

**MARK SCHEME for the May/June 2010 question paper
for the guidance of teachers**

9771 BUSINESS AND MANAGEMENT

9771/01

Paper 1 (Business Concepts), maximum raw mark 100

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Page 2	Mark Scheme: Teachers' version	Syllabus	Paper
	Pre-U – May/June 2010	9771	01

Section 1

<i>Question Number</i>	<i>Key</i>	<i>Question Number</i>	<i>Key</i>
1	D	11	B
2	A	12	D
3	C	13	B
4	A	14	D
5	D	15	D
6	B	16	A
7	B	17	A
8	D	18	D
9	D	19	D
10	C	20	A

Section 2

21 (a) Calculate the values for W, X, Y, Z in Table A.

W	$87.5 = (88.75 + 86.25) / 2$
X	$85 = (86.25 + 83.75) / 2$
Y	$- 17.5 (70 - 87.5)$ OFR
Z	$- 5 (80 - 85)$ OFR

(Results must have correct sign.)

(b) What would be a seasonally adjusted forecasted value for the 2nd quarter of 2010 if the extrapolated trend value is £84m and the average seasonal variation is –£2.3m?

£81.7m (£84m – £2.3m)

(c) Briefly assess the value of the moving average technique of sales forecasting to WarmIT. [5]

1 application mark
1 analysis mark
3 evaluation marks

Uses: Helps with forward planning of promotion strategy, workforce planning, resource ordering etc. One application to this business e.g. boiler sales are seasonal.

BUT: Only based on past results, downturn is occurring – how relevant are these past results? Changes in gas prices and consumer trends in heating market may render extrapolation from past results rather pointless.

Page 3	Mark Scheme: Teachers' version	Syllabus	Paper
	Pre-U – May/June 2010	9771	01

22 Evaluate the extent to which a substantial increase in R & D spending by WarmIT would ensure its future competitiveness in the UK heating market?

	K 1 mark	App 3 marks	An 3 marks	E 3 marks
Level 2		3 marks More than one point applied to case	3 marks Relevant reasoning or theory used to explain answer	3 marks Good judgement shown of the impact of R and D spending on competitiveness and/or other factors being important too
Level 1	1 mark Some knowledge of R and D shown	2–1 marks Application of one point to case e.g. use of Table B	2–1 marks Limited reasoning shown	2–1 marks Limited evaluation of usefulness

- R and D is the scientific research and technical development of new products and processes.
- Can lead to USP, patents, ability to raise prices, lower production costs (process innovations) and entry to new market segments – these should be applied to heating/renewable energies and this business.
- Table B shows some link between R and D spending and patents BUT not for Enviroheat.
- Evaluation could include that R and D does not always lead to inventions, that these may not result in successful innovative products anyway and that the **number** of patents is less important than their significance.
- Other factors affecting competitiveness include exchange rates, labour productivity, material costs.

Page 4	Mark Scheme: Teachers' version	Syllabus	Paper
	Pre-U – May/June 2010	9771	01

23 Assess the value of establishing a budgetary system for each of the three divisions of the company.

	K 1 mark AO1	App 3 marks AO2	An 3 marks AO3	E 3 marks AO4
Level 2		3 marks Points made are well applied to case	3 marks Relevant reasoning or theory used to explain answer	3 marks Good judgement shown of the importance and/or potential limitations of this budgetary system
Level 1	1 mark Some knowledge of budgeting or benefit of	2–1 marks Some application of points to case e.g. the creation of separate divisional profit centres	2–1 marks Limited reasoning shown	2–1 marks Limited evaluation of usefulness

- Budgetary system allocates financial targets and plans – allows the use of variance analysis.
- Separate divisions will become profit/contribution centres – allows analysis of best performing divisions.
- Budgets will set targets and this should be motivating and lead to appropriate allocation of resources.
- Variance analysis will allow recognition of main reasons why actual performance varies from budget and could inform management decisions.

BUT

- How are budgets to be set – with involvement of staff who have to carry them out or by a centralised system with no involvement?
- They might be set too ambitiously in which case they may demotivate.
- How will overhead costs be allocated to the 3 divisions? Will only direct costs be included in budgets?
- Will staff be adequately trained in the setting and operation of the budgetary system?

Page 5	Mark Scheme: Teachers' version	Syllabus	Paper
	Pre-U – May/June 2010	9771	01

24 The company is about to undergo substantial changes. Discuss how the directors of WarmIT might achieve effective change with the minimum of employee resistance.

