

# IGCSE 0450 SYLLABUS

FOR CAMBRIDGE 2021 AND ONWARD EXAMS

# BUSINESS STUDIES

## TOPICAL PAPER 1

WITH MARK SCHEME

201( – 20&\$

6m **ASIF IQBAL**

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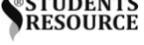
Book Title: IGCSE Business Studies Topical Paper F

Edition: 1<sup>st</sup> Edition | 1<sup>st</sup> impression

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Syllabus: Latest 2021 Syllabus

Published by:  **STUDENTS RESOURCE** Airport Road 0423-5700707

Price: GFÍ 0

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# TOPIC 1: UNDERSTANDING BUSINESS ACTIVITY

## 1.1: Business Activity

**Question 1** **0450/11/M/J/13/Q5/b**

AM Designs is a private sector business. It makes dresses. It is a successful business because it adds value. Amira is directly responsible for a team of 12 people. ‘I want to keep a short chain of command but I do need a manager to help me. I must find someone with the right qualities. All of my team are highly motivated and someone with the wrong management style might cause problems.’

Identify **two** ways that a business could increase added value.

Way 1: .....

.....

Way 2: .....

..... [2]

**Question 2** **0450/12/2013/16/Q1/a**

What is meant by opportunity cost? [2]

.....

.....

.....

.....

**Question 3** **0450/12/O/N/12/Q4/C**

Colour Rack manufactures paint in country Z. It sells its products to customers both nationally and internationally. Colour Rack uses a specialist transport company to deliver its products to customers. The Colour Rack brand is well known. Many of its factory employees are unhappy at work. They are well paid but lack motivation due to the repetitive nature of their work.

Explain how a manufacturing business adds value to its products.

.....

.....

.....

.....

.....

.....

.....

.....

..... [4]

**Question 4** **0450/13/M/J/15/Q3/a**

Bowland manufactures bicycles from components purchased from suppliers. The production method makes use of specialisation. The Finance manager said: ‘It has been a successful year because profit is up. However cash flow is still negative. Trade receivables (debtors) have increased and we have purchased a lot of new equipment.’ Bowland’s management believes that improving quality has been the most important reason why bicycle sales have increased.

(a) What is meant by ‘specialisation’?

.....

.....

.....

..... [2]

**Question 5** **0450/13/O/N/16/Q3/a**

What is meant by ‘added value’?

.....

.....

..... [2]

**Question 6**

**0450/13/M/J/18/Q1/c**

Rosa is a successful entrepreneur. Her business makes beauty products that she creates including hand and face creams. She employs 5 production workers and Rosa enjoys being in control of everything else including design and marketing. Rosa uses social networks for promoting the business. She said: 'Increasing added value is important. I am expecting revenue to increase by 300% in 2018. At this rate of growth, I will need a bigger factory. I would like to have customers in other countries so I hope there are no import quotas!' Rosa has to decide whether to continue to expand the business or keep it small.

Identify and explain **two** ways Rosa could increase added value.

Way 1: .....

.....

Explanation:.....

.....

Way 2: .....

.....

Explanation:.....

..... [4]

**Question 7**

**0450/12/M/J/20/Q1/a**

Define 'specialisation'.

.....

.....

.....

..... [2]

**Mark scheme 1**

Knowledge [2 x 1] 1 mark per way

Ways could include: turning raw materials into finished goods / branding / packaging / adding extra features to products/USP/improved design

**Mark Scheme 2**

Clear understanding [2], e.g. next best alternative forgone

OR next best alternative given up (by choosing another item) [2]

Some understanding [1], e.g. what had to give up OR option not chosen

**Mark Scheme 3**

Knowledge [2] – allow up to 2 marks for clear understanding of added value which may be implicit in the example/knowledge of ways to add value. Application [2] – allow up to 2 marks if the candidate explains how a manufacturing business could add value to its products. Each example 1 mark e.g. branding, packaging, extra features [max 2] OR one example explained can get 2 marks. Adding value is the difference between the price of the finished product/service and the cost of the input involved in making it [2]. Do not accept quality – as this would suggest higher cost of materials which could reduce added value.

