

# BUSINESS STUDIES

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<p>Paper 7115/12 Short Answer/Structured Response</p>
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## Key messages

Candidates should try to use the information contained in the stem of each question to help answer the questions set, especially as this provides the basis for application. Application marks could not always be awarded because candidates did not refer to the scenario for **parts (c), (d) and (e)**. The lack of effective evaluation continues to be an area of weakness. Of those who did attempt an evaluative statement, most were unable to provide reasoned statements to back up their choice. Candidates would benefit from greater guidance in how to produce an evaluative answer to **part (e)** questions.

## General comments

The questions requiring definitions and knowledge such as **part (a) and (b)** of each question were generally well attempted. However, a number of candidates struggled to provide a precise definition to **Question 2(b)**.

There were areas of the syllabus that some candidates were less familiar with, particularly the disadvantages of part-time employees. A significant number of candidates had clearly misread **Questions 2(e) and 3(c)**.

Candidates should refer directly to the information within the stem of the question throughout their answers to ensure that points raised are appropriate to the business.

Candidates must also ensure that a different point of application is used for each separate point made. In **parts (d) and (e)** of each question it is important to explain the effect of points identified on the business described in the stem of the question.

Candidates should be reminded that for evaluation there must be a justified decision that follows from the points raised in the answer not a repetition of points already explained.

## Comments on specific questions

### Question 1

- (a) Only the strongest candidates were able to give a clear and precise definition of this term. Many understood that it had social objectives or that profit was not its main objective. Common errors were to confuse a social enterprise with a public sector organisation, a not for profit organisation or an entrepreneur.
- (b) Generally well answered. The majority of candidates recognised that fixed costs did not change. The best answers made the link to output or sales. A common error was to confuse the term with variable costs. Such answers could not be credited.
- (c) Well answered by most candidates. A common error was to incorrectly calculate total costs by omitting one element or miscalculating total variable costs. Some incorrectly assumed that total revenue was the same as profit.
- (d) This question produced a range of responses. Most candidates could identify at least one method of promotion. Stronger candidates were then able to link points made to the context of this food retailer. Only the best responses were able to explain how methods such as advertising could help increase sales. Instead of analysis, weaker candidates simply stated it would increase sales without explaining how the chosen method identified would achieve this. In terms of knowledge,

there were two common errors. Some identified two different methods of advertising or pricing promotion which could only be awarded once. The other common error was to simply state discounts which was not rewarded unless the notion of short term was attached.

- (e) Good knowledge was evident in most responses with many candidates showing good use of the source material to support their answer. Better answers developed points such as cheaper ingredients could lead to lower quality which could damage PLK's reputation resulting in lower sales. Only the best responses attempted a justified decision. Instead of development, weaker responses were characterised by simple statements such as 'able to gain more customers' without showing how or why this might be an issue. Evaluation was not attempted in most responses. A number of candidates misinterpreted the stimulus and assumed the business was offering training courses to everyone, rather than selling food.

### Question 2

- (a) The majority of candidates understood that products in a mass market had a large number of sales. Only the stronger candidates recognised that this referred to the sales of a single product. A common error was to confuse the term with mass production. Others incorrectly defined market share or a competitive market.
- (b) The term 'job enrichment' was generally not well understood. A lack of precision in the use of terminology meant that a large number of candidates failed to gain marks on this question. Many candidates offered vague statements such as 'adding more tasks' which could apply to a range of methods including job rotation or job enlargement. Others simply stated why it was used which did not answer the question set.
- (c) This question differentiated well between candidates. Most candidates could identify at least one way. Only the best responses gained both the application marks available by using different points from the scenario to support their answers. Some candidates misread the question and incorrectly answered it from the viewpoint of JNK rather than the employees so identified points such as higher output and more productivity. Such answers could not be rewarded.
- (d) This question proved to be a good discriminator. The strongest candidates made good use of the information provided to explain appropriate ways the business might increase output. These answers recognised that because the employees were unskilled, training could enable them to work quicker or that changing to flow production from batch production would allow for continuous production. Weaker candidates restated the same analysis or application. Others gave vague answers such as 'increase motivation' without identifying a specific method to show how this would be achieved. Answers such as higher pay were not accepted as this does not necessarily result in increased output. A few candidates misunderstood the question and incorrectly assumed it was about how to improve sales so focused on advertising or pricing strategies which were not rewarded.
- (e) A number of candidates confused ethical with legal issues. Good knowledge and application were evident in many answers but weaker candidates were not able to sufficiently develop the points to gain the analysis or evaluation marks. The strongest answers analysed the risk to reputation and compared this to the benefits of lower costs. These candidates made good use of the case material to support their final decision. Some candidates misread the question and outlined ways a business could become more ethical. A number of candidates did not attempt this question.

