



UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Advanced Subsidiary Level and Advanced Level

BUSINESS STUDIES

9707/02

Paper 2 Data Response

May/June 2008

1 hour 30 minutes

Additional Materials: Answer Booklet/Paper

READ THESE INSTRUCTIONS FIRST

If you have been given an Answer Booklet, follow the instructions on the front cover of the Booklet.

Write your Centre number, candidate number and name on all the work you hand in.

Write in dark blue or black pen.

Do not use staples, paper clips, highlighters, glue or correction fluid

Answer **all** questions.

The businesses described in this question paper are entirely fictitious.

At the end of the examination, fasten all your work securely together.

The number of marks is given in brackets [] at the end of each question or part question.



This document consists of **3** printed pages and **1** blank page.



East Farm Wildlife Park

East Farm is a family business. The owners, Al and Sue, run the business as a partnership. They set up a wildlife park on their farm 5 years ago. The park has animals and birds as well as a café. The park takes up a quarter of their land, and they farm the rest.

East Farm Wildlife Park (EFWP) required a small initial investment. It has been successful at attracting local visitors, producing a small profit for the family. The park now faces falling visitor numbers. The park is open only in the summer. EFWP employs two full-time farm workers who also help out with maintenance work when the park is closed for the winter. EFWP also employs 5 seasonal, part-time workers for the tourist season. 5

The seasonal workers get paid a low wage. These part-time workers have complained that their jobs are boring and that too much is expected of them. Al has become increasingly autocratic in trying to get the workers to work harder. EFWP has to keep on recruiting seasonal workers to replace those who leave after only a few days. 10

Sue has ambitious plans for the business. She thinks that EFWP can be expanded and opened all year. This expansion would include a further section of the farm that would be developed into an amusement park for young people. 15

The expansion would be very expensive, and apart from the value of the land, the family has very limited internal sources of finance. The Government may help with some of the finance needed.

Sue has made two estimates for the expansion, one based on everything going well, the other based on problems arising. She thinks that the proposal should be appraised over 5 years. 20

Table 1: Estimates for the proposed development of EFWP

| | Best estimate | Worst estimate | |
|---------------------------------|---------------|----------------|----|
| Initial cost | \$1m | \$1m | |
| Annual cash flow | \$0.6m | \$0.25m | 25 |
| Estimated payback | 1.6 years | 4 years | |
| ARR (accounting rate of return) | 40% | X | |

(a) Explain the following terms:

(i) partnership (line 1) [3]

(ii) internal sources of finance (line 17). [3]

(b) Discuss how EFWP could reduce the need 'to keep on recruiting seasonal workers' (line 11). [8]

(c) Identify information that EFWP needs to collect before it can make a decision about the expansion. [4]

(d) (i) Calculate the value of X (ARR) in Table 1. [4]

(ii) Assume that the information collected shows a market for the new development. Using Table 1 and other information, advise EFWP on whether to go ahead with Sue's expansion plans. [8]

Ganmor Cars

Ganmor Cars (GC) is a private limited company. It manufactures cars to customer specifications. GC is a small scale operation.

The following extracts highlight some of the issues of concern to the business.

Extract from Business News

Governments around the world are trying to tackle the problems arising from climate change. Many governments are considering taxes on 'gas guzzling' cars and increasing 'green' taxes on fuels such as diesel and petrol.

5

Extract from Car News

Large, multinational car manufacturers continue to face declining profits, particularly for their larger, more expensive cars. Car buyers around the world are expecting greater fuel efficiency and safety, as well as higher quality and greater reliability. These all add to production costs. Strong competition has meant lower prices for cars.

10

Extract from a Ganmor Cars press release

Ganmor Cars (GC), the manufacturer of specialist 'off road' cars, continues to see strong growth. Sales in our niche markets (farming, mining etc.) have been added to by sales to wealthy customers who buy our cars as fashion items, despite the high running costs. We are considering extending our product portfolio by adding a range of smaller family cars. This new range will be instantly recognisable as a GC car, but will be cheaper and more fuel efficient. We currently use job production to make each car to the customer's specification. We are planning to use lean production techniques including Total Quality Management for the new range of smaller family cars. This will enable us to achieve economies of scale, as well as maintaining our reputation for reliability and quality.

15

20

(a) Explain the terms:

(i) multinational (line 9) [3]

(ii) economies of scale (line 22). [3]

(b) Analyse how the Government might influence the activities of GC. [8]

(c) Describe how lean production techniques might be used at GC. [6]

(d) Discuss the factors that would influence GC's choice of a marketing mix. [10]

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