UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Ordinary Level

MARK SCHEME for the October/November 2011 question paper

for the guidance of teachers

7101 COMMERCIAL STUDIES

7101/01 Paper 1 (Elements of Commerce), maximum raw mark 100

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UNIVERSITY of CAMBRIDGE
International Examinations

Section A

1 (a) **Trade:** buying and selling or exchange (1); example such as buying shoes or import/export or retail/wholesale or home/foreign (1).
Aids to trade: services that help/support trade (1); example such as banking (1).
Producer: person to make/convert raw materials or goods or services (1); example such as a farmer, manufacturer (1).
Consumer: a person who buys or uses goods or services (1); example such as food or name of person/public or from retailer (1).

Any 4 x 2 (1 + 1) [8]

(b) Production is the process by which raw materials are transformed into finished products (1).
Production is divided into three stages (1): primary or extractive (1); secondary or manufacturing/construction (1); tertiary or example (1).
It is only when the finished products are produced (1), delivered to, or bought by, consumers (1) who use the goods (1), as production is made for consumption (1), that production is complete, as otherwise production will not have taken place (1), as production is made for consumption/consumer demand (1).

Any 3 x 1 [3]

(c) **At the right place:** transport (1) allow example (1) carries goods (1) from producers to wholesalers or retailers (1) and may deliver to consumers' homes (1) via parcel post or other postal service (1) so that consumers can buy goods easily (1) example of goods (1).
Note: allow marks for explanations of communications and warehousing or retailer.

At the right time: warehousing (1) takes bulk output from producers (1) holds in storage (1) until delivery required (1) or until goods sold (1) allow example (1). Does not want to cause delays (1) may require special facilities (1) such as refrigeration (1).
Note: allow marks for explanations of transport, communications, banking and advertising.

In the right quantity: wholesalers or retailers (1) buy goods in bulk (1) from producers and break them down into smaller quantities (1) and warehouse the goods (1). Consumers require only limited amounts (1) as they cannot store large amounts (1) or finance large amounts (1) allow example (1).
Note: allow marks for explanations of importers/exporters or warehousing or transport.

3 x (1 + 1 + 1)
Note: if no aids or trade identified, there is a maximum of six marks (3 x (1 + 1) for valid material. [9]

2 (a) Differences include:

- Unit shops have one shop (1); supermarket chains have ten or more shops/branches (1).
- Unit shops have personal service (1); supermarkets have self-service (1).
- Unit shops lack facilities (1); supermarkets have cafes etc. (1).
- Unit shops buy from wholesalers (1); supermarkets can buy from manufacturers/own factory (1).
- Unit shops have small capital (1); supermarkets have large capital (1).
- Unit shops have limited choice/narrow range of goods (1); supermarkets have large variety or examples (1).
- Unit shops buy in small quantities (1); supermarkets buy in bulk (1).
- Unit shops give credit (1); no credit is given in supermarkets (1).
- Unit shops are often owned by sole traders/partners (1); supermarket chains are owned by companies (1).
- Unit shops tend to be small shops (1); supermarket chains tend to have larger stores (1).
- Unit shops sell any brands (1); supermarkets have own brands (1).

Any 2 x 2 marks [4]

(b) Reasons include:

- able to buy in greater bulk (1) leading to cheaper supplies (1)
- lower cost prices (1) allow lower selling prices (1) due to economies of scale (1)
- more customers attracted (1) sales or profits rise (1)
- are located in busy places (1) where there are many customers (1)
- for one-stop shopping (1) where customers can carry out weekly shop (1)
- large variety of stock (1) of different brands (1) displayed for customers to choose (1) in self-service (1)
- specialist staff available (1) e.g. home bakery (1)
- able to advertise widely (1) and make use of sales promotions (1)
- have capital to provide attractive premises (1) facilities such as restaurants (1) car parks (1) air conditioning (1)
- make use of new technology (1) such as self-service checkouts (1) thereby cutting labour costs (1)
- use of loyalty cards (1) collect points/gifts (1).

