



**Cambridge International Examinations**  
Cambridge International General Certificate of Secondary Education (9–1)

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**BUSINESS STUDIES**

**0986/01**

Paper 1

**For examination from 2019**

MARK SCHEME

Maximum Mark: 80

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**Specimen**

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This document consists of **10** printed pages.

## General Marking Guidance

- Marking should be positive: marks should not be subtracted for errors or inaccuracies.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.
- Errors that are carried forward (e.g. when an incorrect numerical answer to one part of a question is used as the starting point for a calculation in the next part of the question) should not be compounded - use the 'own figure rule'.
- Poor spelling, handwriting or grammar should not be penalised as long as the answer makes sense.
- Answers that are not written on the answer lines should be marked.
- 'Ap' should be used to indicate where the application marks are being awarded.
- A blank space, dash, question mark and a response that bears no relation to the question constitutes a 'no response'.

***This mark scheme includes a summary of appropriate content for answering each question. It should be emphasised, however, that this material is for illustrative purposes and is not intended to provide a definitive guide to acceptable answers. It is quite possible that among the scripts there will be some candidate answers that are not covered directly by the content of this mark scheme. In such cases, professional judgement should be exercised in assessing the merits of the answer and the senior examiners should be consulted if further guidance is required.***

***Examples of possible answers are also included in this mark scheme. Again, it should be emphasised that this is for illustrative purposes and the examples chosen represent only some of the many possible responses that would merit reward.***

***Application marks are not awarded for the name of the business or person from the case material.***

The following abbreviations are used in the mark scheme to indicate marks awarded for knowledge, application, analysis and evaluation:

- [k] – Knowledge
- [ap] – Application
- [an] – Analysis
- [ev] – Evaluation

**1 (a) What is meant by ‘Return on Capital Employed’? [2]**

Clear Understanding [2] – ROCE means the profit of the business expressed as % of capital invested in the business **or** correct formula i.e.  $\text{profit} \div \text{capital employed} \times 100$

Some Understanding [1] – e.g. profit made by the business **or** money made on investment

**(b) Calculate the value of AB’s revenue from domestic sales in 2011. [2]**

Good application e.g. Total revenue  $\times$  percentage of domestic sales = \$600m [2] **or** \$800m  $\times$  75% = \$600m [2]

Accept \$600 for 2 marks from correct working.

Some application e.g. method [1] e.g.  $\$800 \times 75\%$  [1] **or**  $\$800m \times 3/4$  [1]

**(c) Identify and explain two disadvantages to AB of borrowing a lot of money from banks. [4]**

Knowledge [2  $\times$  1] – award 1 mark for each relevant disadvantage [max 2]

Application [2  $\times$  1] – award 1 mark for each relevant explanation in context i.e. how or why it might be a disadvantage to AB

Relevant points might include:

- higher financial risk [k] – as \$200m is a lot of money so lenders might not lend them any more money in the future [ap] **or** won’t be able to buy any extra vehicles [ap] **or** high cost of repayments so may struggle to pay other day-to-day expenses [k] especially if sales fall because of the recession [ap].
- higher interest payments [k] so business will face higher level of expenses which need to be paid even if AB doesn’t get \$800m from sales [ap] **or** interest rates rise so business might not be able to afford the additional cost [k] as would pay a lot of interest on \$200m [ap]
- lenders could want vehicles as security [ap] which might be sold if cannot meet repayments [k]

**Do not** accept ‘less profit’ unless linked to higher costs due to interest rates.

**Do not** award both application marks if only one knowledge mark is awarded.

**(d) Identify and explain two reasons why AB might be affected by the recession. [6]**

Knowledge [2  $\times$  1] – award 1 mark for each relevant reason identified [max 2]

Application [2  $\times$  1] – award 1 mark if relevant reference made to AB

Analysis [2  $\times$  1] – award 1 mark for each relevant explanation

Relevant points might include:

