

CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Ordinary Level

MARK SCHEME for the May/June 2014 series

7100 COMMERCE

7100/22

Paper 2 (Written), maximum raw mark 80

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Mark schemes should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

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1 (a) One mark for cost/distance/kinds of goods to be carried/urgency/quantity/value.

Any other relevant factor. [1]

(b) (i) One mark for document and one mark for example of when used × 2:

- delivery note – accompanies goods sent by road
- consignment note – accompanies goods when sent by transport company
- bill of lading – when goods are sent by sea
- air waybill – when goods are sent by air.

Any other relevant document. [4]

(ii) Any four points × 1 mark each and up to 2 marks for a well-developed point:

- may require protection against the weather, theft, damage
- may need cold storage because they are perishable
- may be dutiable so must be stored in bonded warehouses
- may need preparation for sale, e.g. packaging that can take place in a warehouse
- may be a delay in the arrival of the transport.

Any other relevant point. [4]

(c) (i) Any three points × 1 mark each and up to 3 marks for a well-developed point:

- the user/owner of the transport would know where it was
- it may make the transport of goods more efficient by booking the transport more quickly, knowing when it is about to arrive
- it is important in an emergency, e.g. a traffic accident to request help
- the buyer can be informed as to when goods might arrive so that facilities for unloading are available/if there is a delay
- rapid contact between buyer and seller may mean the quicker turnaround of transport so saving costs
- enable documents of transport to be handled.

Any other relevant point. [3]

(ii) Any two points × 1 mark each or one well developed point × 2 marks:

- can keep in touch with the depot
- can report any problems
- can summon help if vehicle breaks down
- can be diverted to another job
- can inform people of his arrival time
- allow other uses such as GPS/internet and email.

Any other relevant reason. [2]

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(d) Level 2 (4–6 marks)

Has discussed how important transport is in helping to extend markets and has given a reasoned opinion. [6]

Effective transport is very important for leading to the expansion of markets. If transport can deliver goods quickly and over greater distances, e.g. long-haul freight planes, long distance road haulage, producers will try to find markets further and further away from the place of production. They will wish to export to more and more countries because it is seen to be profitable. This has led to the growth of the global economy. Good transport facilities will mean that goods are distributed easily so overcoming the problems of surpluses and shortages and changes in price.

Transport also encourages countries to specialise in what they are best at producing. They then trade these goods or services for what they cannot produce and transport is needed to move the goods.

On the other hand, transport facilities on their own do not mean that all markets can be extended. There may be no demand for some products in some countries, e.g. fur coats in hot climates, pork products in Muslim countries, so some markets cannot be extended. There may be too many producers of a product so that markets are saturated and these markets may, indeed contract.

On balance, it is true that effective transport facilities do help markets to be extended but there are other factors involved as well, such as effective advertising, the quality of products and the growing demand by consumers for a range of goods.

Level 1 (1–3 marks)

Has commented on transport facilities and markets with/without an opinion. [6]

Consumers demand a variety of goods. Many countries produce a small range of goods. Transport is needed to get these goods to consumers. Consumers in many countries have an increased standard of living. They want more goods, many of which are imported. Transport moves these goods.

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2 (a) One mark for a shop in a van/serve local area/serve rural areas/serve housing suburbs of towns/bring products to the consumer/moves from place to place. [1]

(b) (i) Any two points × 1 mark each:

- competition from supermarkets
- competition from online retailers
- competition from hypermarkets
- competition from shops where self service is offered
- competition from department stores
- competition from multiple retailers
- competition from large-scale retailers
- competition from small bakery shops
- competition from other mobile shops.

Any other relevant point. [2]

(ii) Any three points × 1 mark each and up to 3 marks for a well-developed point:

- she offers a limited range of products
- the customer does not know when she is coming
- her prices may be high to cover the cost of the vehicle and low sales
- other shops offer better facilities and better/fresher products
- other shops offer one-stop shopping for food
- other shops offer lower prices
- other shops offer self-service so that consumers can inspect the goods before purchase
- other shops may offer more or better promotions
- other shops may be better known/more advertising.

