

# Examiners' Report June 2015

## IAL Business Studies WBS01 01

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## Introduction

In this Summer 2015 series of the new award, it was pleasing to see a lot of progress in the use of exam techniques in a higher percentage of the candidates. However, some candidates still have not developed skills beyond those required for success at GCSE.

### Section A Supported Multi Choice Questions

In the Supported Multi Choice section (Questions 1-6), most candidates were able to identify the correct answer most of the time. However, a significant number of candidates are still unable to gain further marks for fully explaining their correct choice of answer. Many simply repeated the words from the question stem in their answers.

A significant number of candidates are not accessing all of the available marks because of lack of application. In terms of application, the name of the person, business, concept or issue in the question or quote from the question stem is not enough. The candidate must *do* something with the information to ensure it is fully applied in some way.

A significant number of marks for multi choice questions can be gained for explaining why other distracters are wrong. However, these responses need to be fully applied explanations and not just a definition. For example, candidates often just state 'X is wrong' and then give a definition. This needs to be applied in relation to the business or issue in the question. For example, X is wrong because - then explain how or why it does not apply.

### Section B: Data Response Questions (Questions 7-11)

In the Data Response questions, candidates need to be taught how to fully access the divided mark schemes when being asked to explain or assess **two** elements of any topic.

The vast majority of candidates attempted the standard data response questions 7; 8a and 8b and 9(a) with a negligible number of blank scripts

A majority of candidates attempted questions 9b; 10 and 11. However, Q10 and 11 was not attempted by a significant number of candidates but it is not clear whether this was due to a difficulty in responding or if it was due to time restraints before the final questions

Once again, lack of application is hampering the results for some candidates. In the data response questions in particular, there are significant marks available for clear business application.

In terms of applying the person, business, concept or issue in the question, it is not enough to just mention the name of the business, or quote from the question stem. The candidate must do something with the information to ensure it is fully applied in some way.

The 'Cadbury's Principle' is a very useful 'rule of thumb' to use when checking for valid application and context. When checking an answer, substitute Cadbury's for the name of the business in the response. If the use of Cadbury's does not affect the answer, i.e. it still works as a response, then it is not application. It means the answer given will apply to any business so cannot be true application to the case study. It is not in context. If however, the use of the word Cadbury's means the answer does not work in the context it is written and the answer only works with the name of the business from the case study – then you have application

Candidates may find it useful to use the 'Cadbury Test' to check for application and context.

## Question 1

Question 1 asks about sources of secondary research.

Q1 (a) Correct answer B (Government statistics).

Q1 (b) Most candidates were able to give a correct definition of secondary research. Marks could not be given for the definition of primary research as the question is specifically about secondary research.

Some candidates could explain why the answer is correct and give an example of reports for demographics. A number of candidates used a different example as application and as long as applied within the context of government statistics the mark was given.

Very few candidates used Mintel as application. Of those that did, just to mention the business name. They need to explain how this applies in terms of sources of secondary research.

Some candidates made a statement such as [secondary research] 'might not be accurate'. This statement on its own is not enough to gain a mark. The statement needed to be developed in some way. For example, '...but it is less costly than setting up and gathering primary research data'.

This examples shows how the candidate has achieved three marks by answering Part (a) correctly, then two further marks for Part (b).

1 *Mintel* produces marketing reports that are a source of secondary research.

(a) Which **one** of the following is also a source of secondary research?

(1)

- A Telephone surveys
- B Government statistics
- C Focus groups
- D Supplier visits

Answer

B

(b) Explain why this answer is correct.

(3)

Secondary research is information that has already been gathered by someone else. we know government statistics are a source of secondary research because they have been collected by the government and not by the business that wants to use it. many businesses would want to use these statistics as they are quite reliable.



## ResultsPlus

### Examiner Comments

Part (a) is correct. Part B starts with a correct definition to demonstrate knowledge. The next point identifies that the data is secondary because the government collected the information before the business used it which satisfies application criteria. However, the final statement is not fully developed for the analysis mark. The answer 'because it is reliable' is not quite correct as secondary data is often out of date and may not specific enough.



## ResultsPlus

### Examiner Tip

Responses set out in this format (definition, application, reason/cause/consequence) makes it very easy to identify the marks to be rewarded.

This example illustrates a good analysis response but misses the final mark because the incorrect distractor is not properly dismissed.

1 *Mintel* produces marketing reports that are a source of secondary research.

(a) Which **one** of the following is also a source of secondary research?

(1)

- A Telephone surveys
- B Government statistics
- C Focus groups
- D Supplier visits

Answer

B

(b) Explain why this answer is correct.

(3)

Secondary research involves using data that has been previously collected and collated by an external source eg by market research company companies that produce reports like Mintel. They are useful because it reduces the expenses of carrying primary research but businesses should be aware that they are not specifically tailored to their needs and may not have the updated data.

Telephone surveys are <sup>a</sup> primary research method as you address customers directly. (Total for Question 1 = 4 marks)



## ResultsPlus

### Examiner Comments

Part (a) is correct for the first mark. Part (b) gives a clear definition. However, the application mark is not given for the mention of Mintel as it repeats the information given in the stem rather than use it in the context of the question. The candidate does get a second mark for a very well developed analysis statement. They give a good reason and consequence of using secondary research in their response of '...reduces expenses of primary research...' and '... not specifically tailored to their needs'.

