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MAY/JUNE 2006

**CARIBBEAN EXAMINATIONS COUNCIL
SECONDARY EDUCATION CERTIFICATE
EXAMINATION**

PRINCIPLES OF BUSINESS

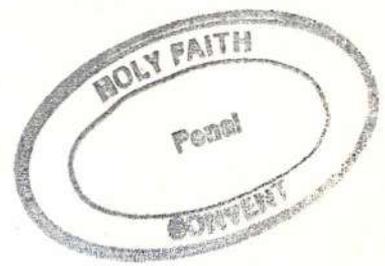
Paper 02 - General Proficiency

2½ hours

30 MAY 2006 (a.m.)

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



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SECTION I

Answer ALL THREE questions in this section.

1. John had just graduated from High School. John's father decided to retire and transfer the ownership of his shoe store to him. After operating the business for one year, John decided to convert the business to a Private Limited Company.

- (a) State TWO advantages John's father enjoyed as a Sole Trader. (2 marks)
- (b) Explain TWO benefits John would enjoy by converting the business to a Private Limited Company. (4 marks)
- (c) Outline TWO ways in which the growth of the business may affect its organizational structure. (4 marks)

Total 10 marks

- 2.
- (a) Outline TWO functions of an entrepreneur. (4 marks)
 - (b) Explain THREE reasons why some entrepreneurs may prefer to keep their businesses small. (6 marks)

Total 10 marks

3. Purr Chase would like to buy goods on credit from Sales Plus Limited, a popular hardware store in her community. Nevados National Bank (NNB), the local bank, has a variety of credit plans available to assist persons like Purr Chase to make purchases.

- (a) Describe THREE types of credit methods that Nevados National Bank (NNB) can provide to enable Purr Chase to buy goods from Sales Plus Ltd. (6 marks)
- (b) State THREE conditions that Purr Chase must satisfy in order to obtain a loan from NNB. (3 marks)
- (c) Outline THREE methods of payment that Purr Chase could use to repay her loan at Nevados National Bank. (6 marks)
- (d) Explain TWO ways by which the Central Bank could reduce the capacity of NNB to make loans to its customers. (4 marks)
- (e) Identify ONE institution, that could provide Purr Chase with credit facilities similar to those provided by commercial banks. (1 mark)