Any other relevant point. [3]

(c) Any two services described in context × 2 marks each:

- breaking bulk – selling to her in small quantities
- offering cash and carry services so that Mrs Ney can buy competitively
- providing a variety of products so that she does not have to deal with many suppliers
- giving advice to Mrs Ney about new products
- providing goods when she requires them and storing them until required
- delivery of bread and cakes regularly to Mrs Ney's premises
- offering trade discount so that Mrs Ney can make a profit.

Any other relevant service described. [4]

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(d) Any two reasons explained × 2 marks each:

- she may not have the finance to expand into online selling with the additional costs of setting up a website and processing orders
- she wishes to concentrate on what she is doing and try to counteract the competition
- bread and cakes have a short shelf life so will not transport easily/there will be wastage
- she may think there is too much competition online and that it will not be successful.

Any other relevant point [4]

(e) **Level 2 (4–6 marks)**

Has discussed whether or not Mrs Ney would benefit from buying a franchise and has given a reasoned opinion.

(If a one-sided discussion is presented, award 4 marks max). [6]

A franchise occurs when a well-known business allows individuals to sell a product in a specified area on payment of royalties. Mrs Ney is, presumably, a sole trader and therefore her own boss.

A franchise would give Mrs Ney certain advantages. She would have access to a ready-made market. She would have expert assistance from the parent company in many aspects of her business. The risk of failure, which she is facing because of the competition, would be reduced. Her supplies might be cheaper so that she has more chance of making profits. Advertising costs may be saved. Although her area of operation would be restricted, she would have a monopoly in a local area so that competition from other franchisees of the same business is prevented.

If she remained as a sole trader, she would continue to run her mobile shop. She would be able to make her own decisions without rules laid down by the franchise company. All her profits would be her own without the payment of royalties which could be high. She would still be in control of her business.

Mrs Ney probably needs to consider a franchise very seriously. She may need to change the nature of her business anyway because of the difficulties she is meeting. It may be a choice between opening small shop as a sole trader or taking a franchise.

Level 1 (1–3 marks)

Has commented on the purchase of a franchise by Mrs Ney with/without an opinion. [6]

Mrs Ney is facing competition. She could lose her business. She should consider a franchise. A franchise would mean that she had help with her finances and her supplies. She will have to pay royalties. She will have to work hard. There might be less risk of failure.

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3 (a) (i) One mark for trade between countries. [1]

(ii) Any two points × 1 mark each and 1 mark for a valid example:

- concentrating on one particular task/process/product
- so that skill/output is improved
- concentrating on what one does best
- in the factory it may involve division of labour
- example may be general or specific to a country
- the production of a small range of goods to produce surpluses which are then traded between countries
- South Africa producing diamonds and gold for export
- Botswana producing beef and beef products for export
- Mauritius producing sugar and offering tourist services.

Any other relevant point. [3]

(b) Any one point explained × 2 marks:

- by dealing in bulk quantities so taking advantage of economies of scale
- by trading with countries where there are trade agreements so saving in import duties
- by selling goods that fail to sell in the home market so avoiding wastage
- by using labour in countries where labour costs are cheap
- by transporting in bulk quantities so reducing transport charges
- by importing raw materials from where they are cheaper and manufacturing goods for export
- by using an agent such as a factor or broker
- by carrying out entrepot trade – importing to export at higher prices.

Any other relevant explained point. [2]

(c) $(\$95\,000 - \$128\,000) = -\$33\,000$ (1 mark)

$(\$105\,000 - \$82\,000) = +\$23\,000$ (1 mark)

$-\$33\,000 - +\$23\,000$ (1 mark) = $-\$10\,000$ (1 mark)/deficit.

(Could be calculated as $(\$95\,000 + \$105\,000) - (\$128\,000 + \$82\,000) = -\$10\,000$).

OFR applies if the correct answer is given without working, award full marks. [4]

(d) One mark for each correct answer and one mark for each reason × 2:

(i) Invisible export – the American tourist is making use of services offered by Country X who is earning foreign currency by selling these services. [2]

(ii) Visible import – Country X is bringing toys into the country from Germany and using foreign currency to pay for them. [2]

(If type of trade is incorrect but the reason is correct – award mark for the reason.)

