

MAY / JUNE 2006
P1 SHORT ANSWER ESSAY

SECTION A

- Q.1.a The public sector of an economy consists of all businesses owned, controlled, run and funded by the central or local government with the welfare of society as its main aim.
The private sector of the economy consists of all business that are owned, controlled run and funded by private individuals or groups with profit as the main aim. Examples include sole traders, partnerships and limited companies.
- b. Private limited companies are those whose shares are owned only amongst friend, family and relatives but cannot be listed on the stock exchange and so have limited access to finance. Public limited companies on the other hand have an stock exchange listing so access to a large amount of capital through multiple shareholders. However they also have to publish their final accounts and usually have a divorce between ownership and control.
- Q.2.a. Redundancy or retrendment of workers is the laying off of workers due to the business not requiring these jobs any longer because of changing situation of the business due to technology, downsizing or relocation. In this case workers aren't laid off due to any mistake or inefficiency but because the business no longer requires their services and so redundancy is not dismissal.
- b. Human resource management was previously known as personnel department but HRM is more advanced, dynamic and efficient. It not only deals with the identification of labour requirements of the business, their recruitment and training but also with their development and appraisal and participation in the business. HRM is considered the responsibility of all managers from all the departments for the development of staff – the most valuable asset of the business.
- Q.3. profit maximization is a very aggressive but major aim for a public limited company. It is when the firm tries to increase its sales revenue while at the same time minimizing its total costs. Public limited companies have multiple shareholders whose major interest is in the profits of the business as they receive dividends according to how much profit the plc makes. Therefore profit maximization is very important for plc for the satisfaction of shareholders who may other wise sell their shares and cause the share price to fall.
Profits also enable a plc to achieves its other aims of growth and expansion as they are a source of financing new investments into fixed assets or buying shares of other companies for take – overs and could also satisfy employees by better wages.
However, other less aggressive and less risky objectives could dominate like higher market shares and higher sales.
- Q.4.a. Primary research or field research and is conducted for the first time in accordance to the requirements of the situation and is therefore more accurate. E.g. questionnaires & interviews.
Secondary research on the other hand is desk research which has already been produced and published in different situations for different purposes. E.g. govt. surveys or previous business records.
- b. Market research involves sampling which is the selection of a number of consumers from the entire consumer population for research. Quota sampling is the selection of respondents in accordance with known computer profile. It is the selection of consumers from each division according to a fixed percentage. The divisions could be based on regions, demographics or any other characteristic like gender. E.g. for researching product A, 707 – respondents should be male while 30% should be female. Quota sampling may give a better representation than random sampling.

SECTION B

Q.5.a. Sources of finance include internal and external finance. If the car manufacturing company is assumed to be a public limited company then internal sources like profits and sale of assets would not be of any importance nor would running down stocks be enough. A large amount of finance is required for investment in new technology therefore external sources have to be used. External sources include small, medium and long-term sources. Small or short term would be bank overdrafts or debt-factoring. These are only useful for day-to-day business transaction and are inappropriate for this car manufacturer. Therefore the medium and long-term sources have to be used that can be kept william the business for 5 to 25 years or so as only such finance can be used for long-term investments into technology like machinery and expansion for big businesses. To decide upon the best source, the advantages and disadvantages of each has to be taken into account.

Firstly leasing or higher purchase can be used if its investment into machinery. Leasing is the renting of equipment while in return the car manufacturer will have to give regular payments usually monthly. The ownership of the asset will never be passed to the car manufacturing company. However the advantage is that the plc wouldn't have to pay for repair, maintenance and liquidation of equipment. However, the regular payments are usually for more than the original cost of the asset.

Higher purchase is similar to leasing except that at the last payment the company would own the equipment. So this is a way of spreading the payments of an item although it is more expensive overall because of interest payments. But the new technology may require may involved very expensive equipment which can't be paid for in one go. So this is a good source of financing for such an asset. The disadvantage is the same as that of leasing.

However, if the business has to have money or cash e.g. for joint venture research and development for developing new robots or softwares for manufacturing, the long-term bank loans and debentures or issue of shares could be used. Long-term bank loans would allow businesses to borrow a very large amount on a fixed rate of interest which could be very high. Also bank loans are usually secured against assets of the company and the car manufacturer has to return them after the agreed time period. Debentures are loan certificates and the buyer is a creditor who has to be paid a fixed rate of return before the shareholders. Both type of loans are high risk as interest has to be paid even if profits are low and liquidation of business can be forced in case of non-payment.

Issue of shares raises share capital of the business which is permanent source of finance. The public limited car manufacturer can raise a large amount of capital through this. It usually causes an increase in the number of owners and so results in the dilution of ownership. Therefore control can change hands. Also too many owners means that more dividend has to be paid though this could be delayed.

In order to decide between loans or share capital the gearing of the company should be checked. If the company is lowly geared that is more of its assets are financed by share capital, then the plc could go for loans otherwise share capital is best as a highly geared company is in a risky situation. Also the car manufacturer needs to check what amount the plc requires for investment and what would be the cheapest way to get this by keeping in mind the administration costs of share issue and interest on loans, leasing & hire purchase.

b. Introducing new technology into one of its factories would involve the automation of the factory i.e. production lines. This means the use of robotics, CAM (Computer Aided Manufacturing) and CAD (Computer Aided Design). This means that the factory would become capital intensive and so may require less labour. Such a situation causes several problems including HR problems management resistance and financial difficulties.

