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## FOREWORD

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This booklet contains reports written by Examiners on the work of candidates in certain papers. **Its contents are primarily for the information of the subject teachers concerned.**

# BUSINESS STUDIES

## GCE Advanced Level and GCE Advanced Subsidiary Level

Paper 9707/01  
Short Answer and Essay

### General comments

This Paper proved to be accessible to most candidates and very few candidates indicated problems relating to the amount of time available for providing answers. However, as noted in the 'Comments on specific questions', candidates should avoid giving excessively long answers to questions in **Section A** where relatively few marks are allocated to each question and each part of the questions.

Candidates should ensure that each question is clearly understood before answers are written. For example, responding to the word 'what' rather than 'how' is likely to lead to the loss of a significant amount of marks.

When choosing an essay to answer in **Section B** candidates need to ensure that both parts of the question can be answered well (as in **Questions 5** and **7** in this Paper). A number of candidates demonstrated that they were able to answer part **(a)** far better than part **(b)**. This might have resulted from an inappropriate choice of question – it might also have been the result of a weaker performance where application of concepts was required. Candidates are reminded that explanation and recognition of subject content alone is not likely to lead to high marks in these essays.

### Comments on specific questions

#### **Section A**

##### **Question 1**

- (a)** The majority of candidates were able to identify two relevant methods of measuring the size of a business. Appropriate responses included level of profits and/or sales, number of employees, level of capital investment or value of fixed assets, share of market, share price or level of turnover.

Weaker candidates, however, focused on concepts such as organisation structure and legal status which did not gain credit.

- (b)** This section was not so well answered. Strong answers identified issues such as the difficulty of comparing the size of companies in different sectors, in different locations, with different management styles, objectives, cost structures, and accounting methods. The problem of comparing companies with different levels of employees and capital investment levels was a feature of many successful responses.

Weaker candidates failed to identify some inherent contradictions in attempting to measure and compare the size of different businesses. For example, a 'large company' with few employees, a 'small' company with many more employees.

## Question 2

- (a) Most candidates explained that a market-orientated business is very much concerned with the needs and wants of customers and consumers. Few candidates, however, explained the link between customer sensitivity and *success*. The link between market orientation and successful sales and potential profitability needed to be made explicit to achieve the full two marks for this part.
- (b) Some candidates gave only a descriptive response to this question with little or no link between the product life cycle and the role and function of a marketing manager.

Stronger answers explained and applied the product life cycle concept and gave examples of how a marketing manager might seem to intervene at various stages as part of a marketing strategy for a product. Appropriate marketing actions such as promotion, pricing and product differentiation were presented to explain how a marketing manager might act at various stages of a product's life (e.g. maturity stage requiring an extension strategy).

It is important to note that there were only 3 marks available for this part. Some candidates may have spent too much time giving too much descriptive material on the product life cycle. A brief explanation (perhaps with the use of a diagram) would have allowed more time for analysis.

## Question 3

Answers to this question were very variable with many candidates not responding to the 'how' in the question but giving a description of 'what' legal constraints existed. An answer such as that did not explain how such constraints might inhibit business activity.

Good answers identified appropriate legislation such as anti-pollution legislation which might impact on the costs of a business (for example, in installing sophisticated equipment) thus reducing money available for other projects such as new product development.

Weaker candidates simply identified economic factors such as taxation and trade restrictions without following through the arguments and linking them to limitations on business activity.

## Question 4

- (a) The common response to this question was a reference to 'wear and tear' associated with fixed assets. Weak answers referred to different methods of depreciation (a different question) with no reference to the specific issue in the question, why depreciate fixed assets?

Good answers identified the fact that fixed assets are depreciated in order to spread their cost over their anticipated economic life. Such answers often also related the concept to either the Profit and Loss Account and/or the Balance Sheet.

A common misconception stated by weaker candidates was that depreciation was money set aside to pay for repairs or for replacement machinery.

- (b) Strong candidates were able to explain that a focus on the payback period concept might be a very important factor for a business if cash flow was an important issue.

A recognition that the payback period is linked to an appraisal technique often led to confident answers that referred to the importance of 'payback period' as a factor in deciding between alternative investment projects.

