

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education
Advanced Subsidiary Level and Advanced Level

BUSINESS STUDIES

9707/02

Paper 2 Data Response

May/June 2004

1 hour 30 minutes

Additional Materials: Answer Booklet/Paper

READ THESE INSTRUCTIONS FIRST

If you have been given an Answer Booklet, follow the instructions on the front cover of the Booklet.
Write your Centre number, candidate number and name on all the work you hand in.
Write in dark blue or black pen on both sides of the paper.
Do not use staples, paper clips, highlighters, glue or correction fluid.

Answer **all** questions.

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 businesses described in this question paper are entirely fictitious.

1

Candy Shows Ltd.

Candy Shows Ltd. is a business that arranges local entertainment events. So far the business has run successful pop concerts, sports events and outdoor theatre, all using local people.

Candy Shows Ltd. uses the local football ground for all the events. It costs \$2 000 per day to hire. Costa, the Operations Manager, has to hire casual labour for cleaning, checking tickets and setting up the stage. The business has its own full-time office staff for all of the administration. Local businesses provide catering and sell the tickets for a commission. 5

Yasmin, the Finance Manager, is ambitious and wants to expand the business into bigger entertainment events. These could include very famous pop groups, world class performers and national sports events. Costa is less sure about expansion on this scale.

'Think of the economies of scale,' said Yasmin. 'We will also be able to charge much more for the tickets!' 10

'Think of the risk,' said Costa, 'especially trying to compete with multinational entertainment companies.'

The business would face two major problems. The first is its staff. As the business has become more successful, the workload on the office staff has increased. Some members of staff are unhappy about working long hours without extra pay. 15

'Well they get free tickets for the shows,' said Yasmin. 'I'm fed up with their complaints. If they don't like it they can go and work in the local supermarket – they'll earn more!'

The second problem is cash flow. This worried Costa, as the problem would get worse if the business expanded into bigger entertainment events. For example, with a bigger event payments of \$100 000 would have to be made to pop stars 3 months before they started getting an income from the sale of tickets. 20

Yasmin was less concerned. She had produced the following forecast:

Table 1 Forecast for a large event

Ticket sales	10 000 tickets	
Price per ticket	\$20	25
Programme sales	\$2 each sold to 10% of ticket holders	
Commission	1% of sales revenue paid to ticket sellers	
Overheads	\$10 000 (excluding ground hire)	
Hire of Act	\$100 000	

- (a) Explain the following terms:
- (i) economies of scale (line 10)
 - (ii) multinational (line 12).
- (b) (i) Using information from the text and Table 1, calculate the forecast profit for a large event. [5]
- (ii) Comment on your result. [3]
- (c) Discuss methods for improving staff motivation at Candy Shows Ltd. [8]
- (d) Examine whether Candy Shows Ltd. should become a public limited company if the management decides to arrange much larger events. [8]

QUESTION 2 IS PRINTED ON THE NEXT PAGE.

2

Lasting Memories

Ahmed and Beatrice have been in partnership for several years. They run a business that makes wooden carvings which they sell locally to foreign tourists. Tourists seem to like the products because they are handmade, using traditional methods and designs. They provide an ideal present or memory to take home.

The carvings are made in two small factories in rural areas mainly using job production. There are no alternative jobs for the factory workers because of high levels of unemployment in rural areas. The employees are not well paid, but seem to enjoy the work as they are able to use their skills and stay in their own villages. 5

Ahmed and Beatrice received support from the Government to set up their business. This included grants towards capital expenditure, lower tax rates and advice for small businesses. 10

Foreign tourists had often told Ahmed 'These carvings are really cheap! People would pay a lot more for these back home – much more than you charge!' In fact, one of their relatives, who lives in another country, had even suggested going into partnership with them.

Ahmed and Beatrice are looking into ways in which they could export their products. There seem to be high costs and enormous risks, particularly from exchange rates. They also know that there is great competition in the market for carvings from all over the world. To meet export demand they might have to change from job to batch production. 15

(a) Explain the following terms:

(i) job production (line 5) [3]

(ii) capital expenditure (line 10). [3]

(b) Suggest why the Government supported Lasting Memories. [6]

(c) Discuss whether Lasting Memories should change from job to batch production. [8]

(d) Examine the marketing difficulties that Ahmed and Beatrice might have if they expand into export markets. [10]