

# BUSINESS STUDIES

Paper 9707/01  
Short Answer Essay

## General comments

This paper proved to be accessible to most candidates. Some candidates wrote mini-essays for just 3 marks on **Section A** of the paper and thus created time pressure problems in **Section B**. However most candidates balanced their time appropriately between the two sections and presented relevant business studies knowledge, concept and theory.

In **Section B** only a few candidates complemented knowledge and concept analysis with evaluative comment. Candidates are encouraged to seize opportunities in part **(b)** to earn marks available to reward evaluation.

Such evaluation might be shown by considering long term and short term issues, questioning the validity of techniques, theories, or data, considering the feasibility of proposals in terms of resources, time etc., weighing up the strength of factors, arguments, considering different view points, making a judgment and justifying such judgments or assertions.

## **Section A**

### **Question 1**

- (a)** Most candidates were able to distinguish between the public and the private sector of an economy. A small number of candidates mistakenly described public limited companies instead of the public sector.
- (b)** Many candidates were able to score maximum marks on this question with clear differences being described. However, as in part **(a)** a small number of candidates were confused between public and private limited companies and the public and private sectors of an economy. Many candidates identified the way in which finance was raised as a key difference while others concentrated on who owned and controlled each type of business. Many good answers were seen.

### **Question 2**

- (a)** Many candidates confused redundancy with dismissal and consequently gained no marks. Good answers recognised that it is the job and not the person whose services are no longer needed by the business. Many strong candidates made it very clear that when employment was terminated due to redundancy that this was not as a result of any misdemeanour on the part of the employee. Explanations given for redundancy often focused on the trend towards capital intensive production.
- (b)** Many very good answers were seen to this question showing that the majority of candidates had a clear idea of what human resources management involved. Many answers identified the recruiting and selection process, training and appraisal as key roles of HRM. Some weaker answers were limited to recruitment and selection and described, sometimes at length, the various stages in this process.

### **Question 3**

This question differentiated well between those candidates with a clear understanding of what is meant by profit maximisation and those who merely made reference to high profits. Good answers also focused on 'public limited company' and related their answer to the need to keep shareholders happy at the same time as having sufficient resources to enable further R & D and thus support the continued success of the business. Many candidates related their answer to the ability to grow but a small number of candidates then restricted their answer to a discussion of economies of scale thus losing sight of the question.

In fact this question was answered in the spirit intended by only a very few candidates and many missed the question 'What is profit used for?' or 'Why is profit important?' They were quite clear on this and there were some quite good and full answers – but only a small number actually considered profit maximisation as an objective and looked for alternative objectives.

#### Question 4

- (a) This part was answered well by the majority of candidates although a small number of candidates distinguished between the primary and secondary sectors in an economy, clearly having misunderstood the question. Good answers recognised the key differences e.g. that primary research is first-hand information that relates directly to the specific need of the business and that secondary research uses information that was collected by another organisation and might have been for a totally different product or market. The specific or non-specific nature of the research was often highlighted in good answers. Weaker candidates restricted their response to identifying primary research as 'field research' and secondary market research as being 'desk research' often without further explanation.
- (b) This presented many candidates with more of a challenge. Many answers were describing 'sampling' but the method used could have been any sampling technique and not specifically 'quota'. Good answers recognised that quota sampling would be used in order to reflect the proportion of various segments in the target market within the sample. They also frequently gave valid examples to support their answers.

#### Section B

#### Question 5

- (a) The sources of finance element of this question allowed candidates to demonstrate their knowledge of a variety of sources of finance but unfortunately, this was frequently not applied to the context of a car manufacturer and/or new technology. Good candidates recognise the large scale of this type of business and also that the amount of money involved was also likely to be large. This then led to suitable resources of finance being suggested with strong candidates also recognising that this was very likely to be a long-term source of finance and thus ruled out sources such as overdrafts. Weaker candidates often suggested inappropriate sources such as debt factoring without any recognition that this would be unlikely to realise sufficient funds to allow investment as described.
- (b) This elicited many good answers with many candidates identifying and discussing the implications of a wide range of potential problems. Typical problems identified included ones relating to finance, motivation, training and industrial relations. While many answers were analytical there were fewer that offered any evaluative comment. However, there were also some candidates who reflected on the wording of the question and questioned possible problems that could arise due to this new technology only being introduced into one of the car manufacturer's factories. This line of argument tended to produce highly focused and evaluative responses that scored well. As with part (a), context was an issue in some answers with candidates presenting problems that any manufacturer might experience.

