

# BUSINESS STUDIES

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Paper 0986/11  
Short Answer/Structured Response

## Key messages

A lack of precise understanding of key business terminology is limiting the ability of some candidates to achieve in this paper. This is an area, which must be addressed by centres when preparing candidates for this examination

Application within answers was an improved area of candidate responses, but several candidates still struggle to demonstrate this aspect in their work particularly in **part c** of each question.

The lack of effective evaluation continues to be a problem within many scripts. Candidates should be reminded that an evaluation must be a justified decision that follows from the points raised in the answer not a repetition of points already explained. Candidates would benefit from greater guidance in how to produce an evaluative answer to **part (e)** questions.

## General comments

There was some evidence that this question paper tested areas of the syllabus that candidates did not fully understand. This can be seen in **Questions 1** and **2**. Understanding the purposes of financial documents continues to be a weak area.

Candidates should be encouraged to:

- Learn precise definitions for key terms.
- Refer directly to the information within the stem of the question throughout their answers to ensure that points raised are appropriate for that organisation.
- Ensure that within **parts (c)** and **(d)** of each question a different point of application is used for each separate point made.
- In **parts (d)** and **(e)** of each question it is important to explain the impact of points identified on the business described in the stem of the question.
- Provide a conclusion in each **part (e)** justifying this conclusion with a point that has not been discussed earlier in the answer.

## Comments on specific questions

### Question 1

- (a) Candidates were generally not secure in their knowledge of this term. Precise definitions were rarely provided. Most candidates showed some understanding of the term but very few were able to gain both marks available. Weaker candidates identified this as a document showing income and expenditure, which could also be a cash flow forecast.
- (b) A well-answered question. Some candidates thought, incorrectly, that cost of sales was price.
- (c) This question differentiated well between candidates. For many candidates this was the most challenging question on the examination paper. A small number of candidates did not attempt this question. Only the most able explained two different ways that the managers would use the information. The most frequent correct answers were, to calculate profitability and compare performance with competitors. A common error was to state that the information could be used to make decisions without further explanation. Such answers were too vague to be credited.

- (d) Candidates who had clearly understood the business as outlined in the case scored highly on this part of the question. For many candidates however this was a challenging question. A significant number of candidates did not focus on technology used in production but focused on more general uses of technology such as selling through the internet. Such answers could not be credited. Examiners credited a wide range of answers such as those outlined in the mark scheme. Possible improvements to quality were also accepted as a possible benefit as this is stated in one of the textbooks accredited for the syllabus.
- (e) This area of the syllabus was well understood by many candidates who were able to apply their knowledge to the material provided. However, candidates often did not include an evaluative comment but repeated points previously credited. Only the very strongest candidates provided a justified conclusion and gained evaluation marks. Weaker candidates gained only the knowledge mark by producing a list of general statements covering the advantages and disadvantages of increasing prices.

### Question 2

- (a) Candidates were not secure in their knowledge of this area of the syllabus. A significant number of candidates confused the business cycle with the product life cycle. Such responses often gained one mark for stating growth, which is a part of both concepts.
- (b) The majority of candidates were aware of this term but struggled to provide precise definitions. A number of candidates focused upon why workers could be made redundant rather than providing a definition of the term.
- (c) This question clearly differentiated between candidates. Only the most able gained all the marks available by using two different pieces of application. Most candidates were aware of the purpose of trade unions but struggled to provide two separate points of application.
- (d) The most able candidates made use of the information provided and explained how loyal customers would provide free word of mouth advertising therefore further increasing sales. Many answers however were repetitive stating only that customer loyalty would guarantee sales or retain customers. Such answers explained the phrase customer loyalty rather than explaining why it would be an advantage and gained no credit.
- (e) Candidates responded with detailed lists of knowledge rather than evaluative applied points. The strongest candidates identified the importance of cost saving by not having to advertise for new workers in a period of falling profits. A common error was to state that this would save on redundancy payments or training. Evaluation for most candidates was generally very weak being a repeat of the points stated earlier in the response.

