Diploma Programme
Programme du diplôme
Programa del Diploma

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Business management
Higher level
Paper 1

Monday 25 October 2021 (afternoon)

1 hour 15 minutes

Instructions to candidates

- Do not open this examination paper until instructed to do so.
- A clean copy of the **business management case study** is required for this examination paper.
- Read the case study carefully.
- A clean copy of the **business management formulae sheet** is required for this examination paper.
- Section A: answer two questions.
- Section B: answer question 4.
- A calculator is required for this examination paper.
- The maximum mark for this examination paper is **[40 marks]**.

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Section A

Answer **two** questions from this section.

1. (a) With reference to *MM*, describe **two** features of a merger (lines 20–22). [4]

(b) Explain the strategies used by *MM* to achieve sustainability. [6]

2. (a) Describe **one** advantage **and one** disadvantage for *MM* of decentralization (lines 44–45). [4]

(b) Explain how *MM* could reduce stakeholder conflict in relation to its gold mine in Egypt. (lines 103–107) [6]

3. (a) Describe **two** differences for *MM* between marketing its minerals (a product) and marketing its hotels (a service). [4]

(b) Explain strategies *MM* could use to improve cash flow in its palladium mine in South Africa (**Table 1**). [6]

Section B

Answer the following question.

4. *MM* uses just-in-time (JIT) production in its Oil Production Division.

The long-term demand for oil is usually predictable, and production is reliable unless major problems occur. In 2020, however, there was an unexpected decrease in demand for oil. Uncertainties in the world economy and responses to climate change now make predictions more difficult.

MM has prepared a sales forecast for its oil production for 2022 and 2023 (**Table 2**).

Table 2: Sales forecast for oil production for 2022 and 2023 (millions of barrels)

Year	Quarter	Predicted trend§	Average seasonal variation†	Forecast sales
2022	1	20.0	+2	22.0
	2	19.5	–1	18.5
	3	19.0	–2	17.0
	4	18.5	+1	19.5
2023	1	18.0	+2	20.0
	2	17.5	–1	16.5
	3	17.0	–2	15.0
	4	16.5	+1	17.5

§ calculated using a four-quarter moving average based on six years of historic data
† calculated by comparing actual sales with a four-quarter moving average

In 2020, *MM* had some major problems:
- A catastrophic fire occurred at one of its oilfields.
- The gold mine in Egypt collapsed, trapping 23 miners.
- It experienced a cyber-attack on its computer network.
- An earthquake in Chile damaged the country's transport system.

In response to these problems, *MM* had to rely on its contingency planning and its crisis management procedures.

JG Mining (*JG*) wants to buy *MM*'s tar sands mining operation for $50 million, but the board of directors are divided. *MM* recently invested $15 million in their tar sands operation in addition to the original $30 million set-up cost in 1986. Production is at designed capacity, and, although the long-term average rate of return (ARR) for the tar sands operation is below those of most of *MM*'s other investments, it provides a reliable source of income. However, *MM* has difficulty selling sulphur, a by-product of tar sands production.

Employees at the tar sands operation are against selling the operation to *JG*. However, the income from the sale would help *MM* finance other investments, such as lithium mining, and the sale could help improve *MM*'s corporate image. *MM*'s Finance Director, Ethan, estimates that the net present value (NPV) of the tar sands operation is $46 million.

(a) Define the term *just-in-time (JIT) production*. [2]

(b) With reference to **Table 2**, explain **one** benefit **and one** limitation for *MM* of using sales forecasting. [4]

(c) With reference to *MM*, explain the difference between crisis management and contingency planning. [4]

(d) Using information from the case study and additional information above, discuss whether *MM* should sell its tar sands mining operation to *JG*. [10]

References: