

CAMBRIDGE

INTERNATIONAL EXAMINATIONS

Script A with marks – paper 1

**IGCSE Business Studies
0450/01**

June 2002



UNIVERSITY *of* CAMBRIDGE
Local Examinations Syndicate

Candidate Name _____

Centre Number _____ Candidate Number _____

**International General Certificate of Secondary Education
CAMBRIDGE INTERNATIONAL EXAMINATIONS**

**0450/1
MAY/JUNE SESSION 2002**

**BUSINESS STUDIES
PAPER 1**

1 hour 45 minutes

Candidates answer on the question paper.
No additional materials are required.

TIME 1 hour 45 minutes

INSTRUCTIONS TO CANDIDATES

Write your name, Centre number and candidate number in the spaces provided at the top of this page.

Answer **all** questions.

Write your answers in the spaces provided on the question paper.

INFORMATION FOR CANDIDATES

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

The businesses mentioned in the questions are entirely fictitious.

FOR EXAMINER'S USE	
1	20
2	16
3	12
4	16
5	13
TOTAL	77

This question paper consists of 12 printed pages.

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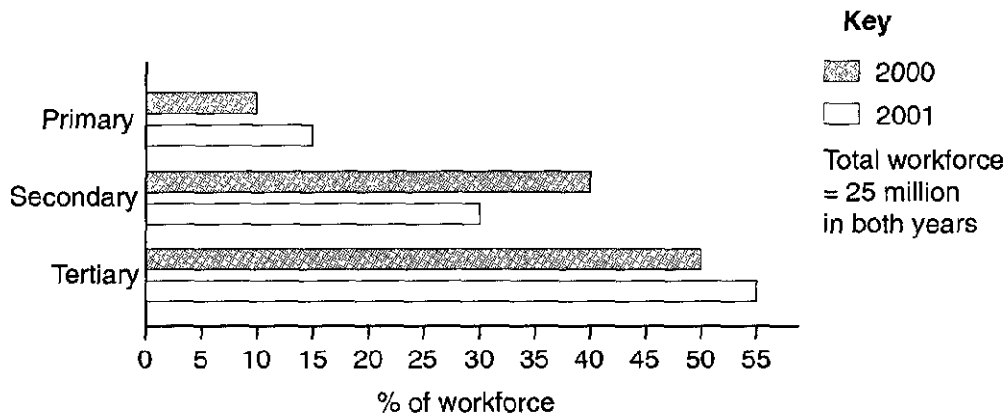


Fig. 1

(a) Using the data given in Fig. 1,

(i) state the % of the workforce employed in primary activities in 2000,

10 %

[1]

(ii) calculate the number of people employed in tertiary activities in 2001.

$\frac{55}{100} \times 25,000,000 = 13,750,000$ people employed

[2]

(b) Explain why, in many countries, the percentage of the workforce employed in tertiary activities is increasing.

This happens due to the emergence of new higher paying jobs in the tertiary sector for example the internet boom of 2000. This means that more people move into urban centers to work in tertiary activities.

Also, as the technology used in the primary and secondary sectors advances, there is increased unemployment, forcing workers into urban centers to look for work which tends to be in the tertiary sector.

[3]

(c) Two large drink manufacturing companies have just merged creating a monopoly.

(i) What is meant by a monopoly?

This is when a single business is the only player in a particular market or has the largest market share and their operators however they like, that is by for example setting their own high prices. An example of a monopoly is Telkom Kenya. [2]

(ii)
- consumers
- market share
- fixed costs
- new ideas
- profits

Explain what advantages the companies would expect to gain from this merger.

By merging, the two companies have created a monopoly in the industry. This means that they are able to set their prices as high or as low as their competitors or they wish. Also with so many decisions, the new company will be generating at least double if not triple the revenue generated by a single firm. This money can be used to further expand the business by hostile takeover of rivals for example. The merger also reduces the business's fixed costs which can be used as collateral on larger bank loans. The merger also creates a source of new ideas for the business. [4]

(iii)
- can exploit
- redundancies
- small bus. units

Consumer groups objected to the creation of this monopoly. Why do you think they did this?

The first reason is that the consumers feel that the monopoly may exploit them by for example setting high drink prices. The monopoly may also strangle other smaller drink firms and thus be able to further exploit consumers as there will be no competition to the monopoly.