**Mark Scheme 4**

Clear understanding [2] e.g. way in which work is divided so each worker concentrates on a specific task so become expert at it OR when people and businesses concentrate on what they are best at

Some understanding [1] e.g. workers do only one job

**Mark Scheme 5**

Clear understanding [2]: e.g. difference between price of a finished product and the cost of the inputs involved in making it

OR difference between the selling price of a product and the cost of bought in materials and components [2]

OR improvement to the product that makes it worth more plus a relevant example [2]

Some understanding [1] e.g. improvement to the product that makes it worth more

**Mark Scheme 6**

Knowledge [2 × 1] Award 1 mark for each way identified

Application [2 × 1] Award 1 mark for each explanation in context

Points might include:

- Increase price [k] to help ensure sales increase by 300% [app]
- Reduce cost of materials [k] used in hand creams [app]
- Change packaging [k]
- Branding OR create a USP [k] to use on social networks [app]
- Improve design [k]
- Add extra features [k]

Application marks may be awarded for appropriate use of the following:

- Beauty products or related words such as hand cream, face cream,
- Enjoys being in control
- Rosa does the design and marketing,
- five employees,
- Looking to have customers in many countries
- Sales increase by 300%
- Social networks

**Do not award** better quality materials – as this would suggest higher costs which would reduce added value

**Mark Scheme 7**

Award 2 marks for a full definition. Award 1 mark for a partial definition.

Way in which work is divided so each worker concentrates on a specific task so become expert at it [2]

When people and businesses concentrate on what they are best at [2]

Partial definition e.g. workers do only one job [1]



# Topic 1: Understanding Business Activity

## 1.2: Classification of Businesses

### Question 1

0450/11/M/J/14/Q2/a

Identify two examples of tertiary sector business activity in your country, other than a recruitment agency. [2]

Example 1.....

Example2.....

### Question 2

0450/13/O/N/15/Q2/a

Toddles is a children’s nursery. It is a tertiary sector business which provides childcare for children aged 2–5 years. It is a sole trader business. The business employs 4 full-time workers, who are all fully trained and well-motivated. Each employee looks after 3 children. Last year, Toddles made a loss. ‘I don’t understand it, we have fantastic employees and a good location’ said the owner. ‘I need to find ways to make the business profitable.’

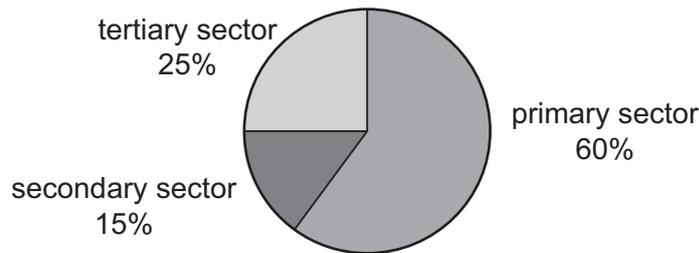
(a) What is meant by ‘tertiary sector’?

.....  
.....  
.....  
.....[2]

**Question 3**

**0450/13/M/J/16/Q2/a,b**

The Government in country Y wants to encourage more secondary sector business activity to help reduce unemployment. It has announced a reduction in taxes and plans to remove some legal controls over business activity. Kasper Construction is a multinational company based in country X which wants to expand. It plans to build a brick-making factory in country Y if it can find a suitable location. Some pressure groups are against this plan as Kasper Construction has a bad reputation for environmental damage.



Total number of people employed in 2015 = 20 000 000

**Fig. 1: Employment in country Y**

**(a)** What is meant by the 'primary sector'?

.....

.....

.....

..... [2]

**(b)** Calculate the number of people employed in secondary sector businesses in country Y.

.....

..... [2]

**Question 4** **0450/13/O/N/17/Q3/a**

ZumGo is a business partnership between two brothers Richie and Justin. It provides bus tours for people wanting to go on holiday. After two successful years, Justin wants to expand the business by buying another bus. This will cost \$28 000. When Richie produced the cash flow forecast as part of ZumGo’s business plan he forgot to include the \$6000 for advertising in March. They cannot decide whether to lease the bus or use all their retained profit to buy one. Leasing would cost \$1000 per month for 2 years.

**Table 3: Cash flow forecast for 3 months ending 31 March 2018 (\$)**

	January	February	March
Cash in	36 000	36 000	30 000
Cash out:			
Advertising	12 000	0	6000
Other costs	24 000	25 000	22 000
Total cash outflow:	36 000	25 000	<b>W</b>
Net cash flow	0	11 000	<b>X</b>
Opening balance	(15 000)	(15 000)	<b>Y</b>
Closing balance	(15 000)	(4000)	<b>Z</b>

What is meant by ‘business plan’?