The major human resource problems faced would be the resistance of workers against change. Since the automation of workers may result in less unskilled jobs so workers would have to be made redundant. This would cause a feeling of insecurity amongst the workforce who may feel demotivated and so their productivity would fall. This may cause them to join trade unions or the trade unions that already have member workers in this factory may put pressure against automization. Then as the jobs become more skilled, workers would have to be retrained so that they learn the new techniques. If the labourforce is not adaptive and flexible then this could cause skilled due to the fear of failure or inability to properly learn the new skills. Also change in technology brings changes in the different production levels i.e. change the division of different lines. This may cause changes in work groups as employees are relocated so the employees may

find that their friends are distanced and they are amongst unknown fellows. This change in their social relationship may cause them to seek social needs and they may get demotivated. Workers may take industrial action such as strikes that could be very damaging for the factory production. Managers may also resist change as they find that they don't understand the new technology and so many find themselves in an insecure positions. They may feel less important if they don't know how to deal with the new machinery and more skilled workers. This may cause overall efficiency. Finally, if the change in technology requires very large investments and a lot of cash is put into automation then financial difficulties arise. The factory may find itself in a liquidity crisis and out of cash and so unable to pay back its debts giving it a bad reputation. Also its creditors may start demanding sale of assets to repay them otherwise they may bring in the court.

The situation appears to be very difficult from the above mentioned problems. However, these problems are mostly short – term and with a bit of intelligence can be handled well to give great benefits in the future i.e. in the long-term. E.g. to deal with worker resistance, they should be involved in the discussions for the automation of the factory because this participation would make them feel part of bringing about the change. Therefore, it may increase their adaptiveness to the new technology and rather retrain themselves. As far as redundancy is concerned then this could be kept to a minimum by retraining workers to fill in the newly created skilled jobs. Also if managers are explained the entire automation of the factory and how the new technology works then they'd be more willing to accept the changes as their fears are alleviated. Also the introduction of new technology enables the car manufacturing factory to be up-to-date and so operate efficiently in the highly competitive world. New machinery and robotics cause increased productivity and so higher profits. It may also cause better quality of cars with more features that enable greater consumer satisfaction, increasing sales and so again high profits. So in the future the workers may actually benefit from the new technology as they find an increase in their wages and managers find an increase in their status. Then if the investments are carefully appraised, the business may avoid any liquidity problems as it would have very carefully decided upon finance and kept a suitable time period before returning the loans.



P2 DATA RESPONSE

Q.1.

- a.i Flow production, also known as mass production, which involves the continuous production of goods along the production line. This results in production of single, standardized products with very less variable costs. However, jobs are monotonous while the initial establishment cost is also very high. It is to produce goods for the mass market unlike job and batch production in very large quantities. Examples of products produced in this way includes cars and cold drinks like Pepsi (regular).
- ii. Variable costs or direct costs are those that vary alongwith the quantity of or level of production as opposed to the fixed costs. Variable costs are usually lower at lower levels of production and increase as the level of production increases. Examples include raw material, production wages and production utilities. Variable costs can usually be directly associated with a product. It is very useful to find contribution which is then used to calculate break-even point.
- b. Organisational structure is the way that a business is divided into different departments and levels of hierarchy. SP is currently based upon the traditional functional organizational structure consisting of different departments. It wishes however to change to regional organizational structure i.e. country-based.
On issue which should be considered is that of centralization. The functional structure is centralized i.e. the main division-making authority lies at the centre with the owners or the CEO. So the central management could have maximum control with fewer manages. However, this was beneficial when SP was based in one country. But since it now wants to further expand its operation its best it changes its structure.
This is because where a country-based structure causes duplication of managers, it is decentralized. Some authority is delegated to lower-level management to take divisions and implement them. This is best because managers that would be based in country B would have a better idea of the needs and economic situation of the local regions. This would enable them to take decisions quickly and efficiently which is very important in a competitive market such as medicines where SP is currently operating.
- c. Ethical issues need to be taken into account by all business that wish to satisfy their stakeholders and so should SP. SP needs to consider its treatment of its workers. There is already bad publicity in relation to multinationals explortaiton of workers in developing countries. Hence, SP should be very careful as to providing good health and working conditions for workers as well as providing them with suitable safety equipment against dangerous situations. They should also be given suitable wages and strictly follow and minimum wage laws. This would enable SP to have a good reputation and improved publicity.
Then SP makes very high profits which may be considered as unethical as SP is a pharmaceutical company that should be making medicines for the welfare of humanity. It may therefore compromise its profits due to reduction of prices so more people can afford medicines. However, SP maintaining high profits could be justified by the fact that researching into new medicines requires large amounts of investments and so for this high profits are needed for continuous development of medicines against diseases that are still untreatable.
SP must also be sure of the safety of medicines that it cells. Its must not demand and circumstance reduce its quality whether supplying to developed countries or developing ones as such a step is very unethical. It could be very bad publicity for the business and give it a bad reputation resulting in its customers turning to SP's competitors.
When it comes to different prices in different countries according to their being developed or developing, then ethically it should not charge different prices because wealthy people have as much a right to medicine for safety of health as poor people.
However, then this could mean that medicines should be provided for free. But as such it is not practical. People and groups working in pharmaceuticals have to be paid as they too have to buy goods and services. Therefore in such circumstances economic and ethics have to be considered together. When people can afford higher prices then they could be charged higher as they would still be able to buy medicines.

d.i. Break-even point = $\frac{\text{Fixed Costs}}{\text{Contribution}}$

$$= \frac{4000000}{6-2}$$
$$= 1000000 = 1 \text{ m}$$

- ii. Relocation of some production by SP from Country A to Country B involves several factors. Firstly the break-even level of production is lower in Country B at just 1 m while it is 50% higher in Country A mainly due to very low variable costs that prevail in Country B at just \$2, while they are 3 times higher in Country A at \$6. Also the wages for workers in Country B is very low which apparently helps in saving variable costs for SP. So this could mean higher profits in A than in B. In B, the employment laws are lenient, therefore SP can benefit from giving wages as it wants and so cut down on its costs and would have more profits for investment. Also there is a good supply of labour in Country B and so the SP could very easily employ workers. However, the labour is unskilled which means that SP would have to pay for training costs to make workers learn new skills as are required.

Then the new medicine is required for a disease common in developing countries. Therefore, the market and demand for it is higher in B which demand for existing medicines is higher in A. But price is higher in A and slightly lower in B. However, as demand is very high this means that at such a slightly lower price, higher revenue would be earned on new medicines. Also the product is produced closer to where its demanded and so its requirements could be found easily through researchingly talking to local doctors. This may give the business better public relations as SP might gain a reputation of "caring" as it produces medicines as per needs.