### Question 3

- (a) The majority of candidates provided precise definitions. Some candidates stated that fixed costs would never change rather than not change with output.
- (b) Generally, well answered. A significant number of candidates correctly calculated forecast revenue but then continued their calculation to find profit. Although such final answers were incorrect, Examiners awarded total revenue if it was given in the calculation at some point.
- (c) Candidates showed a good understanding of this method of marketing. Many answers were awarded full marks. Marks were missed out on because candidates chose answers which were essentially the same such as, 'create awareness' and 'create interest'. Application was generally well done on this question with many candidates applying their answers to food.
- (d) As with **part (c)** of the question, candidates clearly had a good understanding of the advantages and disadvantages of primary research. However, candidates did not always develop their answers sufficiently to gain the application and analysis marks available. A small, but significant, number of candidates confused primary and secondary research.
- (e) The strongest answers used the information in the case and made good use of the information in Table 1. A wide range of correct calculations were provided by candidates each illustrating the

ability to analyse data. Only the very strongest candidates were able to make an evaluative conclusion answering the question set. Weaker candidates often simply quoted figures from Table 1.

#### Question 4

- (a) This term was understood by many candidates. However, often there was a lack of precision in the definition.
- (b) Specialisation was not clearly understood although many candidates showed some general awareness of the term. A common error was to confuse specialisation and division of labour.
- (c) The reasons for growth were understood but candidates struggled to apply this information to the business outlined in the question. The strongest candidates were able to provide two distinctly different reasons such as those listed in the mark scheme. The weakest candidates simply identified that demand had risen.
- (d) Candidates were not always able to fully develop their responses to this question. The best candidates gained most of the marks available by providing analysis on the impact of flexible production and the variety of jobs. Even the most able candidates often struggled to provide two distinctly different points of application. A common mistake made by weaker candidates was to state that this method of production was 'quicker' or 'cheaper' without explaining the alternative method it was being compared to.
- (e) Candidates found the analysis and evaluation aspect of this question very challenging. Marks were frequently awarded for the knowledge and application aspects only. The strongest candidates recognised the problem of job rotation when specialist staff are involved in production. Evaluation was frequently awarded to candidates who recognised the cost of offering bonuses to 80 staff was maybe too high for this business.

# BUSINESS STUDIES

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**Paper 0986/21**  
**Case Study**

## Key messages

Candidates should be reminded that throughout this paper they are expected to **apply** their business knowledge and understanding to an unseen case study or business scenario. This will ensure that responses are appropriate for each given situation.

To do well in this paper, candidates must make clear reference, or application, to the accompanying case. Specific marks are allocated throughout the mark scheme in both **parts (a)** and **(b)** for application. In this particular case study, candidates were expected to refer to a food producer, Main Foods (MF), which has become the largest food producer in country X.

Candidates should try to give a full explanation of positive and negative consequences of a business decision. Responses require developed reasoning rather than simple description; listed points generally only gain Level 1 credit whereas an explanation of a point could move the answer to Level 2.

Some of the questions on this paper ask the candidates to make a justified recommendation. It is important to offer a decision based on balanced argument. The recommendation should compare and explain why the alternative options were rejected as well as justifying the option that was chosen, without full repetition of the previous analysis.

## General comments

Candidates had generally been well-prepared for this examination. The context of MF producing food for the mass market and possibly extending its range to produce a new ice cream free of sugar provided an accessible scenario for candidates. Those who were able to use the information in the insert to contextualise their answers accessed the highest marks.

There is a requirement that candidates should be able to handle numerical data. Examination preparation should include learning how to calculate financial ratios and break-even so that valuable marks can be gained from demonstrating good numeracy skills.