Details of how to calculate payback were not, however, required for this question. A major error was to describe the payback period as a period of credit given to a business within which to repay debt.

## Section B

### Question 5

- (a) This part was generally better answered than part (b). The majority of candidates who chose this question were able to put forward a number of valid advantages that could be gained by a private limited company converting to a public limited company (e.g. access to capital, opportunities for growth).

Discussing the disadvantages seemed to present more of a problem – issues such as impact on ownership and control, relations with stock markets and multiple shareholders were often ignored.

Some candidates spent time discussing largely non-relevant issues such as the details of regulations after conversion.

Unfortunately a significant number of candidates confused the term ‘public limited company (plc)’ with a nationalised or government owned company – such answers were awarded little or no credit.

- (b) Weaker candidates were unable to understand the difference between shareholders and stakeholders (the latter might include employees, managers, suppliers, customers and government) and were thus unable to respond to the question effectively. Such candidates often developed an answer explaining the difference between various types of shareholders (e.g. preference, ordinary and debentures). This limited approach was awarded little credit.

Good answers identified a range of internal and external stakeholders (including shareholders) and identified different objectives held by each group. The potential conflict between shareholders seeking dividend yield from profitability and employees seeking an increase in wages was a typical example which was awarded high marks.

### Question 6

Most candidates attempting this question demonstrated some knowledge of various motivation theories (though some were attributed to the wrong theorist). Good answers retained focus on the ‘to what extent’ element in the question and also to the ‘financial reward’ aspect. References to theorists such as Taylor and Maslow were used to explain how some people might be motivated by money while others might find other reasons and motives for performance.

Weaker candidates often outlined the ideas of various theorists without reference to the issue of financial reward - such answers lacked analysis or critique and were often based on personal experience and general knowledge rather than based upon business studies theory or practice.

### Question 7

- (a) Most candidates were able to identify relevant factors for consideration when relocating a factory though not all of the factors were always relevant to locating a car manufacturing factory overseas. Some answers were of a very general nature simply repeating notes on industry location. Good answers made explicit reference to factors affecting an overseas car manufacturing factory such as the amount of help available from a government which would reduce production costs (for example tax benefits). Candidates who recognised the demands of the specified product (in terms of specialised labour and machinery) were given credit.

- (b) Weak answers ignored the specified product - i.e. a new small car – and wrote about wholesalers and retailers rather than agents and showrooms. Most candidates were able to explain the concept of the marketing mix but only a minority were able to relate the 4 P’s to the introduction of a small car in their own country. While many candidates were able to write about market conditions in their country they were unable to identify relevant factors in the marketing mix to cope with these issues (e.g. pricing policy, targeting segments of the market, promotional strategies).

Good answers retained a focus on a ‘new small car’ and raised issues such as existing competition in their country and therefore the need for the car to be competitively priced and fiercely promoted.

### General comments

As with previous sittings of this Paper, there was a very wide range of marks awarded. Answers from strong candidates consistently demonstrated the ability to apply knowledge in the context of the data provided, together with strong analytical skills where appropriate. Few candidates demonstrated evaluative skills. Weaker candidates tended to have poor appreciation of the significance of the data and imprecise knowledge of the subject. It is worth emphasising that this is a Data Response Paper and that Examiners are looking for candidates to respond to the data provided. A large number of responses provided could have applied to any business rather than the ones in the questions. Overall, including for stronger candidates, there was a lack of recognition of opportunities to demonstrate the highest-level skill of evaluation. In common with previous sittings of this Paper, marks for **Question 1** were significantly better than those for **Question 2**. While this is not thought to be caused by the overall time constraint, there is evidence of candidates allocating more time to **Question 1** than to **Question 2**.

### Comments on specific questions

#### **Question 1**

All but part (a) require candidates to answer in the context of The Travelstop Hotel.