Total 20 marks

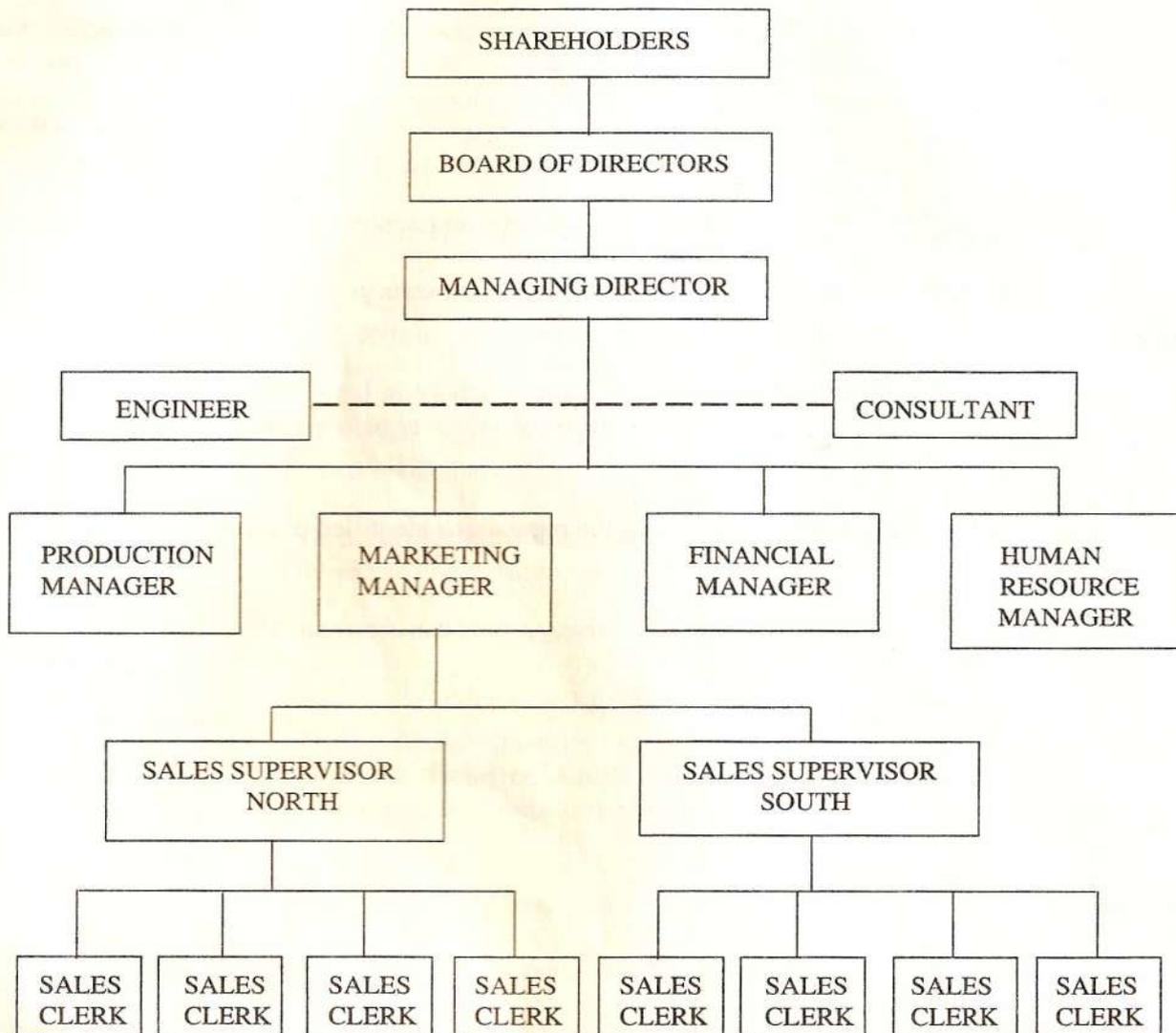
SECTION II

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

ORGANIZATIONAL PRINCIPLES

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

4. PARTIAL ORGANIZATIONAL CHART OF NECTAR DRINKS LTD



- (a) State the type of organizational structure shown in the chart above. (1 mark)
- (b) Outline TWO differences between an organization and an informal group. (4 marks)
- (c)
 - (i) Define the term, 'span of control'. (2 marks)
 - (ii) Identify the span of control of the marketing manager. (2 marks)

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- (d) (i) Explain what is meant by the term, 'chain of command'. (2 marks)
- (ii) The consultant has recommended changes in the sales strategy. Identify the organizational channel/path that he must use in order to implement the changes at the level of the sales clerk. (4 marks)
- (e) (i) Explain what is meant by the term, 'informal channel of communication'. (2 marks)
- (ii) Discuss ONE way in which informal channels of communication can affect the functioning of the organization. (3 marks)

Total 20 marks

5. (a) Name THREE government departments in your country. (3 marks)
- (b) Outline TWO functions of EACH of the departments you named in (a) above. (6 marks)
- (c) Ms Mary wants to open a private nursery school in her community. Advise her on THREE government regulations she must adhere to before starting the business. (3 marks)
- (d) Give ONE reason why EACH of the regulations identified in (c) above is important. (6 marks)
- (e) Identify TWO ways in which the nursery school can contribute to the development of the community. (2 marks)

Total 20 marks

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PRODUCTION AND MARKETING

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

6. The manager of a shoe factory has proposed to the owners that the expansion of the factory and the introduction of more modern equipment will result in a decrease in the cost of producing a pair of shoes. This expansion, however will require a large injection of money into the business.
- (a) Define EACH of the following terms:
 - (i) 'Internal economies of scale'
 - (ii) 'Internal diseconomies of scale' (4 marks)
 - (b) Identify TWO internal economies of scale. (2 marks)
 - (c) Explain how TWO different internal economies of scale can lead to lower costs of production. (4 marks)
 - (d)
 - (i) Discuss ONE negative consequence to society of the introduction of modern factory equipment. (2 marks)
 - (ii) Suggest TWO measures that can be used to reduce the negative social impact discussed in (d)(i) above. (4 marks)
 - (e) Identify ONE disadvantage which may result from the expansion in the factory and suggest ONE way of counteracting it. (4 marks)

Total 20 marks

7. Chicken producers of two Caribbean Countries, Aquala and Boluda, sell chicken to local hotels, fast-food outlets and households. However, Aquala chicken producers import feed, medicines and hatching eggs, while Boluda chicken producers buy feed, medicines and hatching eggs from local suppliers.
- (a) Define the terms, 'backward linkages' and 'forward linkages'. (4 marks)
 - (b) Identify TWO backward linkages and TWO forward linkages in chicken production. (4 marks)
 - (c) Compare THREE benefits to be gained from a large and persistent increase in the demand for chicken in the economies of Aquala and Boluda. (6 marks)
 - (d)
 - (i) Suggest TWO measures that the government could use to encourage the development of linkage industries in your country. (4 marks)
 - (ii) Illustrate how ONE of the measures suggested in (d)(i) above may be implemented. (2 marks)

Total 20 marks

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8. (a) Discuss THREE major economic problems facing Caribbean countries. (6 marks)
- (b) Outline THREE ways in which the International Monetary Fund (IMF) assists Caribbean countries in solving their economic problems. (6 marks)
- (c) Discuss THREE reasons why a country may decide to nationalize a major industry. (6 marks)
- (d) State TWO disadvantages a country may face if it chooses to nationalize its major industries. (2 marks)

Total 20 marks

9. (a) Explain what is meant by the 'National Income' (NI) of a country. (2 marks)
- (b) Discuss THREE ways in which a country may use the National Income data in planning for its development. (6 marks)
- (c) Describe THREE ways in which the Caribbean Development Bank (CDB) assists countries within the region in alleviating their economic problems. (6 marks)
- (d) Suggest THREE reasons why a country engages in international trade. (6 marks)

Total 20 marks

END OF TEST