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0450/11

October/November 2016

1 hour 30 minutes

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CAMBRIDGE
International Examinations

- 1 C&C has a good reputation for making high quality, hand-made shoes. It has 120 full-time skilled employees. C&C needs to recruit another 20 production employees to meet increased demand. The Managing Director said: 'I don't know why people worry about globalisation. Two years ago we did not export, now exports are 10% of our output and increasing.' C&C has orders for 100 000 pairs of shoes in 2017. The Managing Director cannot decide whether to introduce new technology into the production process.

(a) What is meant by 'globalisation'?

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..... [2]

(b) Identify **two** possible threats to C&C from globalisation.

Threat 1:.....

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Threat 2:.....

..... [2]

(c) Identify and explain **two** suitable ways in which C&C might advertise the job vacancies.

Way 1:.....

.....

Explanation:.....

.....

Way 2:.....

.....

Explanation:.....

..... [4]

(d) Identify and explain **two** benefits to C&C of having full-time employees.

Benefit 1:.....

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Explanation:.....

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Benefit 2:.....

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Explanation:.....

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[6]

(e) Do you think C&C should introduce new technology into the production process? Justify your answer.

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[6]

- 2 Dowson is a large business which owns a number of shops. It sells a range of electrical goods such as computers and televisions. The Finance Director has been looking at some recent financial data, as shown in Table 1. He is pleased with Dowson's liquidity but knows he must reduce its high level of debt including an overdraft of \$6m. He said: 'The economy is in recession. Many small retailers have failed. Size is an advantage!'

Table 1: Extract of financial data for Dowson

	2015	2016
Revenue	\$280m	\$300m
Profit	\$175m	\$180m
Current ratio	1.2:1	1.5:1
Acid test ratio	0.8:1	0.5:1
Return on capital employed	10%	10%

- (a) What is meant by 'Return on capital employed'?

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..... [2]

- (b) What is meant by a 'recession'?

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..... [2]

- (c) Identify and explain **two** ways in which the size of the business may benefit Dowson.

Way 1:.....

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Explanation:.....

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Way 2:.....

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Explanation:.....

..... [4]

- (d) Identify and explain **two** problems for Dowson of having a high level of debt.

Problem 1:.....

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Explanation:.....

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Problem 2:.....

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Explanation:.....

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[6]

- (e) Do you think the Finance Director is right to be pleased with the liquidity of the business? Justify your answer using the ratio results in Table 1.

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[6]

- 3 YOGO is a new business which Amelia has just set up using Government support. YOGO makes a range of sweets (candy) targeted at adults. It is a niche market. Amelia has been looking at the marketing part of her business plan. She has to decide which pricing method to use. Amelia is spending a lot of money on packaging. She did not do any primary market research as she thinks she can use secondary data to make decisions. She believes that all adults like sweets.

(a) Identify **two** reasons why a Government might support business start-ups.

Reason 1:.....

.....

Reason 2:.....

.....

[2]

(b) Identify **two** parts (other than marketing) of a business plan.

Part 1:.....

.....

Part 2:.....

.....

[2]

(c) Identify and explain **two** possible pricing methods that Amelia might use.

Method 1:

Explanation:.....

.....

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Method 2:.....

Explanation:.....

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[4]

- (d) Identify and explain **two** reasons why packaging is important for YOGO's products.

Reason 1:.....

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Explanation:.....

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Reason 2:.....

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Explanation:.....

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[6]

- (e) Do you think Amelia's business would benefit from primary market research? Justify your answer.

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[6]

- 4 DCP makes a range of high quality industrial paints. It sells direct to 6 large business customers which are located in different countries. DCP charges a price of \$0.35 per litre. It operates in a competitive market. The Operations manager has been looking at DCP's costs as shown in Table 2. He wants to increase profit but he does not want to buy cheaper materials.

Table 2: Output and cost information for DCP per week

Output (litres)	1 500 000
Total fixed costs (\$)	350 000
Total material costs (\$)	60 000
Total labour costs (\$)	40 000

- (a) Identify **two** functions of management.

Function 1:.....

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Function 2:.....

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[2]

- (b) Calculate DCP's average cost per litre.

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[2]

- (c) Identify and explain **two** ways in which DCP might communicate with its customers.

Way 1:.....

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Explanation:.....

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Way 2:.....

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Explanation:.....

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[4]

- (d) Identify and explain **two** possible reasons why quality is important to DCP.

Reason 1:.....

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Explanation:.....

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Reason 2:.....

