Cambridge Assessment International Education

Specimen Paper Answers – Paper 2

Cambridge IGCSE™ / IGCSE (9–1)
Business Studies 0450 / 0986

Cambridge O Level
Business Studies 7115

For examination from 2020

Cambridge Pathway

Contents

Introduction

These specimen answers have been produced by Cambridge ahead of the examination in 2020 to exemplify standards for those teaching Cambridge IGCSE / O Level Business Studies. Questions have been selected from Specimen Paper 2, Questions 1, 2, 3 and 4.

The marks given are for guidance only and are accompanied by a brief commentary explaining the strengths and weaknesses of the answers. Comments are given to indicate where and why marks were awarded, and how additional marks could be obtained. There is also a list of common mistakes and guidance for candidates for each question.

The specimen materials are available to download from the School Support Hub.

2020 Specimen Paper 02

2020 Specimen Paper Mark Scheme 02

Past exam resources and other teaching and learning resources are available on the School Support Hub.

Details of the assessment

All candidates take two papers.

All candidates take:		and:	
Paper 1	1 hour 30 minutes	**Paper 2**	1 hour 30 minutes
Short Answer and Data Response	50%	Case Study	50%
80 marks		80 marks	
Four questions requiring a mixture of short answers and structured data responses		Four questions based on a case study, provided as an insert with the paper	
Candidates answer all questions		Candidates answer all questions	
Externally assessed		Externally assessed	

Assessment objectives

The assessment objectives (AOs) are:

AO1 Knowledge and understanding

- demonstrate knowledge and understanding of facts, terms, concepts, conventions, theories and techniques commonly applied to or used as part of business behaviour.

AO2 Application

- apply knowledge and understanding of facts, terms, concepts, conventions, theories and techniques.

AO3 Analysis

- distinguish between evidence and opinion in a business context
- order, analyse and interpret information in narrative, numerical and graphical forms, using appropriate techniques.

AO4 Evaluation

- present reasoned explanations, develop arguments, understand implications and draw inferences
- make judgements, recommendations and decisions.

Weighting for assessment objectives

The approximate weightings allocated to each of the assessment objectives (AOs) are summarised below.
Assessment objectives as a percentage of the qualification

Assessment objective	Weighting in IGCSE %
AO1 Knowledge and understanding	40
AO2 Application	20
AO3 Analysis	25
AO4 Evaluation	15

Assessment objectives as a percentage of each component

Assessment objective	Weighting in components %	
	Paper 1	**Paper 2**
AO1 Knowledge and understanding	50	30
AO2 Application	20	20
AO3 Analysis	20	30
AO4 Evaluation	10	20

Question 1

Specimen answers

1 (a) Explain **two** possible reasons why Bethany wants the business to remain small.

Reason 1: To have better communication with her customers

Explanation: Being a small business allows Bethany to carry out treatments for customers and this allows her to talk to her customers and have a good relationship with them. This friendly relationship means Bethany knows her customers well and can chat with them about what they want. This makes Bethany's job more enjoyable and this personal relationship with customers encourages them to remain loyal to her spa and keep coming back.

Reason 2: To take all her own decisions

Explanation: Bethany started the business 10 years ago and has always made decisions about the spa without interference from others as she is a sole trader. If she expanded the business then she would probably need to have several other people invest and become owners. She will then have to listen to the views of others and she may not agree with the direction other people want the spa to take. If there are several other owners then they may over rule decisions Bethany takes. [8]

(b) Explain why the following **three** factors are important to Bethany when choosing a business partner:
- knowledge of new technology
- experience in managing a health spa
- capital to invest.

Which factor do you think is most important? Justify your answer.

Knowledge of new technology: This will help the spa if the partner is familiar with new technology as other spas in the area can offer their customers these new treatments. If the partner can carry out these new treatments then they can train Bethany and the other workers in the spa and this will save training costs for the spa. It will also allow the spa to compete with the other spas in the area by also offering the new treatments.

Experience in managing a health spa: Bethany does all the administration for the spa which takes up a lot of her time when she could be spending time with customers or thinking up new ways to make the spa more competitive. By having a partner who can manage the spa this will help Bethany focus her attention on other things she needs to do. The partner could even bring new ways of managing the spa and make it more efficient as Bethany has no other experience in managing a business.

Capital to invest: Bethany wants to buy new up to date equipment and it can be expensive. With a partner who has money to invest it will allow new equipment to be purchased without the business needing to take out a bank loan. This will mean there will be no payment of interest which reduces costs for the business and help to increase profit.

Conclusion: Having capital to invest is the most important as this will save Bethany the increased cost of interest payments on a bank loan. The new partner will expect a share of the profit, but with better, up to date equipment, Bethany can charge higher prices for treatments at the spa and so profit may be higher and they would have more profit to share out between them.

