

**PAPER 2B**  
**Business Management Module**

**SECTION A**

**QUESTION 1**

**Marks**

- (a) – pure risk involves only the possibility of loss or no loss 1  
– speculative risk involves the possibilities of both gain as well as loss 1
- (b) Liability insurance: 4  
– public liability insurance: e.g. protecting the theme park against accidental injury or loss of personal belonging of the visitors  
– employees' compensation insurance: e.g. protecting the theme park against insurance claims arising from injury to their employees at work  
(2 marks for each type of insurance, max. 4 marks)

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6 marks

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**QUESTION 2**

**Marks**

Factors:

6

- capital: whether the borrower has sufficient capital to back up his debt
  - capacity: whether the borrower has the ability to meet the obligation
  - collateral: whether the borrower has sufficient assets to secure the debt
  - character: whether the borrower has a sense of responsibility to repay the debt
  - condition: general economic environment
- (2 marks for each relevant factor, max. 6 marks)

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6 marks

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**QUESTION 3**

**Marks**

Objectives:

6

- to avoid accidents: e.g. by improving driving skills and enhancing safety consciousness
  - to improve the quality of service: e.g. by enhancing drivers' communication skills and manners with customers
  - to improve efficiency: e.g. by better equipping drivers with the skills and techniques required/ making sure drivers are familiar with the routes, roads and traffic regulations
- (2 marks for each relevant objective, max. 6 marks)

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6 marks

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**QUESTION 4**

**Marks**

Ways:

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- price: e.g. cutting prices to stimulate sales
  - product: e.g. phasing out weak/unpopular product items
  - place: e.g. phasing out unprofitable distribution channel members
  - promotion: e.g. minimising promotional expenses and focusing on retaining loyal customers
- (2 marks for each relevant way, max. 6 marks)

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6 marks

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**SECTION B**  
**QUESTION 5**

**Marks**

(a)

6

Method	Disadvantage
– self-finance: e.g. Marco can invest more capital in his business or use his profits for the expansion	– limited source of funds, the amount of funds raised is lower than through other methods
– setting up a partnership: e.g. Marco can invite business partners to contribute capital	– difficult to find suitable partners/joint decisions/less flexibility
– setting up a private limited company: e.g. inviting friends or relatives to become shareholders of his business	– complicated and costly setup procedure
– long term debt: e.g. borrowing from friends, the bank or other financial institutions	– fixed obligation to repay interest and principal

(1 mark for each method and 1 mark for the relevant disadvantage, max. 6 marks)

(b)

Needs:

4

- social needs: need for interaction and communication with other people, e.g. relationships with colleagues and customers, sense of belonging to the retail chain
- esteem/ego needs: need for recognition of achievement and contribution, e.g. autonomy, appreciation, recognition, respect
- self-actualization needs: desire to realise his full potential and talents to achieve, e.g. by having a challenging job, career advancement, self-development

(2 marks for each relevant need, max. 4 marks)

(c)

Reasons:

4

- to understand more the needs and requirements of existing customers and provide better marketing strategy
- to facilitate cross-selling
- to enhance loyalty of existing customers

(2 marks for each relevant reason, max. 4 marks)

(d)

Limitations:

4

- affecting the morale of candidates not promoted
- creating unhealthy competition among the staff of the chain
- limited source of new ideas and skills

(2 marks for each relevant limitation, max. 4 marks)

18 marks

**QUESTION 6****Marks**

- (a) Characteristics: 6
- intangibility: e.g. being able to use tangible clues and physical evidence, such as providing a clean dining environment, maintaining waiters' professional look
  - inseparability: e.g. providing training to waiters to improve their interpersonal skills and service manners
  - perishability: e.g. handling fluctuating demand flexibly and reducing waiting time by using a reservation system or hiring part-time waiters
  - heterogeneity: e.g. using an instructional manual and standardised procedures to take food orders and maintaining service consistency
- (2 marks for each relevant characteristic, max. 6 marks)
- (b) Limitations: 4
- less in-depth information
  - difficult to control the response rate
  - limited and biased sample as it could not include other restaurants' customers/non-members
- (2 marks for each relevant limitation, max. 4 marks)
- (c) (i) Payback period: 2
- \$4 000 000/ \$1 420 000  
= 2.82 years
- (ii) Net present value: 2
- $$\left( \frac{\$1\,420\,000}{1.06^1} + \frac{\$1\,420\,000}{1.06^2} + \frac{\$1\,420\,000}{1.06^3} \right) - \$4\,000\,000$$
- = -\$204 323
- (d) - the NPV is negative, so the robotic system project should not be accepted 2
- (e) Methods: 2
- accounting rate of return: the average annual net profit earned from the project per dollar of investment
  - internal rate of return: the discount rate at which the net present value of the project is zero
- (2 marks for each relevant method, max. 2 marks)

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**18 marks**

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**SECTION C**

**QUESTION 7**

**Marks**

- (a) Aspects:
- profitability: evaluate the income-generating power/earning power of the airline company (e.g. gross profit ratio, net profit ratio, return on capital employed)
  - liquidity: evaluate the ability of the airline company to repay short-term debts using its current assets (e.g. current ratio, liquid ratio)
  - solvency: evaluate the financial leverage and gearing of the airline company (e.g. gearing ratio)
  - management efficiency: evaluate how efficiently the airline company utilises its assets and resources (e.g. trade receivables turnover, trade payables turnover, total assets turnover)
- (2 marks for each relevant description, max. 8 marks)

8

- (b) Purposes:
- to comply with legal requirements: e.g. rest days, Mandatory Provident Fund and statutory holidays
  - to build an image as a good employer: e.g. award of ‘employer of choice’
  - to satisfy employees’ security and social needs: e.g. provide insurance and organise recreational activities
  - to enhance employees’ loyalty: e.g. airlines’ staff discounts, training subsidies
- (3 marks for each relevant purpose, max. 12 marks)

12

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20 marks

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**QUESTION 8****Marks****(a) Steps:****8**

1. review current performance and conduct situational analysis: e.g. conduct a SWOT analysis
2. set marketing objectives: e.g. increase in market share, profit maximisation, etc.
3. select target markets: e.g. understand the buying behaviours of different market segments and choose the most suitable target market
4. formulate marketing strategies: e.g. targeting and positioning (e.g. market leader, market challenger, market follower or market nicher) which help maintain and enhance the fashion chain's competitive position

(2 marks for each relevant step in correct sequence, max. 8 marks)

**(b) Factors:****12**Socio-cultural factors:

- culture: e.g. beliefs, values and customs (including race, religion, geographical location and age)
- social class: e.g. occupation, education and income
- reference group: i.e. direct reference group (e.g. friends, family members, colleagues) and indirect reference group (e.g. celebrities)

Psychological factors:

- perception: e.g. what determines how customers process the stimuli (e.g. country of origin, texture and quality, package) to which they are exposed to
- learning: e.g. changes in behaviour through experience (e.g. poor quality of clothing bought from the shop previously would hinder the customers to come again)
- belief and attitude: e.g. feelings towards the brand
- personality and self-concept: e.g. customers' choosing clothing which can reflect their identities and characters (e.g. conservative/open-minded/trendy)

(3 marks for each relevant factor, max. 12 marks)

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**20 marks**

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**END OF PAPER 2B**