- (a) Most candidates attempted to define the two terms, Expected Demand and Interest Rates, in a general way, but some chose to explain their definitions in the context of the Hotel. Some development like this will usually help to explain the term provided the general definition is given. Most candidates were able to define expected demand, but some answers lacked precision. Rather too many candidates simply said that Expected Demand is the demand that is expected, which cannot be rewarded. A surprisingly large number of candidates were unable to define Interest Rates. Some confused them with exchange rates, some saw them as a charge made by providers of goods and services, while others thought that they were a form of taxation. Some answers were over-long.
- (b) There were some excellent answers to this question in which candidates demonstrated understanding of cash flow problems and used the data in Table 2 to illustrate the problems facing this business. Some candidates confused debtors with creditors. Most candidates were able to suggest a remedy, but sometimes these were not realistic in the context of a hotel.
  - (i) Generally, this question was well answered, although there were some candidates who could not remember how to calculate break-even, and a few were confused by the concept of “room nights”.
  - (ii) This question was generally less well answered than (i) with some candidates calculating revenue rather than profit, and others overlooking the assumption in the question.
  - (iii) There were many very good answers to this question, with good use of the earlier answers together with the context of the hotel. Weaker answers tended either to avoid giving advice, or overlook some of the information available.
- (c) There were a few very good answers to this question that looked at the impact of rising interest rates on both customers (through reduced spending power) and the hotel itself (through higher loan costs). Some candidates also discussed the depressing effect on economies as a whole and how this might impact upon the Hotel. Very few candidates attempted to evaluate their answers by, for example, attempting to discuss which impact was likely to be the most significant to the Hotel. There were some answers that could have applied to any business – the key context here was that much of the Hotel’s income is from tourists and that this income is likely to be affected by changes in consumer spending.

## Question 2

- (a) Most candidates confused Niche Market (which is a description of a type of market segmentation (which is an action taken within a marketing strategy). Most candidates were unable to define Work Study.
- (b) Many candidates understood critical path analysis and were able to gain full marks on (i) and (ii). However, a surprisingly large number of candidates thought that “minimum duration” either referred to the shortest activity, or referred to the shortest path. Most candidates answered (iii) in a way that could apply to the use of critical path in any circumstance, rather than in the particular circumstance of the Soup Makers, and this significantly limited the marks that could be rewarded.
- (c) This question led, in many instances, to a general discussion of quality control, rather than a discussion in the context of The Soup Makers. Strong answers made recognition of the fact that food was concerned, and, therefore, high quality was imperative. Some answers used the information about the individual products effectively (the importance of high quality own brand, demands by the supermarket for their brand, the high quality of product Z).
- (d) There were some very pleasing answers to this question, using a variety of approaches. Most candidates focused on the fact that the product was in the decline stage of the life cycle. Weaker answers tended then to conclude that the firm was wise in its decision without examining the contradictory evidence. Stronger answers went on to consider the consequences on revenue and profits by using Figures 1 and 2, and the impact on the product portfolio. A significant number of candidates misinterpreted the data in the two figures concluding wrongly, that because net profit as a % was lower than revenue as a %, the product was making a loss. Few candidates evaluated effectively. This could have been achieved, for example, by justifying effectively whether the decision was right or wrong, or justifying alternative strategies that the business might have adopted.

### Final comments

The June report said that no candidate would perform well without a detailed knowledge of the subject. While this is very important, it is also the case that no candidate will perform well with only knowledge of the subject – on this Paper, far more marks are available for application, analysis and evaluation.

There is increasing evidence that Centres are adopting strategies that are likely to improve effectiveness on this Paper, and in this particular sitting there was plenty of pleasing evidence of candidates using the data effectively in their answers, and recognising opportunities to use the skills of application and analysis. Evaluative skills generally need improving. In particular candidates need to be able to identify how evaluation skills can be employed in response to particular questions. While Teachers’ responsibility is in providing opportunities to develop these skills, there is still a great deal of scope for many candidates to ensure that they have the basic knowledge and understanding of the subject.

**Paper 9707/03**

**Case Study**

### General comments

The overall performance of candidates on this Paper was quite disappointing in certain key areas. Although there were some outstanding answers to all questions and some candidates gained very high total marks, there were many answers that reflected either weak grasp of essential specification material, poor understanding of the skills required by the questions, or both.