Therefore, it is best to produce the new medicine in Country B while the existing products should continue to be produced in A as market demand for each is respective to the areas mentioned.

- 2.a.i. A wholesale outlet is one of the channels of distribution where the wholesaler acts as a middleman between the producer and the retailer. It buys in bulk and at discounted rates from the producer and adds its profit to the price before reselling to different retailers. The wholesaler increases the efficiency of distribution as it specializes in this rather than the buyer also having to take care of it.

- ii. Export market are buyers outside the country i.e. the selling of goods and services to different countries through international trade. Exporting is usually riskier than local selling due to the fluctuation of exchange rates, protectionism used by countries where goods are being sold and increased competition from world or global industry.

- b. Increase in the country's exchange rate could both positively and negatively affect the farm's profits. Home Farm is an exporting business. So as rise in the exchange rate or appreciation of the currency means that the vegetables exported become more expensive for other countries. So this may result in a fall of sales or exports and so may result in decreased profits. However, at the country's currency has become stronger so this means that if Home Farm imports any raw materials like fertilizers or pesticides then this could become cheaper. This could result in fall of costs and may actually boost profits for the farm. Therefore, it may be able to slightly reduce prices which actually may enable it to retain sales or exports at the same level.

- c.i. Calculating Payback X
2 years and

$$\text{Months} = \frac{\text{Addition cashflow needed}}{\text{Cashflow of that year}} \times 12$$

$$= \frac{4000}{6000} \times 12$$

$$= 8 \text{ months}$$

Payback period: 2 years 8 months

Calculating ARR Y

$$\text{Avg. annual profit} = \frac{50 - 20}{5}$$

$$= \$6000$$

$$\text{ARR} = \frac{\text{avg. annual profit}}{\text{initial investment}} \times 100$$

$$= \frac{6000}{20000} \times 100$$

$$= 30\%$$

- ii. In order to decide upon the best investment option, Tom and Mary would have to consider both quantitative and qualitative factors including payback, ARR, exchange rates, ethics, fund available like etc.

If seen from the payback period then the supermarket option i.e. Allows faster recovery of initial investment there Option B which takes 8 months more. However ARR of Option A is just 30% which is a solid of 10% less than. Option B which is of van. This may show that buying the van would be better due to its high profit while its not too long on payback, just 8 months more that is not too much of an issue.

Though the supermarket provides Home Farm a chance to reduce its risk and exposure to international trade and fluctuating prices, its still a weaker option despite its security of buying all vegetables of quality. This is because it only offers prices for the first year after which uncertainty of its future prices is present. It may be that once the 5 years contract is signed, the supermarket could set very low prices.

On the other hand, the van option is something and Tom, one of the owners of the business likes a lot because he feels that through this he'd have greater control over the business. Also getting a van for delivering the vegetables himself means that he won't have to depend upon any other transportation business and so his costs would reduce.

Also the supermarket Option means spending large sums of finance on the improvement of quality and meeting standards of the market. While in the van option such high quality isn't required as the business can continue to produce vegetables of the same quality for exports. Then for the Supermarket Option, the reduction of costs requires making workers redundant which would cause feeling of insecurity and demotivation of workers. While the Van Option requires no such steps. Also workers are planning to join the trade union which would put too much pressure upon the Home Farm and could actually resulting an increase in costs only in Supermarket Option as the fear of redundancy is the main cause of the step to join trade unions by the worker.

Ans.d. The employees of Home Farm may wish to join the farm-workers union because the Home Farm is considering accepting the contract of the Supermarket which could result in redundancies. Therefore workers may feel that being members of a trade union would offer them protection as the trade unions negotiate with employers on behalf of their members.

Trade union would have thousands of other farmers, therefore Home Farm farmers would find the strength in numbers. The farmer union may put pressure on Tom and Mary (owners) to not make workers redundant through organizing Home Farm's workers to take industrial action. This may include strikes, go-slow or work-to-rule methods.

Such practices would put hindrance to the daily jobs at Home Farm, reduce its productivity and earn it a bad reputation.

Also being members of a trade union provides workers on platform to raise their voices. Trade unions could also get them better wages and salaries, better working conditions and higher fringe benefits. Also if any workers are made redundant, the farmers unions would provide them with unemployment benefits.

The above mention factors are reasons that workers at Home Farm may wish to join the farmers union. However, the benefits are only possible if the farmers union is big enough and forceful enough to successfully negotiate on the behalf of its workers.



P1

SECTION A

- Q.1.a What is meant by the phrase public sector of the economy.
(2)
- b. State with reasons whether you consider the public sector to be an important part of the economy of your country?
(3)
- Q.2. Discuss the contribution informal groups might make towards the overall performance of the business.
(5)
- Q.3.a. Explain the term price elasticity of demand.
(2)
- b. Why might a marketing manager try to influence the price elasticity of demand for products?
(3)
- Q.4.a. Draw and label a typical product life cycle?
(2)
- b. Explain how knowledge of a product's life cycle could aid management when making pricing divisions?
(3)

SECTION B

- Q.5.a Should businesses have a separate human resource department?
(10)
- b. How could the effectiveness of a human resource department be assessed?
(10)
- Q.6. Discuss the factors a firm should take into account when selecting the most appropriate distribution channel for a new product.
(20)
- Q.7.a. Why is it important for businesses to aim for the efficient management of stocks?
(8)
- b. Outline and discuss any two techniques a business might use to manage stocks.
(12)

ANSWERS

- 5.a. The workers are the most important assets of any business so it is important that they are well looked after. This is where the human resource department (HRM) becomes important so. I would say, yes to the question "should businesses have a separate HRM" department. The HRM department performs many important tasks including workforce planning, recruitment and selection of workers, providing training programmes, dismissal of workers, discipline procedures and making sure that the workers are well-motivated and have a good morale. (regular appraisal of the staff and designing an appropriate reward system for them).
The human resource department has to plan for the future needs of the business i.e. they must make sure that they will have the right number of workers with the right skills. If they do not do this then the business might have difficulty in continuing its production or might have problems with quality or wastage of materials. The HRM department is also responsible for making sure that the workers are well-trained and have the skills needed to produce good quality products or provide a good service to the firms customers. If the workforce is well trained then they will be very productive and this will lower average costs and the business will be better than competitors which will increase the profits too. Moreover, the workers must be well motivated and have a good morale so that they will work and not be absent or leave for other jobs.

