Cambridge International AS & A Level

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Cambridge International Advanced Subsidiary and Advanced Level

BUSINESS **9609/22**

Paper 2 Data Response **May/June 2016**

MARK SCHEME

Maximum Mark: 60

Published

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International Examinations

1 (a) (i) **Define the term 'opportunity cost' (line 8).** **[2]**

Knowledge	Marks
A correct definition	2
A partial, vague or unfocused definition	1
No creditable content	0

Content
A correct definition should include:
- the idea of something being given up
- that this is the next (highest) alternative

(ii) **Briefly explain the term 'market research' (line 5).** **[3]**

Award one mark for each point of explanation:

• Used to make better business decisions/example of a business decision • Can be expensive • Can be time consuming • Some other way of showing good understanding • Can be primary (field) and/or secondary (desk) • An example	Up to 2 additional marks
To find out about target markets or consumers/customers/ gathering data	1 mark

Content
Undertaken to find out about consumer needs or wants. Can be primary or secondary. Helps business owners understand the market more easily and make more reliable decisions. Can be expensive and time consuming.

(b) (i) Refer to Table 1. Calculate the price elasticity of demand for Candle A when the price is reduced from \$5 to \$4. **[3]**

Mark	Rationale
3 marks	Correct answer with or without correct working (minus not required, ignore % signs, etc.)
2 marks	Correct formula **AND** both % changes calculated **OR** attempt with one error**
1 mark	Correct formula* **OR** one calculated % change **OR** attempt with two errors**
0 marks	No creditable content

Content
% change in QD = (250/500 × 100) = 50%
% change in price = (\$1/\$5 × 100) = –20%

$$\text{PED} = \frac{50}{-20} = (-)2.5$$

(ii) Explain one benefit to SC from using price elasticity of demand when making pricing decisions.

Level	Knowledge and Application	Marks
2b (APP +APP)	Explanation of a benefit of using PED in context	3
2a (APP)	Identification of a benefit of using PED in context	2
1 (K)	Identification of a benefit of using PED	1
0	No creditable content – no reward for knowledge of PED (or formula)	0

NB use of the answer to Q1(b)(i) is not required for context, but is an obvious way to contextualise an answer.
Correct use of an incorrect answer to Q1(b)(i) should be fully rewarded (own figure rule – OFR)

Content
Benefits may include:
- To forecast likely impact of a price reduction on demand and therein revenue
- To plan ahead in terms of resourcing, if demand is expected to rise by a certain proportion then they can make decisions in terms of production and employees.

Context may include:
- The PED for SC's price change was 2.5 (OFR) – this is an elastic response – higher revenue when price falls, but could be lower revenue if SC increases price
- SC is only one year old and Jane may need the PED data to be able to make any sensible pricing decisions
- As incomes in the local area are increasing, Jane may need more/new PED data as the factors affecting local demand for scented candles may be changing
- Jane only reduced one candle's price – this data can be used to help price the other candles.

(c) Analyse why SC's objectives might change over time. **[8]**

<table>
<tr><th>Level</th><th>Knowledge and Application
(4 marks)</th><th>Marks</th><th>Analysis
(4 marks)</th><th>Marks</th></tr>
<tr><td rowspan="2">2</td><td rowspan="2">Identify reasons why SC's objectives might change over time</td><td rowspan="2">3–4</td><td>Good analysis of two or more reasons why SC's objectives might change over time</td><td>4</td></tr>
<tr><td>Good analysis of one reason why SC's objectives might change over time</td><td>3</td></tr>
<tr><td>1b</td><td>Shows knowledge of reasons business objectives might change</td><td>2</td><td>Limited analysis of two or more reasons why business objectives might change</td><td>2</td></tr>
<tr><td>1a</td><td>Shows knowledge of business objectives</td><td>1</td><td>Limited analysis of one reason why business objectives might change</td><td>1</td></tr>
<tr><td>0</td><td colspan="4">No creditable content</td></tr>
</table>

Content
May include:
- Could change to any legitimate business objective: profit, sales, growth, provide a good service, quality, productivity, etc.
- Could change to an objective specific to SC: increase candle sales, sell more than local competitor, etc.