These issues are covered in detail below but the overall significance of these two main weaknesses needs to be explained in general terms. It was clear from many candidates’ scripts that there was a frequent lack of appropriate subject knowledge. This foundation is, of course, the starting point for examination success as without adequate knowledge the key skills of application, analysis and evaluation cannot be effectively demonstrated. Teachers in Centres that might be disappointed with their candidates’ results are advised to test candidates’ knowledge more frequently and more rigorously. This can be done with a series of weekly short written or oral questions and accurate definitions or understanding of terms and concepts must be emphasised. Such tests might have reduced the numbers of candidates who seemed to be unaware of essential specification content such as investment appraisal techniques and critical path analysis.

The other main area of weakness of many candidates concerns the failure to identify the assessment skills being tested by each question. All answers tend to be content based and these will only gain knowledge marks – leaving the majority of marks unawarded. The majority of marks for nearly every question is *not* awarded for just knowledge, although this is *always* the starting point for a good answer. More marks than are available for rewarding subject knowledge are allocated to *application* – putting the answer in the context of the case study; *analysis* – explaining the answer by using relevant business theories or concepts; and *evaluation* – showing judgement in the answer and the conclusions made. Teachers and candidates may gain a greater awareness of the importance of these skills by studying mark schemes closely and by referring to the recommended CIE textbooks which always contain a section on assessment skills and how candidates might demonstrate them.

### **Comments on specific questions**

- (a)(i)** This caused very few problems in terms of subject content. Nearly all candidates were able to gain knowledge marks by identifying relevant points – but many answers failed to put their answer into context. This means, for example, explaining how the Castle Lodge, with variable demand for conference facilities, would benefit from these labour contracts.
- (ii)** This question was misread by many candidates who answered it by giving a “standard” motivation type answer. This is quite a common problem as candidates are often looking for questions which allow them to reproduce all of the subject knowledge that they *do* have. This strategy is rarely successful at A Level and candidates should be reminded frequently to read all questions very carefully and make sure that their answer is directed clearly towards the question set. In this case candidates were asked to suggest and evaluate ways in which team-working might be established in *this* business. Many answers failed to notice the team-working element of the question and failed to refer to Castle Lodge. The better answers started by explaining how teams of staff might be formed by the Hotel – by careful selection of new employees and by asking existing and new staff to work together in groups on particular hotel related tasks. The difficulties that this approach might have – such as individuals not being used to team-working or preferring to be directed by management at all times – needed to be briefly explained by candidates in order to gain the evaluation marks.
- (b)(i)** This question resulted in a pleasing number of completely correct responses. The marks awarded varied very much from Centre to Centre. It was obvious that all candidates from some Centres had never covered investment appraisal techniques. In contrast, all candidates from other Centres were able to gain full or nearly full marks on these calculations. The importance of showing working cannot be over-stressed. Many candidates did not obtain the exact answers – but they were awarded high process marks because it was clear to the Examiners that the appropriate techniques were being applied. The mark scheme gives details of how these process marks were awarded and Teachers are advised to explain these stages carefully to their candidates.
- (ii)** There were some very impressive answers to this part – even from candidates who failed to gain the correct solutions to part **(i)**. It is important to impress upon candidates that a quantitative result to a decision making technique is just one of the factors that managers will take into account before taking an important strategic step. There were a number of indications in the case study text that candidates could have discussed – such as the lack of experience of the owners and the risks of interest rates rising. A clear and justified recommendation was necessary for candidates to gain all of the evaluation marks awarded to this question.
- (c)** Knowledge marks were frequently gained in answer to this question. Better answers discussed the points made – such as interest rates, gearing ratio, type of legal structure – in the context of this business and thus more marks were gained. As the question asked candidates to “analyse” there was no need for a recommendation or for judgement to be demonstrated. The precise meaning of these key “prompt” words found in questions should be fully explained to all candidates.