## Comments on specific questions

### Question 1

- (a) Most candidates made a good start by successfully identifying one cost and one benefit to MF of developing the new product. Frequently answers referred to the benefit of potential increased revenue or diversification. This product would be sold in a niche market which would have little competition. Conversely, the cost of developing the new product that was most often outlined was the significant capital costs of setting up a new automated production line. Some of the marks rewarded here were given to application in the context of MF. Good use was made of reference to no sugar ice creams, the need to recruit skilled workers and the new equipment that would be required. The question specifically asked about the benefit and cost to MF which meant that answers discussing the impact on customers or the environment did not earn marks.
- (b) This question tested candidates' knowledge of the marketing mix in launching the new ice cream. Many responses mentioned a pricing strategy such as price skimming or penetration pricing but very few developed the discussion to explain **how** such a strategy would result in success for the new ice cream. The second part of the answer concerned place. The candidates who discussed distribution methods earned credit for their answer. However, some candidates focused on location

which is not an element of the marketing mix. In the third part of the answer some good answers mentioned giving away free samples of the new ice cream as a suitable promotion strategy but few developed the reasoning of **how** this would result in a successful launch. To earn Level 3 credit candidates were expected to make a clear judgement about the most important element of the marketing mix in the product launch. Good answers took into account the fact that there was little or no competition and that MF was already a large successful company with established promotion and distribution methods.

## Question 2

- (a) This question focused on two stakeholder groups, employees and customers. In the first section, many answers explained that the current employees would need to undergo extra training to work on the new automated production line which may result in increased motivation and more job satisfaction. Good use was made of the case study material and application marks were frequently awarded. Customers are a stakeholder group who would benefit from an increased choice of products meeting the needs of those who were health conscious. Here again the best answers were those which used the case study material to make a point, explained it and used the context.
- (b) This question asked candidates to consider the use of financial statements by the Government, bank and shareholders. Good candidates used the financial data in Appendix 1 to support the points they made. Tax, loans and dividends were the key points of discussion in each section. To earn Level 3 credit the answer should have been concluded with a justified decision of which user would find the information most helpful. The majority of responses identified shareholders finding the data most helpful with the justification that their own capital was at risk and careful monitoring of financial statements gave them reassurance about their investment.

## Question 3

- (a) Most answers to this question were relatively simple explanations of the functional role of each department. Answers that related to the role of each department, specifically at MF, scored higher marks. For example, the HR department at MF needed to recruit extra workers and retrain existing workers. This would increase their workload. Meanwhile, the production department would need to install the new automated equipment and reorganise the workers and production process to extend the range of foods produced.
- (b) Candidates had the opportunity to demonstrate their numeracy skills in this question. Some responses showed sound numerical understanding by interpreting data from the break-even charts in Appendix 3 but stronger responses earned Level 2 credit by calculating the new break-even output if price were to be increased or if variable costs were reduced. The recommendation at the end of the answer was expected to judge which of the two options would ensure the highest profit from MF's new ice cream. The best answers compared profit levels at the highest level of output on each option and used that evidence to offer a justified decision. Further development mentioned the likelihood of price inelastic demand for the ice cream and a concern that lower variable costs would cause product quality to fall.

## Question 4

- (a) (i) To answer this question successfully candidates needed to make a comparison of the structure of MF as a public limited company with the structure of an unincorporated business. Clear reference to features of MF such as the fact it had limited liability, it was a separate legal entity and could sell shares to raise capital were rewarded. To earn maximum marks this had then to be contrasted with the features of an unincorporated business. Some responses did not develop the comparison sufficiently well and therefore did not focus on the differences.
- (ii) In the second part the candidate also needed to make a clear comparison between MF, a public limited company, and public sector organisations. Some responses explained about the difference in ownership, noting that private individuals owned MF whereas the state-owned public sector businesses. Others recognised that there was a difference in business aims. However, too often full marks were not earned because candidates failed to make the comparison of the two business structures, offering a simple statement about one feature of just one organisation.
- (b) The final question tested candidates' knowledge of external costs and external benefits. The best responses made good use of the case study material, identifying farmers, health organisations and

society as third parties who would be affected by the development of the new product. Many candidates explained carefully how the new ice cream would impact on these groups and were thus rewarded with Level 2 credit. This allowed them to make a meaningful recommendation about whether the Government should encourage MF in its new product development. A justified decision, balancing the extent of the external costs and benefits, would have earned Level 3 credit.