



BUSINESS STUDIES

0450/23

Paper 2 Case Study

May/June 2019

MARK SCHEME

Maximum Mark: 80

Published

This mark scheme is published as an aid to teachers and candidates, to indicate the requirements of the examination. It shows the basis on which Examiners were instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began, which would have considered the acceptability of alternative answers.

Mark schemes should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

Cambridge International will not enter into discussions about these mark schemes.

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This syllabus is regulated for use in England, Wales and Northern Ireland as a Cambridge International Level 1/Level 2 Certificate.

This document consists of **14** printed pages.



Generic Marking Principles

These general marking principles must be applied by all examiners when marking candidate answers. They should be applied alongside the specific content of the mark scheme or generic level descriptors for a question. Each question paper and mark scheme will also comply with these marking principles.

GENERIC MARKING PRINCIPLE 1:

Marks must be awarded in line with:

- the specific content of the mark scheme or the generic level descriptors for the question
- the specific skills defined in the mark scheme or in the generic level descriptors for the question
- the standard of response required by a candidate as exemplified by the standardisation scripts.

GENERIC MARKING PRINCIPLE 2:

Marks awarded are always **whole marks** (not half marks, or other fractions).

GENERIC MARKING PRINCIPLE 3:

Marks must be awarded **positively**:

- marks are awarded for correct/valid answers, as defined in the mark scheme. However, credit is given for valid answers which go beyond the scope of the syllabus and mark scheme, referring to your Team Leader as appropriate
- marks are awarded when candidates clearly demonstrate what they know and can do
- marks are not deducted for errors
- marks are not deducted for omissions
- answers should only be judged on the quality of spelling, punctuation and grammar when these features are specifically assessed by the question as indicated by the mark scheme. The meaning, however, should be unambiguous.

GENERIC MARKING PRINCIPLE 4:

Rules must be applied consistently e.g. in situations where candidates have not followed instructions or in the application of generic level descriptors.

GENERIC MARKING PRINCIPLE 5:

Marks should be awarded using the full range of marks defined in the mark scheme for the question (however; the use of the full mark range may be limited according to the quality of the candidate responses seen).

GENERIC MARKING PRINCIPLE 6:

Marks awarded are based solely on the requirements as defined in the mark scheme. Marks should not be awarded with grade thresholds or grade descriptors in mind.

Question	Answer	Marks
1(a)	<p>Identify and explain <u>two</u> reasons why the Government helped Peter start up his new business.</p> <p>Knowledge [2 × 1] Award one mark for each relevant reason Analysis [2 × 1] Award one mark for an explanation of each reason Application [2 × 2] Award two application marks for each reason</p> <p>Answers are likely to include:</p> <ul style="list-style-type: none"> • To increase employment/reduce unemployment – often in particular areas • To increase economic growth – generate income and tax revenue • To increase competitiveness – particularly in markets where there are few businesses competing <p>Indicative response: To increase employment (k) as Peter will need to employ other workers to convert vans (ap). By giving Peter a grant to start his own business (ap) this will reduce unemployment in the area and increase incomes (an).</p> <p>Possible application marks: Motorhome; van conversion; changes vans and large cars; sole trader business; started 2 years ago; plans to expand by offering additional services; needs 3 new skilled and experienced workers; the business Peter worked for failed.</p> <p>There may be other examples in context that have not been included here.</p>	8