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Explanation:.....

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[6]

- (e) Do you think that charging a higher price is the best way for DCP to increase profit? Justify your answer.

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[6]

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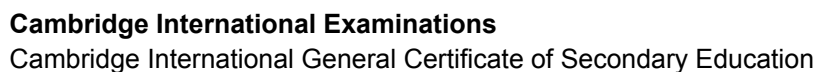
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0450/12

October/November 2016

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CAMBRIDGE
International Examinations

- 1 APQ is a multinational company. It makes chemicals that are sold to farmers which help increase the amount of food produced. It plans to open a factory in country X, a developing country with low interest rates. The Finance Director said: 'This factory will create many external benefits. APQ is a public limited company which tries to act in an ethical way with all its stakeholder groups.' The new factory will cost \$100m and there will be an opportunity cost for APQ. The Finance Director cannot decide which source of finance to use for the new factory.

(a) What is meant by 'opportunity cost'?

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[2]

(b) Identify **two** possible external benefits that might result from the new factory.

Benefit 1:.....

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Benefit 2:.....

.....

[2]

(c) Identify and explain **two** advantages to APQ of being a multinational company.

Advantage 1:.....

.....

Explanation:.....

.....

Advantage 2:.....

.....

Explanation:.....

.....

[4]

- (d) Identify **two** stakeholder groups of APQ. Explain **how** APQ could act in an ethical way with each stakeholder group.

Stakeholder group 1:.....

Explanation:.....

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Stakeholder group 2:.....

Explanation:.....

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[6]

- (e) Explain **two** suitable sources of finance that APQ could use for the new factory. Recommend which source of finance APQ should use. Justify your answer.

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[6]

- 2 \$LAND sells a wide range of products from food to toys. It has 400 shops in country B. \$LAND's marketing strategy is based on penetration pricing. \$LAND does no advertising and buys all its products directly from manufacturers. Revenue and profit have increased despite the country being in recession. The Marketing Director wants to expand the business by opening shops in other countries. He believes \$LAND will be successful in other countries.

(a) What is meant by 'marketing strategy'?

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[2]

(b) What is meant by 'penetration pricing'?

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[2]

(c) Identify and explain **two** possible advantages to \$LAND of advertising.

Advantage 1:.....

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Explanation:.....

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Advantage 2:.....

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Explanation:.....

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[4]

- (d) Identify and explain **one** advantage and **one** disadvantage to \$LAND of buying direct from manufacturers.

Advantage:.....

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Explanation:.....

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Disadvantage:.....

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Explanation:.....

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..... [6]

- (e) Do you think that \$LAND will be successful in other countries? Justify your answer.

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..... [6]

- 3 TKF makes furniture such as beds and tables using job production. TKF has 3 part-time office employees, 8 production workers and 1 manager who is expected to carry out quality control. As the factory is busy, most communication is by email. After a number of customer complaints, the manager thinks TKF has some communication barriers. He believes good internal communication can help TKF be more efficient. The manager is also worried about TKF's cash flow position.

Table 1: Cash flow forecast for TKF (\$000)

	December	January	February
Cash in	35	20	29
Cash out	29	25	26
Net cash flow	6	(5)	3
Opening balance	(3)	3	(2)
Closing balance	3	(2)	1

Figures in brackets are negative.

- (a) What is meant by 'job production'?

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[2]

- (b) What is meant by 'quality control'?

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[2]

- (c) Identify and explain **two** possible communication barriers for TKF.

Barrier 1:.....

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Explanation:.....

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Barrier 2:.....

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Explanation:.....

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[4]

- (d) Identify and explain **two** ways in which good internal communication can help TKF be more efficient.

Way 1:.....

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Explanation:.....

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Way 2:.....

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Explanation:.....

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[6]

- (e) Do you think the manager is right to be worried about TKF's cash flow position? Justify your answer.

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[6]

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- 4 Moeen and Ali plan to start up a small luxury hotel in the centre of a city in country R. They have a budget of \$30 000 to pay for all costs. After researching different types of business organisation, as shown in Table 2, Moeen thinks the hotel should be a private limited company. If the business is to be successful, Ali knows choosing the right location will be important. He cannot decide whether to recruit full-time or part-time employees.

Table 2: Private sector business organisations in country R (millions)

Sole trader	3.0
Partnership	0.5
Private limited company	1.2
Other types of business organisation	0.3

- (a) Identify **two** ways to measure the size of a business.

Way 1:.....

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Way 2:.....

.....