Any 6 x 1 or 2 x 3 or 3 x 2 [6]

(c) Answers include:

- provision of a personal service (1) order service provided (1)
- more convenient location (1) less travelling (1)
- greater concentration on convenience goods (1) e.g. bread rolls (1)
- longer opening hours (1) 8 till late (1)
- buying in more cheaply (1) use of voluntary chains (1)
- stocking a particular range of goods (1) e.g. coffee (1)
- home delivery service (1) newspapers (1)
- development of specialist services (1) made to measure (1)
- local advertising (1) leaflet to local houses (1)
- credit (1) to regular customers (1)
- advice (1) on how particular goods operate (1)
- after-sales service (1) such as repairs (1).

Any 2 x 2 [4]

(d) Answers may include:

- willing to sell in small quantities (1) as buys goods from manufacturer (1) as small-scale retailer could only get bulk orders from a manufacturer (1) and could not afford such a large capital outlay (1)
- provides credit (1) thereby reducing small-scale retailers' capital requirements/helps cash flow (1) and gives the opportunity for the goods to be sold before the retailer has to pay for them (1)
- provides delivery (1) no need for retailer to have vehicle to collect (1) saving money (1)
- carries out processing (1) e.g. labelling/packing/bottling/grading (1)
- carries out warehousing (1) retailer can get stock when needed (1) no need to have own warehouse (1)
- variety of goods offered (1) thus saving the small-scale retailers time (1) in having to deal with each manufacturer individually (1)
- voluntary chains (1) goods ordered in bulk by chain (1) securing discounts (1) thereby lowering costs (1) cheaper prices for retailers (1)
- cash and carry (1) do not allow credit (1) or transport facilities (1) prices are cheaper (1) because wholesalers' expenses are lower (1)
- can obtain goods at any time from the warehouse (1).

Any 2 x 3 [6]

3 (a) (i) Any two of:

- telephone/mobile/cell phone (1) allows oral (by talking) communication (1)
- fax (1) transmits written text or diagrams (1) by fax machine (1)
- telex (1) typed messages sent to other telex users (1)
- email (1) enables messages (1) to be sent from one computer to another (1) via Internet (1)
- **or** Internet (1) via email (1)
- video-conferencing (1) allows people to see each other (1)
- teleconferencing (1) allows people to hear each other (1)
- Skype or video call (1) calls over the Internet (1).

Any 2 x 2 [4]

(ii) Reasons include:

- need to communicate with buyers and sellers abroad (1) to order or sell goods (1) send pictures of goods (1) pay bills (1) obtain feedback (1) make decisions (1) enquiries over delivery or prices (1)
- need to communicate with other parts of the business (1) (head) offices in Brunei (1) for information (1) over new goods (1)
- there is no need to meet (1) saving transport costs (1)
- business deals need to be completed quickly (1) due to competition (1)
- makes business more efficient (1) and profitable (1)
- need to move funds electronically (1) at speed (1)
- need to contact overseas agents (1) to find out market conditions (1).

Any 4 x 1 [4]

(b) **(i)** **Bill of lading** (1): document of title (1) for goods shipped (1) evidence of contract of carriage (1) acts as an advice note (1) dirty/clean bill (1).
Airway bill/note (1): not a document of title (1) for goods sent by air (1) evidence of contract of carriage (1) acts as an advice note (1) may be used as a receipt (1).
Note: allow other suitable documents, such as shipping bill/note, dock receipt/ wharfinger's receipt, mate's receipt, certificate of origin, export licence, export invoice and packing list.

Any 2 x (1 + 1) [4]

(ii) Possible answers:
- sea transport inexpensive (1) compared with air transport (1)
- sea transport has huge capacity (1) can carry very large goods (1)
- sea transport can carry bulk loads (1) allow example such as iron ore (1)
- heavy or low-cost goods (1) cannot bear air transport charges – allow example (1)
- sea transport more suitable for heavy goods (1) over long distances (1)
- can make use of specially built vessels (1) e.g. container ships (1)
- uses refrigeration (1) to carry perishables (1) in containers (1)
- still cheaper for most goods (1) as most goods are not urgently required (1). [4]

(c) Any two of:
- provides foreign currency (1) to pay for imports (1)
- wider market for goods (1) to sell surplus production (1)
- need to import goods not produced (1) e.g. machinery or to meet consumers' needs and wants (1)
- creates employment (1) increasing standard of living (1)
- friendship/political reasons (1) example (1)
- maintains balance of payments (1) avoids deficit (1)
- customs duties (1) provides government revenue (1)
- national income will increase (1) the economy will grow (1)
- encourage investment (1) to support economic growth (1).