The reason why A (telephone surveys) is not given a mark is because it just defines primary research rather than fully explain why it cannot be secondary research in the context of Mintel or the question asked.



## ResultsPlus

### Examiner Tip

When dismissing distractors, candidates should try to refer to the business in the question. For example, option A is wrong because secondary research resources such as Mintel are usually online or paper based reports, whereas telephone surveys mean the business has to call a sample audience and question them directly.

## Question 2

Q2 looked at the most likely reason for the fall in the price of Amazon's Kindle e-reader.

Q2 (a) Correct answer C (price of substitutes decreased).

Q2 (b) A significant number of candidates gave a definition of supply, demand or price and these were incorrect as the question is about substitute goods and that is the definition required.

The definitions given for substitute goods varied widely. A significant number of candidates are using terms such as 'similar products used for same purpose' or 'preferred goods' which are acceptable. A few answers referred to cross elasticity of demand and then the need to reduce their price which was a good analysis mark as long as it was correctly described.

Examples of other competitor products were accepted as application as this demonstrates the candidate using their own knowledge. For example Coca Cola and Pepsi, tea and coffee, butter and margarine were used by some candidates.

This example is a model answer of how to gain all of the marks for part (b) by clearly explaining why (a) is correct. It also gives a very good dismissal of why a distractor is incorrect. This response achieved maximum marks.

2 The retail price of Amazon's Kindle e-reader fell by 60% between 2012 and 2013.

(a) The **most likely** reason was that

(1)

- A sales taxes increased
- B consumer income increased
- C prices of substitutes decreased
- D the choice of brands decreased

Answer

C

(b) Explain why this answer is correct.

(3)

The retail price for the Kindle is most likely to fall because the competitors must have been offering a substitute for a cheaper price than them. In order to keep their product competitive, they too will have decreased the price.

A is wrong as an increase in sales tax will lead to an increase in the retail price.



## ResultsPlus

### Examiner Comments

Part (a) is correct. Clear definition of substitutes for knowledge mark. Application and analysis marks well explained with the consequences of price reductions in substitutes and reason for Amazon's response.

Distractor B is a very good example of referring to the business in the question and explaining why this is an incorrect answer in that context.



## ResultsPlus

### Examiner Tip

Candidates should practice dismissing distractors using this as a model answer. By identifying the business in the question and explaining why it is incorrect in this context demonstrates clear understanding and application.

2 The retail price of Amazon's Kindle e-reader fell by 60% between 2012 and 2013.

(a) The **most likely** reason was that

(1)

- A sales taxes increased
- B consumer income increased
- C prices of substitutes decreased
- D the choice of brands decreased

Answer

C

(b) Explain why this answer is correct.

(3)

Substitutes are goods that are similar and competitive to the goods or product of the business. If substitutes decrease their price, the demand for the substitute will increase and therefore Kindle needed to reduce its price to stay competitive. It cannot be B because if consumer income increases, Amazon would not have to reduce prices by 60% because consumer can then afford it.





## ResultsPlus

**Examiner Comments**

Part (a) correct. Part (b) only achieved one mark.

There is no clear definition. the first statement repeats the question and the answer to part (a) so it cannot be given another mark for the same response. There is a mark for analysis because there was a valid reason given (...in order to keep competitive...)

Distractor A was not fully dismissed as it does not say why an increase in sales tax would lead to an increase in the retail price, only that it does. This is only an assertion or statement.



## ResultsPlus

**Examiner Tip**

In multi choice questions, a clear definition will give the candidate at least one mark for knowledge.

Assertions and statements on their own are not enough to dismiss the distractors. There must be further development in the context of the business or question.

### Question 3

Q3 asked about the types of market a business could operate in.

Q3 (a) Correct answer D (niche market).

Q3 (b) This question was quite well answered. A large number of candidates correctly defined a niche market by including terms such as 'targeted, focused or specialist' to demonstrate their understanding that it is a very specific target market. Some candidates referred to a niche as 'small' and this was acceptable when discussed in the context of a smaller portion of a larger or overall consumer market.

However, quite a lot of candidates made reference to a market segment which is not necessarily a niche market. Market segments are usually described in terms of their characteristics. Some candidates are using the term 'segment' in the same context as 'small' when discussing market size. This would be acceptable provided it is within the context it is used. Candidates that referred to market segments or segmentation in terms of market characteristics did not gain this mark.

A significant number of candidates only offered rehashes of the question and/or stem rather than answering it directly. For example, made reference to 'competitive teams' and 'specialist swimwear', which are mentioned in the question and stem. These could only be accepted provided the candidate applied and developed their answer with the information, rather than just repeat it.

3 Sportsaquatic.com is a successful online retailer offering specialist swimwear for competitive swimming teams.

(a) Sportsaquatic is an example of a business operating in a

(1)

- A test market
- B face-to-face market
- C mass market
- D niche market

Answer

**D**

(b) Explain why this answer is correct.

(3)

Niche market where consumers of similar needs are divided into small groups. As sportsaquatic is an online retailer and its focus is mainly on the competitive swimming teams. So that is why it's a niche market.