#### Question 6

Good answers to this question addressed the issue of leadership rather than just the functions of management. Some candidates highlighted the need for inspiration and drive and how this might then be reflected throughout the business while other, weaker answers, confined themselves to a discussion of what management must do in order for a business to be successful. Such discussions sometimes included issues such as the need for good financial control. While good management can be argued as being essential for a successful business the question did require a specific focus on 'leadership'. Some answers focused on the personality traits that can be associated with good leadership; such answers often had a better focus in the way in which the answers were developed than the ones that focused on management functions.

Some candidates used examples of entrepreneurs to demonstrate good leadership and how those individuals had been able to drive their businesses forward in the belief that they would succeed. The best answers made a real attempt to answer the question and had obviously thought about what it is that a leader does which is of value and which is not done by anyone else. The ability to see the 'wider picture' was often cited as being crucial to good leadership.

Many candidates seem unaware of the growing body of literature and concept relating to le... and simply focused on general motivation theory.

### Question 7

- (a) This part of this question elicited some very good responses with the majority of candidates being able to identify possible benefits to an economy if a multinational manufacturer of computers located there. Some answers identified benefits such as an increase in jobs available but sometimes did not explain how the economy might benefit from that, leaving the answers content driven and lacking analysis. Good answers, however, often developed this point by describing the benefits to the wider economy due to the increased incomes and a multiplier effect. Others followed the argument through to the reduced need for governments to support the unemployed and how they could then spend that money on improving other aspects of the economy. Strong answers recognised that the factory was producing computers and then related this to the high level of technology involved and the improved skills that would probably be acquired by the workforce. This argument was frequently developed to explain how the wider economy might also benefit from this although perhaps more in the long-term.
- (b) The majority of candidates clearly understood the various channels of distribution that a computer manufacturer might use but a smaller number of candidates actually based their arguments around possible needs of the business. Good candidates focused on the fact that the question stated 'a new export market' and recognised that the business might not have the local knowledge required and therefore the use of an agent might prove beneficial for example. General discussion of the advantages and disadvantages of the various distribution channels was frequently presented with the stronger answers also including a recognition of the type of product and the need for an after sales service.

The nature of the product and/or the market was not discussed in the weaker answers.

A small number of candidates wrote about the methods of transport i.e. should computers be carried by boat or plane. This was a clear misunderstanding of the question set.

The strongest responses demonstrated a specific contextual awareness. For example, some reasoned that the rapidly changing nature of the I.T. market called for a shorter channel of distribution so that the product was sold to the end-user as quickly as possible. Others considered that the technical nature of the product called for good technical support at the point-of-sale as well as an effective after-sales-service.

# BUSINESS STUDIES

Paper 9707/02

Data Response

## General comments

General performance on this paper was pleasing, showing continuous improvement relative to previous sessions. Of particular note is the extent to which the majority of candidates are now able to effectively use the context shown in the data. A significant number of candidates misinterpreted **Question 1(b)** which emphasises the importance of analysing a question before answering it. There was generally no evidence of time being a constraint, although candidates who spent too much time on earlier questions found a shortage of time towards the end of the paper. Examiners continue to be impressed by the general use of the English language and the use of business studies terminology. One disappointment was the lack of local 'engagement' with the issue of ethics relating to multinationals – candidates should not be discouraged from viewing 'the world' from a local perspective – indeed the syllabus encourages consideration of local issues.