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(e) Level 2 (4–6 marks)

Has discussed whether or not consumers have a wider range of goods available to them as a result of the increased number of multinationals in the world and has given a reasoned opinion. (NB if a one-sided answer is given, award full marks). [6]

Multinationals are very large companies that have interests in many countries and a head office in one country usually where it originated. Multinationals produce a very wide range of goods such as tyres, cars, chemicals, pharmaceuticals and electronics. They have a very large share of the worldwide market.

As the standard of living of many consumers improves, the demand for a wide range of goods increases. Multinationals are able to fulfil this demand because they produce goods in many parts of the world, produce many different goods and are able to supply a choice of goods at competitive prices.

Multinationals have been able to take advantage of the formation of trading blocs and the lack of customs barriers between countries in the trading bloc. They can manufacture in one country and sell to consumers in all the other countries of the trading bloc without paying import duties, so making the goods cheaper and more attractive to consumers.

On the other hand, not all consumers can afford to buy a wide range of consumer goods. They may not have the income. They may be located where multinationals have little influence and so the growth of multinationals does not affect them. They tend to buy from local suppliers and small enterprises.

Some of the goods may be of better quality and so in demand. Many goods may be on offer because of better transport that is able to reach more places. More goods may be available within trading blocs which encourages trade.

Some of these multinationals may create monopoly situations where they control what is produced, in what quantity and at what price. As a consequence the range of goods or the availability of goods may be reduced and consumers may have a restricted choice.

Level 1 (1–3 marks)

Has commented on whether or not consumers have a wider range of goods available to them as a result of the increased number of multinationals in the world with/without an opinion. [6]

Multinationals influence world trade. They are very important in the global market. They provide a wide range of goods. They often sell at reasonable prices. Many goods are purchased from multinationals by consumers. Consumers are demanding more goods. They may have more money to spend. They want different goods.

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4 (a) One mark for direct service/tertiary occupation/health care occupation. [1]

(b) Any two advantages explained × 2 marks each:

- easy to set up although a Deed of Partnership is advisable
- capital is contributed by each partner so there is likely to be more capital than for a sole trader
- each partner takes an active role and may bring special skills to the partnership
- losses are shared between the partners according to the Deed of Partnership
- all partners should contribute to the decision-making so problems and issues can be discussed and solutions found
- cover is provided by each partner for the other partner for holidays, sickness.

Any other relevant point. [4]

(c) Faria should receive twice as much of the profits as Rayhan.

$$\$105\,000 \div 3 = \$35\,000$$

Faria should receive $\$35\,000 \times 2$ (1 mark) = $\$70\,000$ (1 mark).

OFR applies. [2]

(d) **Level 2 (4–6 marks)**

Has discussed both options and has given a reasoned recommendation.

(If only one option is discussed, award 4 marks max).

(No recommendation, award 5 marks max). [6]

Faria and Rayhan could use either of these ways of financing the purchase of the vehicles. Both methods would mean that they could avoid large capital expenditure when they might not have the money available or they might want to use their money for other purposes.

If hire purchase were used, they would have to pay a deposit and monthly instalments to a finance company. At the end of the payment period the vehicles would be the assets of the business. They could use them while they were paying for them and the money earned while they were in use would help to pay for them. Hire Purchase, however, can be very expensive. They would not become the owners of the vehicles until they had finished paying for them. By that time they might want to replace them.

If Faria and Rayhan decided to lease the vehicles they would be available straightaway. They would lease them for a short period and could have them replaced at regular intervals. The vehicles would be repaired if necessary as part of the lease agreement. Leasing, however, is expensive. There is no ownership involved and no initial deposit to be paid nor interest payments.

As the two nurses may be dependent on these vehicles and as they may breakdown, I would recommend that Faria and Rayhan lease the vehicles as long as regular maintenance is included in the lease agreement.

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Level 1 (1–3 marks)

Has commented on one or both options with/without a recommendation. [6]

Faria and Rayhan might use hire purchase. They will own the vehicles when they have paid for them. They pay a deposit and instalments. They can use them while paying for them. If they lease the vehicles they will not own them. Leasing is expensive. They might get new vehicles after one year. I recommend hire purchase. They will own the vehicles eventually.

(e) (i) Any three ways × 1 mark each:

- providing advice
- offering a business loan
- offering an overdraft
- Internet/online banking
- account facilities
- regular bank statements
- providing savings facilities.