There are the reasons why it is important to have a separate HRM department. However some firms need not to have such a department because they are too small and the owner of the business is able to do the necessary recruiting and training of the workers.

- b. The effectiveness of human resource department (HRM) can be measured by analyzing the productivity of the business. If the right workers have been recruited and the right training given perhaps using off the-job training or on the job training, then productivity would be high and this would reduce average costs. However average costs mean that the firm could reduce selling price and make them more competitive which increases profitability. Also if the workers are well-trained, there'll be less wastage of raw materials or rejected goods which will again reduce business costs. Less accidents will happen if the workers are well-trained and they will know how to use machinery properly so these will be less damage to machines. If the workers are well-motivated and have good morale they will not be in conflict with managers. This will reduce the number of strike actions and give a more harmonious work environment. Customers will not complain because the products are well-made and free from defect and they will keep buying the products and might even recommend them to friends. Moreover, if the business has a good reputation then they will find it easier to recruit workers because people will know that they are a good firm to work for and will look after their workers, providing appropriate wages and good working conditions. These are a few ways of assessing the effectiveness of human resource department in any company.



SHORT QUESTIONS
PPR 1 OCT/NOV 2006

- Q.1.a. Assets are anything of measurable value that are owned by the company. They could be fixed assets that are owned for more than one year by the company. These could be tangible assets which could be touched and recent such as premises and machinery or can be intangible like goodwill. They could also be current assets of less than one year such as debtors. The liabilities on the other hand are anything of value owned by the business to its creditors or banks. Long-term include debentures on which interest has to be paid. Current liabilities are suppliers. Liabilities are also a source of finance.
- b. Business depreciate their fixed assets because as the assets such as machinery and fixtures are used by the business for production their wear and tear occurs due to which its value falls. To acknowledge fall in value the businesses have to reduce its value by the year. Also assets become obsolete and outdated and their value in the markets fall due to which businesses must depreciate in order to show the true worth of the company at any particular time. Also since this depreciation is features as an expense in the profit / loss account, therefore, the performance of the company is not overstated.
- Q.2.a. Product portfolio or product mix is the particular mix of products that a firm is marketing. It is the combination of all product lines which are groups of closely related products. It is necessary to carefully manage the product portfolio so as to maintain the sales and profits of the company.
- b. The product lifecycle shows the different stages that a product passes through and is very important for the management of a successful product portfolio. It is very helpful in identifying the periods where the company should plan its next touch and in which product lines as well as allows a firm to decide which products should be taken off the market or when extension strategies should be introduced e.g. if in product line A, product AX is appearing to reach saturation, then to allow overall sales of business to continue increasing, a new product should be launched.
- Q.3. Effective stock control is necessary for the satisfaction of customers as well as for not incurring high costs. It involves the setting of a minimum stock level, maximum stock level and recorder level. This ensures that too high stock levels are not kept which increase storage costs, and also increase chances of the stock getting damaged, obsolete and outdated may be due to they being perishable goods or due to technological changes. Also high stock levels means high opportunity costs which means that too much cash is tied in costs which could otherwise have been used for more profitable purposes. Also chances of theft are increased. All the same time very low stocks of e.g. raw materials may mean that if at a particular time demand suddenly increases than enough raw materials are unavailable due to which production can't be increased. This would mean dissatisfaction of customers causing them to turn to other farms. This would result in loss of customers, loss of reputation and may lead to fall in sales. Therefore effective stock control methods should be used such as stock level charts and just in time.
- Q.4.a. The term levels of hierarchy is used in relation to organizational structures to describe the number of levels of authority there are in an organisation. The level of hierarchy also show the chain of command of an organization i.e. the way that orders are to be passed down. It shows the rank for grades in an organization. The tall structures with many levels have many grades. The upper levels are superiors and higher management while low levels are subordinates to the superiors.
- b. A matrix structure is project or task oriented. It involves project teams being set up with member belonging from all departments to complete a set task. This means that the traditional bureaucratic structure is weakened to ensure that the workers and employees feel loyal and work for the betterment of the entire organization instead of being focused only for their own departments. This structure combines the skill and expertise of several people to complete a task and induces flexibility and improves staff motivation. Such combination and cross-over of ideas gives more successful situations and solutions. It is also helps teams to respond quickly to changes in the environment.

OCT/NOV 2005

Q.1.a. The decline in size of market for a product is the actual fall in the sales value and / or sales volume of a product. One reason is the technological changes that cause the market for all products to lose out at the hands of new innovative ones e.g. the market for CDs is declining in size due to more people turning towards MP3 players & DVDs.

Another reason could be due to the economic changes like an increase in income could mean that while the market for luxury goods increase, the market for raw food such as flour for wheat and raw milk and meat may decline as more people try frozen food and burns and burgers.

b. Market size is the total sales by volume or by value of a produce i.e. the total sales of all industries in a market. Market share, on the other hand, is the sales by value or volume of one particular firm as a percentage of the total sales of that market. The formula for calculation of market share is:

$$\text{market share} = \frac{\text{sales of a firm}}{\text{total sales of market}} \times 100$$

e.g. if the market size for shoes is £ 100 billion and a firm's sales are £ 2 billion then its market share is $\frac{2}{100} \times 100 = 2\%$ of the market.

