



# Mock Exam 3

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**BUSINESS**

**9609**

Paper 1 Short Answer and Essay

**1 hour 15 minutes**

MARK SCHEME

Maximum Mark: 40

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**Published**

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## Marking Scheme Alt Business Paper 1 Mock 3

### **1a Define the term customer market orientation.**

[2]

When a business researches what customers want. (1)

Then designs and supplies the desired products/services to the market. (1)

### **1b Explain two advantages to a business of selling in international markets.**

[3]

Answers could include:

- An international market means that a business will target consumers at home and overseas which might give access to more customers.
- Can allow economies of scale to be gained allowing costs per item/service to be reduced leading to more profit.
- Larger scale activity than a local/national market might allow a business to offer variations to meet the needs of different consumers thus spreading risk.
- Overseas markets might result in new ideas for the business. Opportunity to diversify.
- Might avoid competing in a saturated national market.

### **2a Define the term capital intensive production.**

[2]

Capital intensive production is where a higher proportion of equipment and machinery is used during production compared to labor. This method of production can produce mass quantities of standardised products.

**2b Explain two ways a business might raise productivity levels.**

**[3]**

Answers could include:

- a definition of productivity – the ratio of outputs to inputs during production – the output per worker during a time period
- raise skill levels of workers so they become more efficient
- raise employee wages and increase motivation
- more training for workers – increase confidence and interest
- increase motivation and wellbeing of workers
- invest in more technology/capital equipment and so increase output with fewer staff
- better maintenance schedules for capital equipment
- increase the effectiveness of management
- more leadership vision and inspiration – share objectives
- Accept any other valid response.

**3a Define the term debt factoring.**

**[2]**

A definition that suggests that when a business sells its debts / invoices to a debt-factoring / third party company should be awarded 2 marks.

The idea of selling debts only should be awarded 1 mark

**3b Briefly explain two reasons why the effective management of working capital is important for all businesses. [3]**

Answers could include:

- Without sufficient working capital a business will become illiquid – go into liquidation or seek emergency high cost funding.
- Too much working capital is detrimental – the opportunity cost of capital tied up in inventories, accounts receivable and idle cash may be high – more productive uses elsewhere.
- So effective management is required to see that cash flows are sufficient to deal with anticipated working capital problems – take measures to remedy situations, e.g. shorten credit periods for customers.

**4 Explain the benefits of a co-operative to its members. [5]**

Answers may include:

- Co-operatives are joint ownership organisations (producer, workers, consumers).
  - A distinctive type of business organisation – often a significant amount of democratic control and profits shared/distributed in proportion to members' investment.
  - Producer co-operatives common in agriculture in developing countries.
- Advantages claimed for co-operatives include:
- a) Members/users are involved and have opportunity to direct

and control the business.

- b) Business is designed and run specifically for the members/users.
  - c) Resources are pooled for mutual gain.
  - d) Increased purchasing/supplier power – joint advertising.
  - e) More consumer power – less social/environmental damage.
  - f) Allows members with common interests to work together and assume responsibility (e.g. village post office/shop).
- In consumer co-operatives consumers may receive dividends for their patronage.
  - Producers protected from being exploited by large buyers.
  - Accept any other valid response.

**5a Analyse the importance for a business of distinguishing between revenue expenditure and capital expenditure. [8]**

Answers could include:

These are two different kinds of business expenditure and have significantly different impacts on a business – revenue expenditure is a regular expenditure, gives benefit over the short term, maintains

rather than enhances assets. Capital expenditure is long-term, irregular, and produces benefit (assets) over a number of accounting periods.

Different in terms of how they are financed – almost certainly financed in different ways – capital expenditure more likely to be financed with debt/loan financing.

Different in terms of how these types of expenditure are recorded in financial accounts. Revenue expenditure is on assets and expenses that give short term benefit to the business (1 year) and recorded in full on the Income Statement. Capital expenditure will be recorded on the Income Statement as a yearly depreciation amount and on the Statement of Financial Position as asset valuation.

Please accept and reward other relevant points.