	K 1 mark AO1	App 3 marks AO2	An 3 marks AO3	E 3 marks AO4
Level 2		3 marks Points made are well applied to case	3 marks Relevant reasoning or theory used to explain answer	3 marks Good judgement shown of the different approaches to change management
Level 1	1 mark Some knowledge of change management shown	2–1 marks Some application of points to case e.g. the need to prepare long established staff for change	2–1 marks Limited reasoning shown	2–1 marks Limited evaluation of change management methods

- Distinction could be made between managing and leading change – latter much more significant in this case.
- Need to explain causes of and reasons for change.
- Explain how people will be affected and what the business intends to do to reduce impact.
- Need to go through Trade Union? Is it a single union business? Can the Trade Union be brought in to assist in the change process if the long term benefits and consequences of it are explained?
- Need to communicate to all staff that change offers opportunities as well as shorter term threats – and that failure to change has more definite long term threats.
- Could just introduce changes and do not worry about staff reaction – time to replace some long serving staff? Chances of industrial action could be remote.
- Is this management team able to lead change? They seemed to be very slow to respond to the economic downturn.

Page 6	Mark Scheme: Teachers' version	Syllabus	Paper
	Pre-U – May/June 2010	9771	01

Section 3

	K 6 marks AO1	App 10 marks AO2	An 12 marks AO3	E 12 marks AO4
Level 3		10–7 marks Excellent application of most points to selected businesses	12–8 marks Extensive reasoning and use of theory to explain arguments	12–8 marks Extensive judgement in answer and conclusion
Level 2	6–4 marks Good knowledge shown	6–4 marks Points well applied to selected businesses	7–4 marks Good reasoning/use of theory to explain answer	7–4 marks Good judgement shown in answer and conclusion or excellent judgement in answer or conclusion
Level 1	3–1 marks Some knowledge shown	3–1 marks Some application of points	3–1 marks Some reasoning/use of theory to explain answer	3–1 marks Some judgement shown in answer or conclusion

25 In the 12 months to October 2008, the FTSE index of 100 leading shares fell by 40%. Discuss the significance of this for UK businesses.

- Explain what the FTSE measures or some information about the LSE.
- Reason why share prices fell: Oil and other prices raising firms' costs and contributing to lower declared profit.
- International political uncertainty.
- Economic slowdown in UK and in major markets of UK exporting firms.
- Relatively high interest rates – not being reduced due to fear of inflation.
- General concern about asset price levels.
- Negative investor sentiment.

Impact:

- Lower investor confidence – much more difficult to raise capital from sale of shares and listing of new companies most unlikely at this time.
- Lower consumer confidence – negative wealth effect leading to lower consumer spending.
- Lower bonuses for financial staff – potential job losses too.
- UK companies more likely to become takeover targets – e.g. from sovereign funds.

BUT:

- Depends on whether plc or not or planning to become one.
- Depends on whether a potential takeover target.
- Private equity businesses may pick up bargains – but will they be able to raise the leveraged funds?
- May not be important to a plc if they had no plans for additional share issue.
- May only be short term fall in prices – in longer term shares have been one of the best investments.

Page 7	Mark Scheme: Teachers' version	Syllabus	Paper
	Pre-U – May/June 2010	9771	01

26 Discuss the view that the continued development of emerging economies such as those of China and India will result in more opportunities than threats for UK based businesses.

- Outline of what is meant by emerging economies and some sense of scale provided.
- Opportunities:
 - Inward investment
 - Outward investment
 - Outsourcing
 - Cheap supplies of imports – helps keep CPI low
 - Rapidly growing markets.
 - Joint ventures.
- Threats:
 - Cheap labour products make UK goods/services uncompetitive
 - Huge demand for commodities drives up prices
 - Sovereign funds take over UK companies
 - B of P deficit.

Judgement:

- Depends on type of industry/product – examples needed.
- Ability to respond to change and opportunities.

27 Evaluate the case for and against a UK based manufacturing business relocating its operations to another country.

- Location issues are strategic decisions that must be taken at a senior level and are difficult to reverse.

Case FOR:

- Lower labour costs
- Less restrictive legislation
- Faster expanding overseas markets – better to locate closer to these?
- Cheaper land costs
- Lower corporation tax rates than e.g. Poland and Eire.

Case AGAINST:

- Cost of relocation and upheaval
- Redundancy costs
- Failure of social responsibility – pressure group and consumer reaction to this?
- Charges of potential exploitation of labour or of natural resources of countries with weaker controls
- Balanced judgement required based on recent examples e.g. Dyson, Burberry's.

Judgement: Balance of advantages against disadvantages; may depend on type of business and importance of cost savings against quality or customer service.

Page 8	Mark Scheme: Teachers' version	Syllabus	Paper
	Pre-U – May/June 2010	9771	01

28 'The style of leadership and management used within a business has much less impact on its success than is generally thought to be true.' Discuss this statement.

- Explain management and leadership and distinction between them.
- Explain styles of leadership – give business examples of them in operation.
- Discuss how different leadership styles can have a negative/positive impact on business development and success – examples needed to support assertions made.
- Other factors that can affect success apart from or despite leadership style must also be discussed e.g. product innovation, customer service, economic environment, legal environment etc.
- BUT the response of the business to these other factors could also depend on the leadership style used e.g. a democratic style will encourage new product ideas and reduce resistance to change, both of which are crucial to success. So perhaps leadership style IS a very important factor in success? Other interpretations are, of course, possible.