[2]

- (b) Calculate the percentage (%) of businesses in country R which are partnerships.

.....

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[2]

- (c) Identify and explain **two** advantages to Moeen and Ali of forming a private limited company.

Advantage 1:.....

.....

Explanation:.....

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Advantage 2:.....

.....

Explanation:.....

.....

[4]

- (d) Identify and explain **two** factors that might influence Ali's choice of location for the business.

Factor 1:.....

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Explanation:.....

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Factor 2:.....

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Explanation:.....

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[6]

- (e) Do you think it would be better for the business to use full-time or part-time employees? Justify your answer.

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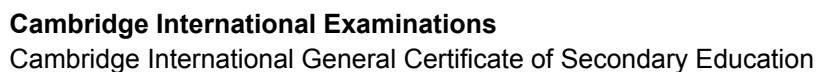
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CAMBRIDGE
International Examinations

- 1 UDig is a large mining company in the private sector. It supplies businesses in country B with 30% of the coal they need. UDig now has eight mines but plans to close two of them and this will threaten 1800 employees with redundancy. The Managing Director said: 'I blame the appreciation of country B's exchange rate and new legal controls including those to protect the environment. The Government should help UDig keep these mines open.'

(a) What is meant by 'private sector'?

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[2]

(b) What is meant by 'redundancy'?

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[2]

(c) Identify and explain **two** ways an appreciation of country B's exchange rate might affect UDig.

Way 1:.....

.....

Explanation:.....

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Way 2:.....

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Explanation:.....

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[4]

- (d) Identify and explain **two** ways in which legal controls might affect UDig.

Way 1:.....

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Explanation:.....

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Way 2:.....

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Explanation:.....

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[6]

- (e) The Managing Director thinks 'the Government should help UDig keep these mines open'. Do you agree? Justify your answer.

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[6]

- 2 GBU is a public limited company. It makes a range of beauty products including shampoo and soaps for the mass market. Last year GBU's revenue fell. The Marketing Director has been looking at the results from its primary market research based on a sample of 2000 consumers. An extract is shown in Fig. 1. She believes maintaining customer loyalty is more important than attracting new customers.

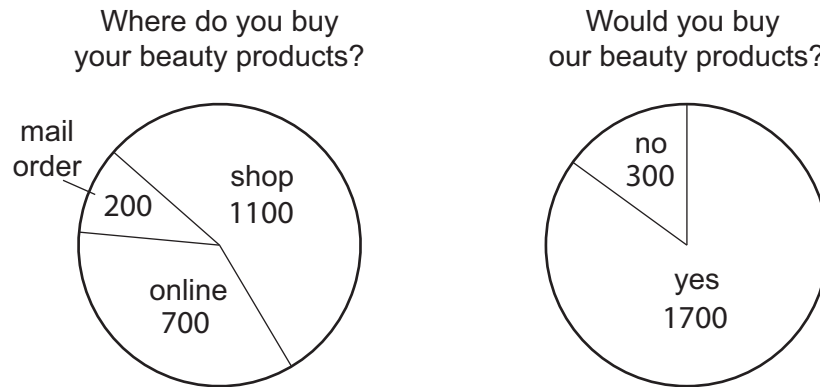


Fig. 1: Extract from GBU's market research

- (a) What is meant by 'mass market'?

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.....

..... [2]

- (b) Calculate the percentage (%) of consumers who buy beauty products online.

.....

..... [2]

- (c) Identify and explain **two** possible reasons why GBU's market research might **not** be useful to the Marketing Director.

Reason 1:.....

.....

Explanation:.....

.....

Reason 2:.....

.....

Explanation:.....

..... [4]

- (d) Identify and explain **two** advantages to GBU of using shops as a channel of distribution.

Advantage 1:.....

.....

Explanation:.....

.....

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Advantage 2:.....

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Explanation:.....

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[6]

- (e) Do you think maintaining customer loyalty should be more important to GBU than attracting new customers? Justify your answer.

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[6]

- 3 Izaak owns a small fish restaurant. He employs two chefs (cooks) and three workers who serve in the restaurant. He has been trying to increase added value to improve profits. Izaak has been looking at the business accounts as shown in Table 1. He thinks fixed costs are too high. Izaak has received a number of complaints about food and service. He knows he must improve quality but cannot decide the best way to do this.

Table 1: Extract from income statements for years ending 30 September 2015 and 2016 (\$000)

	2015	2016
Revenue	300	300
Cost of sales	180	150
Gross profit	120	150
Expenses	90	135
Profit	30	15

- (a) What is meant by 'added value'?