Q.2. Ethical issues are those that deal with how the business affects the amounting environment and whether its actions follow a code of ethics. For a manufacturing businesses, it is becoming increasingly necessary to consider ethical issues such as pollution. It is important that its factories do not give out untreated black smokes if it is coal-run. Also its sewage should not be dumped into the rivers without being heated to make it harmless. Not only this, but if the factory creates too much noise pollution than it should be located away from the civilization and society. Also the manufacturing business, if producing deodorants or coolants for refrigerators shouldn't contain that harms the ozone layer. If its cosmetics producer than its products shouldn't be used on animals as pressure groups would then use such activities to run the reputation of the businesses which may result in loss of customers and goodwill. Also customers are increasingly becoming aware of the treatment that employees receive. They are increasingly supporting industries providing suitable working conditions. Therefore, those manufacturers that do not consider these see falling sales and loss of customers, lower profits and demotivated employees.

Q.3.a. Added value is the difference between the selling price and the cost of bought in materials of producing a product. One way of adding value is by creating a luxuries environment for the retail out lots like hair dressers which give an impression of higher quality and so higher prices can be charged. Another way is by creating unique selling points e.g. through innovation like Microsoft Software.

b. Adding value is important for the business because this creates brand loyalty amongst customers due to which a business is able to maintain long-term sales. Also continuously adding value increases customers attracted to innovations. Then adding value creates a high quality image of a product which allows businesses to charge a high price. This may result in higher profits for a business as long as it is able to charge a price higher than the expenses it incurs.

Q.4.a. Work study is a way that uses the techniques of method study and work measurement to identify the best way to carry out a task most efficiently in the least amount of time. This is a process used in relation to the Taylor's Scientific Management which aims at trying to find solutions of productivity of employees through scientific ideas.

b. Work study can prove very beneficial for many things. Firstly as it allows a method of carrying out a task be established for an average worker as well as the time taken an average. This enables assessment of workers to be carried out to determine whether or not they also them jobs efficiently. If workers fall below the average continuously then disciplinary measures are carried out. Secondly it motivates workers as work study involves identifying problems through discussions with workers who would be more willing to do then jobs as they have been a part of establishing the task method. Thirdly, work study allows a payscale to be calculated according to how the tasks have been judged i.e. the time is established to produce one unit so workers are paid according to this standard.

OCT/NOV 2004

- Ans1.a. Free market economy is the one where all businesses and firms are owned, run and controlled by private individuals and organizations. There is no government control and profit motivate drives the firms. The forces of demand and supply are crucial in the determination of prices and customers rule the market. Customer satisfaction is a major concern. There is high competition as well.
- b. There are several legal controls that a government places on the business activity. Firstly, consumer protection i.e. not selling goods which do not perform to the task they are supposed to. Then misleading advertisements, false discounts and other unfair means that cause naïve customers to buy wrong types of goods are also not allowed. Another control is employee protection such as the minimum legal wage, proper working conditions, hygiene conditions, safety equipment and no unfair discrimination at work. Finally environment controls such as fine on producing pollution beyond a certain level and regional policies which stop business from locating near native parks ad other sensitive areas.
- Q.2. Working capital is the blood of the business. It is the capital required to finance day-to-day running expenses such as buying stock, paying expenses and paying debts. Poor management by a manufacture would result in too high or too low levels of working capital. Too low levels may cause illiquidity as the manufacturer would be unable to pay its short-term debts since working capital is also defined as the difference between current assets and current liabilities. This may result in suppliers not being paid on time causing bad reputation and bank overdraft not paid causing banks to become more careful and reluctant. Too high levels of stock debtors and cash again has its own drawbacks from which most foremost to eh opportunity cost of cash being kept idle which could otherwise have been used for investments. Too high levels of stock means high storage costs and high level of debtors increases chances of doubtful debts.
- Q.3.a. The business size can be measured by the number of workers employed by a business which is especially suitable for labour-intensive firms as they use more manual methods. However this may show a very large capital-intensive firm as small since it employees less labour. Secondly, business size can be measured by the profits of a business which is one of the least accurate way. Because small firms producing luxury, one-off items such as Rolls Royce would have very high profits compared to the tare mass-production firms such as Toyota or Corolla.
- Q.3.b. Mass marketing is the production of standard and identical products for the general mass market segment or majority of the consumer population such as pens. This method would use flow production, have very high competition and low profits. Niche marketing on the other hand is carefully identifying a very small sub-market segment which has been overlooked by the mass market. Examples include designer clothes which are one off unique products with a high profit potential and low competition. Firms using mass marketing benefit from economics of scale due to the large production while market niches can't.

MAY/JUNE 2004

- 1.a. Sole trader is a type of business in the private sector of an economy which has only one owner who runs and controls the business and has invested into it. There may be a few employees but only one owner. It is the simplest form of business with the least regulations and is easily set up and is an in incorporated business i.e. it doesn't have a separate legal identity from its owners.
- b. One major disadvantage of a sale trader is that the owner has unlimited liability. This means that since the accounts of the business and owner are same. Due to this the owner is liable for all debts of the business, not only the initial investment. This means the owner can be forced to sell his personal assets like the house to payback debts and can also be taken into court or sued or even go to prison.