- (d) There were many blank sheets in the answer booklets here. Some Centres may not have appreciated the importance of covering this significant planning technique. Those that have taught it well gave candidates the opportunity to gain marks with some ease – up to 4 or 5 out of 8. The main weakness in answers to this question was the failure of candidates to “examine the usefulness of Critical Path Analysis. This request, quite clearly, asks candidates to do more than just list the benefits of the technique and to apply them to Castle Lodge. It requires a consideration to be made of *how* useful it might be and *why* its usefulness might be limited in this case. Thus, evaluation marks were rarely rewarded yet could have been quite easily gained by recognising the limitations of the technique to this business when planning a one-off project such as the one proposed in the case. Critical Path Analysis does not guarantee a successful completion of a project as effective management is still required.
- (e) Some time management problems for candidates were identified by Examiners when marking this question. This problem was most frequently noticed when candidates had produced very long answers to (a) or when numerous attempts had been made to obtain solutions to (b). There were some excellent responses that identified the need for a marketing target and budget and a marketing strategy that considered both of these points. Weaker answers merely identified one or two of the “P”s without convincingly relating them to this business or without making a well analysed case for the suggestion being made. Essential case study material was often ignored such as the facts that other businesses were the customer base of this conference centre and the aim seemed to be to enter the more select market segments of this market. Both of these points should have influenced the strategy being evaluated by the candidate.

Paper 9707/04

Essay

### General comments

There was no evidence to suggest that candidates were unable to answer the required number of questions, although occasionally evidence was seen of candidates misallocating their time i.e. spending too long on one answer with the result that other answers were left unfinished.

Although there was evidence of candidates who had prepared themselves well for examination at this Level, there were also many candidates whose preparation appeared to be less than adequate. In particular, there were a significant number of candidates, occasionally an entire Centre’s entry, who appeared to have no or little knowledge of the syllabus. Furthermore, even those candidates who clearly had good knowledge of the relevant topics, often failed to attract the higher marks due to their inability to evaluate the usefulness of their knowledge to the context given in the question. Indeed many candidates chose to ignore the context of questions and as a result produced answers that were little more than an outpouring of textbook theories. Centres are encouraged to teach the syllabus within suitable contexts, and what context could be more suitable than the candidate’s own country, or the country in which they are receiving their education. In addition, candidates should be encouraged to evaluate the usefulness of techniques and theories, something which can only be done if they are given a context within which to use their knowledge.

### Comments on specific questions

#### **Question 1**

This was a popular question, eliciting some very good answers from candidates who clearly had studied this aspect of the syllabus within the context of their own country.

- (a) Most candidates had a good understanding of the difference between the public and private sector, with the best answers being produced by candidates who used examples from their own country. Most were able to outline the differences between the objectives of the two sectors and why profits would become an important objective for a public sector organisation in the event of its privatisation.

However, it was very disappointing for Examiners to see answers from candidates who clearly had no understanding of the two sectors. These candidates chose to explain the difference between public and private limited companies.



- (b) Although there were some very good answers to this question, there are still too many candidates who appear to have no understanding of the term 'stakeholders' – the most usual expectation is that candidates treat stakeholders and shareholders as being one and the same. As a result many candidates failed to achieve more than 2 or 3 marks for this part of the question.

Candidates should have discussed the effect on a range of stakeholders such as shareholders/owners, employees/managers, customers, creditors, the local community, Government etc. The effect of privatisation on these stakeholders might have included a discussion of the effect on job security, wages, management roles, prices, quality, consumer choice, Government finances etc.

## Question 2

This was not a very popular question, although some Centres clearly prepare their candidates well in this aspect of the syllabus and such candidates produced answers of a high quality. However, many weaker candidates, whilst usually being able to explain the nature of working capital and its importance to businesses, often failed to discuss relevant methods for its management. Typically, candidates would explain why it was important to recover money from debtors efficiently or why it was not desirable to hold high levels of stocks, but then failed to discuss or evaluate any methods that might be used to improve the management of these elements of working capital.

Better candidates evaluated the usefulness of credit control measures such as discounts, employing a credit controller, debt factoring and methods for improving stock management including the usefulness of Just-in-Time methods, as well as other measures such as negotiating extended credit terms for supplies, purchasing new fixed assets with the aid of hire purchase/leasing, rather than outright purchase which requires the use of cash reserves.

## Question 3

This was a fairly popular question, but one which rarely produced good answers.

