UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
International General Certificate of Secondary Education

BUSINESS STUDIES

Paper 1

0450/01

May/June 2006

1 hour 45 minutes

Candidates answer on the Question Paper.
No Additional Materials are required

Candidate Name

Centre Number

Candidate Number

READ THESE INSTRUCTIONS FIRST

Write your Centre number, candidate number and name on all the work you hand in.
Write in dark blue or black pen.
Do not use staples, paper clips, highlighters, glue or correction fluid.

Answer **all** questions.
The businesses described in this question paper are entirely fictitious.
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.

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1	
2	
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Total	

This document consists of **15** printed pages and **1** blank page.

SP (SLM/KS) T15439/4

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International Examinations

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1 Playwell is a company that produces a range of games. The company's best selling products are computer games. For many years Playwell only sold games to the domestic market but they are now trying to export to other countries as well. However export sales have been disappointing. Figs. 1 and 2 show data about the company's sales in 2005 which were $240m.

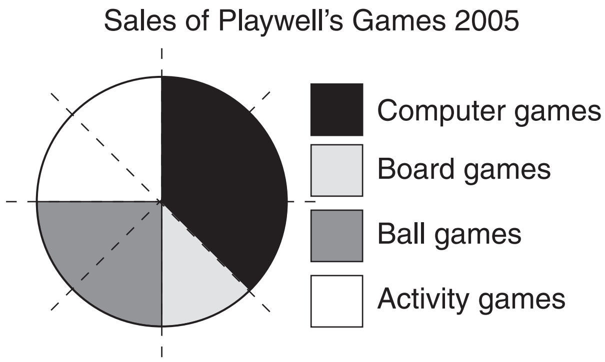

Fig. 1

Fig. 2

(a) Calculate for 2005:

(i) The value of sales of computer games.

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(ii) The value of Playwell's exports.

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(b) **(i)** Playwell's Marketing Director believes that the market demand for the board games is price inelastic. Explain what is meant by 'price inelastic demand'.

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(ii) Explain how Playwell's pricing policy for board games might be influenced by the demand being price inelastic.

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(c) Playwell's Board of Directors feel that good distribution channels are very important for increasing company sales. How important do you think channels of distribution are for increasing sales of Playwell's products?

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(d) Why might Playwell find it difficult to sell their games in other countries?

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2 Mirex is a large company that sells a range of insurance policies to businesses and the general public. The market for insurance is very competitive and Mirex are always looking for ways to cut their costs. Recently they have invested heavily in new technology.

(a) (i) Mirex has been described as a large company. State **three** ways of measuring the size of a business.

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(ii) What sector of business activity does Mirex operate in? Explain your answer.

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(iii) What is meant by a competitive market?

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(b) Explain how new technology such as office computers might cut the costs of companies such as Mirex.

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(c) The management of Mirex could consider the needs of all stakeholders when making decisions.

(i) Explain what is meant by a stakeholder.

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(ii) Identify and explain the objectives of **two** stakeholder groups who might be affected by Mirex's decisions.

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3 Gino runs a take-away pizza business. He has estimated that he can produce as many as 1000 pizzas per week although he is only selling 700 on average at present. Gino recently looked again at his costs and prices. These are shown in Table 1.

Table 1

Direct cost per pizza	$4
Weekly overheads	$1800
Selling price per pizza	$7

(a) Give an example of one of Gino's:

(i) Direct costs

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(ii) Overhead costs

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(b) **(i)** Draw a breakeven chart to show Gino's weekly revenue and costs.

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Calculate:

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(ii) How many pizzas Gino has to sell to break even.

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(iii) Gino's **annual** profit when he sells 700 pizzas per week.

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(c) Gino invested $100000 in his business when he set it up.

Using your profit figure from **(b)(iii)** calculate the return on capital employed.

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(d) Gino's business is currently profitable. He thought that this meant it would be profitable for the next few years as well. What do you think?

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4 B.M.F. is a major electronics manufacturer. It has recently built a new factory in country Y. The factory employs a large number of workers and uses flow production methods to assemble the products. All the workers were recruited locally. The management believe that it is very important for the workers to be motivated and for productivity to be high.

(a) Why do you think that B.M.F. uses 'flow production methods'?

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(b) Explain **two** methods that the management of B.M.F. could use to motivate their employees.

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(c) Why is high productivity important to the management of B.M.F.?

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(d) The government of country Y gave B.M.F. financial help to set up in their country. Not everyone in the country was pleased to see the factory built. Some pointed out that there would be social costs produced by the factory.
Explain what these social costs might be.

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5 Easy Chairs is a private limited company that manufactures furniture. The business has recently had financial problems. The management thought that these had been caused largely by an economic recession. Important decisions needed to be made to solve these problems. The management are thinking about making employees redundant. The Human Resources Director has had talks with trade union leaders and three options were discussed:

- 100 workers to be made redundant
- Wages of all workers to be cut by $50 per week but no redundancies
- Working just 3 days a week, so earnings are less, but no redundancies.

(a) (i) Explain what is meant by an economic recession.

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(ii) Why might an economic recession have caused financial problems for Easy Chairs?

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(b) Assume you are a trade union leader at Easy Chairs. Explain to your members which option you would recommend they accept. Support your recommendation with reasons.

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(c) Identify and explain **one** possible solution to the financial problem at Easy Chairs other than reducing labour costs.

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(d) Recently Easy Chairs received a complaint from a customer that one of their chairs did not meet the minimum standards required by consumer protection laws. The management ignored the complaint and said that the customer must be mistaken.
Do you think that this is the way the management should have reacted? Justify your answer.

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