## Comments on specific questions

### Question 1

- (a)(i) Most candidates had some understanding of what is meant by flow production, and better candidates provided suitable examples, such as car manufacturing. Some candidates gave examples which are more likely to be produced using batch production, such as bread. A few candidates thought that flow production involved producing liquids. While oil refineries, for example, are likely to use flow production, the involvement of liquids is not necessary.
- (ii) Most candidates were able to define variable costs, but there were still examples of circular definitions e.g. "variable costs are costs that vary". These should be avoided as marks cannot be rewarded for simply rephrasing the term. A significant number of candidates thought that they were costs that varied with time rather than the correct interpretation that they vary with the level of production.

#### Teaching tip

Candidates should be encouraged to think carefully about useful examples. So, for example, raw materials is a better example of a variable cost than, say wages, which might be fixed (salaries), variable (piece rates) or semi-variable (salary plus bonus).

- (b) This question had the widest range of marks on the paper. There were many good answers from those candidates who clearly understood about organisational structure, and were able to apply these ideas to a multinational moving to a developing country with lower labour skills. Some answers related ideas of authority to managing an unskilled workforce, and issues involving the extent to which the head office would want to relinquish authority, with the benefits of local knowledge. A disappointing number of candidates thought that this was a question about location, which appeared later, in part (d).

Teaching tip

Make sure candidates analyse questions thoroughly in terms of **Action** (in this case “explain”), **Subject** (in this case “organisation structure”) and **Context** (in this case “relocating to country B”). It would then be clear that this is a question about organisation structure. Also make sure that candidates read the whole question before attempting an individual part.

- (c) This question was done, generally, quite well. Good answers showed analytical skills by drawing a distinction between the benefits of behaving ethically (good working conditions, concern for the environment, not exploiting customers and employees, producing safe drugs and so on) and the additional costs that would entail for the business. The best answers recognised the key features of the context of a pharmaceutical company given in the case. A significant number of candidates confused legal obligations (in which the business has no choice) with ethical considerations (in which the company has a choice. So, for example, the fact the company has to obey employment legislation is not an ethical issue, however, it may choose to treat its workers better than the minimum requirements, which may be as a result of ethical considerations. Few candidates demonstrated evaluation skills on this question which could have been achieved through weighing up the arguments for and against SP adopting an ethical stance, or by developing the ethical issues that were key in this particular circumstance. A few candidates confused “ethics” (which is on the syllabus) with “ethnic” (which is not on the syllabus). This was a good question for candidates to bring a local dimension to their answer, as differing ethical values apply around the world. Indeed some did mention the need to observe local religious and cultural values, including the prominence of herbal medicines in some communities.
- (d) (i) Most candidates calculated the break even level as 1 m units. A few candidates confused ‘units’ with ‘dollars’ and a few did not know how to calculate break even.

Teaching tip

Calculation questions are usually asked for a purpose beyond simply answering the question. Get your candidates to think how they might use the result. Also get them to think carefully about the unit of measurement

- (ii) There was a lot of information in the data that candidates could use to answer this question, and the question was generally well answered. Some weaker candidates simply repeated the information given without any kind of development of the argument. This could have best been achieved by considering likely consequences of the various factors. For example, many candidates observed that the break even for country B was lower than that for Country A without saying whether this was an argument for or against country B. Better candidates attempted, with varying degrees of success, to contrast the arguments for relocation with those against. The best candidates arrived at a justified decision as to whether they thought relocation should take place or not. Most candidates who did make a recommendation recommended country B, but there were also some persuasive arguments for country A. The Examiners did not have a particular recommendation in mind.

## Question 2

- (a) (i) Most candidates were able to describe wholesalers in terms of their position in the supply chain. Better candidates briefly developed their role in terms of breaking bulk and improving the efficiency of distribution. These days the distinction between wholesalers and supermarkets are getting much narrower, but the use of supermarkets as an example is not wise as most supermarkets are retailers rather than wholesalers.
- (ii) The term export market is quite difficult to explain except by saying that it is the market that involves trade with other countries. Better answers briefly developed the idea that export markets are different from home markets as they involve complicating factors such as exchange rates, trade barriers and quotas.
- (b) There was a wide range of marks achieved for this question. The best answers observed that import costs (fertilizers etc) would fall, while the farm's produce would become less competitive in the export markets, so sales, and probably, profits are likely to fall. Some candidates took 'country' to refer to the consumers' rather than the producer's country, and where this was clear, marks were awarded for describing the opposite effect. A surprising number of candidates had difficulty showing understanding of the role of exchange rates for a business involved in the export market. For example, some candidates thought that profits would go up as they would be paid in a higher value currency. Some candidates confused exchange rates with interest rates, while others went into complex relationships between exchange rates and inflation, unemployment and so on.