Any 2 x (1 + 1) [4]

4 **(a)** **Credit cards:** issued by credit card companies or banks (1) to individual customers (1) providing a credit card limit (1). Used in retail shops/to buy goods etc. (1) pay bills (1) with use of PIN or password/number (1) or signature (1) authorising payment (1). Used for telephone/mail order (1) payment is claimed by seller from bank (1) commission charged to the retailer (1). Credit card company sends customers a monthly statement (1) customers can pay all that is owed with no interest charged (1) or pay some of the amount owed (1) with interest charged on the remainder (1).

Any 3 x 1 [3]

Direct debits: bank account holder authorises bank to allow withdrawals (1) money taken immediately from account (1). Creditor initiates payment (1) by BACS transfer (1). Amounts can vary in sum (1) and dates (1). Debited to account holder (1) and paid into creditor's account (1). All payments made electronically (1) can be used to buy goods (1). Allow example of use such as paying gas bill (1).

Any 3 x 1 [3]

(b) Reasons include:
- no need to carry cheque books/credit cards – easy to carry (1) no theft involved/safer (1)
- cheques can be dishonoured (1) e.g. no money in account (1) and no need to go to bank to pay cheque (1)
- payment is guaranteed (1) with credit cards providing a form of credit (1) can buy now, pay later (1) can be used for unlimited number of times in a year (1) to obtain expensive goods (1)
- can be used overseas (1) but cheques can be refused/not accepted everywhere (1)
- no need for debtor action (1) as creditor initiates when needed with direct debit (1) as direct debits can cope with variable amounts/dates (1) direct debits give more control/security to creditor (1) give immediate payment (1).

Note: maximum of three marks for one method of payment. [4]

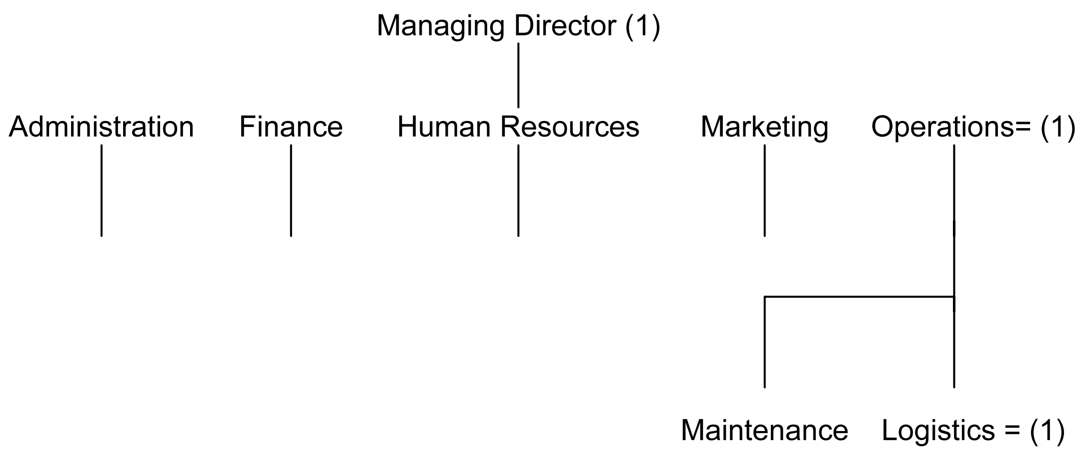
(c) Any three of:
- loan is for a fixed sum (1) overdraft up to a maximum (1)
- loan is long-term (1) overdraft is short-term (1)
- loans need recommendation/guarantor (1) overdrafts do not need recommendation/guarantor (1)
- loans repayable monthly (1) overdrafts by given date (1)
- loan interest fixed on agreement date (1) overdraft interest may vary (1)
- loan interest on initial or reducing monthly debt (1) overdraft interest on daily balance (1)
- loans no need to have a current account (1) overdrafts must have a current account (1)
- loans are a formal means of borrowing/more formalities (1) overdrafts are an informal method/fewer formalities (1).