Option A it is incorrect as test market is done in small areas to check out the demand not an online retailing. Option C is also incorrect because mass market is with a lot of consumers.



**ResultsPlus**  
Examiner Comments

Part (a) is correct. However on part (b) the definition is of segmentation and not a niche market. The second sentence repeats the question so is not creditworthy for application.

Distractor A is rewarded with one mark as it implies why it is wrong (done in small areas) to the context of online retailing.

Distractor C starts out with a partial definition but is not fully developed or applied so cannot be rewarded with any marks.

**3** *Sportsaquatic.com* is a successful online retailer offering specialist swimwear for competitive swimming teams.

(a) *Sportsaquatic* is an example of a business operating in a

(1)

- A test market
- B face-to-face market
- C mass market
- D niche market

Answer

D

(b) Explain why this answer is correct.

(3)

Niche market is a small segment of market with people who have distinctive specialised requirements. *Sportsaquatic* is targeting only competitive swimming teams which makes it operating in a niche market. Option C, mass market is incorrect because they are not targeting the whole market as they are producing only specialist swimwear.

(Total for Question 3 = 4 marks)



## ResultsPlus

### Examiner Comments

Part (a) is correct. In part (b), the definition mentions segments but goes on to correctly describe the requirements of the target audience as a niche market (so it is not a definition of segmentation). This was rewarded with one mark.

Distractor C is well dismissed as it does not just define mass markets. Instead, this answer explains why C is wrong in terms of the business offering specialised (i.e. niche) products. This was rewarded with one mark.



## ResultsPlus

### Examiner Tip

The dismissal of option C is a good example of how to model this type of answer.

## Question 4

Q4 asked about why a new business might use cost plus pricing.

Q4 (a) Correct answer C (easy to administer).

Q4 (b) This question was not answered very well on the whole. Candidates were required to give a definition of cost plus pricing. Many candidates gave definitions of profit.

A significant number of candidates defined cost-plus pricing as adding a portion of *profit* to cost. This is incorrect and could not be rewarded – the answer should be related to price.

A significant number of candidates incorrectly gave distractor D as the answer to part (a) guarantees a business makes a profit. This answer is incorrect and was not rewarded with any marks.

Stronger candidates were able to explain why cost pricing does not guarantee a profit. This was often explained from the viewpoint of having to meet sales levels or that the break-even point needs to be reached first before profits are made.

The candidate got full marks for this question. it is a good example of how to structure an answer to the multi choice questions

4 The Small Business Service of HSBC advises some of its new business clients to use cost-plus pricing.

(a) A new business might use cost-plus pricing because it

(1)

- A sets the correct market price
- B considers hidden costs
- C is easy to administer
- D guarantees a business makes a profit

Answer

C.

(b) Explain why this answer is correct.

(3)

Cost plus pricing involves adding a percentage mark up to the cost of production to calculate the selling price.

It is a simple way for a business to calculate the price of a good or service and suitable for new businesses because it is easy to administer as it is not complicated.

Option D is incorrect because cost plus pricing will only guarantee a profit once goods are sold. Sales volume will guarantee profits but cost plus pricing may not.

(Total for Question 4 = 4 marks)

as it does not consider competitor prices or price elasticity of demand.



The definition correctly relates the percentage mark up to the final selling price.

The application mark is given for identifying that it is simple to calculate and not complicated (therefore C is correct).

Distractor D explains why cost-plus pricing cannot guarantee profit.

**Note:** the candidate appears to give part of this answer in their native language. Please remember that all parts of the response should be written in English. There was enough in the rest of the response to secure this mark.

This question demonstrates how candidates can get part (a) wrong but still achieve marks for part (b)

4 The Small Business Service of *HSBC* advises some of its new business clients to use cost-plus pricing.

(a) A new business might use cost-plus pricing because it

(1)

- A sets the correct market price
- B considers hidden costs
- C is easy to administer
- D guarantees a business makes a profit

Answer

D

(b) Explain why this answer is correct.

(3)

Cost-plus pricing is a type of pricing that involves an adding of desired amount of pricing to the original cost of a product.

Option 'D' is correct because, any product sold at a higher price than its cost will surely bring profit.



In part 9(b), one mark is given for the definition of cost plus pricing relating to costs of production. Option D is incorrect so no mark for this statement.

## Question 5

Q5 looked at why a business would offer free samples of their products.

Q5 (a) Correct answer B (to encourage sales).

Q5 (b) Candidates could define either product trials or free samples.

When discussing why this answer is correct, many candidates used the terms free samples and product trials in the same context. This was acceptable when the explanations were given in the context of the question.

However, a significant number of candidates incorrectly defined 'sampling' (a portion of a larger population) rather than free samples.

The answers given were often generic and not always in the context of White Chocolate Krave or Kellogg's. This meant some candidates did not achieve the application mark.

This examples starts well with a good example. It illustrates how using the name of the company in the question is not enough to achieve application or context.

5 Kellogg's gave free samples to shoppers when launching its White Chocolate Krave cereal.

(a) Which **one** of the following is likely to be the **main reason** why Kellogg's offered free samples?

(1)

- A To identify potential bias
- B To encourage sales
- C To segment the market
- D To save shoppers money

Answer

B

(b) Explain why this answer is correct.