### Teaching tip

This is a Business Studies course, rather than Economics. Examiners are not looking for understanding of the complexities of economic ideas, but are looking for the **practical** impact of concepts such as exchange rates, interest rates etc. on actual businesses.

- (c) (i) Generally this was answered well. Many candidates calculated payback correctly at 2 years and 8 months. Candidates who calculated it incorrectly seldom showed their working, which is essential for calculation questions. A significant number of candidates rightly observed that payback occurred during the third year and then put the answer down as 3 year 8 months (which is actually in the fourth year). A lot of candidates calculated the ARR correctly as 30%. A significant number of candidates arrived at 60% by omitting to deduct the initial cost of the project from the cash inflow to calculate the average annual return. Some candidates were unable to calculate ARR.
- (ii) Candidates were allowed to carry any incorrect answers from (i) into this part under the 'own figure rule'. The candidates with the best answers recognised that there were conflicting pieces of evidence relating to the two investments. They analysed this evidence by developing consequences and then made an overall judgement, usually based on the relative risks of the two projects, as to which was the better investment. Weaker candidates tended to list the evidence from the data without further development. A significant number of candidates did not refer to the results of their earlier calculations, or demonstrated that they did not fully understand what the results meant.

### Teaching tip

Remind candidates that there are seldom 'right' and 'wrong' answers to such decision questions, and that what is important is how candidates are able to justify any decision. Words like 'advise', 'recommend', 'evaluate', 'do you think that...' are all indicative that the Examiner wants a decision to be made.



- (d) Most candidates are aware of the benefits of joining a trade union, but fewer candidates identified the two important pieces of context that applied in this situation – the worry over losing jobs and the pressures for increased efficiency if Tom and Mary went ahead with the supermarket. A few candidates thought that TFU was an alternative employer rather than a trade union. Most answers looked at the kind of services that trades unions offer without relating these back to the benefits to the employees.

**General**

Teaching tip  
Look at past Principal Examiners' reports for guidance on developing evaluation skill.

# BUSINESS STUDIES

**Paper 9707/3**  
**Business Studies Case Study**

## General comments

There was a further significant increase in the number of entries for this A level examination which again reinforces the status and popularity of this subject and this syllabus. The overall standard of scripts was very similar to June 2005 with a very substantial range proving that the Case Study paper discriminated well. It gave every opportunity for well prepared candidates to demonstrate not just their grasp of the full range of A level subject content, but also their skills of analysis and evaluation within the context of a detailed business case study. Weaker candidates, unless they were very under prepared, were able to show knowledge in answering many of the questions set.

General weaknesses were in failing to effectively use the information about the business in the case study to put answers into context. Many candidates are still answering the questions as if they are 'stand alone' questions with the case study used as mere background reading. This approach will always limit candidates final marks very severely as a high proportion of the marks on Paper 3 are for applying answers to the case study context. In addition, as will be explained in comments to individual questions, evaluation or judgement in an answer is never awarded credit by Examiners unless it is clearly contextualised. Candidates and their teachers are advised to gain experience at developing these skills by referring to as many past case study papers as possible and analysing the mark schemes for them in detail to identify the ways in which each answer should be focused on the business context detailed in the case.

## Comments on specific questions

### **Section A**

#### **Question 1**

- (a) The quality of answers varied widely to this question. Unfortunately, some candidates misread the question and wrote about the general benefits of market research. This approach gained no marks as the question was focused on assessing the *methods* of market research that Rave could use. Candidates generally have enough time on this paper to answer all questions and it is essential that they use some of their time to ensure they read each question really thoroughly to prevent the answer from diverting from the true focus of the question. This is time that is always well spent and pays high dividends in the form of higher marks.