Any other relevant way. [3]

(ii) Any two reasons explained × 2 marks each –

- they may wish to involve other people who might wish to invest money
- they might want the protection of limited liability so that losses are limited to the amount they have invested in the business
- they may want to raise additional capital from shareholders who would part-own the business
- they may want to create a legal entity so that each partner is no longer responsible for the actions of the partnership
- they may want the business to have continuity of existence – shares can be passed to other people
- they still have control of the business by holding the majority of the shares.

Any other relevant point explained. [4]

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5 (a) (i) Any two points × 1 mark each:

The number of times the average stock held is sold each year (2 marks).
Measure of how quickly goods are sold.

(allow formula – $\frac{\text{cost of good sold}}{\text{average stock (at cost price)}}$)

Any other relevant point.

[2]

(ii) Any three points × 1 mark each and up to 3 marks for a well-developed point:

- washing machines are expensive and washing powder is cheap
- washing machines sell slowly as people do not purchase them every day
- they remain in stock for some time and the profit margin on each one sold is high
- washing powder is used frequently and bought frequently
- the profit margin on each packet of washing powder is likely to be lower.

Any other relevant point.

[3]

(iii) Any two ways explained × 2 marks each:

- reduce prices so that the washing machines are more attractive to consumers
- improve the marketing of the washing machines by more advertising/promotions
- use sales promotions such as free electrical appliance with every machine sold
- look for new ways of selling the washing machines, e.g. selling online
- improve the after-sales service offered, e.g. maintenance contract – increases customer goodwill
- look at what the company is offering – is it as good as the competition – improve the quality/design of the product
- offer better credit facilities, e.g. interest free credit for a period of time
- diversify into other products, e.g. other electrical appliances
- introduce new products.

Any other relevant way.

[4]

(b) Any four points × 1 mark each or two well explained points × 2 marks:

- so that customers will recognise their products and distinguish them from the products of their competitors
- to develop brand loyalty so that they gain return business
- to offer a guarantee of a certain quality of product
- to enable the company to advertise more easily by using the brand name.

Any other relevant point.

[4]

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(c) (i) One mark for the worldwide market/market consisting of many countries. [1]

(ii) **Level 2 (4–6 marks)**

Has discussed the factors that the company should consider before making a decision about expanding within the global market.

(If only one factor is considered, award 4 marks max). [6]

The question implies that Wavy is operating within the global market already. If it is selling successfully within the global market as well as in the home market, then it should consider expansion, as long as it has the expertise and the finance to do this. Before making a decision, Wavy should undertake some careful market research to see if the expansion would be worthwhile. It should consider the costs of doing this, currency exchange rates and the laws and regulations regarding electrical goods in the countries to which it is considering selling. It should also consider any transport problems, language problems, e.g. instruction books and the risk of financial loss because of non-payment.

Wavy should only consider expanding into countries where it confident that it will be able to sell. It must make sure that it has sufficient supplies of washing machines and the back-up services needed before it expands into new markets.

Level 1 (1–3 marks)

Has commented on the factors the company should consider before expanding within the global market. [6]

The company should expand. It needs to sell more washing machines. It needs to sell in more countries. It should consider the cost of doing this. It should consider other problems such as language, currency, transport and storage of the washing machines.

6 (a) (i) One mark for 31 to 45. [1]

(ii) Any two risks × 1 mark each:

- buildings
- contents
- endowment/life
- travel
- fire
- public liability
- flood
- accident motor
- mortgage protection
- health.

Any other relevant risk. [2]

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(b) Any three points × 1 mark each and up to 3 marks for a well-developed point:

- a person's circumstances may change – may start house ownership 31–45
- young people may be insured by their parents
- some insurance policies may mature as people become older and are not renewed, e.g. endowment policies
- may have changes in income so cannot afford to insure as much as they would like
- needs of the retired may be different from those who are working, e.g. may own a house and have no mortgage so do not need mortgage protection
- may have given up driving.

Any other relevant point. [3]

(c) One mark for the name and one mark for the purpose of documents × 2:

- prospectus – setting out details of insurance cover offered
- proposal form – the application form for insurance
- policy/agreement – the contract of insurance setting out the terms of insurance
- cover note – providing temporary cover while the policy is being prepared. [4]

(d) **Level 2 (4–6 marks)**

Has discussed which insurance principles are the most important and has given a reasoned opinion. (Discussion of only one insurance principle, award 4 marks max). [6]

People need to cover risk and spread any losses they have among a large number of people who contribute to a common fund or pool. To do this they take out insurance proposal forms to apply for contracts or policies in order to obtain financial protection. Insurance principles apply and are important throughout the procedure of using insurance.