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1(b)	<p>Consider the following <u>three</u> pricing methods VC could use for its new products. Which method should Peter choose? Justify your answer.</p> <p>Relevant points might include:</p> <table border="1" data-bbox="316 416 1313 860"> <tbody> <tr> <td data-bbox="316 416 582 555">Penetration pricing</td> <td data-bbox="582 416 1313 555"> <ul style="list-style-type: none"> • Helps a new service enter the market • Helps to ensure sales are made • Lower price may mean lower gross profit </td> </tr> <tr> <td data-bbox="316 555 582 723">Price skimming</td> <td data-bbox="582 555 1313 723"> <ul style="list-style-type: none"> • Help establish the business as a high quality service • May put off many customers as the price is too high </td> </tr> <tr> <td data-bbox="316 723 582 860">Cost plus pricing</td> <td data-bbox="582 723 1313 860"> <ul style="list-style-type: none"> • Easy to apply • Could lose sales if selling price higher than competitors </td> </tr> </tbody> </table> <p>Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.</p> <table border="1" data-bbox="316 1014 1313 1621"> <tbody> <tr> <td data-bbox="316 1014 480 1079"></td> <td data-bbox="480 1014 1313 1079">Knowledge/Analysis/ Evaluation</td> </tr> <tr> <td data-bbox="316 1079 480 1350">Level 3</td> <td data-bbox="480 1079 1313 1350"> At least 2 × Level 2 + 9–10 marks for well justified recommendation of which pricing method to choose and why it is more important than the other methods. 7–8 marks for limited recommendation of which pricing method to choose. </td> </tr> <tr> <td data-bbox="316 1350 480 1487">Level 2</td> <td data-bbox="480 1350 1313 1487"> 4–6 marks Detailed discussion of the benefits and/or drawbacks of each role of packaging. </td> </tr> <tr> <td data-bbox="316 1487 480 1621">Level 1</td> <td data-bbox="480 1487 1313 1621"> 1–3 marks Outline of the advantages and/or disadvantages of each method. </td> </tr> </tbody> </table>	Penetration pricing	<ul style="list-style-type: none"> • Helps a new service enter the market • Helps to ensure sales are made • Lower price may mean lower gross profit 	Price skimming	<ul style="list-style-type: none"> • Help establish the business as a high quality service • May put off many customers as the price is too high 	Cost plus pricing	<ul style="list-style-type: none"> • Easy to apply • Could lose sales if selling price higher than competitors 		Knowledge/Analysis/ Evaluation	Level 3	At least 2 × Level 2 + 9–10 marks for well justified recommendation of which pricing method to choose and why it is more important than the other methods. 7–8 marks for limited recommendation of which pricing method to choose.	Level 2	4–6 marks Detailed discussion of the benefits and/or drawbacks of each role of packaging.	Level 1	1–3 marks Outline of the advantages and/or disadvantages of each method.	12
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Question	Answer	Marks
1(b)	<p>Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Penetration pricing means the service is sold for a low price to help it enter the market.</p> <p>Level 2 – 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. Penetration pricing means the service is sold for a low price to help it enter the market and attract customers away from competitors. However, it will result in lower gross profit whilst the prices are kept low and customers may think the service is low quality if the price is too low. (L2)</p> <p>Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation of which pricing method to choose.</p> <p>Award up to 2 additional marks for relevant application.</p> <p>Possible application marks: Motorhome; van conversion; changes vans and large cars; sole trader business; started 2 years ago; plans to expand by offering additional services; needs 3 new skilled and experienced workers; financial information from appendix 3.</p> <p>There may be other examples in context that have not been included here.</p>	

Question	Answer	Marks
2(a)	<p>Identify and explain <u>two</u> possible reasons for the failure of the business that Peter used to work for.</p> <p>Knowledge [2 × 1] Award one mark for each relevant reason Analysis [2 × 1] Award one mark for an explanation of each reason Application [2 × 2] Award two application marks for each reason</p> <p>Answers are likely to include:</p> <ul style="list-style-type: none"> • Poor management – lack of experience leading to bad decisions • Failure to plan for change – not reacting to changes in technology, markets or economic changes • Poor financial management – leading to shortage of cash/cash flow problems • Over-expansion – problems with finance and management if grows too quickly <p>Indicative response: Poor management (k) as the owner had not been able to pay its suppliers of car parts (ap). The owner did not have the experience to deal with car repair businesses entering in the market (ap) and this may have resulted in cash flow problems as the owner ran out of cash (an).</p> <p>Possible application marks: Motorhome; van conversion; changes vans and large cars; sole trader business; started 2 years ago; financial information from appendix 3; the previous employer lacked management experience; had been unable to pay its suppliers of car parts; car repair business.</p> <p>There may be other examples in context that have not been included here.</p>	8