Context may include:
- Only been trading for one year
- Sole trader
- Several competitors
- Employment and incomes rising
- No market research
- Small budget for promotion
- Revenue 15% less than expected
- Bad pricing decision (elastic)
- Jane is ambitious
- Achieved original objective
- Keen to develop a website

Why/analysis may include:
- To achieve Jane's other goals
- For Jane to make more profit
- To enable longer term survival
- To beat the competition
- To make SC the market leader

(d) Recommend an effective marketing mix for SC's second year of trading. Justify your answer. **[11]**

Knowledge and Application (4 marks)	Marks	Analysis and Evaluation (7 marks)	Marks
		A justified judgement of an effective marketing mix for SC	7
		A judgement of an effective marketing mix for SC	6
		A balanced argument **(two-sided)** that evaluates one or more elements of the marketing mix in context	5
Shows understanding of two or more elements of SC's marketing mix	4	Argument **(one-sided)** based on the impact on SC of two or more elements of the marketing mix	4
Shows understanding of one element of SC's marketing mix	3	Argument **(one-sided)** based on the impact on SC of one element of the marketing mix	3
Shows knowledge of the marketing mix	1–2	Limited analysis of two or more changes to the marketing mix	2
		Limited analysis of one change to the marketing mix	1
No creditable content			

Content
The Marketing mix may be the 4P's (product, price, promotion and place) or the 4C's (customer solution, cost to customer, communication with customer, convenience to customer)

Argument is likely to be based on:

- increased/decreased costs
- increased/decreased revenue
- increased/decreased profit
- achievement of objectives (businesses and Jane's)
- increased/decreased competitiveness

Evaluation is likely to be based on:

- what the success of the mix depends upon
- whether the recommended mix will achieve Jane's/SC's objectives
- which P/C is most important to SC

2 (a) (i) Define the term 'redundancies' (line 23). [2]

Knowledge	Marks
A correct definition	2
A partial, vague or unfocused definition	1
No creditable content	0

Content
This occurs when an employee's job is no longer needed in the business structure. The role is therefore removed and the employee loses their job.
This is not the same as dismissal.

(ii) Briefly explain the term 'joint venture' (line 22). [3]

Award one mark for each point of explanation:

Example or some other way of showing good understanding, i.e. formal contract	1 mark
Shared risk/reward/facilities/staff/capital, etc.	1 mark
Two or more businesses/parties agreeing to work together	1 mark

NB a joint venture is not a merger

Content
This is normally when two (or more) businesses agree to work together to share expertise/finance/rewards from a project. Example: two companies working together to create a new product. Will be formalised in a contractual agreement.

(b) (i) Refer to Table 2. Calculate the value of X. [2]

Mark	Rationale
2 marks	Correct answer with or without working (no $ or m required)
1 mark	Correct formula or an attempt with an error
0 marks	No creditable content

X = Average price × (production – closing inventory)

Sales units = $10 × (140 000 – 20 000)
= 1 200 000 ($1.2 m) – accept 1.2

(ii) Explain the likely impact on MS of the fall in the average price of shoes. [4]

Level	Knowledge and Application	Marks
2b (APPAPP)	Explanation of an impact of a fall in price in context	4
2a (APP)	Identification of an impact of a fall in average price in context	3
1b (KK)	Explanation of an impact of a fall in price	2
1a (K)	Identification of an impact of a fall in average price	1
0	No creditable content	0

Content
Impacts may include:
- Decrease in revenue and profit
- Issues for the family run company – they may have to sell the company if revenue continues to fall
- Need to find ways of increasing revenue by pursuing the joint venture
- Need to find ways of cutting costs

