Any other relevant point [3]

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(c) Any two difficulties explained x 2 marks each such as –

Finding a market
Communication difficulties caused by different languages
Distance – greater costs of transport/insurance
Delays in payment – exchange control, political factors
Different currencies – problems of exchange rates
Trade barriers – high import duties, quotas
Finding out information about foreign markets – customs, safety regulations
Different measurements or voltages – metres v inches
Competition

Any other relevant difficulty [4]

(d) Any three points x 1 mark each such as –

Definition of container terminal = 1 mark
Because much of the world's traded goods is shipped in containers.
Which require specialised handling at docks.
Because the port wishes to attract container ships to use its docks.
Because shipping companies want a quick turnaround time for their ships.
Because facilities need to be available for containers to be stacked in secure conditions ready for loading on to ships.
Saves costs of dock labour.
Provides security.

Any other relevant point [3]

(e) Any four services x 1 mark each such as –

Providing deep water access/good transport connection inland/warehousing/cold storage/
bonded warehouses/office buildings/ship repair yards/refuelling facilities/mechanised
handling/wharves and jetties/pilots/ships supplies e.g. food/security/emergency services/
dock workers to load and unload/light houses/tugs

Any other relevant service [4]