There were also many excellent answers to this question. These highlighted different market research techniques that could be used by Rave – consumer taste tests with feedback in the form of interviews were frequently and appropriately referred to. Judgement was also called for so, for example, candidates who discussed the possible lack of relevant secondary data for this brand new type of confectionary bar were well rewarded.



(b) It is pleasing to report that the great majority of candidates had a sound grasp of the product portfolio analysis technique. The Boston Matrix was most commonly referred to and the product life cycle was also effectively used by some candidates. Application to Appendix 1 was nearly always attempted but not always successfully. 'Mints' were the 'cash cow' not 'fruit bars' because market share was growing (from 52% to 55%) but the overall market was not growing, it was in the case of fruit bars which were the 'stars' of Rave's product portfolio. There was some very good analysis of how Rave's managers could use this information with much discussion of milking, developing or dropping of products from the product range. Evaluation tended to be rather weak, however. No marks are given for pre-learned evaluative statements such as "it costs a lot and is time consuming" unless these points are particularly relevant to the business in the case. Here is one good example of appropriate judgement in answer to this question:

Rave's data, based on market forecasts, could quickly become out of date in this case because of the increasing competition from Sweets4U – and this could make such product portfolio analysis rather misleading or inaccurate.

**Question 2**

The quality of answer to this question depended greatly on how much understanding candidates had of the concept of Lean Production. There were many hints contained in the case and some candidates were limited to using these in their answer rather than beginning with a clear definition plus examples of the concept. There was some confusion between Lean Production and flow production – some candidates suggested that these two terms were inter-changeable. Quite a few answers assumed that Lean Production must always involve the expenditure of large sums on new capital equipment. It is true that flexible and adaptable machinery can assist the process of increasing efficiency and reducing waste but this is not the only way in which business organisations can become leaner. Good answers tended to focus on the use of JIT, simultaneous engineering and quicker change over times for machinery allowing smaller batch runs to be produced – particularly relevant in the case of Rave.

**Question 3**

The majority of candidates were able to calculate at least one appropriate profitability ratio and many calculated both gross and net profit margin ratios for both years. A few candidates could not demonstrate any knowledge of appropriate ratios. Some very effective analysis was demonstrated as candidates attempted to use the data and the case study material to suggest explanations for declining profitability – especially the greater decline in NPM than GPM. It was clear that some candidates had a very clear understanding of what factors might have caused a decline in GPM, even though sales revenue had remained constant. The questioning of the effectiveness of the increased promotion spending and increased management overheads was very relevant and points were made that showed a good understanding of the case. So, some answers suggested that the increased promotion spending was perhaps necessary to balance out the negative publicity of the AAAC pressure group. Other answers suggested that the increased promotion spending reduces NPM in the year it occurs, but that it might have a longer term impact of developing brand loyalty, which has not yet been demonstrated by the sales revenue data.

#### Question 4

- (a) There were a surprisingly small number of completely correct and appropriately labelled decision trees. The information in the case was very simple but the most common error was to show choice as being between 'recession' and 'no recession' rather than 'market product' or 'do not market product'. Candidates and their teachers are encouraged to use the examples in the endorsed textbook to gain a good awareness of the kind of questions on this topic that will be set.
- (b) Perhaps surprisingly, there were many more correct answers to this calculation question than to the previous question. It required a knowledge of 'expected monetary values' being the product of economic outcomes multiplied by the probability of an event occurring and candidates were either aware of this or they were not. It might be the case that, in some new Centres, not enough attention has been paid to working through the quantitative models that form a significant part of the extended A level syllabus.
- (c) Most candidates were awarded some credit in response to this question. To gain full marks, the answer had to show clear understanding of the claimed benefits of the decision tree model and judgement of it had to be in context. Thus, if a candidate merely claimed that 'probabilities are often uncertain' then no evaluation marks would have been given. If another candidate suggested that the lack of really detailed market research in the case of 'fruit choc delight' might have meant that the claimed economic outcomes were subject to a wide margin of error, then evaluation marks would have been awarded.