(3)

A sample is ~~seen~~ usually considered to be a trial of a product which is given to potential customers for free, ~~in order~~ generally to establish a consumer's favourability and collect data. When Kellogg's offers free samples to shoppers, they would try it and in most cases develop a liking to that product. This will lead to an increase in sales for Kellogg's. D is incorrect as this is not the objective of Kellogg's free samples.





## ResultsPlus

### Examiner Comments

There is a clear and well explained definition of free samples. The application shows why Kellogg's are giving out free samples - to develop liking for the new product.

Distractor D is not applied or developed enough. Although the candidate does try to relate it to the business (Kelloggs), it is not enough to just mention the name of the company. Similarly, it is not enough to state that this is not the objective. Candidates need to explain how/what and why it is incorrect in terms of the business in the question.

5 Kellogg's gave free samples to shoppers when launching its White Chocolate Krave cereal.

(a) Which **one** of the following is likely to be the **main reason** why Kellogg's offered free samples?

(1)

- A To identify potential bias
- B To encourage sales
- C To segment the market
- D To save shoppers money

Answer

B

(b) Explain why this answer is correct.

(3)

Sampling means it is the process where they find the abilities in the population and take the advice to use it in business.

Option B & the brand have given free samples because if the brand give some free samples it will make the customers attract towards the product. So it means free sampling is to encourage sales.



## ResultsPlus

### Examiner Comments

Although the candidate got part (a) correct, this examples gives a definition of sampling rather than 'free samples'. The explanation of why it is correct - to attract customers towards products, was enough to be rewarded with one mark.



## Question 6

Q6 was about the factors of the supply of rice.

Q6 (a) Correct answer B (storms and flood across Asia destroying crops).

Q6 (b) Most candidates made an attempt at a definition of supply. However, as the definition of supply is a standard of business and economics it should always be a clear and full definition. The definition should include the key points of being **willing and able**, at a **given price over given time or time period**. A significant number of candidates missed one or more these key points so no mark was given unless they were all present.

A lot of candidates merely 'lifted' the question and stem and rehashed them to repeat as the answer in this question. For example,

'...storms and floods destroy the crops so reducing supply'. No mark was given for this type of answer.

There were several examples of supply diagrams that demonstrate the shift in the supply curve but most fail to state **why** the decrease in supply of rice leads to the shift in the curve. It is not enough to say that it does, they must say why or no mark can be given.

Distractor A: In some instances candidates used a consequence or result rather than a reason to explain why it is incorrect. For example, 'A is incorrect as the low level of supply of rice may not be enough to meet demand and would have caused prices to rise'. This is acceptable as it is applied to the question and offers more than just a definition so the mark was given.

However, some candidates gave a more general explanation. For example, 'A is incorrect as if price increased, supply would increase.' This answer is not applied and not developed enough and would not gain a mark.

This is an example of where a student appears to know the answers but does not develop their response enough to gain the marks.

6 In 2013 the worldwide supply of rice decreased by almost 15%.

(a) Which **one** of the following is the **most likely** reason for this?

(1)

- A The worldwide price of rice increased ✗
- B Storms and floods across Asia destroyed crops
- C Genetically modified crops reduced loss from disease
- D The EU increased subsidies to rice farmers ✗

Answer

B

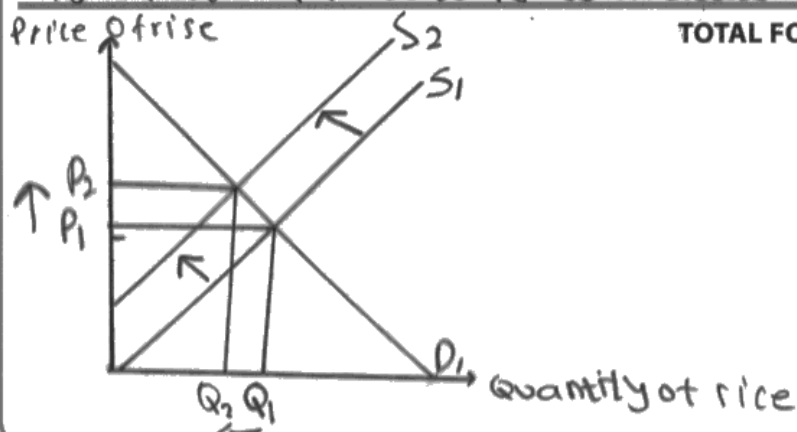
(b) Explain why this answer is correct.

(3)

Supply is the total amount of goods & services the ~~consumer~~ <sup>producer</sup> is willing to sell at a given price over a period of time. B is the answer because, ~~when~~ climate/natural disasters is a factor of supply, when there are any disasters or climate change supply falls, as given above storms & floods leads to crops being destroyed so supply falls - D is the incorrect

answer, subsidy is a grant given <sup>by the government to</sup> motivate producers to increase production but supply

TOTAL FOR SECTION A = 24 MARKS



**ResultsPlus**

**Examiner Comments**

Part (a) is correct but the definition of supply is incomplete. The second sentence is repeating too much of the stem and correct option from the question. Distractor A is not fully dismissed, the candidate just makes a statement but does not develop how/why this is incorrect.