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2(b)	<p>Consider the following <u>three</u> ways Peter could recruit a new skilled worker. Recommend which would be the best way to use. Justify your answer.</p> <p>Relevant points might include:</p> <table border="1" data-bbox="316 450 1310 1529"> <thead> <tr> <th data-bbox="316 450 528 515"></th> <th data-bbox="528 450 906 515">Benefits</th> <th data-bbox="906 450 1310 515">Drawbacks</th> </tr> </thead> <tbody> <tr> <td data-bbox="316 515 528 786">Ask family and friends if they know someone suitable</td> <td data-bbox="528 515 906 786"> <ul style="list-style-type: none"> • Cheap as no cost involved • Quick to carry out • Personal qualities known as coming recommended – more likely to be honest </td> <td data-bbox="906 515 1310 786"> <ul style="list-style-type: none"> • May not be a wide range of people known to family/friends • Friends may not know the type of person who will be suitable </td> </tr> <tr> <td data-bbox="316 786 528 1160">Use a job vacancy website</td> <td data-bbox="528 786 906 1160"> <ul style="list-style-type: none"> • Wide range of people may see it • more likely to be seen by someone with suitable skills </td> <td data-bbox="906 786 1310 1160"> <ul style="list-style-type: none"> • Suitable people may not see the job advertisement unless they are looking for a new job • It may be a website for many different types of jobs and the job may be lost amongst the many jobs advertised on it </td> </tr> <tr> <td data-bbox="316 1160 528 1529">Use a recruitment agency</td> <td data-bbox="528 1160 906 1529"> <ul style="list-style-type: none"> • Saves time as do not need to carry out own recruitment • Sends suitable people so saves time interviewing • Already gone through earlier selection procedures </td> <td data-bbox="906 1160 1310 1529"> <ul style="list-style-type: none"> • Have to pay the agency – it is expensive • May have to keep paying the agency part of the wages • Lower wages for the person recruited – may leave for competitor who pays the going wage rate </td> </tr> </tbody> </table>		Benefits	Drawbacks	Ask family and friends if they know someone suitable	<ul style="list-style-type: none"> • Cheap as no cost involved • Quick to carry out • Personal qualities known as coming recommended – more likely to be honest 	<ul style="list-style-type: none"> • May not be a wide range of people known to family/friends • Friends may not know the type of person who will be suitable 	Use a job vacancy website	<ul style="list-style-type: none"> • Wide range of people may see it • more likely to be seen by someone with suitable skills 	<ul style="list-style-type: none"> • Suitable people may not see the job advertisement unless they are looking for a new job • It may be a website for many different types of jobs and the job may be lost amongst the many jobs advertised on it 	Use a recruitment agency	<ul style="list-style-type: none"> • Saves time as do not need to carry out own recruitment • Sends suitable people so saves time interviewing • Already gone through earlier selection procedures 	<ul style="list-style-type: none"> • Have to pay the agency – it is expensive • May have to keep paying the agency part of the wages • Lower wages for the person recruited – may leave for competitor who pays the going wage rate 	12
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3(a)	<p>Identify and explain <u>two</u> reasons why building customer relationships is important for VC.</p> <p>Knowledge [2 × 1] Award one mark for each relevant reason Analysis [2 × 1] Award one mark for an explanation of each reason Application [2 × 2] Award two application marks for each reason</p> <p>Answers are likely to include:</p> <ul style="list-style-type: none"> • Getting to know customers' wants by asking them – makes them loyal to the business – retains customers and reputation • To identify what customers want from the van conversion – Peter can adapt the service to meet customer needs • Peter wants to maintain a good reputation – so customers tell others about the business and increase advertising by word of mouth – increase sales • Increase customer loyalty <p>Indicative response: By having a good relationship with customers Peter can ask them about what they want (k). This means Peter must find out what sort of van conversions customers might want. (ap) If Peter then offers these services he will be more likely to attract customers to VC (an) and the business will continue to grow as this is what Peter wants as his main business objective. (ap)</p> <p>Possible application marks: Motorhome; van conversion; changes vans and large cars; sole trader business; started 2 years ago; plans to expand by offering additional services; financial information from Appendix 3; main business objective is growth; job production; every vehicle is different.</p> <p>There may be other examples in context that have not been included here.</p>	8