#### Question 5

Examiners are always looking for new and imaginative ways to ask the "human resources" question that will usually feature on Paper 3. Despite our best efforts, many candidates will always answer such questions in exactly the same way! That is, there will be several pages of motivation theory picked straight from notes or textbooks with no attempt to apply to the business problem in the case study and no 'in context' evaluation. Such was often the case with this question – and as a consequence many answers were awarded both 'knowledge' and "analysis' marks but no credit was given for 'application' or 'evaluation'.

The better responses often started with an analysis of the particular problems being experienced by Rave and then went on to suggest relevant and appropriate changes of human resource management that could assist the firm in its efforts to overcome the problems. So, recognition that many of the changes being proposed by Rave's directors were very substantial and that they would require a cooperative and flexible workforce was an excellent starting point. The need for training, job security and, possibly, a pay scheme that rewarded staff for accepting change were then discussed by candidates who went on to achieve the best results on this question. Evaluation was often non-existent – a common failing when a textbook based approach is used. Some of the best judgement that was given was focused on the difficulties that Rave's managers might have in adopting a new approach to managing staff in order to make change acceptable to them. So, unless the leadership style of the Marketing and Operations Directors changed – to embrace openness with staff rather than secrecy – then any HR changes were likely to be ineffective in this case.

## Section B

### Question 6

This proved to be slightly more popular than **Question 7** – there was little difference in the average mark gained between these two essay style questions. Of course, most candidates gained some marks for suggesting and analysing marketing changes but many answers did not develop beyond this fairly low level type of response. Many of these answers were not applied to the particularly competitive nature of most consumer product markets, such as the one Rave operated in, and marks were lost on both application and evaluation. Better answers did more than just make marketing mix suggestions. They tended to focus on a more strategic approach by, for instance, suggesting product development or even diversification as potential strategies for a business faced with extreme competition. These strategies were then analysed and evaluated in context. So, the strategy of product development could give Rave (or any consumer product business) a clear USP which could lead to high status, high prices and good consumer loyalty. However, as some candidates judged, would this really be possible in the confectionary market and if Sweets4U had more resources than Rave, could this strategy prove to be counter-productive anyway? Other answers suggested that diversification into new consumer markets might be profitable – but that this strategy would take time to be successful and Rave had to do something quickly to reverse decline. Candidates are advised to ensure that answers to these 20 mark questions contain a great deal of supported and ‘in context’ judgement as this is the most highly rewarded skill on the essay question.

### Question 7

Again, there was a very clear distinction between two approaches to answering this question. Weaker answers focused on giving long lists of stakeholders and explaining why it was important for any business to satisfy all stakeholders at all times. This simplistic approach gains few marks at A level as it is not at all evaluative. Better answers showed judgement in two main ways in response to this question – and some answers contained both forms of judgement. Attempts were made to identify the most important stakeholders *in this case* and why these, in particular should be focused on when Rave’s directors take important decisions. So, the power of the pressure group to destroy Rave’s traditional markets and the ability of the government to tax their main products would seem to be good justification for taking the aims of these two groups into account. In addition, there was often good discussion about the conflicts between stakeholders’ aims and how it was often impossible, in the short run at least, to satisfy them all. However, if Rave put the interests of external stakeholders above the interests of shareholders in the short run, (e.g. by dropping high sugar content products and suffering reduced revenue as a consequence) then this could lead to higher long run profitability if pressure group activity ceases and tax plans are dropped. Now that is good judgement in context!

### Final comments

Once again it was very pleasing to read many of these scripts. The quality of language is often exceptional and the ability of most candidates to cope with such a wide ranging examination paper with great time management skills never ceases to surprise and impress Examiners. It is always frustrating to read a script from a candidate who clearly has great knowledge of the subject and can analyse in detail but who has failed to appreciate the importance of both application and evaluation skills. If only these candidates had been shown past Principal Examiner’s reports and past mark schemes – how much more effective their examination techniques would have been!

The growing reputation of this syllabus and this examination in particular as being both a challenging but fair text of candidates’ knowledge and skills is very pleasing and the Principal Examiner would like to thank all teachers in all Centres for preparing candidates for this Paper. I hope that this report will assist you in your efforts to ensure that future students gain the highest marks possible.