Any 3 x 2 [6]

(d) Interest payable: \$80 000 x 10/100 x 2 or 1 (1) = \$16 000 or \$8000(1)
Total amount owed: \$80 000 + \$16 000 (1) = \$96 000 (1)
Monthly payments: \$96 000/24 = \$4000 (1) or four marks for the correct answer

Note: allow own figure rule (OFR). [4]

5 (a) **EUROCOM'S ORGANISATION CHART**



Plus one mark for layout of organisation chart. [4]

(b) Similarities include:
- separate legal existence (1) can be sued in own name (1)
- limited liability (1) shareholders lose amount paid for shares (1)
- continuity of existence (1) company continues after death of owner (1)
- minimum of two shareholders (1) no maximum number (1)
- shareholders are owners/both have shareholders (1) by investing money into shares/both sell shares/obtain capital in shares (1)
- board of directors (1) elected by shareholders to run company (1) at AGM (1)
- profits are distributed as dividends (1) on annual basis (1)
- companies must be registered (1) through Registrar of Companies (1) with Memorandum of Association (1) Articles of Association (1) both in private sector (1)
- accounts must be filed with Registrar of Companies (1).

Any 2 x (1 + 1) [4]

(c) Differences include:
- bonded warehouses usually located near ports of entry (1) there is no specific location for an ordinary warehouse (1)
- bonded warehouses controlled by Customs and Excise/government (1) ordinary warehouses controlled by owner or company owner (1)
- bonded warehouse is used to store dutiable goods or examples (1) can be used to store non-dutiable goods or examples (1)
- dutiable goods cannot be removed until duty is paid from bonded warehouses (1) whereas there is free movement of goods in and out of an ordinary warehouse (1)
- bonded warehouse is used for storing imported or exported goods (1) whereas ordinary warehouses can be used for the storage of goods that are locally produced or from abroad (1).

Note: maximum of 2 marks for either ordinary/bonded warehouse.

Any 2 x 2 [4]

(d) **(i)** Agenda or Notice of meeting (1). [1]

(ii) Chair or Chairman or chairwoman or chairperson (1). [1]

(iii) Any two of:
- date or location or venue or time meeting began
- record of people present or absentees
- name of chairperson
- apologies
- approval of minutes
- whether it is the first, second or weekly or annual meeting
- matters arising
- record of meeting
- any other business
- date and/or time of next meeting.

Any 2 x 1 [2]

(e) Any two of:

- can sell 24/7 (1) the virtual shop never closes (1) likely to increase sales/profits (1) as many people have less time for shopping (1)
- no overtime labour costs to pay (1) saves on wages (1)
- can show a wider range of goods (1) than one might be able to fit into a shop's premises (1) does not need to extend shop space (1)
- wider market (1) can attract customers all over the world (1)
- saving on paper/printing costs (1)
- useful for customers without a local store or disabled (1) can target customers from remote areas (1)
- can carry out market research (1) online questionnaires (1) again saving money/time (1)
- can target customers (1) with automated emails (1)
- do not have to rent out expensive premises (1).

Any 2 x (1 + 1) [4]

6 (a) (i) Cosmetics (1). [1]

(ii) (Free) make-up bag (1).
(20%) discount (1). [2]

(iii) The advertisement has some informative elements such as 'available until 30 November' or another example (1) but not very informative as no address (1) or prices given (1). However, it is mainly persuasive (1) as it uses emotive language and attractive pictures (1) and the words 'free gift' or '20% discount' (1) aim to capture readers' attention (1) by using subtle techniques (1) encouraging people to buy before 31 December (1).

Note: candidates can score all three marks by consideration of one type, that is, informative or persuasive.

Any 3 x 1 [3]

(iv) Distinguishes the name from other competitors (1) cannot be used by other companies (1) seen as unique (1). Consumers remember the name/identify with brand when shopping (1) the name being recognised/known (1) increases sales/attracts customers (1) giving competitive edge (1).
The company can achieve brand loyalty (1) leading to repeat business (1) the brand is seen as a sign of quality/long-lasting (1).
Consumers trust it (1). The company can use the brand to advertise (1) and promote the business (1) on website or sales literature (1). If brand name becomes popular (1) it may encourage consumers to buy other products bearing that name (1).

Any 4 x 1 [4]

(v) Attractive or distinctive eye-catching design (1) in colour or shape or pictures (1) promotes/advertises the goods (1).
Easily recognised by consumers (1) when choosing goods in shop (1) enables brand name to be attached to product (1).
Provides information (1) such as ingredients (1) expiry dates (1) or how the product should be used (1). It protects the goods (1) many goods could break/be damaged (1) making loss (1) as the goods might not be sold (1) and keeps it clean/hygienic (1).
Easy to carry/easy to pick up (1) helping in self-service (1).
Allow example.