**ResultsPlus**

**Examiner Tip**

Candidates need to fully develop any statement they make by referring to the question and then explaining how, what or why it is correct or incorrect.

This example achieved full marks because the candidate developed their response beyond just making statements or assertions.

6 In 2013 the worldwide supply of rice decreased by almost 15%.

(a) Which **one** of the following is the **most likely** reason for this?

(1)

- A The worldwide price of rice increased
- B Storms and floods across Asia destroyed crops
- C Genetically modified crops reduced loss from disease
- D The EU increased subsidies to rice farmers

Answer

**B**

(b) Explain why this answer is correct.

(3)

Supply is the quantity of product that suppliers are prepared to supply to the consumers.  
(B) is the answer as there could have been a fall in rice as there might weather changes in Asia through which there were unable to rise the ~~to~~ supply of rice.  
(A) is not the answer as when the ~~price~~ supply falls then the price also ~~falls~~ falls.



**ResultsPlus**

**Examiner Comments**

Definition was acceptable. 'Willingness to supply' was enough to demonstrate knowledge so all elements were present. The next sentence identified weather as a factor of supply and explained the consequences in terms of the rice crops. Although not referred to, the diagram was correct and supported the candidate's explanation. Distractor D was sufficiently developed for the mark as it identified grants would be a motivator to increase supply.



**ResultsPlus**

**Examiner Tip**

If candidates produce diagrams, they should refer to them in their written response. The explanation of the diagram should apply to the question and not discussed in just theoretical terms.

## Question 7

Q7 asks candidates to explain two entrepreneurial characteristics displayed by Mr Xu.

The majority of candidates were only able to access four marks, mainly because of the way they answered the question.

For knowledge/understanding marks there is one mark available for each characteristic identified (maximum of two). Almost all candidates were able to gain at least these two marks.

There are a maximum of three marks given for the explanation and development of each characteristic. Where a candidate identifies a characteristic (for example, resilience) for one mark, the application and analysis will also be given one mark each if they are present. That would give a total of three marks.

Many candidates were able to identify an application of the named characteristic. For example, when developing 'resilience' some candidates identified that 'Mr Xu did not listen to his critics because despite what they said, he continued to develop the Beijing site.' This is an application mark of information taken from the case study and applied directly to the question.

Very few candidates went on to develop this further for the third mark by identifying a consequence, cost or cause as a result of the application of the characteristic. For example 'Mr Xu finished the Beijing site and it is now their main business district.'

Candidates need to develop two characteristics in this way to access all six of the available marks. A very significant number of candidates did not do this and it would help if they set this type of answer out to 1) identify the characteristic 2) show application 3) demonstrate the cause or consequence of this.

7 Explain **two** entrepreneurial characteristics displayed by Mr Xu. (Evidence A)

Entrepreneurial characteristics are specific traits and skills that a successful entrepreneur has. To exemplify, hard-working, an understanding of the market and being persuasive etc. Mr Xu has demonstrated his entrepreneurial traits when developing his business. Firstly, he has been risk-taking as he invests in "large-scale enterprises" and spends high amounts of money eg "£1 bn in London's Royal Opera" <sup>spending</sup> ~~spending~~ <sup>high levels of investment</sup> ~~spending~~ prove risky as he is able to lose the investment he has made. However, an entrepreneur who does not take risk is likely to miss out on many opportunities. Eg building a <sup>successful</sup> reputation such as Mr Xu. Moreover, Mr Xu is also ~~positive~~ confident and resilient, given the fact that Mr Xu is "unconcerned

with negative critics" and has confidence in his work.

It is important to believe in one's business, however

and should an entrepreneur should assess the benefits

and drawbacks of every decision before taking it.

or else, they could face

(Total for Question 7 = 6 marks)

business failure.



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### Examiner Comments

The candidate identifies a list of entrepreneurial characteristics but did not develop this further. If the candidate had only given this list, or the rest of the answer was incorrect the response would have been given 1 mark for each characteristic up to a maximum of 2 marks for knowledge.

The candidate went on to identify and attempted to develop two entrepreneurial characteristics:

K/U: Risk taking (1 mark).

Application: Invests in large scale enterprise such as raising £1bn for Royal Albert Dock (1 mark).

Analysis: None - no consequences or results from risk taking actions (0 marks).

K/U: Resilient (1 mark).

Application: Mr Xu is unconcerned with negative critics (1 mark).

Analysis: None - no consequences or results from his resilience (0 marks).



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### Examiner Tip

When a question asks a candidate to explain or assess **two** elements of any term (in this case entrepreneurial characteristics), a good way of formatting the answer is to set each element out as follows;

**Knowledge/understanding:** identify the item or give a definition:

**Application** relate the element to the question topic in context of the business in the case study.

**Analysis** identifies any reason, cause, costs or consequence of the application.

Use this format for each item as a frame of reference to ensure none of the answer is missed out.



## Question 8 (a)

Q8(a) asked for an explanation of two benefits to ABP of being a plc.

A significant number of candidates misunderstood what a plc was and went on to explain a private limited company which meant any benefits of this could not be rewarded with a mark.