- (a) Most candidates were able to explain the difference between primary and secondary research, though it was disappointing to note that at this Level some candidates' understanding was superficial at best and totally irrelevant at worst. Indeed some candidates confused primary and secondary research with primary and secondary sectors of the economy.

However, although most candidates were able to differentiate between the two types of research, very few were then able to discuss the factors that might influence the choice of research. Answers could have included reference to cost, time and reliability of obtaining data, as well as the purpose of the research e.g. new versus existing products. Centres should remind candidates that when they identify a factor such as cost, it does require some explanation, for example, why is it an important factor, is it of equal importance to all businesses?

- (b) This part of the question was generally very badly answered by most candidates. This is disappointing given the importance of market research to all businesses and the opportunity that Centres have for teaching this aspect of the syllabus in a very practical way i.e. by getting candidates to carry out a survey themselves. This would involve candidates experiencing many of the aspects of market research e.g. questionnaire design, sampling and survey methods.

Many candidates argued that using questionnaires would be the best way of surveying the potential market. Questionnaires are a marketing tool – not a survey method. Questionnaires might be used in telephone, postal, internet, personal interviews i.e. survey methods.

Candidates who were able to discuss relevant methods, which also included free samples, test marketing and consumer panels, were often unable to get beyond the basic textbook material i.e. they were unable to evaluate the usefulness of each method within the context of a new chocolate bar. Some candidates also lost marks because they failed to use the context given.

#### Question 4

This was not a very popular question and, although producing some good answers, was often answered in a very limited way for example with candidates only discussing the price elasticity of demand.

Candidates should have explained the different types of demand elasticities i.e. price, cross and income and perhaps advertising elasticity. Not only should candidates have explained how these are calculated but how the results are interpreted. Only by explaining the calculation and interpretation of results would a candidate then be able to explain the usefulness of each elasticity to marketing managers. Answers should have discussed the usefulness in terms of pricing decisions and other elements of the marketing mix, as well as how the information might be used in product development, or in the development of the market, perhaps through market segmentation.

#### Question 5

This was a fairly popular question and one that produced some very good answers. However, it is still the case that many candidates, whilst having a good understanding of how to calculate various ratios, still do not understand how the results might be used by various stakeholders.

- (a) All but the weaker candidates were able to explain how profit is calculated and what is meant by cash flow. However, only better candidates were able to explain how items such as depreciation, prepayments and accruals, capital expenditure, credit sales and purchases affected profit and/or cash and therefore explain the difference between profit and cash flow.
- (b) Once again the term stakeholders was often used to mean shareholders, and as a result produced answers that were limited in their understanding. As explained above, many candidates were able to explain how different ratios are calculated, but were unable to explain how the results might be used by different stakeholders.

Candidates are not required to explain how the ratios are calculated in this type of question. They are required to identify a ratio by name and then explain how the results might be used by a particular stakeholder. The better candidate will also discuss why stakeholders should not rely solely on the results of ratios when taking any decision.

#### Question 6

This was a popular question, but was probably the least well-answered question on the Paper.

- (a) Most candidates were able to draw an organisation chart and identify aspects of formal organisation such as chain of command, span of control, line authority etc. However, very few candidates achieved the higher marks for this part of the question because they failed to use the chart to explain the main features of a formal organisation i.e. they did not fully answer the question. This was very disappointing for Examiners, who are only able to award marks to candidates who follow the requirements of the question. Centres should encourage candidates to read questions carefully and to follow the instructions to the letter, or face the consequences of not being rewarded with the level of marks that they are probably capable of achieving.
- (b) This part of the question was very badly answered by all but a few candidates. Most candidates had no idea of what is meant by the term 'informal leadership'. Many understood the term to mean 'laissez-faire' leadership, or 'democratic' leadership. This is clearly not the case and as a result, candidates producing this type of answer received no reward at all for their answer.

Candidates who had a better understanding of the informal organisation were able to achieve some reward for their answer, by the very nature of the fact that they were able to discuss the possible effect on an organisation of informal groups. However, only the very best candidates seem to understand the question required a discussion of informal leadership and how the presence of such an individual could have both positive and negative effects on the group and hence on the business.