The monopoly may also lead to staff redundancies since after the merger, there is duplication of labour, hence the large staff cuts. The monopoly also reduces consumer choice in the sense that foreign drink makers will not enter this market due to the established monopoly. [4]

- (d) A market economy exists in many countries. Identify the main features of such a system.

In a market economy, business activities are mainly under the control of individuals and not government as in a planned economy. These individuals control business activities based on consumer needs and wants meaning there is a wide choice of goods available. Also, in a market economy, wealth is widely shared, there are rich and poor people.

The government however indulges in very expensive and sometimes non-profit making businesses such as electricity generation and delivery.

[4]

4
20

- 2 A balance sheet records the assets and liabilities of a business.

- (a) (i) Give an example of an asset usually found in a balance sheet.

Motor Vehicles ✓ [1]

- (ii) Explain what is meant by a liability.

A liability is a payment that a business has to make over a period less than a year, (short term liability) for example ^{Creditors} ~~debtors~~ and a period exceeding a year (long term liability) for example a long-term bank loan. [2]

- (iii) Why do businesses often make use of trade credit?

Through the use of trade credit, a business can purchase raw materials even though they do not have the money, use them to make products, sell them and make a profit and pay their suppliers. This means the business can remain operational without having any money or being forced to borrow money to purchase raw materials, which is an expensive undertaking. [3]

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(iv) Explain what is meant by shareholders' funds.

There are funds that the management of a public limited company keep aside to use in times of need such as in expansion of the business.

[2]

(b) 'Company Y made a profit of \$200 million in 2001. This is far too large,' said the Bombay Evening News.

(i) What might a company do with the profits that it makes?

- a company may decide to use the profits to finance its expansion either internally by purchasing fixed assets or external by buying other companies.
- it may decide to invest the money into shares or fixed deposit accounts so that they can interest on that money and use it later.
- it may decide to give it to staff as bonuses so as to ensure the continued high motivation of its workers.
- it may pay its shareholders a high dividend or apply to bank their and other foreign investment into the business.

[4]

(ii) \$200 million seems like a large profit. How might the Government judge if this profit was 'far too large'?

The first way of doing this is to compare the figure with the tax paid by the firm. If the tax is too low, the Government will judge the firm was evading tax or the figure is exaggerated. Secondly, the audits done by the accountants could give an indication of the truth, especially when compared to previous records and presents.

The Government may also compare the company figure against its competitors and judge the figure declared if it is at all realistic.

[4]

- (c) When a company borrows money from a bank it sometimes has to give security for the loan.

(i) Explain what this means.

This means that for the duration of time it takes the business to pay the loan, the bank takes ownership of an asset of the business for example a building title deed which is valued at or above the loan amount. [2]

(ii) Why might the bank require such security?

The business requires security so that if for some reason the business cannot pay the loan, it may sell the security and recover its money. The bank therefore is secured in the sense that it will one way or other always recover its money. [2]

- 3 (a) (i) Identify two pricing methods that a business could use.

- psychological pricing
- penetration pricing [2]

(ii) Explain the advantages to a business of each of your two chosen methods.

Penetration pricing is good in the sense that it allows the business to attract many clients from its competitors since they set their prices below that of the competitors. This helps to build consumer loyalty quickly.

The advantage of psychological pricing is that by for example setting a price of 999 and not 1000, the business attracts customers, especially bargain hunters who feel their price is more consumer friendly than that of their competitors. [4]

- (b) Let's Go Ltd have just launched a new bicycle aimed at the 5–10 year old market segment. Apart from price, explain other factors that the company should consider when deciding how to market this product.

- Market Segment:

The company should decide which particular market they aim to reach in terms of social class - whether the bicycle is for all classes or a particular niche market, for example for wealthy children.

- Product:

The company has to look at the product and decide how the product should be marketed. If it is a racing bicycle, the bicycle has to be featured in a 'fast-moving' commercial for example.

2

[6]

- (c) Let's Go Ltd have developed this bicycle in response to the results of market research.

- (i) Do you think that Let's Go Ltd is a market orientated business or a product orientated business? Justify your answer.

I think it is a market orientated business since it developed the bicycle based on consumer response to their market research. If they were product orientated, they would develop a bicycle and thrust it on the market without the use of market research.