.....

.....

..... [2]

- (b) What is meant by 'cost of sales'?

.....

.....

..... [2]

- (c) Identify and explain **two** ways Izaak could increase revenue.

Way 1:.....

.....

Explanation:.....

.....

Way 2:.....

.....

Explanation:.....

..... [4]

- (d) Identify and explain **two** problems that low quality might cause for Izaak's business.

Problem 1:.....

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Explanation:.....

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Problem 2:.....

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Explanation:.....

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[6]

- (e) Do you think Izaak should be pleased with the financial performance of his business?
Justify your answer using appropriate ratios.

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[6]

- 4 ReBag is a social enterprise. Asha started the business three years ago using micro-finance. ReBag employs 30 women in four small towns in different parts of the country. They work from home and make a range of bags from pieces of old fabric (cloth). Last year ReBag's revenue was \$700. Asha said: 'Our external stakeholders want ReBag to employ women in five more towns. Getting a bank loan to expand the business will be a problem. What will I do about management? How will I communicate? I cannot keep visiting everyone.'

(a) What is meant by a 'social enterprise'?

.....

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.....

[2]

(b) Identify **two** functions of management (other than communication) that Asha performs.

Function 1:.....

.....

Function 2:.....

.....

[2]

(c) Identify **two** external stakeholder groups of ReBag. Explain **why** each stakeholder group might be interested in this business.

External stakeholder group 1:.....

Explanation:.....

.....

.....

External stakeholder group 2:.....

Explanation:.....

.....

.....

[4]

- (d) Identify and explain **two** possible reasons why it might be difficult for ReBag to get a bank loan.

Reason 1:.....

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Explanation:.....

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.....

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Reason 2:.....

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Explanation:.....

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[6]

- (e) Explain **two** possible methods Asha could use to communicate with ReBag workers. Recommend which method she should choose. Justify your answer.

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[6]

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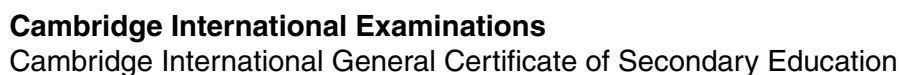
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October/November 2016

1 hour 30 minutes

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- 1 (a) P & P needs to be efficient. Identify and explain **four** methods P & P could use to motivate production workers.

Method 1:

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Explanation:

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Method 2:

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Explanation:

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Method 3:

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Explanation:

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Method 4:

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Explanation:

.....[8]

- (b) P & P has developed a new type of paint. Consider the following **three** factors that will affect the channel of distribution the company will use. Which factor will be the most important when deciding the best channel of distribution? Justify your answer.

Where customers are located:

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How often the product is purchased:

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Where competitors sell their products:

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Conclusion:

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.....[12]

- 2 (a) Identify and explain **two** reasons why P & P might respond to the pressure group and change what the company is doing.

Reason 1:

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Explanation:

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Reason 2:

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Explanation:

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.....[8]

- (b) P & P production results in external costs as outlined in Appendix 3. Consider the external costs and external benefits of the production of paint by P & P. Recommend whether the Government should take any action. Justify your answer.

External costs:

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External benefits:

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Recommendation:

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.....[12]

- 3 (a) P & P has decided to use batch production to produce the new paint. Identify and explain **two** factors which may have influenced this decision.

Factor 1:

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Explanation:

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Factor 2:

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Explanation:

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.....[8]

- (b) Consider the **two** options outlined in Appendix 2 for increasing the output of paint. Recommend which option the directors should choose. Use the cost data in Appendix 2 to help justify your answer.

Option A:

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Option B:

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Recommendation:

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.....[12]

- 4 (a) Identify and explain **two** reasons why added value is important to P & P.

Reason 1:

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Explanation:

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Reason 2:

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Explanation:

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.....[8]

- (b) P & P is planning to start selling its products in other countries by 2018. Consider each of the **three** following changes the company could make. Which one of these changes will be most helpful in selling products to other countries? Justify your answer.

Take over a retail business in one of the other countries:

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Change to a public limited company to raise additional capital:

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Form joint ventures in the other countries:

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Conclusion:

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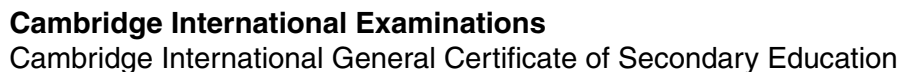
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0450/22

October/November 2016

1 hour 30 minutes

Candidates answer on the Question Paper.