A number of candidate's did clearly show their understanding of a public limited company. They used key terms of a definition of a plc such as; they can offer **stocks and/or shares** on a **stock exchange** to the **general public**. The other definition mark was given when candidates identified the **limited liability** this offers **to shareholders**. The full two knowledge marks were only given if all of these key terms were included.

Some candidates used the term 'Stock Companies' and this is acceptable as it is a term used for public limited companies in some countries. Similarly the term 'stocks' and 'stockholders' was accepted as interchangeable for the use of 'shares' and 'shareholders'.

A large number of candidates referred to the ability to raise finance, gain a better reputation, higher status compared to other types of business structure as a benefit of being a plc. This is a good use of candidates' own knowledge and offered perfectly acceptable answers and was rewarded with the marks.

8 (a) Explain **two** benefits to *ABP* of being a plc.

(6)

A public limited company is the company whose partners have limited liability and in case of loss only the amount invested is at loss not the personal possessions of the shareholders.

Firstly, *ABP*, being a PLC can sell its shares on the share market and different people who want a share in this business can invest their money in *ABP* and become shareholders who would then get their <sup>share as</sup> dividends each year.

Secondly, *ABP* can take huge loans from the banks and it being such a great company banks might offer <sup>great</sup> loans at a moderate interest rate. This would help *ABP* to expand.



## ResultsPlus

### Examiner Comments

This is an example where the candidate does not appear to understand what is meant by the term plc (public limited company). The candidate explains limited liability of **partners** which is clearly incorrect as the question is not about partnerships. However, they then go on to explain that limited liability means that the shareholders possession are not at risk of loss which was rewarded with one mark for understanding what is meant by limited liability. In the statement 'ABP can sell its share on the share (stock) market and different people (public) can invest their money in ABP' the candidate does nothing further to apply their answer. The mention of ABP is not enough on its own to count as application. This response is not applied or developed enough to gain an application mark. However, this statement does complete the definition of a plc and was rewarded the second K/U mark (1). The candidate wrote a section on bank loans which is irrelevant to this question and cannot rewarded with any marks.

## Question 8 (b)

Q8(b) asked about what the impacts of an appreciation in pound sterling (£) might have on Chinese purchasers.

A significant number of candidates answered this question well. They were able to give definitions of both currency appreciation and exchange rates. Stronger candidates were able to give their definitions of exchange rates and appreciation in terms of **value** as well as **price**. However, a significant number of candidates expressed exchange rates in terms of **cost**. As the cost is in the commission on a currency transaction, not in the rate or value of the currency, this answer was not rewarded with a mark.

A careful review of the answers given, compared to the stem and question confirmed that a significant number of the responses given were just a rehash. There were lots of assertions and generic answers. Candidates need to apply the 'so what', 'how' and 'why' processes when answering this type of question in particular.

Some candidates responded to this question in terms of Chinese businesses impacting on £ sterling or the UK economy, which does not address the question asked. The candidates should answer the question in the context of how the appreciation in £ sterling may impact on Chinese purchasers.

A number of candidates referred to the term Chinese Yen rather than Yuan. Since the currency was not identified in either the question or the case study, this was accepted provided the response given supported a correct explanation.

ABP is encouraging Chinese businesses to purchase properties in the Royal Albert Dock project. (Evidence B)

(b) Explain one impact that an appreciation of the pound sterling (£) might have on Chinese purchasers.

(6)

Exchange rates is the value of one currency in terms of another.

-) ~~Increase in~~ An appreciation of the pound will ~~increase~~ increase the cost for Chinese producers.

-) ~~Increase in~~ Appreciation in pound means that the Chinese purchasers will now have to pay ~~more~~ <sup>more</sup> Yen for the same pound for eg: before they paid 1 Yen for £1, now due to appreciation now they will have to pay 3 Yen for £1 therefore increasing their costs. This may discourage them to purchase furthermore from the UK.





## ResultsPlus

### Examiner Comments

This response is an example of a candidate giving a very good partial answer. However, they have not done enough to give a full and complete answer which means they lost some of the marks available.

The definition of exchange rates is correct, but there was no definition of what is meant by the appreciation of currency so only one K/U mark could be given. The application mark was given for showing that an appreciation in £ sterling will increase the costs to Chinese purchasers. The analysis mark was given for using examples to illustrate the **impact** of appreciation of the £ sterling on yen (Yuan) for Chinese purchasers, who **may be discouraged to purchase from the UK** (1).

Everything the candidate wrote was relevant and rewarded with marks but there was not quite enough content to be able to give full marks.



## ResultsPlus

### Examiner Tip

Candidates should ensure they have answered the question fully to give them the best possible chance of gaining marks.

## Question 9 (a)

Q9 (a) The question asks for ABP's profit for the year margin. As it asks for a margin the answer requires the (%) symbol – otherwise it is a whole number/monetary amount and not a percentage/margin. Final mark is not given if there is no (%) symbol.

On the whole, this question was answered accurately by a majority of candidates. There were a few candidates who calculated profit as Total Revenues-Profit for the Year. There were also a few blank scripts for this question.

A few candidates rounded up to 33%. This is acceptable in the context and values of this question.

When writing out the formula, some candidates used the term 'Revenues', rather than 'Total Revenues'. Since there is no other revenue heading in the data this was acceptable.