[2]

2

- (ii) If enough bikes could be sold, Let's Go Ltd could benefit from economies of scale. Using examples, explain what production economies of scale Let's Go Ltd could expect to achieve.

The production economies of scale expected could be a fall in per unit cost of a product since by using machines, less labour is required meaning a drop in wages paid.

The machinery may also mean that Let's Go can now produce enough bicycles to meet consumer demand.

[6]

- 4 A car manufacturing business wants to recruit extra skilled engineers.

- (a) (i) In the spaces provided in the job advertisement, shown in Fig. 2, add **two** items of information that should be included in a good job advertisement.

Garrett Automobiles plc	
Skilled Engineers Wanted	
As a result of the continued expansion in our company we wish to recruit extra engineers to work on the installation of a new production line.	
• 40 hour week	
• Salary \$25000 per year	
• Good promotion prospects	
• ...immaculate working environment	✓
• ...attractive bonuses awarded	✓

Fig. 2

[2]

- (ii) Explain why you think that the information that you have added is important.

The immediate working condition tells the job applicant that they shall be working in a pleasant, dear environment which is very conducive to their job. This could help attract workers who currently hate their working conditions and are seeking a change. Attractive bonuses show a potential applicant that the business is always on the look out for excellence in the business and does not fail to acknowledge achievement which their current employer may not be doing. [4]

- (iii) Explain where you think the business should place such an advertisement.

I think this advert should be placed in national and regional newspapers to attract many applicants and this also in engineering and manufacturing trade journals. [2]

- (b) Some businesses want to reduce the number of employees. Explain the difference between dismissal and redundancy (retrenchment).

Dismissal is when an employee is found to do or has done something unacceptable and is sacked on the spot without receiving any leaving benefits such as a lumpsum payment. Retrenchment is when an employee is sacked as a result of staff cut backs and they are paid all their dues and usually also receive retirement packages such as a lumpsum payment. [4]

- (c) Trade unions often try to increase the wages of their members. What arguments might they use to justify such increases during their wage negotiations?

→ They may use the company output level to workers to show that the workers are very hard working and deserve higher wages.

→ They may compare the wages and benefits of workers of other firms and work for the same or better.

→

[4]

- (d) 'If wages increase, profits must fall.' Do you agree with this statement? Justify your answer.

I agree to a certain extent. This is true because wages are an expense which by increasing it, lowers the profits made. However, this statement may not be true since paying the workers more may raise their motivation and output, leading to more sales, hence profits. Thus the profits will not fall and may instead rise.

[4]

- 5 (a) (i) What are the characteristics of a multinational (transnational) company?

- they operate in many countries other than their home country.
- they have subsidiaries all over the world.
- they are responsible for the employment of many people around the globe.

[3]

(ii) Why do you think that the number of such companies is increasing?

- source of many ideas from around the globe
- source of cheap labour in developing nations for manufacturing ✓
- penetrate new markets to avoid competition.
- research and development of new products in developing nations.

[3]

(b) A construction company is planning to build a new business park (zone) on the edge of town Z. Identify and explain the social costs and benefits that need to be considered by the government planning authorities.

The benefits are that:

- the business zone will encourage businesses to move away from the CBD, thus reducing noise, traffic and pollution in town. ✓
- the construction and subsequent use of the park will boost employment in the area. ✓
- the business park will lead to the development of infrastructure for example road links in the area where it shall be. ✓
- the business park may be using land which was previously derelict for example the London Docklands. ✓

The social costs are that:

- residents of the area may be displaced by the park and require relocation elsewhere. This may lead to protests and demonstrations. ✓
- the park may bring a lot of pollution, noise and traffic to the area. ✓
- like in the London Docklands, the development of the land raises land prices which the previous residents may not afford and may thus end up homeless. ✓
- Especially in capital intensive businesses, the park may not necessarily lower [8] unemployment in the area.

(c) Often laws are introduced to protect consumers. Give **three** examples of how consumers might benefit from such laws.

- restricting the locations of factories from residential areas means that consumers live in clean areas without harmful factory pollution.
- banning monopolies ensures that consumers have a wide choice of products at a cheaper price due to increase market competition. A good example of such a law is the USA anti-trust law.
- setting up a law on quality means that consumers can expect to receive high quality products and can get their money back if they are not satisfied by their purchases.

[6]

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