.....

.....

.....

..... [2]

**Question 5** **0450/13/M/J/18/Q3/b**

AUC is a bank. Its organisational structure has a tall hierarchy and long chain of command. Most of its customers are small businesses in the tertiary sector. Last year AUC made a loss of \$60m. The new Managing Director has to improve employee motivation as well as reduce costs. 20% of its 19 000 employees will be made redundant. She said: ‘Maintaining customer loyalty is important. We will need to inform our customers that 500 of our 2000 retail bank branches will be closed.’

Identify **two** examples of business activity in the tertiary sector.

Example 1: .....

Example 2: ..... [2]

**Question 6**

**0450/13/O/N/19/Q1/b**

S&V imports high quality spices and herbs and sells them to local restaurants and shops. S&V wants to increase added value. It is a business partnership so its owners do not have limited liability. One of the partners, Serena, is worried that supplies from some countries do not arrive on time or the wrong items are delivered. She said: ‘S&V cannot have communication barriers with its many suppliers. In addition, our customers demand up-to-date information about spices and herbs that are in season.’ Serena has to decide whether e-mail is the best way to communicate with S&V’s customers.

Identify **two** ways S&V can increase added value.

Way 1: .....

.....

Way 2: .....

..... [2]

**Question 7**

**0450/11/M/J/20/Q4/b,c**

BMT is a business partnership owned by 2 brothers. The brothers received government support when they started BMT 6 years ago. BMT now has 30 employees who make high quality watches. The business tries to achieve lean production. Demand has increased each year and in 2019 BMT sold 8000 watches. BMT makes some parts for watches and all the other parts are imported. BMT had to consider a number of factors, including exchange rates, when deciding whether to import parts for watches.

**(a)** State **two** types of business organisation (other than partnership).

Type 1: .....

.....

Type 2: .....

..... [2]

**(b)** Outline **two** disadvantages of BMT being a business partnership.

Disadvantage 1: .....

.....

.....

Disadvantage 2: .....

.....

.....

..... [4]

**Mark Scheme 1**

Knowledge [2 × 1] 1 mark per example

Examples might include: Hairdressers, transport or distribution company; banking, retailers, doctors. Accept any reasonable answer but only one example of a retailer.

Do not accept names of businesses on their own or answers such as selling

**Mark Scheme 2**

Clear Understanding: [2] e.g. industry which provides/sells services to consumers and/or other sectors of the economy

Some understanding: [1] e.g. provide services plus an example [+1]

Do NOT accept examples on own OR names of businesses.

**Mark Scheme 3**

**(a)** Clear understanding [2] e.g. Involves extraction/production of raw materials OR use the natural resources of the earth to produce raw materials used by other businesses.

Some understanding [1] e.g. Involves extraction OR deals with raw materials.

Do not accept examples on own.

**(b)** Good application [2] 3 million OR 3 000 000.

Some application [1] 20m × .15 OR 3.

Must have correct units (millions) for both marks.

**Mark Scheme 4**

Clear understanding [2] e.g. a document containing the business aims/objectives **and** important details about the operations, finance and owners of a business

OR states aim and/or objectives **and** shows how business aims to achieve them

Some understanding [1] states one element of plan e.g. shows marketing strategy

OR production costs

**Do not** award answers that explain why it is used e.g. support loan applications

**Mark Scheme 5**

Knowledge [2 × 1] Award one mark for each relevant example

Points might include:

Accountants, retailers, hairdressers, doctors, restaurants, airlines, transport or distribution businesses

Accept any reasonable suggestion

**Do not award** specific company names such as McDonalds, Starbucks as this does not answer the question.

**Mark Scheme 6**

Award one mark for each way identified.

Points might include:

- increase prices (for herbs and spices)
- reduce material / input costs (of ingredients)

Examiners note: only award the first two responses given

Accept following examples as stated in textbook:

- branding / improve brand image
- excellent quality service
- add additional product features
- convenience

**Do not award** higher quality ingredients as this will increase rather than decrease costs

**Mark Scheme 7**

**(a)** Award 1 mark for each type of business organisation.

Points might include:

- sole trader
- private limited company
- public limited company
- franchise
- social enterprise
- charity
- public corporation

Other appropriate responses should also be credited.