When completing the proposal form it is important that the insured shows utmost good faith i.e. tells the truth and gives all relevant facts that may affect the premium charged. This is also important when making a claim. If utmost good faith is not shown the insurance may be declared null and void.

The insured should have an insurable interest in the risk to be insured – must have a direct or financial interest in what is to be insured. If the person wanting insurance does not own what is to be insured, no insurance is possible.

The insured should only insure up to the value of what is to be insured. The insured should not over or under insure. If a claim is made, the insured will be indemnified but is not allowed to make a profit from a loss.

Other elements of an insurance contract are exclusion clauses – what is not covered, the amount of cover provided and the terms and conditions that apply.

There is no doubt that the insurance principles are the basis of any insurance contract and therefore are very important when applying for insurance.

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Level 1 (1–3 marks)

Has commented on insurance principles with/without an opinion. [6]

People complete proposal forms when applying for insurance. They have to tell the truth. They cannot make a profit from a loss and they should own what they are insuring. If they do obey the basic insurance rules they may not be able to make a successful claim.

(e) Any four points × 1 mark each and up to 2 marks for a well-developed point:

- help to satisfy people’s need for financial protection
- assist trade to function by insuring a variety of risks such as fire and theft
- provide cover for a variety of risks + example
- part of tertiary production without which primary and secondary production would not function
- provide a commercial service without which people might not have the confidence to conduct business
- they add value by providing insurance services.

Any other relevant point. [4]

7 (a) Any four points × 1 mark each and up to 2 marks for a well-developed point:

- examine the watch strap
- look at receipt
- apologise
- replace the watch strap
- offer better quality watch strap
- refund the money
- could do nothing as the customer has had the watch strap for six weeks
- refer the problem to the producer – poor quality.

Any other relevant point. [4]

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(b) (i) One mark for profit margin on a product offered for sale **or** percentage/allowance added to cost price. [1]

(ii) Any two factors explained × 2 marks each:

- the overall profit that the company wishes to make – may have a high mark-up because watches will have a low rate of turnover
- the level of expenses the company incurs – if located in area of high rents, may have a higher mark-up to cover higher expenses
- the competition that Fashion Watches Ltd faces – may need to charge at the same price or lower than the competition
- how long individual watches have been in stock – may want to dispose of stock so has a low mark-up on these watches
- the season of the year – may have a higher mark-up just before Christmas when people may purchase watches as presents
- value of the watches – higher value watches may have a higher mark-up level of sales than the business is experiencing – may need a lower mark-up to encourage sales
- level of gross profit made in the previous year
- what the company thinks it might be able to ‘get away with’ and not lose sales.

Any other relevant point. [4]

(c) **Level 2 (4–6 marks)**

**Has discussed both options and has made a reasoned recommendation.
(If only one option is discussed, award 4 marks max).** [6]

Fashion Watches Ltd may make use of retained profits if there are sufficient profits to use. There would be no repayment and no interest paid and this money would be available immediately. Fashion Watches Ltd might, however, prefer to use any retained profits it has for other purposes or to keep it for emergencies. It will then look to alternative external sources of finance.

A bank loan is available for set purposes at a fixed rate of interest. It can be long-term with instalments paid from the earnings of the business. The shops would be used as security for the loan and may be repossessed for non-payment of the loan.

Before deciding which option to choose, Fashion Watches Ltd should consider factors such as the amount needed, the length of time the finance required, interest rates charged for both the mortgage and the loan, the urgency of the finance, the amount of borrowing it already has and the risk of non-repayment. It is recommended that Fashion Watches Ltd use some retained profits and then consider a bank loan.

Level 1 (1–3 marks)

Has commented on one or both options with/without a recommendation. [6]

Fashion Watches Ltd should use retained profits. No interest is paid. No repayment is needed. It may not be enough. Fashion Watches Ltd should then borrow from a bank. There is fixed interest. The shops can be used as security.