Any 4 x 1 [4]

(b) Advantages:
- cheaper (1) for each advertisement (1)
- permanent copy (1) can be kept/referred to later or passed on to others (1)
- more detail (1) likely to be more informative/information or detailed (1)
- different groups of consumers (1) targeted through different newspapers (1)
- some people do not have television (1) but will be able to afford newspaper to read (1).

Disadvantages:
- paper quality is low (1) TV has colour (1) more impact/attractive than newspapers (1)
- cannot combine sound and/or vision (1) TV more effective (1)
- cannot provide movement (1) TV shows products being used or demonstrated (1)
- frequent repetition possible with TV (1) greater impact on memory (1)
- TV can target advertisements at particular time-slots or programmes (1) example such as toys during children's programmes (1)
- wider coverage (1) national or global satellite (1)
- not suitable for people who are illiterate (1) unable to read (1)
- newspapers only come out once a week (1) TV adverts on all of the time (1).

Note: maximum of four marks for advantages or disadvantages.
Any 6 x 1 or 3 x 2 [6]

7 (a) (i) Reasons include:
- to provide financial protection or spread risk (1) in case of loss/to cover loss (1)
- to provide compensation/refund/money (1) in case the van is in an accident (1) to repair it (1)
- gives Ian confidence to set up his business (1) knowing that he will be able to continue with his business (1)
- Ian does not know what will happen in the future (1) insurance lessens these risks (1).

Any 3 x 1 [3]

(ii) Any two of:
- burglary/theft – cover for stolen equipment
- fire – cover against fire damage to property/business
- consequential loss – cover against business being disrupted
- motor car – to cover damage to vehicle
- third party – covers against bodily/property damage to third parties
- comprehensive – covers own property damage
- goods in transit – cover for goods being transported
- fidelity bond/guarantee – covers against dishonesty by an employee
- public liability – covers claims made by the public
- employers' liability – covers claims made by an employee as a result of an accident or injury
- accident/accidental damage – allow example.

Any 2 x 2 [4]

(iii) Sum of money paid/payment (1) to an insurer/insurance company (1) to cover against a risk (1) into a central fund/pool (1) monthly/annually.

Any 2 x 1 [2]

(iv) Ian needs to obtain the lowest premium or choose the best savings to be made of £1600 (1) between lowest and highest insurance from Fig. 2 (1) as cost of cover varies enormously between the four companies (1) thereby saving Ian money/reducing his costs (1).
Can compare (1) look for best value (1) other aspects of cover may differ (1) for example excess (1).

Any 2 x 1 [2]

(b) (i) Contact Company X or insurance company or broker (1).
Complete a proposal form (1) application for insurance (1) with utmost good faith (1) giving all relevant facts or essential details (1) example of detail (1) and being truthful (1). The premium will be calculated (1) on a monthly/annual basis (1) based on possible risk (1). He will pay the premium (1). Cover note is issued (1) which gives temporary cover (1). The policy is drawn up/issued (1) after being signed (1) setting out terms/ conditions (1) e.g. excess (1).

Any 5 x 1 [5]

(ii) Name of insurance principle, that is, either indemnity, insurable interest, utmost good faith, contribution or subrogation = 1 mark.

Explanation of insurance principle = 3 marks.

E.g. (Indemnity) means to restore a person to the position before the event concerned took place (1) the person should be no better or worse off (1) the person should not make a profit (1). It applies to all contracts except life cover/personal accident (1). Allow an example (1).

E.g. (Utmost good faith) applies to both insured and insurer (1).
Parties must tell the truth (1) on proposal form (1) and must give relevant or material facts (1) and not leave out any information (1). If the insured does not tell the truth the contract becomes void (1) and the insurance company will refuse to pay compensation (1). Allow an example (1).

E.g. (Insurable interest) You can only insure those things in which you have an insurable or direct interest (1) that is, you must suffer loss (1) or own the thing to be insured (1). If this principle was not there, you would be tempted to profit from the loss (1) by deliberately causing damage (1). Allow an example (1). [4]