

FORM TP 2007029

JANUARY 2007

CARIBBEAN EXAMINATIONS COUNCIL

**SECONDARY EDUCATION CERTIFICATE
EXAMINATION**

PRINCIPLES OF BUSINESS

Paper 02 – General Proficiency

2½ hours

4 JANUARY 2007 (a.m.)

Answer **ALL** questions in Section I and **THREE** questions in Section II as indicated.

DO NOT TURN THIS PAGE UNTIL YOU ARE TOLD TO DO SO

SECTION I

Answer ALL THREE questions in this section.

1. (a) State TWO differences between a simple contract and a specialty contract. (4 marks)
- (b) Identify TWO types of transactions which require specialty contracts. (2 marks)
- (c) Outline TWO ways by which a contract can be terminated or discharged. (4 marks)

Total 10 marks

2. Mr Soft owns a business that produces toilet paper and other paper products for the domestic and export markets. The Bureau of Standards plays a very important role in the production process.

- (a) Explain TWO ways in which domestic level of production differs from export level of production. (4 marks)
- (b) State TWO functions of the Bureau of Standards. (2 marks)
- (c) Identify TWO channels of distribution in the company's distribution chain. (2 marks)
- (d) Outline ONE contribution of EACH channel of distribution identified in (c) above. (2 marks)

Total 10 marks

3. Mickey Bee wants to export fruits and vegetables to North America. He has been told that this will require the preparation and use of a number of business documents which will include either a bill of lading or an airway bill.

- (a) Outline TWO differences between a bill of lading and an airway bill. (4 marks)
- (b) List TWO documents, other than those mentioned in part (a) above, that Mickey Bee will need in order to export goods to North America. (2 marks)
- (c) Discuss TWO problems that can result from Mickey Bee NOT having the documents you listed in 3 (b) above. (6 marks)
- (d) State TWO reasons why a supplier may issue a credit note. (2 marks)

- (e) The following documents can be used to make payment for goods supplied by Mickey Bee:
- (i) Documentary credit
 - (ii) Standing order
 - (iii) Letter of credit
 - (iv) Credit card

Select TWO of the above methods of payment, and for EACH, discuss ONE way in which customers may benefit from using that method. **(6 marks)**

Total 20 marks

SECTION II

Answer **THREE** questions in this section as indicated.

ORGANIZATIONAL PRINCIPLES

Answer **EITHER** Question 4 **OR** Question 5. Do **NOT** answer both.

4. Two employees were seriously injured on the job. Their trade union blamed the management of the company for the accident and threatened to take industrial action. The management, via a press release, attributed the accident to negligence on the part of the workers.
- (a) List **FIVE** responsibilities of management to its employees. **(5 marks)**
 - (b) Identify **FIVE** examples of industrial action which the trade union can take against the company. **(5 marks)**
 - (c) Outline **THREE** functions of a trade union, other than taking industrial action. **(6 marks)**
 - (d) Suggest **ONE** argument that can be used by management to attribute the accident to negligence of the workers. **(2 marks)**
 - (e) Suggest **ONE** argument that can be used by the trade union to blame the accident on the management of the company. **(2 marks)**

Total 20 marks

5. (a) Describe THREE types of economic systems. (6 marks)
- (b) Outline TWO **major** differences between the private sector and the public sector. (4 marks)
- (c) Explain the purpose of EACH of the following documents to a limited liability company:
- (i) Memorandum of Association
 - (ii) Certificate of Incorporation (4 marks)
- (d) Discuss THREE effects of growth on a business. (6 marks)

Total 20 marks

PRODUCTION AND MARKETING

Answer EITHER Question 6 OR Question 7. Do NOT answer both.

6. Most Caribbean countries use 'road transportation' to do business locally.
- (a) List THREE means of transportation, other than by road, that are used in the Caribbean. (3 marks)
- (b) (i) Identify THREE problems associated with road transportation in the Caribbean. (3 marks)
- (ii) Discuss TWO ways in which the problems associated with road transportation may be reduced. (4 marks)
- (c) Identify ONE method of transportation that is best suited to transport EACH of the following items, giving ONE reason why EACH method is appropriate:
- (i) Seafood traded internationally
 - (ii) Soft drinks and beers traded locally
 - (iii) Oil traded internationally
 - (iv) Large quantities of money transported locally (8 marks)
- (d) State TWO reasons why goods that are traded internationally should be insured. (2 marks)

Total 20 marks

GO ON TO THE NEXT PAGE

7. Mr McKay owns an ice cream factory. He wants to increase his level of ice cream production but is uncertain about the factors he must consider.

- (a) (i) Define the term 'economies of scale'. **(2 marks)**
- (ii) Explain ONE difference between internal and external economies of scale. **(3 marks)**
- (b) (i) State TWO advantages of large scale production. **(2 marks)**
- (ii) State TWO disadvantages of large scale production. **(2 marks)**
- (c) The table below shows the production of ice cream at Mr McKay's ice cream factory.

No. of Workers	Total Production	Average production per worker	Increase from adding workers
1	150	150	0
2	300	150	150
3	500	167	200
4	600	150	100
5	675	135	75

- (i) Identify the optimum combination of factors, giving ONE reason for your answer. **(3 marks)**
 - (ii) Advise Mr McKay of ONE consequence of operating at a point beyond the optimum combination. **(2 marks)**
 - (iii) With the aid of an example, explain the 'law of diminishing returns'. **(3 marks)**
- (d) Mr McKay must consider the location of his business if he plans to start producing on a large scale.

State THREE factors that should influence the choice of location for industrial businesses. **(3 marks)**

Total 20 marks

FINANCE AND INTRODUCTION TO ECONOMICS

Answer EITHER Question 8 OR Question 9. Do NOT answer both.

8. Governments have many sources of revenue, but their chief source is taxation. When governments increase taxes in a country, households, firms and visitors are affected.

- (a) Distinguish between direct and indirect taxes. **(3 marks)**

- (b)
 - (i) Identify **THREE** types of taxes paid by persons in your country. **(3 marks)**

 - (ii) List **TWO** sources of revenue, other than taxes, that are available to the government of your country. **(2 marks)**

- (c) Outline **THREE** reasons why government levies taxes. **(6 marks)**

- (d) Discuss the effect that increased taxation may have on a firm in **EACH** of the following situations:
 - (i) Making below normal profits

 - (ii) Breaking even

 - (iii) Making above normal profits **(6 marks)**

Total 20 marks

9. Good money management seems to be a problem for many Caribbean nationals. The complaint is that it is very difficult to budget because of high cost of living brought on by high inflation in their countries. It is difficult for them to maintain a high standard of living and achieve long term goals such as owning a motor car or a home.

- (a) Define EACH of the following economic terms:
- (i) Money management
 - (ii) Inflation
 - (iii) Standard of living (6 marks)
- (b) Explain what is meant by 'personal budgeting' and outline the role that personal budgeting plays in good money management. (4 marks)
- (c) May-Lou wants to purchase an insurance policy but she is not sure whether to buy a term or an endowment policy.
- Advise May-Lou of TWO benefits of EACH of the above policies. (4 marks)
- (d) Identify TWO financial institutions that assist citizens in owning a home. (2 marks)
- (e) Outline TWO ways in which EACH of the institutions mentioned in (d) above can assist citizens in owning a home. (4 marks)

Total 20 marks

END OF TEST