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(d) (i) Any two points × 1 mark each:

- A group of countries that have made a free trade agreement between them agreeing that no tariffs are paid between them and have established a common external tariff to non-member countries.
- Allow an example.

Any other relevant point. [2]

(ii) Any three points × 1 mark each and up to 2 marks for a well-developed point:

- imported watches will be cheaper than those imported from outside the trading bloc as there will be no import duty
- less regulations when importing the watches so quicker to obtain them
- manufacturers of watches within the trading bloc may be keen to do business on competitive terms
- may be purchasing using a common currency so no problems of exchange rates.

Any other relevant point. [3]

8 (a) (i) Any four points × 1 mark each and up to 2 marks for a well-developed point:

- enables commuters to visit the CBD daily for work
- enables people to make use of services offered within the CBD
- enables people to visit the CBD for shopping
- enables goods to be brought in to stock shops in the CBD
- enables regular supplies to be brought in
- makes people wish to visit the CBD as they will not spend too much time travelling
- may link CBD with the CBDs of other cities – inter-city trains
- provide links to the airport
- helps to avoid or reduce congestion.

Any other relevant point. [4]

(ii) One mark for underground/MRT in Singapore/MTR in Hong Kong/commuter trains/metro/bus system/tram/ferries (in Maldives). Allow one mark for railway.

Any other relevant example. [1]

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(b) (i) Any two reasons explained × 2 marks each:

- so that travellers can reach the city easily and quickly without too much travelling on other means of transport
- it helps to promote business for the large city and the CBD
- it may attract foreign tourists to visit the city and so gain income for the city
- it enables companies in the CBD to send people to other places and so develop interests in other cities/other countries
- it assists multinational companies to function – with better transport and communication
- it is easier for the transport of freight from factories in the city to customers
- it enables workers to commute from greater distances especially if there are good rail links into the city.

Any other relevant point. [4]

(ii) Any two services × 1 mark each:

- | | | |
|-----------------------------|--------------------------|-----------------------|
| • check-in facilities | • information screens | • disabled facilities |
| • luggage handling/trolleys | • medical facilities | • car hire counters |
| • luggage carousels | • shops | • duty-free area |
| • restrooms | • currency exchanges | • banks |
| • lounges | • immigration facilities | • seating |
| • pick-up/set-down points | • airline desks | • transit hotels |
| • transport | • wi-fi | • security |

Any other relevant service. [2]

(c) Any three points × 1 mark each and up to 3 marks for a well-developed point:

- to allow them to advertise
- there is sufficient space to place them
- there is a high concentration of people so many people will see them
- many target groups are likely to see them – shoppers, office workers
- constantly changing advertisements may appeal to passers-by
- may be attractive and add to the appeal of the streets in CBD
- may be a cheap medium to use
- to attract attention.

Any other relevant point. [3]

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(d) Level 2 (4–6 marks)

**Has discussed whether or not it is better for a business to locate in the business park rather than in the CBD and has given a reasoned opinion.
(One-sided argument, award 4 marks max). [6]**

Many businesses are located in business parks and many businesses choose to locate in the CBD of cities. It will depend on what the business does. Land rents and other costs are likely to be lower in the business park than in the CBD. Businesses that manufacture products or distribute goods are more likely to locate in a business park where there is more land available for a factory or where purpose-built factories may be provided. There may also be scope for expansion. Businesses that are reliant on office accommodation may locate in the CBD especially if there is good transport for commuters and suitable offices. The business park is beside a major road so access will be easy. It may also attract workers who live in the suburbs of the city close to the business park and who do not want the problems of travelling into the city.

Some businesses may choose to locate in the CBD because of the prestige value of being there or because it is easier for their customers to reach them. Some businesses have to be in the CBD because that is where they must carry out their business, e.g. banks, some shops, building societies. A business park would not be suitable for these businesses although a head office could be located in a business park.

It may therefore be better for some businesses to be in the business park and it may be better for some businesses to be in the CBD. It will depend on the individual business and we do not know what it is.

Level 1 (1–3 marks)

Has commented on locating a business in business park and/or the CBD with/without an opinion. [6]

Many businesses locate in business parks. Business parks are cheaper. There is more land. They may find it easier for their workers to travel to work. Other businesses locate to the centre of large cities. They want to be seen by passers-by. A business should choose the business park.