**(b)** Award 1 mark for each relevant disadvantage.

Award 1 mark for each relevant reference to this business.

Points might include:

- Unlimited liability/ each responsible for debts of other [k] so if business cannot pay its debts there is risk to the personal assets of each brother [app]
- Fewer sources of finance (than limited company) [k] restricting plans to expand the watch business [app]
- Possible disagreements/slower decision making [k] such as whether to import parts [app]
- Have to share profits [k]

Other appropriate responses should also be credited.



# Topic 1: Understanding Business Activity

## 1.3: Enterprise, Business Growth and Size

### Question 1

0450/12/M/J/14/Q1/b,e

LEK owns 80 electrical shops. It sells products such as cell phones and televisions. The marketing director believes offering customers a choice of products helps LEK to be more competitive. LEK must use suitable ways to communicate with its customers. LEK directors are planning a takeover of a competitor. This competitor owns 40 shops and operates in the same 4 regions as LEK.

Fig. 1: LEK organisational chart



(a) Identify two factors (other than offering choice and having good communication) which could help make LEK more competitive.

Factor 1.....

.....

Factor 2.....

.....

(b) Do you think that the take-over of the competitor would benefit LEK? Justify your answer. [6]

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**Question 2** **0450/12/M/J/14/Q3/e**

Seng manufactures cameras. Last year its market share increased by 2% and reached at 18%. Production is capital intensive. This allows Seng to use lean production methods such as just-in-time. Cameras have a short product life cycle. Seng spends \$200m each year on extension strategies. The marketing manager thinks that an increase in market share will lead to higher profits.

Do you think that an increase in market share will always lead to higher profits for SENG? Justify your answer. [6]

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**Question 3**

**0450/13/M/J/14/Q4/a**

Kyle is an entrepreneur. He plans to buy a Frydays franchise. Frydays is a leading fast food (take-away) business. Each franchise costs \$100 000. Frydays would provide some promotion. 'I only need to find the right location, hire some people and raise the finance' said Kyle. 'I am certain to make a profit.'

(a) What is meant by an 'entrepreneur'?

.....  
.....  
.....  
..... [2]

**Question 4**

**0450/11/O/N/14/Q1/e**

Lu is a sole trader. He manages a bakery shop making and selling bread and cakes. He employs 4 workers all of whom are paid on time rate. Lu wants to expand the business by buying a new shop and using it as a cafe (restaurant). He also wants to make a wider range of cakes, such as wedding and birthday cakes for which he thinks there is a demand. At present the business sells all of bread and cakes it makes.

Do you think that Lu's business will be more profitable if he expands it by opening a cafe in a new shop? Justify your answer. [6]

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**Question 5****0450/13/O/N/14/Q2/d**

The economy of country Z is booming. Its Government wants to create more manufacturing jobs by making it easier for new businesses to start up and build new factories. Recently a Government minister said: 'All new businesses will be successful during a boom'. Controls on where new factories can be built are to be removed. Some pressure groups are against this idea because they believe that new businesses create external (social) costs.

Identify and explain **two** ways that a Government could use to encourage new businesses to start up (other than removing controls on where factories can be built).

Way 1: .....

.....

Explanation:.....

.....

.....

.....

Way 2: .....

.....

Explanation:.....

.....

.....

.....[6]

**Question 6** **0450/12/F/M/15/Q4/b**

Gowri has always wanted to start up her own business making leather goods such as bags and belts. She has already asked about micro-finance and what help the Government will offer new business start-ups. ‘There is still a lot to do!’ said Gowri. ‘I need to plan my sales promotion and find out about how legal controls could affect my business.’ Gowri is not sure if she needs a business partner.

Identify **two** reasons why the Government might support business start-ups.

Reason 1: .....

.....

Reason 2: .....

..... [2]

**Question 7** **0450/11/M/J/15/Q3/d**

Identify and explain two advantages to Si and Roman of having business plan.

Advantage 1.....

.....

Explanation .....

.....

.....

.....

Advantage 2.....

.....

Explanation .....

.....

.....

.....

**Question 8****0450/13/M/J/15/Q2/a,b**

Camille is an entrepreneur. She owns a popular and successful hairdressing business. Camille wants to expand her small business. Camille currently employs 5 part-time workers, but she will have to recruit 3 more workers who will need on-the-job training. She thinks that her laissez-faire leadership style will have to change as her business grows.