**5b Discuss the benefits and drawbacks to a business of using only internal sources of finance to fund expansion. [12]**

Answers could include:

Outline of types of internal funding sources, such as building up reserves through retained earnings, sale of unwanted assets.

Benefits such as:

- No direct cost to the business
- Readily available
- Does not increase debt
- No loss of control – no share sale
- Risk of high gearing reduced
- Start projects quickly – no approval process externally

Drawbacks such as:

- Using money from capital reserves or operating budgets leaves a business with less money to manage short-term expenses
- There may well be a limit to the kinds of expansion that can be

funded internally (depends on amount of reserves available)

- Likely to fund only smaller projects where investment is modest, payback is quick and estimated returns significant.
- The viability of an investment project may be given less robust scrutiny when internal financing is used.
- There may be tax benefits of external funding that internal funding does not have (tax deductible interest/depreciation)
- Strong answers will recognise the significance of only using internal sources and will explain how this approach might well limit or counter the advantage claimed.

Note: Do not reward selling shares as an internal source of finance – it is an external source of finance.

Please accept and reward other relevant points.

**6a Analyse the possible benefits to a business of increasing its market share. [8]**

Answers might include:

Candidates might begin with a definition of market share – The percentage of sales in a total market that are made by one business.

Benefits of an increase in market share include:

- An increase in the number of customers – increased sales.
- The business becomes more well-known with a possible increase in brand/image recognition leading to stronger image.
- Increased scale of operation leading to economies of scale.
- Lower unit costs leading to increased profit or the opportunity to reduce price to consumers and therefore become more price competitive.

- If the business gains a large market share the business is likely to be more powerful in the market and might be able to dictate prices. Brand leaders can set prices.
- Retailers might be very eager to stock that brand of goods – able to gain a more prominent sales position in retail outlets.

**6b Discuss whether an airline business might increase its profits by more effective market segmentation [12]**

Answers could include:

Knowledge and Understanding 2 marks

- Clear understanding of profits.
- Clear understanding of market segmentation.
- Clear understanding of airline businesses.

Application 2 marks

- Reference to increasing profits.
- Reference to using market segmentation.

Analysis 2 marks

- How segmentation helps to identify sub-groups in a market.



- How segmentation can allow targeted marketing campaigns.
- How the use of effective market segmentation might improve quantity of sales and/or revenue.
- Use of price differentiation.
- How the business might use segmentation to identify opportunities for growth.
- How a business might increase its profits by effective market segmentation.
- Use of specific examples of market segmentation which could apply to any business e.g. type of consumers / age / family grouping / income / social class / niche market / mass market.

#### Evaluation 6 marks

- A judgement/conclusion is made as to whether an airline business might increase its profits by more effective market segmentation.
- These judgements/conclusions may be made at any point in the essay not only in a concluding section.
- There may be consideration of the current market segmentation compared to what needs to be done to make it more effective.

- Whether the current profitability may be influenced by factors other than market segmentation e.g. external environment.
- Whether changing the market segmentation may involve extra costs of market research without being able to influence profitability.
- Evaluation might recognise that it depends on how important the objective of profit is to the business.
- The context is an airline business There should be specific reference to airlines e.g. planes / internal and international passengers / destination / business or economy class / facilities/extras required / pilots / fuel / frequency of travel.
- Is it aiming to maximise sales by selling as many tickets as possible to whoever will buy them? This might target the mass market which can be highly competitive. This may involve reducing prices without decreasing costs, which may decrease profits.
- Is it aiming to increase sales revenue to increase profitability? It may wish to enter wealthy niche markets in order to charge high prices whilst not increasing costs. What is the competition like in these markets?
- Is it aiming to increase capacity utilisation to fill seats and better cover fixed costs? This might lead to economies of scale and therefore increase profits.
- Is it aiming to increase journeys/destinations? How will the costs involved in this compare with the revenue change?
- The ability to improve profits may depend on the reputation

and current popularity of the airline and how competitive the industry is.

- There may be differences in PED between different operators, market segments and destinations and this can influence profits due to the prices which can be charged.
- Will depend on the accuracy of the research which identifies the market segments.
- Accept any other valid response.

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