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3(b)	<p>Consider how the following three factors can affect the accuracy of the questionnaire data. Which is the most important factor for achieving accurate results? Justify your answer.</p> <p>Relevant points might include:</p> <table border="1" data-bbox="316 450 1315 1126"> <tbody> <tr> <td data-bbox="316 450 587 651">Sample size</td> <td data-bbox="587 450 1315 651"> <ul style="list-style-type: none"> Larger size will mean more accurate results but more expensive to carry out Smaller sample size will mean there is less likelihood of this being representative of the market </td> </tr> <tr> <td data-bbox="316 651 587 925">Location where questionnaire is carried out</td> <td data-bbox="587 651 1315 925"> <ul style="list-style-type: none"> If carried out in the city then may not ask people who are interested in van conversions – so results will be less reliable If carefully selected area such as near campsites for camper vans or motorhomes then the results will be more accurate as people interested in these conversions will be sampled </td> </tr> <tr> <td data-bbox="316 925 587 1126">Questions asked</td> <td data-bbox="587 925 1315 1126"> <ul style="list-style-type: none"> If badly phrased questions are asked then the results will be less likely to be truly what the respondents think Closed questions will not gain qualitative information </td> </tr> </tbody> </table> <p>Knowledge/Analysis/Evaluation – award up to 10 marks using the level levels-based mark scheme below.</p> <table border="1" data-bbox="316 1261 1315 1861"> <thead> <tr> <th data-bbox="316 1261 507 1328"></th> <th data-bbox="507 1261 1315 1328">Knowledge/Analysis/ Evaluation</th> </tr> </thead> <tbody> <tr> <td data-bbox="316 1328 507 1630">Level 3</td> <td data-bbox="507 1328 1315 1630"> At least 2 × Level 2 + 9–10 marks for well justified conclusion as to which is the most important factor in ensuring accurate results compared to other factors. 7–8 marks for some limited judgement shown in conclusion as to which is the most important factor in ensuring accurate results. </td> </tr> <tr> <td data-bbox="316 1630 507 1765">Level 2</td> <td data-bbox="507 1630 1315 1765"> 4–6 marks Detailed discussion of the benefits and/or drawbacks of each factor. </td> </tr> <tr> <td data-bbox="316 1765 507 1861">Level 1</td> <td data-bbox="507 1765 1315 1861"> 1–3 marks Outline of the benefits and/or drawbacks of each factor. </td> </tr> </tbody> </table>	Sample size	<ul style="list-style-type: none"> Larger size will mean more accurate results but more expensive to carry out Smaller sample size will mean there is less likelihood of this being representative of the market 	Location where questionnaire is carried out	<ul style="list-style-type: none"> If carried out in the city then may not ask people who are interested in van conversions – so results will be less reliable If carefully selected area such as near campsites for camper vans or motorhomes then the results will be more accurate as people interested in these conversions will be sampled 	Questions asked	<ul style="list-style-type: none"> If badly phrased questions are asked then the results will be less likely to be truly what the respondents think Closed questions will not gain qualitative information 		Knowledge/Analysis/ Evaluation	Level 3	At least 2 × Level 2 + 9–10 marks for well justified conclusion as to which is the most important factor in ensuring accurate results compared to other factors. 7–8 marks for some limited judgement shown in conclusion as to which is the most important factor in ensuring accurate results.	Level 2	4–6 marks Detailed discussion of the benefits and/or drawbacks of each factor.	Level 1	1–3 marks Outline of the benefits and/or drawbacks of each factor.	12
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3(b)	<p>Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. A larger sample size will mean more possible customers will answer it.</p> <p>Level 2 – 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. A larger sample size will mean more possible customers will answer the questionnaire giving more accurate results. However, to ask more people will take more time to gather the data and more time to analyse it. This will all cost Peter more money and so he may have to just ask a small number of people but try to ensure the sample is from the target market. (L2)</p> <p>Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation as to which is the most important factor in ensuring accurate results.</p> <p>Award up to 2 additional marks for relevant application.</p> <p>Possible application marks: Motorhome; van conversion; changes vans and large cars; sole trader business; started 2 years ago; plans to expand by offering additional services; financial information from appendix 3.</p> <p>There may be other examples in context that have not been included here.</p>	