### Question 3

- (a) Many candidates understood that gross domestic product (GDP) referred to output. To gain the second mark the candidates needed to make clear reference to the value of output in order to give a precise definition. A number of candidates confused the term with concepts such as gross profit or GDP per capita. Others incorrectly assumed it referred to imports and exports or linked it to the output of an individual business.
- (b) This question produced a range of responses. The strongest candidates identified effects such as lower sales or lower profits. Some considered the effects on the whole economy rather than businesses so gave answers linked to unemployment or taxation. Another common error was to restate the same point for both answers. A small number of candidates misread the question and

incorrectly assumed Gross Domestic Product was increasing so gave the opposite answers to those required.

- (c) This question was generally not well answered. A number of candidates misread the question and failed to recognise they needed to identify a change so simply repeated words from the case material such as recession or falling GDP which reflected the current situation rather than identify any reason why business objectives might change. The most successful candidates were able to identify relevant reasons such as increased economic growth or changes in consumer demands and were able to link these points to show the impact on this carpet making business.
- (d) Many candidates found this question challenging. Many candidates gained marks for identifying the change in the ratios and linking their answer to the scenario. For the acid test ratio 0.1 or 0.2 was accepted as application due to the layout of Table 2. Even the most successful candidates struggled to provide effective analysis for both points. A common error was to explore the causes of the changes rather than the effect on REW of the changes. Stronger candidates could make the connection and discussed the possible constraints on the liquidity for the acid test and then the need to lower costs or increase prices for the profit margin. Weaker candidates commented that the numbers had changed but did not indicate the direction of change. Some incorrectly linked their answer to profit rather than profit margin. Such answers could not be awarded. A number of candidates did not attempt this question.
- (e) Good knowledge of issues was evident in most responses. Stronger answers used the application well to support points made. For example some recognised the need to spread risk due to the current economic problems in REW's home country or the fact that the business had won many awards could help build their reputation in new markets which could lead to higher sales. Only the best responses attempted a justified decision. Weaker candidates identified a number of points but did not develop them. A number of candidates misread the question and discussed whether the business should relocate rather than simply sell its products in other countries.

#### Question 4

- (a) Well answered by most candidates.
- (b) Generally well answered. The most common answers were bank loan and own savings. Some ignored the fact that this was a new business so examples such as retained profit and sale of non-current assets were not appropriate. Similarly, sources of finance suitable for a company such as sale of shares and debentures were not allowed. A few candidates did not understand the question and provided examples of costs instead.
- (c) Candidates were clearly familiar with the concept of building good customer relationships. Most candidates could identify at least one reason with increased sales and better reputation being typical responses. Only the strongest answers gained both the application marks available by using different points from the scenario to illustrate points made.
- (d) The advantages and disadvantages of part-time employees is an area of the syllabus that many candidates find difficult. Many confuse part-time employees with temporary or seasonal workers. Some incorrectly assumed that such workers are always cheaper without explaining why this would be the case or would be paid at a lower wage rate. Others stated that because they work fewer hours that they would automatically be better motivated and more efficient or that all part-time employees must be unskilled, which is not necessarily true. Such answers could not be credited. Better candidates recognised that part-time employees provide flexibility which could result in higher sales or that they may be less committed to the business which could lead to additional recruitment costs.
- (e) Candidates had clearly studied this topic area and were able to identify the benefits and drawbacks of operating as a franchisee. A common error was to include lots of knowledge points but not develop them. Most candidates were able to link their answers to the scenario. The strongest answers made good use of the case material to help develop points made before coming to a conclusion as to whether George should buy the franchise. For example some recognised that while George had worked in a flower shop he lacked management experience while others discussed the possible impact of him not liking the autocratic leadership style in his old job so questioned whether he would be willing to follow the rules set by the franchisor. Weaker answers did not make a decision or if they did it was not justified.