Similarly some candidates are using the term 'Sales' instead of Revenues. Sales and Revenues are often used to mean the same in business and this is also acceptable. The only exception to this would be if the candidate had used the 'Cost of Sales' figure in their formula as this would demonstrate lack of knowledge.

- 9 The following is an extract from ABP's Statement of Income for Year Ending 30th April 2013.

Extracts	CNY million
Total Revenues	50 017
Cost of Sales	(25 225)
Gross Profit	24 792
Expenses	(8 372)
Profit for the year	16 420

- (a) Using the above information, calculate ABP's profit for the year margin.

(4)

Net/operating profit is:  $\frac{\text{Gross profit} - \text{expenses/overheads}}$

Profit for the year margin =  $\frac{\text{Profit for the year} \times 100}{\text{total revenue}}$

ABP's profit for the year margin =  $\frac{16\,420}{50\,017} \times 100$

$\approx 32.829$

= 32.829



## ResultsPlus Examiner Comments

In this example the candidate got the formula correct and had all of the figures in the correct places. However, the question asks for the profit for the year **margin**, which means it should be expressed as a percentage. The candidate has expressed this a monetary value so loses the final mark. This answer scored 3 out of 4 marks.

### Question 9 (b)

Q9(b) asked why the use of retained profits might be a suitable source of finance for the Royal Albert dock project.

A significant number of candidates answered this question very well. Particularly in application and evaluation that made reference to the fact that the retained profits may not be enough for a project the size of the Royal Albert Dock. Some candidates went on to develop their answer to consider whether the development would be constrained or possibly fail for lack of funds. Stronger candidates were able to argue whether using 30% of retained profits would prevent high gearing ratios. This level of analysis and evaluation is excellent but candidates should always ensure that it is applied in context.

A number of candidates clearly did not understand that the definition of retained profits should have some reference to the fact that these are profits held in the business for further investment, or are kept in the business after shareholders have been paid. Instead there were a significant number of generic profit definitions.

This is the first of the questions with levels of response answers. This means that the candidates responses must be fully applied in order to achieve marks at the higher levels of analysis and/or evaluation.

This is a good example to illustrate the 'Cadbury' principle, explained in the introduction to this report.

(b) Assess why the use of retained profits might be a suitable source of finance for the Royal Albert Dock project.

(8)

Retained profits are the profits after tax has been deducted but has not been given to the owners. It is a form of internal source of finance. It is also considered generally inexpensive since there are no interest charges to be paid. The money comes from within the business.

Retained profits can only be enjoyed by large, established firms such as PLCs since they need a lot of profit revenue. If the Royal Albert Dock project generates a satisfactory amount of revenue as it begins, retained profits are highly enjoyable. However, it needs to <sup>be</sup> trading successfully for a period of time in order to gather enough revenue. Retained profits are generally used for reinvesting in the business so there is no fear of borrowing money and not being able to pay it back since the money is from within the business. However, shareholders dislike using retained profits as a source of finance for a business because it means their returns or dividends reduce. Therefore they'd try to look for alternative methods of finance.



### ResultsPlus Examiner Comments

In this example the candidate offered a good definition of retained profit showing K/U.

The application of the Royal Albert Dock project is weak and not fully embedded in the answer. This is illustrated by the use of the 'Cadbury' principle. If the words 'Royal Albert Dock' were substituted by the word 'Cadbury's' the context and meaning remains exactly the same. i.e. it can be applied to any business so it cannot be application in the context of this question.

The candidate's response that '...shareholders dislike using retained profits because it means their dividend is reduced...' is actually an evaluation. However, because there is no real application, the marks have to be limited to the top of the previous level. In this case the candidate gained 6 marks which is the top of Level 3. Had there been true application, the candidate would have been able to access higher level marks.



### ResultsPlus Examiner Tip

Candidates really need to understand and demonstrate what is meant by application as it can affect their marks either positively or negatively.

## Question 10

In Q10 candidates were asked to assess the impact of two stakeholder of ABP's Royal Albert Dock project.

Candidates identified a wide range of stakeholders such as the Mr Xu, Boris Johnson, the architects, suppliers, employees, local communities, local businesses, the government and the UK economy. Provided the stakeholders given are valid and the answers are developed in context, these answers were rewarded.

A significant number of candidates assessed this in terms of the impact of the stakeholders on ABP. The question asks for the impact of the Royal Albert Dock development on the stakeholders. As a result, these candidates could only access the knowledge and understanding marks for identifying the stakeholders and possibly some application marks where relevant.

This level response question asks for the impact of ABP on **two** stakeholders. The two K/U marks are for identifying each stakeholder. The marks are then applied at each level in terms of each stakeholder. Which means that for each stakeholder identified, the application, analysis and evaluation needs to be present in the response to access all of the marks.

**10** Assess the impact on **two** stakeholders of ABP's Royal Albert Dock project.

Stakeholders are people or groups of people which are interested on the business' activity.

The ~~local~~ government will be pleased for the project because it will attract new people so more money will be spent resulting in higher amounts of tax being ~~received~~ collected by the government. This is good for them because they will be able to offer better and more services to the people.

It will generate £6 bn. for the UK economy. However conflicts may occur because it may pollute or decrease the natural beauty of the area. unemployment will also decrease.