Question	Answer	Marks
4(a)	<p>Identify and explain <u>one</u> advantage and <u>one</u> disadvantage to VC of using job production.</p> <p>Knowledge [2 × 1] Award one mark for each relevant advantage/disadvantage Analysis [2 × 1] Award one mark for an explanation of each advantage/disadvantage Application [2 × 2] Award two application marks for each advantage/disadvantage</p> <p>Answers are likely to include:</p> <p>Advantages:</p> <ul style="list-style-type: none"> • It is suitable for these one-off personalised van conversions – each one is different according to customer preferences – can charge higher prices • The service meets the exact requirements of the customer – increasing customer satisfaction • More interesting and varied work for employees – can be more motivating than flow or batch production <p>Disadvantages:</p> <ul style="list-style-type: none"> • Likely for higher wages to be paid to skilled workers – costs are higher • Labour-intensive production often takes longer – as each job is different – it may take more time to complete a customer order • Materials used may need to be ordered separately – take time to arrive as made especially to order and any mistakes will be expensive to replace • Cannot easily be sold to someone else – materials may have to be specially purchased – increasing costs <p>Indicative response: Service meets the exact requirements of the customer (k) so increases customer satisfaction leading to good image for the business and increase sales. (an) The vans will be converted in the exact way the customer wants (ap) and then when travelling round other people will see the van and if they like the inside, such as a cooker included, then they may be more likely to ask VC to undertake a conversion for them. (ap)</p> <p>Possible application marks: Motorhome; van conversion; changes vans and large cars; sole trader business; started 2 years ago; plans to expand by offering additional services; needs 3 new skilled and experienced workers; financial information from appendix 3; ordering car parts.</p> <p>There may be other examples in context that have not been included here.</p>	8