[12]

Examiner comment

Question 1(a)

Two suitable reasons have been given – ‘closer relationship with customers’ and ‘make all the decisions’. Both of these reasons have been developed in full and are also in context. Application is by reference to providing treatments in the spa in reason 1 and that Bethany has been running the business for 10 years as sole trader in reason 2.

Mark awarded = 8 out of 8

Question 1(b)

The answer is in Level 3 as it has all three factors explained in detail and in context. Application is evident throughout the answer by reference to treatments at the spa, carried out by well qualified workers, other spas offer new treatments, Bethany carries out all the administration tasks for the spa and new up to date equipment is required for the spa to remain competitive. There is a well-justified conclusion of one factor but there is no comparison of why the alternative factors were not as important. This puts the answer in the middle of Level 3 and not at the top of the band.

Justification of why the alterative factors were rejected would have raised the answer to the top of Level 3.

Mark awarded = 10 out of 12

Total mark awarded = 18 out of 20

Question 2

Specimen answers

2 (a) Explain **two** reasons why it is important to Bethany to identify changes in customer preferences.

Reason 1: Bethany wants the spa to remain competitive

Explanation: If Bethany identifies changes in customer preferences then she could change the treatments she offers at the spa and customers are then more likely to keep going to Bethany's spa and not go to a competitor's spa. For example, if customers want the latest techniques in making skin look younger then Bethany needs to start offering these treatments or she will lose customers to the other spas that can offer these treatments and have the latest equipment available to them.

Reason 2: To meet customer needs

Explanation: If customers want a certain service then Bethany must offer this service or she will not have customers keep coming back to the business. Customer needs must be met or customers will not be willing to pay for a service. If Bethany offers services that customers do not want then she will not stay in business long as customers will not go there.

[8]

(b) State the advantages and disadvantages of the following **three** ways to achieve good quality service at the health spa:
- only employ highly trained workers
- record all customer complaints
- buy only the best quality materials to use in the health spa.

Which do you think is the most important way? Justify your answer.

Only employ highly trained workers: Highly trained spa workers will know how to carry out their work and not need further training. This means that customers will receive the best service possible and will be very happy. However, it might be difficult for Bethany to recruit such highly qualified employees as there may not be many available as they are employed elsewhere. Bethany might have to pay higher wages to attract them to work for her.

Record all customer complaints: By making a record of all customer complaints then Bethany will know what things customers are unhappy with and this will allow her to put these right. If she didn't know what things customers were unhappy with then it would be more difficult for her to correct them. This will help Bethany improve and ensure customers get the service they feel they have paid for thus ensuring a quality service.

Buy only the best quality materials to use in the health spa: If poor quality materials are used at the spa then it will be more difficult for employees to give the best service to customers. This may lead to customers being less satisfied so Bethany will not want to do this. Buying the best quality materials will mean that the variable costs will be higher which may lead to higher prices.

Conclusion: Well trained staff are most important because without the best quality materials staff can still provide a similar quality of service. Recording all complaints only says when something has gone wrong, it may not help put it right. The best materials will not ensure good quality service if the staff are not well trained. Finding out about errors is too late as the quality should be provided in the first place. So employing highly trained workers is the most important of the three. [12]

Examiner comment

Question 2(a)

There are two suitable reasons given and both are explained in detail. However, only the first reason is in context. The application is shown by reference to treatments at the spa and the latest techniques being used to make skin look younger. However, the explanation of reason 2 is generic and is not in context. This means not all of the marks could be awarded.

Application to the context in the second reason would have raised the answer to full marks.

Mark awarded = 7 out of 8

Question 2(b)

The answer is in Level 3 as there is discussion of all three ways of achieving good quality services at the health spa and a well-justified conclusion including why the alternative ways were rejected. However, throughout the answer there is no specific reference to the context apart from the spa and this is mentioned in the question. The answer is generic throughout. This means the answer will be in the middle of Level 3 as it does not meet all the requirements to be at the top of the level.

Application of the answer to the context would have raised the answer to the top of Level 3.

Mark awarded = 10 out of 12

Total mark awarded = 17 out of 20

Question 3

Specimen answers

3 **(a)** Explain **four** reasons why effective communication between the owner and employees in a business is important.

Reason 1: To make sure instructions are understood.

Explanation: This makes sure that the workers carry out the tasks they are supposed to.

Reason 2: To ensure mistakes are not made.

Explanation: Workers need to ensure no mistakes are made.

Reason 3: To make sure employees carry out their tasks correctly.

Explanation: The employees may be skilled and well trained so customers are happy but they still need to be told by Bethany what is required for customers.

Reason 4: Makes the employees more motivated if they know what is expected from them by the owner.

Explanation: They will feel valued by Bethany if she communicates effectively with them and want to work harder. [8]

(b) Consider the weekly forecasts in Appendix 2 for the **two** additional services Bethany could choose:
- hair cuts
- steam room.

Include calculation of profit for the two services in your response.

Which additional service should Bethany choose to offer? Justify your answer.