Local citizens will be happy about this project because ~~they will be able~~ large amounts of jobs will be offered so they may find a job. This increases their probability of finding a job so they will agree with this project. However, ~~local businesses in London with~~ London citizens which have a local business will disagree with this project because Chinese and Asian firms are able to offer a much lower price for the same goods compared to local firms. This means that citizens with shops will experience a decrease in customers and a decrease in revenue because people will prefer to go to the Asian shops.



### ResultsPlus

#### Examiner Comments

In this example there are two stakeholders discussed.

The first stakeholder (Government) shows application in the statement about gaining taxes and £6bn into the local economy. The analysis level is demonstrated in the consequence of lower unemployment. Since there were no evaluative statements made the level 4 marks could not be given. The response for this stakeholder achieved three marks.

The second stakeholder (local citizens) went straight to evaluation. By stating some [local citizens] will be happy about the project – more jobs; some local businesses will not be happy about competition from Asian and Chinese businesses. Some context in this responses moves it into the lower part of level 4 for 4 marks.



### ResultsPlus

#### Examiner Tip

When asked to assess or evaluate **two** elements, candidates should ensure they structure their answer to fully cover both of the elements being questioned.



## Question 11

Q11 asks about the use of cash flow to manage finances in a large five phase project like the Royal Albert Dock.

This question is one where context needed to be carefully considered. A significant number of candidates were simply inserting references to the stem or question for application then discussing generic points. Use of the 'Cadbury Rule' and the 'so what, 'how' and 'why' techniques would greatly help candidates when answering this type of question.

Stronger candidates gave clear definitions of cash flow forecasting. Some good analyses of its use in large complex projects such as the Royal Albert Dock (although many candidates missed out on application marks). Evaluation included how it can only be used as a projected plan, unexpected events could render it inaccurate and not to rely on this too heavily.

There were a few particularly good evaluation answers considering factors such as the impact if suppliers are paid late and what the consequences of that may be.

A number of scripts were left blank for this question, although it cannot be known whether this was due to the level of difficulty of the question or if the candidates ran out of time on the last question.

11 The Royal Albert Dock project will be built in five phases, each costing £200m.

Evaluate the extent to which a cash flow forecast can help to manage the finances of the Royal Albert Dock project.

Cash flow is the inflow and outflow of cash ~~from~~ within a business. Forecasts involve making projections about the future <sup>availability</sup> cash ~~of~~ of ABP's Dock project. A suitable cash flow forecast will enable the project to ~~be~~ <sup>have</sup> higher chances of success as Mr Xu and his team will be able to identify any ~~the~~ cash shortages in each five phases eg from insufficient funding eg less retained profit than expected due to <sup>higher</sup> corporation tax or increased price of raw materials for development. Therefore, it will enable Mr Xu to arrange finance cover for the shortages effectively, by choosing appropriate finance eg loans and not having to resort to last minute overdrafts which are flexible but have a high interest rates. \* However, cash flow <sup>forecasts</sup> are predictions about the future which are not certain so it shouldn't be treated as

a factual document and decisions should be made when considering other variables and factors.

~~However, cash flow is not~~ For example, cash flow may be altered if raw materials have a greater price or if ~~creditors do not~~ <sup>creditors do not</sup> ~~pay in time~~ <sup>pay in time</sup>. As a result,

a cash flow forecast should only be given appropriate importance by Mr Xu and his team as well as being flexible in order to adapt to unexpected changes.

However, they are useful for applying to bank loans or for European lending institutions in order to enhance development as it allows them to assess

~~the~~ security of investment as well as ABP's ability to make ~~an~~ repayments in the future.

Overall, given Mr Xu's high risk investment ~~of £200m~~ (5 phases of £200m) and the fact the project relies on external finance sources of share ~~issues~~, banks etc (only 30% on retained profit) Mr Xu should have a detailed forecast with

accurate data in order to take successful decisions and avoid ~~failure~~ <sup>failure</sup> of the project.

\* Alternatively, Mr Xu could improve cash flow by factoring, leasing instead of buying and postponing purchases.





## ResultsPlus

### Examiner Comments

The discussions about the project and the actions of Mr Xu demonstrated some application. This means that when the candidate made the evaluative statement 'Cash Flow Forecasts are predictions about the future and should not be treated as factual documents; decisions should be made taking other variables into account', the response was in context and could be marked at that level.

However, although the evaluation was in context, it was only one-sided. This limited the marks that could be given to 10 as explained in the mark scheme.



## ResultsPlus

### Examiner Tip

When developing an evaluation, candidates should try and put forward two sides of each argument to show a balanced response.



## Paper Summary

Overall, the standard of candidate responses does seem to be improving but please note, the standard of handwriting for some candidates made it extremely difficult to read some of the scripts in this series. Whilst Examiners do take care and extra time when reviewing these types of scripts, to ensure that all possible marks are identified and given so that candidates are not disadvantaged, sometimes the writing is just impossible to read. This could mean that candidates cannot access all available marks.



## Grade Boundaries

Grade boundaries for this, and all other papers, can be found on the website on this link:

<http://www.edexcel.com/iwantto/Pages/grade-boundaries.aspx>

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