

## UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

Cambridge International Diploma Standard Level

### MARK SCHEME for the May 2006 question paper

#### **CAMBRIDGE INTERNATIONAL DIPLOMA IN BUSINESS**

**5161** Business Organisation and Environment, maximum mark 100

These mark schemes are published as an aid to teachers and students, to indicate the requirements of the examination. They show the basis on which Examiners were initially instructed to award marks. They do not indicate the details of the discussions that took place at an Examiners' meeting before marking began. Any substantial changes to the mark scheme that arose from these discussions will be recorded in the published *Report on the Examination*.

All Examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes must be read in conjunction with the question papers and the *Report on the Examination*.

- CIE will not enter into discussion or correspondence in connection with these mark schemes.

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The following are not model answers but are nevertheless to be regarded as persuasive. A candidate may offer other relevant responses. Where appropriate, responses should be made in context. Bear in mind that you are dealing with standard level – candidates are expected to have covered the syllabus but this paper does not call for extensive answers.

- 1 (a) 'New Art' is a partnership between Abdul and a sleeping partner. Explain what a 'sleeping partner' is. [4]**

The candidate will have studied partnership and should know the meaning of a sleeping partner. The points that need to be made are that the sleeping partner contributes finance but takes no active role within the partnership. It is possible for the sleeping partner to have limited liability.

1-2 marks indicates that finance is contributed.  
 3-4 marks refers to finance and the lack of active role;  
 [reference to limited liability, in context, could earn 4 marks]

- (b) Abdul's business always needs funding and relies on retained profits and an overdraft. Describe both retained profits and an overdraft. [2 x 2 = 4]**

The points to be made are:

*Retained profit:* e.g.: the profit left after all deductions [tax, distributed profit to partners] and reinvested in the business to help with, for example, renewal and expansion.

*Overdraft* e.g.: borrowing arrangement with the bank to permit the withdrawal of more funds than are in the account; agreed maximum overdraft; need not be drawn out at all. Abdul needs financial resources as cash flow may be subject to peaks and troughs.

1-2 marks for each definition

- (c) Identify and explain three business objectives that Abdul might have. [3 x 4 = 12]**

Each objective needs to be supported by an appropriate explanation. The text actually contains two specific references to objectives and the candidate may use them. The objectives may include, e.g.:

- Satisfying clients
- Profit
- Provision of employment
- Support for unknown artists
- Increase sales revenue
- Secure a satisfactory share of the art market

1-4 marks per objective as follows:

1-2 marks weak knowledge of the chosen objective  
 3-4 marks knowledge, application, context.

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- 2 (a) **Abdul says that all the stakeholders are equally important to the business. Define the term ‘stakeholder’ and give two examples of stakeholders of ‘New Art’.** [4]

The candidate is asked for a definition and to identify only two stakeholders in ‘New Art’.

Stakeholder has become a familiar term in business studies. The candidate needs to recognise that a stakeholder can be a person, a group of people, a local or central government department, or another business organisation with a direct interest in New Art. Each stakeholder will have a different interest in Abdul’s business and somehow Abdul needs to satisfy each one.

The list of stakeholders can be drawn from, for example,

- bankers
- clients
- sleeping partner
- creditors
- the artists
- other suppliers
- employees/manager.

1-2 marks for the definition of stakeholder  
plus  
1 mark for each stakeholder [NB: only two required].

- (b) **Explain what Abdul means when he says he is responsible for target setting.** [4]

There may be two approaches here and both are acceptable:

- One may refer to the agreement between employer and employee on the employee’s performance targets for the ensuing year; this is particularly keen where the art buyers are concerned as they are on a one-year fixed term but renewable contract; and
- the other may deal with Abdul’s need to set realistic targets for the business over the next year which will involve e.g. budgeting, planning cash flow.

1-4 marks as follows:

- 1-2 marks limited definition dealing with employee or company performance
- 3-4 marks clear demonstration of either approach

- (e) **It is evident that ‘New Art’ is centralized. Suggest one advantage and one disadvantage to Abdul of a centralized business structure.** [2 x 6 = 12]

Please note that only one advantage and one disadvantage are called for. It is clear from the case study that Abdul runs a centralised business – he is very much in charge.

*Advantage:* e.g. Abdul can maintain his control and direction; maintenance of image and reputation; consistency of policies; decisions can be made quickly; the nature of the business probably demands Abdul’s personal touch.

*Disadvantage:* e.g. deters staff participation; discourages staff from achieving job satisfaction; demoralising for managers or anyone with responsibility; stifles initiative, a lot of additional responsibility and stress for Abdul.

1-6 marks for the advantage/disadvantage:

- 1-2 marks very basic knowledge of centralisation
- 3-5 marks descriptive/elementary, knowledge and application
- 6 marks very good explanation, context, judgement

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- 3 (a) **Abdul occasionally employs casual staff. Define the term ‘casual staff’ and suggest one benefit to Abdul’s business of employing casual staff.** [2 x 2 = 4]

Definition: points to be taken from: Casual staff are taken on as and when required – perhaps to cover long term illness, maternity leave, peak periods of production; casual staff may even be self-employed; usually do not receive employment benefits [e.g. medicare]. A casual employee may be full-time or part-time but do not accept the suggestion that it is necessarily synonymous with part-time.