- Q.2.a. Price elasticity of demand is the responsiveness of the quantity demanded to a change in price. The higher the elasticity the greater the change in quantity demanded to a small price rise or decreases. If elasticity is >1 then the product is said to be price elastic. But if elasticity is <1 then the product is price inelastic luxury goods are elastic while goods of daily use i.e. basic goods are price inelastic.
- b. One other determinant of price elasticity is the number of close substitutes of a product substitutes are those goods which consumers consider as alternatives to a good. E.g. tea and coffee, are considered to be substitutes. So if the price of tea rises then several people turn towards coffee instead.
Therefore, this means that if a good has several substitutes then it is price elastic for even a small rise in price would result in a great fall in quantity demanded. Also the elasticity would be future increased if the substitutes are regarded as near and close.
- Q.3. Quality is the value placed and perceived by consumers of a product. The manufacturer could try to control the quality of products by inspection or by quality circles. Inspection is done on products throughout a production line. Samples at different stages are taken by a skilled and specialist inspection team. They check these samples for their quality like any faults in design (twisted cold drink cans), any deficiencies in packaging (leaking packet of pulses) or even faults with the product itself (sand or stone in sugar). These inspection teams then determine the stage at which the fault was occurred so that the immediate correction necessary for the process is done to prevent further faults. Inspection can result in employee demotivation due to a feeling of distrust. The other method of Quality circles is much better. In this small groups of employees are taken into confidence. These are workers at production line who know the entire process best. So management discusses quality issues with them and these circles may help identify any reasons of faults. They could also suggest improvements and present solutions or could even be empowered to put the suggestion into effect.
- Q.4.a. Cash Flow Statement in company accounts shows the cash inflows and outflows of the company. This helps to determine the liquidity position of the company which allows managers to decide whether cash need to be raised to avoid a highly crisis. Also it shows cash surplus which allows decisions regarding investments to be made. It also allows forecasts for the upcoming months to be prepared.
- b. Internal sources of finance are those that are raised from within the business while external sources of finance are those that are raised from sources outside the business. Internal sources include sale of fixed assets, running down stocks to raise cash, owners' savings or retained profit. External sources include bank loans, debentures and issue of shares as well as leasing, hire purchase and overdrafts. Internal sources of finance raise small amounts of cash and can only be used for small day-to-day expenses. External sources on the other hand raise large sums of money used for long-term investments such as buying fixed assets or investing in a project.

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Q.1.a. The public sector of an economy is that which has businesses which are run, controlled and owned by the government and providing a service and welfare of society are its main objectives. On the other hand, the private sector of an economy has business owned, controlled and run by private individual, or groups with profit as the main objectives.

b. Some goods are public goods or merit goods due to which they have to be supplied by the public sector of my country Pakistan. Goods such as street lighting and traffic signals have to be public sector supplied as they are public goods which provide no profit and so the private sector businesses are reluctant to produce them. They are non-rival and non-excludable. Then certain others such as education and health care facilities too are public sector supplied since their importance is not correctly perceived.

Q.2. Segmenting a market means identifying sells groups in the whole consumer market with certain similar characteristics and then producing products for these segments. So a soft drinks firm in my country, Pakistan may segment the market based on health consciousness or issues. It may e.g. produce diet soft drinks for the diabetic population which standards are sold to other. E.g. Pepsi producing Diet Pepsi. Then the market could also be segmented geographically. E.g. people in the northern areas usually prefer tea and coffee to soft drinks while those in desert or southern areas are more prone to soft drinks. So the soft drink company would spend more on advertising in the hotter regions than colder ones. Also the segmentation could be done on the lifestyle. E.g. the elite class prefers to have something unique, so for them different more expensive flavoured soft drinks could be brought into the market, like tropical tastes. While the lower and middle class consumers are not offered many choices except the cheaper standard flavoured drinks.

Q.3.a. The mean of a set of data is the mathematical average of that set which is found for an ungrouped data by the following formula

$$x = \frac{\text{sum of all data}}{\text{number of data}}$$

or for grouped data by

$$x = \frac{\sum f(x)}{\sum f}$$

The median on the other hand is the middle number for an organized set of data dividing it into two equal halves. If number of values are odd, then it is calculated by:

$$\text{median} = \frac{n+1}{2} \text{th value, otherwise}$$

$$\frac{n+1}{2} \text{th value, } \frac{n}{2} \text{th value}$$

b. Mode is the most recurring value in a set of data. It is useful for the businesses especially retailing ones if they want to decide which stock to help e.g. the shoe size or colour most often bought by customers would help in deciding the stock of shoes that a business keeps. This would help in having the choice that customers want. Also a manufacturer may want to figure out, the most frequently placed order quantity by customers in order to decide the size of batches they should put a side to be sent to customers.

Q.4.a. Diseconomies of scale is the increase in average unit costs of a business as it grows beyond a certain size. This includes low morale amongst workers as they feel that the higher management can't be communicated with and so think that they are of no value. Therefore motivation levels decrease. Also there are frequent communication failures as messages have to pass through

several levels of hierarchy before reaching the desired person. This causes delays and delivery of wrong messages.

- b. Economies of scale are the reductions in average costs as the business increases in size. A large manufacturing business would benefit from purchasing economies. As the large business places large orders of stock i.e. involves in bulk-buying, therefore it is able to gain from all trading discounts and lower delivery costs. Then the business also benefits from financial economies. This is because banks are more willing to lend money to bigger businesses as they usually have a proven track record and assets with which loans can be secured against. Also interest rates offered at larger loans are lower than those at smaller loans. Then larger businesses can go public by issuing shares or issue further share if they are a public limited company to raise large amounts of finance.,