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Answer **all** questions.

The Insert contains the case study.

The business described in this question paper is entirely fictitious.

At the end of the examination, fasten all your work securely together.

The number of marks is given in brackets [] at the end of each question or part question.

The total number of marks for this paper is 80.

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This document consists of **9** printed pages, **3** blank pages and **1** Insert.

- 1 (a) Identify and explain **one** advantage and **one** disadvantage to Ghaziz and Jasmin of being in a business partnership.

Advantage:

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Explanation:

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Disadvantage:

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Explanation:

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.....[8]

- (b) Consider the effects of each of the following changes on the success of GJ. Which change do you think will have the biggest effect on the profit of the business? Justify your answer.

Increasing level of employment in country X:

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Increase in tax on all services in country X:

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Increase in the number of people buying large houses with gardens in country X:

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Conclusion:

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[12]

- 2 (a) (i) Calculate the break-even level of output for the house cleaning service using the information in Appendix 1.

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.....[4]

- (ii) Calculate the weekly profit for the house cleaning service using the information in Appendix 1.

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.....[4]

- (b) Consider **why** the following financial information is important to a bank manager when deciding whether to give Ghaziz and Jasmin a loan to launch the new service. Which do you think is the most important information to the bank manager? Justify your answer.

Break-even level of output:

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Profitability of the business:

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Liquidity of the business:

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Conclusion:

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.....[12]

- 3 (a) Ghaziz and Jasmin plan to expand their business. Identify and explain **one** economy of scale and **one** diseconomy of scale for the business as it expands.

Economy of scale:

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Explanation:

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Diseconomy of scale:

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Explanation:

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.....[8]

- (b) GJ is introducing a new service. Jasmin wants to recruit a manager. Consider the advantages and disadvantages of internal and external recruitment. Recommend which recruitment method Jasmin should use. Justify your answer.

Internal recruitment:

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External recruitment:

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Recommendation:

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.....[12]

- 4 (a) Identify and explain **two** reasons why market research is important to GJ before starting the new service.

Reason 1:

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Explanation:

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Reason 2:

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Explanation:

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.....[8]

- (b) Explain the following **two** elements of the marketing mix for the new service Jasmin is introducing. Which element do you think is more important when the service is in the introduction phase of the product life cycle? Justify your answer.

Price:

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Promotion:

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Conclusion:

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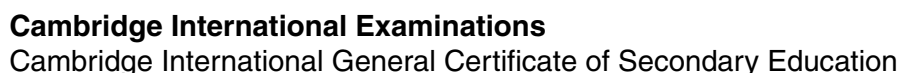
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- 1 (a) Identify and explain **two** possible reasons why Bethany wants the business to remain small.

Reason 1:

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Explanation:

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Reason 2:

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Explanation:

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.....[8]

- (b) Bethany is thinking of forming a business partnership. Explain the following **three** factors Bethany should consider when choosing a partner. Which factor do you think is most important? Justify your answer.

Knowledge of new technology:

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Experience in managing a beauty salon:

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Capital to invest:

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Conclusion:

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.....[12]

- 2 (a) Identify and explain **two** reasons why it is important for Bethany to identify changes in customer preferences.

Reason 1:

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Explanation:

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Reason 2:

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Explanation:

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.....[8]

- (b) Bethany wants to offer a quality service. Consider the following **three** ways she could use to achieve good quality service at the salon. Which do you think is the most important way? Justify your answer.

Only employ highly trained workers:

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Record all customer complaints:

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Buy only the best quality materials to use in the salon:

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Conclusion:

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.....[12]

- 3 (a) Identify **two** fixed costs and **two** variable costs of BB and explain why the costs are fixed or variable.

Fixed cost 1:

Fixed cost 2:

Explanation:

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Variable cost 1:

Variable cost 2:

Explanation:

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.....[8]

- (b) Consider the weekly forecasts in Appendix 2 for the possible additional services. Recommend which service Bethany should choose. Justify your answer using profit calculations for the two services.

Sun tan beds:

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Hairdressing:.....

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Recommendation:

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- 4 (a) Identify and explain **two** reasons why effective communication between Bethany and her employees is important.

Reason 1:

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Explanation:

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Reason 2:

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Explanation:

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.....[8]

- (b) Consider **three** ways new technology could help Bethany improve her business. Recommend which way is likely to have the most effect on profit. Justify your answer.

Way 1:

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Way 2:

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Way 3:

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Recommendation:

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.....[12]

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