Benefit: points to be taken from: Abdul employs casuals for the annual art exhibitions which will only run for just a few weeks; he only has to pay the casuals an hourly rate [probably lower than that for permanent staff]; he has few obligations towards them; he can expand his workforce temporarily without incurring large employment costs.

1-2 marks for the definition of casual staff

plus

1-2 marks for the benefit [which clearly must be in context]

- (b) **Explain what a one-year fixed-term renewable contract is and suggest one benefit to Abdul’s business of employing art buyers on fixed-term renewable contracts.**

[2 x 2 = 4]

Response to include such points as:

Employment contract which runs for a specific fixed term and expires at the end of that term; employee is treated as permanent in respect of benefits and pay; satisfactory work means renewal i.e. a follow-on one year contract.

Abdul benefits as it is an incentive for the employee to achieve targets; if an art buyer does not do well, Abdul does not have to renew the contract.

1-2 marks for the definition of the fixed-term renewable contract

plus

1-2 marks for the benefit [which clearly must be in context]

- (c) **Identify and explain three expectations that Abdul might reasonably have of his employees.**

[3 x 4 = 12]

There are some clues in the text. The candidate needs to select three expectations and give each one an appropriate explanation. The points may be chosen from: e.g.

- operating the company code of conduct
- keeping up to date with the trends in the art market
- cooperative attitude
- commitment to the business
- loyalty
- ability to work with both the artists and the clients
- self reliance
- market judgement

1-4 marks per expectation as follows:

1-2 marks limited/basic discussion; appropriate point but partial awareness

3-4 marks firm discussion of suitable expectation, context.

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- 4 (a) Every business is influenced in some way by external factors. Explain how New Art might be affected by both
- (i) the trade cycle [5]
- (ii) the distribution of income. [5]

*Trade cycle:* essentially the cycle of boom to slump then recovery and so on; it affects business confidence and forecasting; in boom times people [and corporate bodies] will spend and Abdul will need to maintain high stocks; in slump times, people are cautious with money and the business may have to release staff.

*Distribution of income:* the candidate needs to recognise that this is the spread of income earned by different groups of people; taxation can often have the effect of income redistribution; as economic conditions in a country improve, then hopefully more people have access to higher incomes and Abdul has potentially more clients.

1-5 marks for each influence as follows:

1-2 marks weak/basic knowledge of PEST factors and their impact

3-5 marks good demonstration of PEST influences on 'New Art'

- (b) The location of a business can be very important. Explain why Abdul has located his galleries in New York and London, and the exhibitions in major international cities such as Dubai, Delhi and Cape Town. [10]

There is no need for the candidate to rehearse all the general factors of location as many are not relevant in this case study. The choice of the cities for the galleries and the exhibitions indicate areas of wealth and disposable income – therefore there is a potential buying public which can afford Abdul's prices. There are also more corporate buyers. The cities are also areas of cultural activity where one would expect to find art galleries.

As for skilled staff, there is the assumption that in London and New York there is likely to be a better supply of staff trained and knowledgeable in art – the opportunities will be greater. This is also applicable to the exhibition cities. There is, perhaps, a third point and that is the proximity of suppliers i.e. the artists.

A sophisticated response is not looked for but the candidate is expected to read the case study and draw the apposite conclusions. The candidate may identify other arguments.

- L1 1-2 marks basic/weak deduction and application
- L2 3-5 marks elementary understanding of location and the case
- L3 6-8 marks recognition of the two factors; obvious knowledge
- L4 9-10 marks demonstration of awareness and understanding of case; context; some judgement

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- 5 (a) Define the term ‘customer profile’ and suggest one reason why it is important to Abdul. [2 x 2 = 4]

The candidate needs to indicate that it deals with the characteristics of a customer in terms of, for example, age, gender, buying power, income, class, taste in art. It is a marketing tool for Abdul and helps him to define his target market; he is the better able to advise clients.

1-2 marks for the definition

plus

1-2 marks for the suggested importance

- (b) Explain, in relation to ‘New Art’, what determines the retail price of a piece of artwork. [4]

The clues are given in the text. A statement is required incorporating these factors e.g. original price paid to the artist; employment costs; gallery costs; buying costs e.g. travel expenses, handling and packaging, transportation; profit.

1-4 marks as follows:

1-2 marks weak appreciation of costs and charges

3-4 marks good to firm definition identifying plausible factors

- (c) In relation to marketing, explain what Abdul means when he says the art market is dictated by product, price and quality. [3 x 4 = 12]

The problem here is the candidate, reading product and price, might launch into a rehearsal of the 4Ps. That is not entirely irrelevant but the approach to this task needs to demonstrate a good understanding of the marketing function. Aspects of this task have been dealt with or hinted at in earlier tasks so in a way it is a matter of *bringing together* familiar points.

The candidate needs to put together a general and holistic discussion identifying the three points and their linkage:

*Product:* the artwork, nature, potential

*Quality:* recognisable as ‘good’ work, evidence of skill and style, competence.

*Price:* must reflect the product, its potential future value, rarity, particular type [fine art, ethnic], market’s willingness to buy.

A *sophisticated response is not called for* but the candidate needs to demonstrate a general understanding of the situation.

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|----|-------------|--|
| L1 | 1-3 marks   | basic/limited knowledge of marketing                 |
| L2 | 4-6 marks   | elementary application of knowledge to the situation |
| L3 | 7-9 marks   | good interpretation of case, identify of linkage     |
| L4 | 10-12 marks | clear understanding, and context; some judgement     |