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- Ans1.a. Secondary level of activity is also called the manufacturing level and it deals with the converting of the raw materials through the manufacturing process into finished goods. E.g. steel manufacturing, car manufacturing or textile industries. Tertiary level of activity is the service sector. This deals with the retailing of the manufactured products of consumers such as supermarkets. It also deals with providing services which are in tangible products such as hair dressing, car maintenance and etc.
- b. Successful businesses are well-established, usually providing jobs that are secure so levels of unemployment are unlikely to rise. Then they are usually growing and stable businesses which means that their output increases increasing the GDP of a country and so trading to economic growth. They are profit making, competitive businesses which can compete in a global market so they can sell their products to other countries which means that the exports of a country increase increasing balance of payment surplus or containing deficits on current account. Then since unemployment is low, GDP is growing so the living standards increase.
- Q.2.a. Added value is the difference between the selling price of a product and the cost of bought in materials used for manufacturing the product. It is not profit as operating expenses and other manufacturing expenses have not yet been divided. Added value is the increasing of the perceived value of a product by its consumers.
- b. It is desirable for a firm to have a high added value products because this encourages brand loyalty if creating a brand image has been one of the ways of adding value. This ensures long-term satisfied customers and so long-term maintenance of market share as long as quality is maintained. Also high added value could mean higher profits if other expenses do not increase which allow increased investments and greater expansion. Also as consumers become wealthier and have greater choices available so only firms that keep on adding unique features through adding value will be successful. So adding value is necessary for survival in today's dynamic environment.
- Q.3.a. Trade unions are groups of workers who have joined together to negotiate their rights through worker representations. The basic function of a trade union is to negotiate with employers over the wages and working conditions provided to workers. Since, there is strength in numbers, therefore collective bargaining with employers is likely to prove more successful than if individual workers tried to negotiate. Then the trade unions also provide legal support and representation to workers in cases such as unfair dismissal or discrimination. Also several benefits and facilities are provided to members such as provision of funds to unemployed members as well as finding suitable jobs. They basically provide workers a platform to express their grievances. Trade unions can also organize official industrial action such as strikes in case views are not heard. However, recent trends are toward partnerships with employers through no. strike holders if some of the demands mentioned by trade unions are met.
- Q.4.a. Revenue expenditure is the spending on day-to-day running expenses of the company such as wages, supplies of stationery, lighting, rent etc. Capital expenditure on the other hand are expenses for fixed assets, capital equipment such as machinery or building which could last for more than a year. This also includes investments into different projects.
- b. Different sources of finance are needed for revenue and capital expenditure due to the difference in the nature of these expenditures. Revenue expenditure requires short-term finance such as bank overdrafts or internal sources such as sale of stock, sale of redundant fixed assets etc. Capital expenditure on the other hand requires medium to long-term finance such as leasing and hire purchase for using machinery. Or long-term bank loans, debentures and issue of shares for expansion like purchasing a new building, factory or investing into a new project as well as for take-overs and mergers.

SECTION B ESSAYS **OCT/NOV 2006**

Q.5.a. IMPORTANCE OF MARKET-ORIENTED APPROACH IN THE CONSUMER GOODS MARKET

Market oriented approach is one in which a company, business or organization decides to manufacture goods or provide services according to the requirements of a consumers. In short good are manufactured to satisfy consumers. This approach is very important in a consumer goods market because consumers are the final customers who utilize the goods for their own use and they wish to have goods that exactly meet all their demands.

Market orientation includes continuous market research i.e. continuous customer relation with business. This allows such business to be able to adjust quickly to the changes of today's dynamic market as they are better able to understand the reasons behind these changes. E.g. market research allows businesses to anticipate the upcoming fashion trade (e.g. in clothing). This allows them to adapt their products or make changes to it as in accordance with the customer requirements.

Also since market oriented businesses are maintain close customer relationships, they are better able to understand customer buying behaviour or any upcoming requirements that customers feel e.g. Sony Walkman were created because of customers needs. This would give the business a solid edge over its competitors as the business may become a market leader and so a price given. Also continuous updations in products would allow a business to maintain its consumers (e.g. mobile phone company NOKIA) and so sustain its market share as compared to the whole industry.

Since market orientation includes completer research as to the features demand by consumers, the price the consumers are willing to pay and also the places or distribution that would deliver the product to all or maximum consumers. This ensures that the new product being launched is less likely to fail and so has higher chances of success and providing greater return to the business in terms of profits.

Market orientation is also necessary because of the increasing technological changes. This implies that businesses must be aware of the cheapest products methods to produce the highest quality goods possible. Only then could they remain competitive. Otherwise their goods would become obsolete. So the knowledge of quantity demanded by consumers is also important because excess of stock would result in losses while shortage of stock leaves unsatisfied customers. This may cause loss in reputation of a business. So market orientation could prevent major chances of losses that a firm faces in today's increasing globalization.

However, despite all the advantages of market orientation, it may be that for certain industries this is not always beneficial. Pharmaceutical industries e.g. have to use innovation to survive. They have to base their production on pure research i.e. without an and product in mind. E.g. knowing that consumers want a situation requires product orientation i.e. if a medicine which treats AIDS successfully is created their it is bound to sell. Same is the case with electronic goods market. Also not all products required by consumers could be created due to shortage of resources which leads to asset based marketing.

Hence, even though market orientation is necessary in most industries such as food, textiles, it is not always best depending on certain factors such as the nature of the product.

b. EVALUATING TWO PRICING STRATEGIES WHEN LAUNCHING A NEW PRODUCT

Pricing strategies are the pricing policies or the methods of pricing adopted by a business. When launching a new product, business usually choose one of these two strategies: penetration pricing or price skimming.

Penetration pricing is charging very low prices for the new product in order to gain a higher market share in short time. Businesses using this strategy hope that consumers would be more willing to buy their new products as they are cheaper than that of the market. This cost of strategy is used by businesses aiming at the mass market where they want the maximum number of customers to be introduced to their product. Thus a low price would attract customers to atleast try the product once. Also businesses using this strategy are usually in a market with several competitors such food (cornflakes) and general clothing. Then penetration pricing may be charged in accordance with their marketing objectives of gaining a large market share. Once customer loyalty for a product develops, businesses may then increase their prices slowly to

come at par with the rest of the competitors. This would ensure that the business is able to cover up any losses it incurred when charging the low prices. However, penetration pricing requires heavy amounts of promotion and advertising in order to gain a large volume of sales that would help cover up the costs.

Despite all the features of penetration pricing, there is the drawback that the costs are not over because the product becomes outdated before business has the chance of increasing prices. Therefore certain products such as fashion gadgets or fads the penetration pricing may prove unsuccessful. This is because facts could be outdated before the business has a chance of increasing prices. In such cases it may be better idea to charge higher prices to cover up the costs.

The other pricing strategy i.e. price skimming is where the business decides to charge a very high price for its new product as compared to other competitors or in case of no competitors then its just high. This strategy is especially successful for brand new, innovative products especially electronics such as mobile phones with movie cameras and the feature of sending them to others. This is a very unique selling point and so firms such as these are confident of success. Therefore, they set a very high price in order to maximize revenue before any other competitors loan come into the market. Such strategy is specially true for technological breakthroughs such as optical fibers. Price skimming may also be very successful if a niche market has been targeted e.g. designer clothes for the elite class. This ensures that a strong brand image for a unique, high quality product is built up in the consumers mend. It could also be that skimming pricing is used in order to target a small segment in the requiring so that the higher research and investment costs are covered up before selling to other customers at a lower price. This is especially line for pharmaceutical companies that only sell the medicines at very high prices in the beginning. This may be important to generate funds for further research too. Also at lines the pharmaceutical industries may (e.g.) get patents for their new product. This is an exclusive right to sell as a monopoly for a few years before the other competitors are allowed to entire the market for that product. So in this case also price skimming is used throughout the period except the last year when the business lowers its price to maintain its customers even after competitors when the market.