Hair cuts: If Bethany chose this option then the forecast weekly gross profit is $1125 ($1250 – $125) and profit is $550 ($1125-$575).
This has a gross profit margin of $1125/$1250 x 100 which equals 90% and has a profit margin of $550/$1250 x100 which equals 44%.
The leasing cost of the equipment is $225 less than the steam room and wage costs are a lot higher as this is a personal service from trained employees.

Steam room: For this option there are 200 customers paying $5 each which gives a weekly revenue of $1000. If the cost of sales of $40 is taken away then this gives a gross profit of $960. The gross profit margin is $960/$1000 x 100 = 96%.
If the expenses of $400 + $60 are taken away from the gross profit then this leaves a profit of $960 - $460 = $500. Profit margin is $500/$1000 x 100 = 50%.
The price charged is $20 cheaper than haircuts but then less labour is required and so wage costs are lower.

Recommendation: The steam room is the best one to choose as gross profit margin is higher by 6% and the profit margin is 50%.

[12]

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Examiner comment

Question 3 (a)

There are four suitable reasons given and so four marks are awarded. However, the explanation for reason 2 is just a repeat of the reason given, not an explanation of it, and therefore cannot be awarded the second mark. The other three reasons are explained sufficiently for the additional marks to be awarded for each of the reasons. A correct explanation of the second reason would have raised the answer to full marks.

Mark awarded = 7 out of 8

Question 3 (b)

The answer contains all the relevant calculations for gross profit, profit and the profitability ratios. The information in Appendix 2 is used well. However, the recommendation is brief and does little more than repeat the earlier results of the profitability calculations. This puts the answer in the lower end of Level 3. Justification of the choice by including more detailed explanation of the results of the calculations would have raised the answer to the top of Level 3.

Mark awarded = 9 out of 12

Total mark awarded = 16 out of 20

Question 4

Specimen answers

4 (a) Explain **four** ways the new technology identified in Appendix 3 could help Bethany improve her business.

Way 1: Text messages can be used by Bethany to remind customers when they have an appointment.

Explanation: Customers do not miss their appointment and waste the spa time when employees stand around instead of working, being paid but not earning revenue

Way 2: Improved service provided for customers

Explanation: As the treatments are more effective at making people's skin look younger and will lead to happier customers who are more likely to return again.

Way 3: More effective use of advertising

Explanation: The app will make it easier to contact many potential customers with information and offers to attract people to the spa for treatments.

Way 4: Efficiency is improved

Explanation: There is software available that makes the business more efficient.

[8]

(b) Explain how the following **two** changes are likely to affect The BB Health Spa:

- lower income tax in country X
- increase in interest rates in country X.

Include calculation of profit for the two services in your response.

Which change is likely to have the most effect on profit? Justify your answer.

Lower income tax in country X: People will have more disposable income to spend on luxuries like spa treatments. This should result in an increase in demand for Bethany's beauty spa and an increase in revenue. However, if people's income after tax is higher they may treat themselves to a more expensive spa like the competitors of Bethany's and so the demand for the spa may not change much or may even fall if some of her customers now decide to spend their money on something more expensive.

Increase in interest rates in country X: If customers have debts then the higher interest payments on debts may mean they have less money to spend on luxuries. The demand for the spa may fall as a result which will reduce revenue for Bethany. Also, if Bethany wants to borrow money for expansion of her services then this will cost the business more due to the higher loan repayments. Cash outflows may increase and net cash flow may be lower.

Conclusion: The effect on profit depends on if customers choose to spend their extra disposable income at Bethany's. If so, the spa revenue will increase and if costs do not rise by the same amount then profit will increase. Higher interest rates are likely to reduce demand and increase costs if Bethany buys new equipment. This increase costs will reduce revenue so profit will fall. So the change which has the biggest effect on profit is likely to be higher interest rates as it has a larger negative effect on profit. However, if Bethany takes on a partner to put capital into the spa to improve services, the effect on costs will be minimal and lower income tax will have the greatest effect on Bethany's profit. [12]

Examiner comment

Question 4 (a)

There are four suitable ways given and so four marks are awarded. However, the explanation for way 4 is just a repeat of the way ('efficiency'), not an explanation of it, and therefore cannot be awarded the second mark.

The other three ways the new technology could help Bethany improve her business are explained in the context of the spa and Appendix 3 and, therefore, the additional mark can be awarded for each of these ways. A correct explanation, in context, in the fourth way would have raised the answer to full marks.

Mark awarded = 7 out of 8

Question 4 (b)

The answer is at the top of level 3 because it has detailed discussion of both changes and it is in the context. Application is shown throughout the answer by making reference to the spa treatments, more expensive treatments at competitors' spas, treatments being luxuries, needing money to expand the spa with equipment for new treatments. The conclusion is well-justified and includes why the alternative change would have less effect on profit, therefore the top of the band is achieved.

Mark awarded = 12 out of 12

Total mark awarded = 19 out of 20

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