- might face significant loss of sales [k] as most of its sales come from domestic market [ap]
- fall in profits [k] as revenue will fall by a larger proportion than costs [an] as 75% of business is domestic [ap]
- might limit potential growth of AB [k] as a lack of confidence in economy so business might not want to invest [an] in more vehicles [ap]
- taxes might be increased to finance government spending [k] which will increase costs for AB [an] **or** result in less consumer spending [an]
- less disposable income for customers [k] which could mean AB’s sales fall [an] below \$800m [ap]

**For each reason maximum 3 marks [1k + 1ap + 1an]**

**(e) Do you think that a takeover would benefit AB's employees? Justify your answer. [6]**

Knowledge [1] – award 1 mark for identification of relevant issue(s). Positive or negative points allowed [max 1]

Application [1] – award 1 mark if relevant reference made to AB's business

Analysis [2] – award up to 2 marks for relevant development of point(s)

Evaluation [2] – justified decision made as to whether the takeover is in the best interests of the employees.

Relevant points might include:

- employees may gain as jobs more secure [k] so able to pay for basic needs [an]
- opportunities for promotion **or** more responsibility **or** increased pay as it will be a larger business [k]
- loss of benefits as pay **or** conditions offered by rival business might not be as generous as AB [k] so employees might not be able to earn as much [an]
- employees might have less opportunities for promotion **or** responsibility [k] as both businesses will have employees looking for roles so could become demotivated [an]
- loss of some jobs [k] as some tasks might be duplicated in the two businesses [an]
- risk of job losses is much greater [k] as the economy is in recession [ap] so cost cuts **or** redundancy is more likely [an] **or** so a takeover might not benefit employees as they might face greater job insecurity [ev]
- AB has \$200m in loans [ap] which in a recession they might be unable to repay [k], so it might be safer to be taken over by a larger business [ev]

Application marks may be awarded for appropriate use of the following: recession, \$80m profit, \$800m, transport, service sector, \$200m in loans, domestic and export sales.

**Note:** Candidate's final decision can be either for or against the statement.

e.g.:

It depends. Employees may gain as jobs more secure [k]. However, they might lose out as the pay or working conditions offered by rival business might not be as generous as AB [k] so the employees might not be able to earn as much [an]. The risk of job losses might be much greater [k] as the economy is in recession [ap] so the new business might want to cut jobs to cut costs. So some workers might lose not only their job but their income [ev]. Also it depends on why the other business wants to buy AB. They might want to keep the domestic employees as they are based overseas. In this case the workers could keep their jobs and they might have better prospects in an enlarged business. So it all depends on what the new owners do. But there is no guarantee the employees would benefit [ev].

2 (a) What is meant by 'market share'? [2]

Clear Understanding [2] – percentage of all the sales within a market [1] that are held by one brand or company [1]

Some Understanding [1] – e.g. share of all sales made

(b) What is meant by 'quality control'? [2]

Clear Understanding [2] – e.g. the process of inspecting products [1] to ensure that they meet the required quality standards [1]

Some Understanding [1] – e.g. checking for mistakes

(c) Identify and explain two advantages to Halitec of using flow production. [4]

Knowledge [2 × 1] – award 1 mark for each relevant advantage [max 2]

Application [2 × 1] – award 1 mark for each relevant explanation in context of Halitec

Relevant points might include:

- benefit from economies of scale [k] **or** lead to reduction in average cost [k] of making each component [ap]
- large volumes [k] so each computer becomes cheaper to produce [ap]
- division of labour **or** allows unskilled workers to be used to reduce wage costs **or** reduced training costs [k] so might be able to afford to spend more money on quality [ap]
- capital intensive methods can be used so able to operate 24 hours [k] **or** continuous production **or** machines do not need a break unlike people [k] so factory is always producing things [ap]
- more efficient production possible as machines are likely to make fewer errors [k] so don't waste expensive metals or components [ap]

(d) Identify and explain two ways in which Halitec could improve efficiency. [6]

Knowledge [2 × 1] – award 1 mark for each relevant way identified [max 2]

Application [2 × 1] – award 1 mark if relevant reference made to Halitec

Analysis [2 × 1] – award 1 mark for each relevant explanation

Relevant points might include:

- introduce new machinery **or** technology [k] as current machines are old [ap] so less likely to break down so able to produce more in less time [an]
- better production methods **or** change order or layout [k] which leads to less time taken **or** fewer errors being made [an] in assembling components [ap]
- training of employees [k] so employees have better skills so less likely to make mistakes [an] when building the computers [ap]
- introduce lean methods such as just in time [k] so lower cost of holding stock [an]
- team-working **or** employees are made responsible for work [k] and as more aware of the tasks so are better placed to make effective changes to process [an]
- higher employee motivation via delegation, praise [k]. If workers feel more responsible **or** involved they are likely to work harder and make fewer mistakes [an]
- payment by performance **or** bonus **or** introduce piece-rate [k] which will encourage workers to produce more in less time to gain the extra payments [an]

**For each reason maximum 3 marks [1k + 1ap + 1an]**

- (e) Do you think that Halitec would benefit from spending money on market research? Justify your answer. [6]

Knowledge [1] – award 1 mark for identification of relevant issue(s) [max 1]

Application [1] – award 1 mark if relevant reference made to Halitec's business

Analysis [2] – award up to 2 marks for relevant development of point(s)

Evaluation [2] – justified decision as to whether Halitec would benefit from spending money on market research, based on points discussed.

Relevant points might include:

Benefits of market research:

- more aware of the needs and requirements of its customers [k] so able to produce products wanted [an]
- better informed in making future decisions [k] so fewer wasted components [ap] which can save business time and money [an]
- more aware of competitor's products [k] so better able to anticipate or react to rivals [an]
- help them to identify new market opportunities [k] which could help them to increase sales [an] of computers [an] or further increase its high market share [ap]
- although market research is expensive [k] the additional revenue they might earn could make it very cost effective for Halitec [ev]

Issues against market research:

- market research is expensive [k] which will increase costs [an]
- mistakes in research methodology [k] could lead to expensive production mistakes wasting time and resources [an]
- might divert capital away from other areas [k] of the business so not as effective [an]
- business is product-orientated [k] it sells computer on the basis of technical innovation [ap] so it is better to spend money on development [an]
- is a change necessary [k] as the business has a high market share already [ap]

Application marks may be awarded for appropriate use of the following: computers, components, high market share, many other competitors, labour productivity low, old machinery, known for quality.

**Note:** candidate's final decision can be either for or against the statement.

e.g.:

I think Halitec should spend money on market research as they will be more aware of what its customers want [k]. This means there would be less wasted components [ap] which can save business time and money [an]. Even though market research is expensive [k], I think they have no choice [ev]. Market research could be very important as they operate in a competitive market [ap], and technology changes all the time [an]. If they don't know how to improve their computers, they could lose some of their high market share [an]. Any fall in sales could cost them more than the amount they would spend on research [an]. So I think this would be a worthwhile and necessary investment [ev].

3 (a) What is meant by ‘an autocratic leader’? [2]

Clear Understanding [2] – Instructions are issued by a superior with little opportunity for contribution from others **or** person who manages by telling and directing not by discussion and persuasion.

Some Understanding [1] – e.g. manager makes all the decisions

(b) Identify two advantages to a restaurant of having highly-motivated employees. [2]

**Application [2 × 1]** – award 1 mark for each relevant advantage

Points could include: loyal customers because of happy serving staff, efficient service e.g. getting orders right, speed of service at each table/customer, better quality of restaurant service e.g. gives advice about menu.