Both pricing strategies for new products in the right circumstances will be very beneficial. However, before deciding on these strategies extensive market research should be undertaken. This would allow a business to see what price the consumers are willing to pay for the product. In case of price skimming it ensures that the high price charged is not beyond the purchasing power of the consumer. Otherwise, despite being a unique, advanced technological and innovative product the price strategy would fail. At the other extreme, a low priced product because of penetration pricing may be taken by consumers to be of low quality. This market research is essential to know the perceived value of ht product in the consumers' sight, otherwise, low price may prove to be an image damaging strategy.

Q.7.a. DIFFERENCE BETWENE BATCH AND FLOW PRODUCTION METHODS

There are three main types of production methods, namely job, batch and flow production. Batch production is one in which batches of goods are produced with each batch containing goods different then others. Flow production on the other hand is the mass production in which the products flow from one stage to the next continuously. The major differences between batch and flow is that all products in group of batch production pass through one stage of production together. This means that the members of one batch must be completed together and have to wait at a stage until all other members are completed too.

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Q.5.

- a.i. Sole trader is a form of business organization with only one owner who has invested into the company and controls it alone. He may employ workers but ownership is with him alone and he has unlimited liability. Also a sole trader is an unincorporated business with no separate legal identity which discontinues with the death owner.
- ii. Democratic leadership style is one in which all employees take part in the decision making. The leader discusses all issues regarding the business, whether strategic or operational and decides according to what the majority of workers agree upon. Workers may also be allowed to take decisions for themselves. However, such style leads to decisions being made after long and tedious meetings that take several days.

b.i. Price elasticity of demand = $\frac{\% \text{ change in quantity demanded}}{\% \text{ change in price}}$

$$\% \Delta Q \Delta = \frac{24m - 20m}{20}$$
$$= 20\%$$
$$\text{PED} = \frac{20\%}{5\%} = 4$$

- ii. Petrol sales are price elastic which means that the quantity demanded has a greater responsiveness to change in price. As can be seen a reduction of 5% in prices generated an increase in quantity demanded of 20%. This leads to an increase in the revenue earned by the business and so a chance of higher profits.
- c. Firstly, Farad must take into confidence all of his employees so that their motivation remains high and they remain developed to the business. Farad may also have to train his workers into arranging goods on shelf and selling goods in a shop as until now the workers have only sold petrol. Another human resource management issue would be the consideration of wages given to the part time staff whose hours have to be increased. They would now demand greater remuneration for their job and so this would have to be developed on the basis of time-rate as piece rate becomes difficult since individual sales of employees are difficult to determine. It may also be that the part time staff are unable to work longer hours due to their other duties elsewhere. So farad would have to consider hiring further staff and he also needs a manager. The manager can't be recruited internally as the workers are already few. So for any additional workers job description, job specification and job advertisements would have to be written and the advertisement be given in the proper media (e.g. newspaper of the local area). Finally some of the part time workers may have to be given full time contracts. Also the hours of the shop would have to be set often discussions to be formed.
- d. The Farad needs to find out the consumer goods he would have to keep in the shop, the prices he should charge, whether he would have enough customers and if it would be profitable. The two methods of market research to find these details are primary research or secondary research. Firstly he should undertake secondary market research which would probably include local demographic reports undertaken by the local government. This would enable him to decide what ages he should keep goods for. E.g. if there are many children he should keep toys as well. Secondary research is usually undertaken because of its advantages that include it being usually cheap. Also it already exists and so no long research process has to be followed to gather it and it provides a foundation for primary research. However, the purpose it has been undertaken for may not suit Hilltop Services purpose and so may not provide necessary details. Not only this but the secondary research in this case would be inadequate. Farad must undertake primary research which is field research to find the precise details he wants. Almost no secondary research would provide such details as income, consumer tastes and age of that particular large housing

development. So the questionnaires and interview should be conducted. Interviews would allow gathering of information of the exact consumer requirement. However, they usually take long and cover lesser amount of people. Questionnaires on the other hand allow quickest gathering of information. But collection of the questionnaires is difficult as usually people don't fill it in and return it. So may be a combination of questionnaires and interviews would allow most accurate quantitative and qualitative data to be gathered about consumer needs and wants. This precise information would allow a higher profit to be made by the firm as predicted.

Q.2.a. Sales revenue is the income earned by a business or firm or company through selling its good / services i.e. through trading activities. The sales revenue can be found by multiplying selling price by the total number of units sold.

b. Manager is one of the leadership positions in a business which performs the following functions: controlling, planning, organizing, co-ordinating and ordering, staffing and trading. They have achieve the organizational goals through effective utilization of resources as well as by getting things done through people.

i.
$$\text{GPM} = \frac{\text{Gross Profit}}{\text{Sales}} \times 100$$
$$= \frac{1.0}{2.0} \times 100 = 50\%$$

ii. The trends in ER's profits are worrying as both the gross profit and net profit are decreasing as compare to the sales. This means that the cost of sales e.g. the cost of raw materials have increased by a ratio greater than the sales. This could be due to higher suppliers prices which may be due to poor management leading to lost discounts. However greater chances are of higher wastage of stocks due to the fall in the quality of work. The operating expenses have also increased which again shows poor management as there may be high administrative cost increases due to low staff retention meaning high labour turnover.

c. One way of increasing quality would be formulating a plan of staff training so that it would same in all branches of the restaurants. This would ensure that all workers receive training in the skills required by the employees of the ER restaurant chain. Such skill in e.g. serving people and noting down orders.