Question	Answer	Marks												
4(b)	<p data-bbox="316 248 1286 349">Using Appendix 3 and other information, consider whether Peter should be worried about VC’s profitability. Justify your answer using profitability ratios.</p> <p data-bbox="316 383 746 416">Relevant points might include:</p> <table border="1" data-bbox="316 450 1313 1249"> <tbody> <tr> <td data-bbox="323 461 619 748">Profitability ratios L2</td> <td data-bbox="619 461 1305 748"> <p data-bbox="635 472 855 595">2017: GPM = 20% NPM = 5% ROCE = 16.66%</p> <p data-bbox="635 607 815 730">2018: GPM = 14% NPM = 4% ROCE = 15%</p> </td> </tr> <tr> <td data-bbox="323 748 619 1238">Basic statements L1</td> <td data-bbox="619 748 1305 1238"> <p data-bbox="635 770 1002 898">2017: Gross profit = \$ 20 000 (Net) Profit = \$5000 Capital employed = \$30 000</p> <p data-bbox="635 909 1002 1037">2018: Gross profit = \$21 000 (Net) profit = \$6000 Capital employed = \$40 000</p> <p data-bbox="635 1070 1042 1104">Revenue increased by \$50 000</p> <p data-bbox="635 1137 1094 1171">Cost of sales increased by \$49 000</p> <p data-bbox="635 1205 1169 1238">Expenses remained the same at \$15 000</p> </td> </tr> </tbody> </table> <p data-bbox="316 1290 1193 1323">Award up to ten marks using the levels-based mark scheme below.</p> <table border="1" data-bbox="316 1357 1313 1951"> <tbody> <tr> <td data-bbox="323 1368 451 1413"></td> <td data-bbox="451 1368 1305 1413">Knowledge/Analysis/ Evaluation</td> </tr> <tr> <td data-bbox="323 1424 451 1648">Level 3</td> <td data-bbox="451 1424 1305 1648"> <p data-bbox="467 1435 1249 1536">At least 2 × Level 2 profitability ratios 9–10 marks for well justified conclusion as to whether Peter should be worried about VC’s profitability.</p> <p data-bbox="467 1570 1281 1637">7–8 marks for some limited judgement shown in conclusion as to whether Peter should be worried about VC’s profitability</p> </td> </tr> <tr> <td data-bbox="323 1659 451 1783">Level 2</td> <td data-bbox="451 1659 1305 1783"> <p data-bbox="467 1671 1137 1771">4–6 marks Profitability ratios correctly calculated and analysed Analysis of financial information in Appendix 3</p> </td> </tr> <tr> <td data-bbox="323 1794 451 1939">Level 1</td> <td data-bbox="451 1794 1305 1939"> <p data-bbox="467 1805 1222 1928">1–3 marks Outline of changes in financial position without profitability ratios calculated. Formula for profitability ratios</p> </td> </tr> </tbody> </table>	Profitability ratios L2	<p data-bbox="635 472 855 595">2017: GPM = 20% NPM = 5% ROCE = 16.66%</p> <p data-bbox="635 607 815 730">2018: GPM = 14% NPM = 4% ROCE = 15%</p>	Basic statements L1	<p data-bbox="635 770 1002 898">2017: Gross profit = \$ 20 000 (Net) Profit = \$5000 Capital employed = \$30 000</p> <p data-bbox="635 909 1002 1037">2018: Gross profit = \$21 000 (Net) profit = \$6000 Capital employed = \$40 000</p> <p data-bbox="635 1070 1042 1104">Revenue increased by \$50 000</p> <p data-bbox="635 1137 1094 1171">Cost of sales increased by \$49 000</p> <p data-bbox="635 1205 1169 1238">Expenses remained the same at \$15 000</p>		Knowledge/Analysis/ Evaluation	Level 3	<p data-bbox="467 1435 1249 1536">At least 2 × Level 2 profitability ratios 9–10 marks for well justified conclusion as to whether Peter should be worried about VC’s profitability.</p> <p data-bbox="467 1570 1281 1637">7–8 marks for some limited judgement shown in conclusion as to whether Peter should be worried about VC’s profitability</p>	Level 2	<p data-bbox="467 1671 1137 1771">4–6 marks Profitability ratios correctly calculated and analysed Analysis of financial information in Appendix 3</p>	Level 1	<p data-bbox="467 1805 1222 1928">1–3 marks Outline of changes in financial position without profitability ratios calculated. Formula for profitability ratios</p>	12
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4(b)	<p>Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. The gross profit in 2018 was \$1,000 more than in 2017.</p> <p>Level 2 – 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. The gross profit margin for the motorhome business in 2017 was 20%. (L2 plus application for referring to the products being motorhomes).</p> <p>Level 3 – For L3 to be awarded there needs to be at least two correct L2 profitability calculations and then a conclusion of whether or not Peter should be pleased with the figures.</p> <p>Award up to 2 additional marks for relevant application.</p> <p>Possible application marks: Motorhome; van conversion; changes vans and large cars; sole trader business; started 2 years ago; plans to expand by offering additional services; needs 3 new skilled and experienced workers; figures from Appendix 3 used to support L1/L2/L3 answers.</p> <p>There may be other examples in context that have not been included here.</p>	