(c) Identify and explain one advantage and one disadvantage to Michelle’s employees of them all being paid the same weekly wage. [4]

Knowledge [2 × 1] – award 1 mark for advantage and 1 mark for disadvantage [max 2]

Application [2 × 1] – award 1 mark for each relevant explanation

**Note:** Answer must focus on the employees and **not** on the employer/business

Advantages might include:

- helps create ‘team spirit’ [k] which is good for chefs’ and waiters’ morale [ap]
- employees have no feeling of resentment about someone earning more than another [k]

Disadvantages might include:

- salary might not reflect individual work effort [k] so if waiter works harder, they might feel exploited [ap] **or** chef might consider his job to be of higher skill [ap] so will be demotivated [k]
- waiters might have less job satisfaction [k] so no incentive to work hard as extra effort is not rewarded [ap]
- some employees might want to leave to gain fairer financial benefits elsewhere [k]

(d) Identify and explain two factors that Michelle should consider when recruiting a new restaurant manager. [6]

Knowledge [2 × 1] – identification of relevant factors [max 2]

Application [2 × 1] – award 1 mark for each way if relevant reference made to restaurant

Analysis [2 × 1] – award 1 mark for each relevant explanation

Relevant points might include:

- qualifications **or** experience **or** training [k] because need someone who is able to cope with the position [an]
- where to advertise the post [k] she has only two people waiting tables [ap] so there might not be the experience to appoint internally [an]

Person qualities such as:

- personality [k] so able to talk to the other employees **or** Michelle [an] so that the food is ready on time [ap]
- good communicator [k] so able to clearly explain instructions [an] to waiter **or** Michelle **or** cooks [ap]
- attitude [k] a poor attitude might affect motivation of other employees [an]

- salary required [k] a manager might want a higher salary [an] which Michelle might not want to pay [an] especially as others all paid the same [ap]
- can the business support a new member of staff [k] **or** impact of additional role on business [k] as Michelle is an autocrat [ap] would she want a manager to take some responsibility [an]

Accept any reasonable factor if explained

**For each reason maximum 3 marks [1k + 1ap + 1an]**

- (e) Do you think that the motivation of employees would increase if the new restaurant manager used a democratic style of leadership? Justify your answer. [6]**

Knowledge [1] – award 1 mark for identification of relevant issue(s) [max 1]

Application [1] – award 1 mark if relevant reference made to Michelle's business

Analysis [2] – award up to 2 marks for relevant development of point(s)

Evaluation [2] – justified decision as to whether employees' motivation would increase if restaurant manager used a democratic style of leadership.

Relevant points might include:

- style might not be an issue [k] as employees are already well-motivated or business is successful [ap]
- democratic involves consulting people and involving people in decision [k] which should increase motivation [an]
- involving others might slow decision-making [k] so customer service might suffer [an] as waiters or cooks discuss what to do with manager [ap]
- what type of decisions does Manager need to consult on [k] in the kitchen chefs likely to make own decisions anyway [ap]
- other factors also affect motivation [an] – such as pay, conditions, esteem or social needs [k]
- style is affected by number of factors [an] – manager's own personality [k] individual employee's personality [k] job and the role of employee [k]

Possible themes for evaluation:

- a change of leadership style can have some positive impact on motivation [ev] so help build team spirit if involve people [ev].
- style might have no or little effect in this case [ev] if employees are already highly motivated **or** manager has little influence in kitchen [ev].

Application marks may be awarded for appropriate use of the following: autocratic style of Michelle, all paid the same, waiters, 3 cooks, cash desk, successful business.

**Note:** Candidate's final decision can be either for or against the statement

e.g.:

Many things can motivate workers. The leadership style might not be an issue [k] as employees are said to be well motivated [ap]. Any change in approach might cause motivation to fall rather than increase as some people might want a greater say than others [an]. Also involving others might slow decision-making [k] so customer service might suffer [an] as waiters discuss what to do with manager [ap] which might lead to less bookings as customers go elsewhere to get a quicker service [an]. Workers might get fewer tips which might actually demotivate them more [k], as they might be motivated more by money rather than the leadership style [an]. As the business is successful already, any change might have more of a negative effect [ev]. I think it all depends on what is important to the employees and how they react to the new style [ev].

**4 (a) Identify two characteristics of a successful entrepreneur. [2]**

Knowledge [2 × 1] – Characteristics might include: enthusiastic, risk-taker, determined, creative, vision, self-confident, organised.