**(a)** Identify **two** ways to measure the size of a business (other than number of employees).

Way 1: .....

.....

Way 2: .....

..... [2]

**(b)** Identify **two** characteristics of a successful entrepreneur.

Characteristic 1: .....

.....

Characteristic 2: .....

.....[2]

**Question 9****0450/13/M/J/15/Q3/b**

Bowland manufactures bicycles from components purchased from suppliers. The production method makes use of specialisation. The Finance manager said: 'It has been a successful year because profit is up. However cash flow is still negative. Trade receivables (debtors) have increased and we have purchased a lot of new equipment.' Bowland's management believes that improving quality has been the most important reason why bicycle sales have increased.

Identify **two** ways (other than profit) that Bowland could use to measure its success.

Way 1: .....

.....

Way 2:.....

..... [2]



**Question 12**

**0450/13/O/N/15/Q4/b**

Xiolom is a mining business in the private sector. It is a large company employing over 100 000 employees. It has operations in 10 countries. The Operations Director has announced plans to open a new mine in country G. He is angry. ‘First it is new legal controls over employment and now I have to deal with pressure groups. The mine will create 8000 jobs. Xiolom creates external benefits so it should be allowed to expand!’

Identify **two** limitations of using ‘number of employees’ as a method of measuring business size.

Limitation 1: .....  
.....

Limitation 2: .....  
.....[2]

**Question 13**

**0450/12/M/J/16/Q3/e**

Alex and Raul are the business partners. They started a bicycle repair business with their own savings as the bank would not give them a loan. Raul does most of the repair work while Alex manages the accounts. Alex is surprised that the business made a small profit in the first year. ‘We can use this profit to expand. I don’t know why people think we would benefit from having a business plan. Much of the demand for our repair comes from our friends who own bicycle.

**Table 2: Extract from balance sheet as at 31 March 2016 (\$)**

Non-current assets	3000
Current assets	2500
Current liabilities	2000
Non-current liabilities	1500

Do you think Alex and Raul need a business plan for the business to be successful in the future? Justify your answer. [6]

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**Question 14** **0450/13/M/J/16/Q3/d**

Jenson Travel (JT) sells a wide range of holidays aimed at the mass market. The holidays are sold through its 350 shops in country F. It has agreed to buy another company which specialises in activity holidays such as skiing. This takeover means that JT will have 50 extra shops and will increase its market share to 40%. The takeover could reduce JT’s costs by \$35m each year. A summary of JT’s accounting information for 2016 is shown in Table 1. The Finance Director thinks shareholders and customers will benefit from the takeover.

**Table 1: Summary of accounting information**

Non-current assets	\$500m
Current assets	\$324m
Current liabilities	\$270m
Non-current liabilities	\$1000m
Profit margin	16%
Return on Capital Employed (ROCE)	8%

Identify and explain **two** ways in which the takeover might help JT reduce costs.

Way 1: .....

.....

Explanation:.....

.....

.....

.....

Way 2: .....

.....

Explanation:.....

.....

..... [6]

..... [6]

**Question 15** **0450/11/O/N/16/Q2/c**

Dowson is a large business which owns a number of shops. It sells a number of goods such as computers and televisions. The finance director has been looking into some financial data and pleased with Dowson’s liquidity. He said economy is in recession and many small retailers have failed. Size is an advantage

**Table 1: Extract of financial data for Dowson**

	<b>2015</b>	<b>2016</b>
Revenue	\$280m	\$300m
Profit	\$175m	\$180m
Current ratio	1.2:1	1.5:1
Acid test ratio	0.8:1	0.5:1
Return on capital employed	10%	10%

Identify and explain two ways in which the size of the business may benefit Dowson.

Way 1. ....

Explanation .....

Way 2. ....

Explanation .....

**Question 16** **0450/11/O/N/2016/Q3a**

YOGO is a new business which Amelia has just set up using Government support. YOGO makes a range of sweets (candy) targeted at adults. It is a niche market. Amelia has been looking at the marketing part of her business plan. She has to decide which pricing method to use. Amelia is spending a lot of money on packaging. She did not do any primary market research as she thinks she can use secondary data to make decisions. She believes that all adults like sweets.

Identify two reasons why a government might support business start-ups [2]

Reason 1.....

Reason 2.....