# BUSINESS STUDIES

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<p><b>Paper 7115/22</b> <b>Case Study</b></p>
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## Key messages

Candidates should be reminded that throughout this paper they are expected to **apply** their business knowledge and understanding to an unseen case study or business scenario. This will ensure responses are appropriate for each given situation.

- To do well in this paper, candidates must make clear reference, or application, to the accompanying case. Specific marks are allocated throughout the mark scheme in both **parts (a)** and **(b)** for application. In this particular case study, candidates were expected to refer to WA, a small private limited company that makes high-quality wooden furniture.
- Candidates should try to give a full explanation of positive and negative consequences of a business decision. Responses require developed reasoning rather than simple description; listed points generally only gain Level 1 whereas an explanation of a point could move the answer to Level 2.
- Several questions on this paper ask candidates to make a justified recommendation or conclusion. It is important to offer a decision based on balanced argument. The recommendation or conclusion should compare and make reference as to why the alternative options were rejected as well as justifying the option that was chosen, without full repetition of the previous analysis.

## General comments

Candidates had been well prepared for this examination. The context of WA making high-quality wooden furniture using wood from sustainable sources provided an accessible scenario for candidates. Those who were able to use the information in the insert to contextualise their answers accessed the highest marks.

The standard of written English was excellent. Candidates made themselves fully understood and are to be congratulated on the high quality of spelling, punctuation and grammar offered in their responses. There is no penalty for the wrong spelling of words or using incorrect punctuation.

There is a requirement that candidates should be able to handle numerical data. Examination preparation should include learning how to calculate various costs so that valuable marks can be gained from demonstrating good numeracy skills.

## Comments on specific questions

### Question 1

- (a) Candidates made a good start to the paper by demonstrating sound knowledge of the advantages and disadvantages of developing new products. The most popular advantages were more variety, entering new markets, diversification, and greater number of sales. Increased costs from developing new products relating to research and advertising and the risks if the new products were not popular were the main disadvantages given. However, lack of application was the main reason why the highest marks were not achieved. Where application was awarded it tended to be for reference to the product being high quality wooden furniture, being made using wood from sustainable forests and requiring skilled employees.
- (b) In this question candidates were asked to consider the three possible business objectives; an environmentally friendly business, increasing market share, and survival, and candidates had to suggest which one was the most important to WA in the long run. The first option of being environmentally friendly was generally well answered as many candidates recognised that this may

make the business popular with ethical consumers. However weak candidates only talked about brand image without knowing that the objective was already part of WA's operations. In addition it may increase manufacturing costs leading to an increase in the price of furniture. Candidates often responded to Market share by focusing on how this could be achieved rather than why it may be an objective. Even strong candidates did not often go beyond stating that this would lead to higher sales and probably profits. Better answers did include the disadvantage of this objective; that it may well lead to lower profits in the short run as prices may have to be lowered to increase market share but in the long run the business would have more control over the market, and hence prices, leading to higher profit. A minority of weak responses confused market share with company shares and discussed the share price of WA. The majority of candidates did not realize the advantages of survival as being able to protect the family investment or being able to cover costs. Responses confused survival with continuous existence of the business, with some settling on survival as a long term objective. Most realised that WA had already passed the survival stages after being in business for 10 years. Again weaker answers focused on how the objective could be met rather than why a business might set this objective. The majority of candidates recognised that survival was not suitable for the long run. To gain the highest marks answers should have included a balance of arguments as to which business objective was the most important and why the other two were less or not important in the long run.