Context may include:
- MS is a private limited company, so shareholders may gain less profit/dividend
- MS is family owned so family may gain less profit/dividend
- MS is labour intensive, so may prompt move to capital intensive production (to reduce costs)
- MS has grown significantly over past 10 years, so this reduction in price may be due to economies of scale (assuming the change in price is due to a shift in supply)
- MS may have reduced price to fulfil their (implicit) objective of growth
- Inelastic PED (–0.33. from 2013–2014, –0.46 from 2014–2015)
- Revenue has continued to decrease ($1.92 m – 2013, $1.56 m – 2014, $1.2 m – 2015, Own Figure Rule)
- Production of shoes is rising
- Unit costs are too high – so bigger impact than capital intensive competitors
- Labour turnover is rising – so bigger impact than capital intensive competitors
- Training is not effective – so bigger impact than capital intensive competitors
- May not be able to afford joint venture (or need a new source of finance), capital equipment costing $5 m

(c) Analyse the disadvantages to MS of using a labour intensive production process. [8]

Level	Knowledge and Application (4 marks)	Marks	Analysis (4 marks)	Marks
2b	Shows understanding of two or more disadvantages for MS of labour intensive production	4	Good analysis of two or more disadvantages of labour intensive production in context	4
2a	Shows understanding of one disadvantage for MS of labour intensive production	3	Good analysis of one disadvantage of labour intensive production in context	3
1b	Shows knowledge of labour intensive production	2	Limited analysis of two or more disadvantages of labour intensive production	2
1a	Shows knowledge of production processes	1	Limited analysis of one disadvantage of labour intensive production	1
0	No creditable content			

Content
Disadvantages (including examples of context) may include:
- Increased cost of production – use of Table 2, unit costs too high (line 18), comparison to capital intensive competitors
- Business may be uncompetitive – comparison to capital intensive competitors, business and consumer markets, decreasing productivity in Table 2
- Low productivity – use of table 2, unit costs are too high (line 18)
- Quality may be variable – nature of shoe market, importance of consistency (i.e. left and right shoe), wastage will continue to increase unit costs
- Difficult to find skilled workers – labour turnover has been rising, ineffective training
- Training costs – training is not as effective as it could be, reasonable to assume it is a skilled job
- MS may need to increase wages regularly increasing costs – increasing labour turnover makes this even more important
- Recruitment and selection costs – labour turnover increasing

(d) Discuss the sources of finance MS could use if the joint venture proposal is agreed. [11]

Knowledge and Application (4 marks)	Marks	Analysis and Evaluation (7 marks)	Marks
		Justified judgement(s) that follow on from a discussion of two or more sources of finance in context	7
		Judgement(s) that follow on from a discussion of two or more sources of finance in context	6
		A balanced argument (two sided) based on one or more source(s) of finance in context	5
Shows understanding of two or more sources of finance in context	4	Argument (one sided) based on two or more sources of finance in context	4
Shows understanding of one source of finance in context	3	Argument (one sided) based on one source of finance in context	3
Shows knowledge of two or more sources of finance	2	Limited analysis of two or more sources of finance	2
Shows knowledge of one source of finance	1	Limited analysis of one source of finance	1
No creditable content			

Accept internal and external as sources of finance

Content:
Likely source of finance include:
retained earnings, sale of unwanted assets, sale and leaseback of non-current assets, working capital, share capital, venture capital, leasing, hire purchase, bank loans, mortgages, debentures.

Argument is likely to be based on:

- appropriateness of finance
- security
- speed of finance
- cost of finance
- loss of control
- loss of ownership

A balanced argument will consider the benefits and costs of the proposed source of finance

Evaluation is likely to be based on:

- what the use of the source of finance depends upon
- whether the sources of finance discussed will achieve MS's objectives
- which of the discussed sources would be best for MS

Judgement could be for more than one source of finance