*Accept any reasonable suggestion.*

**(b) Identify two possible advantages to Juan of being a sole trader. [2]**

Application [2 × 1] – Advantages might include: can keep all the profit, able to make all decisions **or** quick decision-making, easy to set up shoe repair business, can keep business details private.

**(c) Identify and explain two ways in which a business plan might help Juan's business. [4]**

Knowledge [2 × 1] – identification of way [max 2]

Application [2 × 1] – explain to show how it might help Juan's business

Relevant points might include:

- guide business [k] as Juan is able to see where he wants the business to go and what he has to do to get there [ap]
- help apply for finance [k] Juan has limited finance so he can show lenders that he can repay [ap]
- provides a checklist [k] so as he sets up his business he can see what he needs to do to continue to grow business [ap]
- help decide if there is customer need for service before start [k] so will not waste time and money setting up the business [ap]
- help Juan understand the possible risks [k] as he hasn't run a business before [ap]
- provide an estimate of costs to see how much **or** what type of finance Juan needs [k] to set up his shoe repair business [ap]

**(d) Identify and explain two methods Juan could use to help build good customer relationships. [6]**

Knowledge [2 × 1] – award 1 mark for identification of relevant method

Application [2 × 1] – award 1 mark for each method if relevant reference made to Juan's business

Analysis [2 × 1] – award 1 mark for each relevant explanation

Relevant points might include:

- keep in touch with customers using emails [k] newsletters [k] phone calls [k] so that customers do not forget about his business [an]
- treat employees well [k] so they will want to treat customers well [an]
- offer rewards such as discounts **or** vouchers [k] to encourage people to return to Juan's business [an] when they need more shoes repaired [ap]
- offer after sales support **or** technical advice [k] so that customers feel that the business still cares [an] about the shoes **or** repairs done [ap]
- use customer surveys to find out what services are required [k] so that business is better able to meet needs [an] e.g. offer other leather repair services [ap]
- introduce customer loyalty card [k] so customers will want to keep going back when they need shoe repairs [ap] to benefit from possible offers linked to the card [an]

**For each reason maximum 3 marks [1k + 1ap + 1an]**

- (e) **Recommend to Juan whether he should choose a grant or free training from the Government. Justify your choice.** [6]

Knowledge [1] – award 1 mark for identification of relevant issue [max 1]

Application [1] – award 1 mark if relevant reference made to Juan's business

Analysis [2] – award up to 2 marks for relevant development of point(s)

Evaluation [2] – justified decision as to which is the better option for Juan to choose.

Relevant points might include:

Provide grants

- no need to repay [k]
- source of funds [k] as new businesses [ap] often struggle to gain financial support from other lenders [an]
- what is the grant for [k] **or** how much is the grant for [k] if the amount isn't a lot, it might not give him enough money [an]
- if the training offered does not teach him the skills he needs [k] a grant might be a better option [an].
- All new businesses [ap] have many costs to pay [k] his redundancy money might not be enough [an] so the extra finance is important as there might not be many sources of finance to a new business [ev]

Free training

- Juan has no one else to discuss business issues with [k] as a sole trader [ap] so he might need help at times so he does not make the wrong decisions and fail [an]
- Juan has no known experience of running a business [k] but does have redundancy money [ap] so he has more need for training [an]
- depends on what training is available to him [k]
- the wrong decisions could cost him more money [an] so it might be better to have some training so he can spend his money wisely [ev]

Application marks may be awarded for appropriate use of the following: shoe repair, redundancy payment, new business start up, lost his job, [need to build ] good customer relationships

**Note:** Candidates can choose either option

e.g.:

I think it all depends on what type of training is offered. Juan might not know how to run his own business [ap] in which can he will need some help. But if the training does not teach him the skills he needs to know [k] then there is little point in taking the training. I actually think a grant might be a better option. Even though Juan has a redundancy payment, all new businesses [app] have many costs to pay [k]. His redundancy money might not be enough [an] so the extra finance is important as there won't be many sources of finance available to a new business [ev]. Any business can fail if they don't have enough money so I think he should take the grant to ensure he has enough to get started [ev].