### Question 2

- (a) The majority of candidates could name two tertiary sector businesses that WA might use. Transport was the most popular example and identified from the insert but furniture retailers, banks and advertising agencies were also often identified. How these businesses could help WA was also often present and applied to WA. Weaker answers failed to show how they helped WA to be successful. The majority of answers did not gain all the available application marks. A minority of candidates named manufacturing or primary sector businesses such as logging or services provided by WA. A small number of candidates identified schools, restaurants and hotels and although these are tertiary sector businesses they are not services used by WA.
- (b) Candidates were very familiar with the advantages and disadvantages of introducing computers in manufacturing and design and improving employee skills. The majority of candidates explained how both these ways increased productivity. There was often reference to issues such as faster, more efficient, fewer mistakes, less wastage for the introduction of computers and better answers also identified the possible savings on labour costs. The disadvantages seen most frequently involved the high initial capital cost of machinery and the likelihood of breakdowns and power cuts. For employee skills better answers identified the cost of training, loss of output during training, demand for higher wages but also the benefits of having higher skilled or multi-skilled staff. Recommendations varied but the majority were for the use of computers in manufacturing and design. Better candidates also included justifications as to why the alternative option was rejected, such as their employees were already highly skilled so the benefits gained from more training may be limited. However, application was not always present, even in strong responses. Some answers did not link the recommendation to the best way to increase profit and therefore did not access the highest marks.

### Question 3

- (a) Candidates clearly understood stakeholder groups and could name two suitable examples with the most popular being employees, shareholders/owners, bank, suppliers, government. It was common for answers to include the possible effect of falling profits, such as fear of redundancies, reduction in dividends, less tax revenue, low orders and risk of failure to service loans. Application was present where reference was made to the product being furniture and it was often mentioned that there were 20 production employees at WA. However, there were many generic answers. A minority of answers did not name a stakeholder, it appeared as though these candidates confused stakeholder in the question with shareholder.
- (b) This question considered ways to increase employee motivation and was generally well answered. The first part, changing the payment system to piece-rate from hourly pay was clearly understood and answers often could identify that output would be likely to increase leading to higher pay for employees but that quality may be reduced due to workers rushing to gain higher pay. Better responses also included the consequences of this for WA. Giving shares away to workers was not always clearly understood and weaker candidates thought that workers would have to pay for these shares and therefore be unlikely to motivate workers. Weaker answers that identified workers may



be feeling more involved in the business or more trusted were not often developed further. Job rotation was well understood and answers usually identified that this would be less boring and better answers went on to consider that it might be quite difficult for workers who had specialised skills to be able to carry out other tasks without costly training. They also recognised that productivity might fall or there may be errors in production as the workers moved between jobs where their skills were less suited. There were good recommendations that made clear justification for each of the three methods being chosen. However, justification for why the alternatives were rejected tended to be weak and often not worth credit. Vague answers such as 'These methods would be less motivating' with no further explanation did not achieve Level 3 credit.

#### Question 4

- (a) (i) Many candidates correctly calculated the total cost of \$16000 but the most common mistake was to not multiply the variable cost per unit cost by output giving an answer of \$6100.
- (ii) As 'Own figure rule' was applied to this question many candidates gained credit for this part even when they incorrectly calculated total cost. As long as candidates applied the correct formula i.e. used the incorrect total cost from (i) in the correct formula, for example giving \$61, they could gain both marks for (ii), and many did.
- (iii) Weaker answers did not go beyond saying that if output increased then so would total cost. Better candidates recognised and calculated that average cost would fall. It was possible to gain marks for explaining that average cost would fall without the calculation. Calculations of the new total cost figure to compare with the change from the lower output also gained credit.
- (b) The majority of candidates could include at least some explanation of how the three changes might affect WA. Strong candidates realised the business was already environmentally friendly and may have very little waste to deal with. Very few candidates recognised that all businesses would be paying this cost to remove waste and so the increase would not apply to WA alone. Better responses did recognise that WA already paid 10% above the minimum wage and made the link that this may mean WA did not need to increase wages unless they needed to maintain the wage differential. Weaker candidates took a simplistic view of increasing wages by 15% or simply stating that wage costs would rise. Quite a large number of candidates thought the change in tax was on corporation tax not income tax and so answered in the context of decreasing profits for WA. Better candidates recognised that this would affect customers, as they would have less disposable income and therefore reduce demand for expensive furniture leading to lower sales for WA. If candidates understood the effect of increased income tax then the recommendation often scored higher marks and included consideration of why the alternative changes had less impact on WA. However, if the effect of higher income tax was not understood often the recommendation scored few marks as answers tended to focus on falling profits for WA. Many answers were applied and often included reference to WA already paying 10% above the minimum wage, WA producing high priced, high quality wooden furniture, WA already being an environmentally friendly company or there being 20 employees which are highly skilled.