

# Examiners' Report June 2016

## IAL Business Studies WBS03 01

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## Introduction

This paper followed the style, format and structure established in the published sample assessment material and previous live papers, with the same Assessment Objective (AO) and Mark Band (MB) weightings.

Examiner reports are a valuable resource for helping prepare candidates for external assessment, as they contain lots of general advice that is still relevant and likely to be useful for staff and students in preparation for future papers.

This report should be read together with the examination paper and the Mark Scheme for this paper. My own observations, supported by reports from all examiners who worked on this paper, will sometimes repeat problems or advice that have been raised in reports on other papers. However, any repetition is because these issues continue to reappear in papers and have not been resolved or even show signs of improvement.

By June 2016 some candidates will have completed the full, two-year course of study, starting in September 2014; others will have started their work on this unit in September 2015.

For support, candidates may have used sample assessment material, plus the past papers, mark scheme, and reports from previous series.

As outlined in the Specification: *'These International Advanced Level qualifications in Business Studies require students to:*

- *investigate different types of businesses that develop and sell products and/or services in a local, national or international marketplace. At IA2 level, students will study the ways in which companies make decisions, and grow and operate in the global market place*
- *be able to analyse numerical information and understand how it assists the decision-making process of a business*
- *understand how a business is managed, how its performance is analysed and how it could trade internationally.'*

Specifically: *'this unit (Unit 3) develops the content of Unit 2, which is designated at IA2 standard.'*

This sets the standard required for this unit, but it was evident from some of the answers and papers, that some candidates were not fully prepared, showing gaps in knowledge of specific business terms, a tendency for generalisation, using a rehearsed formulaic approach to answer questions, plus a lack of application in some of the responses, and little depth of assessment or evaluation.

Together, all of these observations suggest that some candidates were not prepared sufficiently for this external assessment.

The situation could be reversed in future examination series, to the benefit of candidates, if sufficient time is given to covering the content of the Specification, and applying the learning to 'real life' case study examples from the business world, rather than being taught how to write answers to a set formula.

On a more a general point, teachers need to remember that is a Business Studies paper – it is not within the Economics specification, and although it may help some candidates to be familiar with the principles of economics, it would serve them better to be more aware of the world of business and how businesses work in practice.

The theme of the June 2016 paper was based on LEGO, one of the largest manufacturers of toys in the world, largest in construction toys, based in Denmark but manufacturing and trading internationally.



Although focussed on one particular sector, evidence was provided to candidates who outlined the business, its recent background plus its aims and objectives; as such, this case study does not appear to have caused any problems for candidates.

All questions should have been accessible to candidates of all grades, and, in practice, most candidates attempted all questions.

## Question 1 (a)

Despite the apparent simplicity of questions 1(a) and 1(b), some candidates gave weak answers which were no more than vague generalisations, rather than the more precise answers which are expected at this level.

In question 1(a), simplistic or imprecise answers from candidates were only given 1 mark.

To gain the second mark, the answer needed to be precise and accurate - candidates giving the right formula using the correct units and labelling were given 2 marks as it displays both knowledge and understanding.

Judging by some of the answers, it is evident that not all centres are using the IAT terminology as reproduced in the glossary in the specification.

1 (a) What is meant by the term profit for the year margin? (Evidence A, line 7)

(2)

Profit for the year margin is a measure of profitability and shows the net profit as a percentage of sales. It is calculated using the formula  $\frac{\text{Net profit}}{\text{Sales}} \times 100$ . Evidence A shows the profit for the year margin of Lego ~~is~~ was 24.1% in 2013.



**ResultsPlus**  
Examiner Comments

Make sure that candidates are familiar with IAT terminology as reproduced in the glossary in the specification.

## Question 1 (b)

The term product life cycle seemed to be known by most candidates, but to get the second mark the answer needed to name at least two of the stages in a product life cycle.

Correctly labelled diagrammatic answers were credited with 2 marks.

Mirror answers, e.g. 'the product life cycle is the life cycle of a product', were given by some candidates, but not given a mark.

(b) What is meant by the term product life cycle? (Evidence B, line 4)

(2)  
This is the different stages which a product goes through ~~in~~ from its initial introduction until its decline. In this case Lego uses this to analyse the current stage of ~~the~~ ~~pages~~ the products made by lego. eg:-



**ResultsPlus**  
Examiner Comments

This answer gained two marks as the candidate defined product life cycle clearly.

## Question 2

The question asked candidates to explain two ways by which the LEGO Group promotes corporate social responsibility (CSR).

The question did not ask for a definition of CSR, but this is how many candidates presented their answer - often extending the definition to the full extent of the page, leaving no space for answering the actual question asked, producing no marks.

To generate their marks candidates needed to look at the given evidence, then to use their knowledge and understanding of the topic to identify two examples of CSR, from the many contained within the evidence, for 2 marks.

Having identified two examples, candidates could gain application marks for

contextualising their chosen examples, and if they went on to analyse their examples, noting the reasons, causes or consequences of their chosen examples of CSR they would be given a further 2 marks.

In total there were six marks available in this question for two examples explained, 2 x 3 marks.

2 Explain **two** ways by which the *LEGO Group* promotes corporate social responsibility.

~~corporate~~ Corporate Social responsibility occurs when firms take account of possible obligations to society, over and above their legal requirements. According to the evidence provided we are aware that LEGO is a socially responsible organisation. It is evident that in evidence B, LEGO invests in reaching energy efficiency and recycling waste material thereby making sure that they do not dump waste materials in areas which affect the environment such as rivers, instead they use their funds to invest in socially worthwhile projects such as plastic recycling machines thereby promoting that they are socially responsible.

Further, LEGO also has a full scale commitment to use renewable energy such as solar energy instead of coal powered energy in their factories as by making toys with coal powered energy sends out carbon emissions.

into the environment which contributes towards global

warming. - thereby using renewable energy shows consumers  
and pressure groups that LEGO is a socially responsible firm.

(Total for Question 2 = 6 marks)



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Examiner Comments

In this clip the candidate identifies three examples of CSR, and shows application and analysis for two of these examples – recycling waste and the use of renewable energy.



### Question 3

Like question 2, many answers seemed to be written to a format, possibly a result of rote learning as an exam preparation technique, whereby the answer always started with a definition of what the candidate thought was the main topic of the question.

As a result of selecting 'stakeholders' as the apparent topic of this question, candidates who did not read the question thoroughly missed marks.

Candidates were directed to Evidence C and told that there were two types of directors on the LEGO Group board, and that this had the potential to cause conflict between the two types of director.

If the candidate held this in mind, it was clear from the evidence that the two types of director were family members and professional managers, and it was the potential conflict between these two that needed to be analysed.

Candidates who did not read the question or study the evidence leapt to the conclusion that the question was either about stakeholders or about the ownership of the business, split between KIRKBI A/S and the LEGO Foundation – neither of which was correct.

However, there were sufficient numbers of candidates who did take the correct approach with this question to allay any suggestion that the question was misleading in any way.

There are two types of director on the *LEGO Group* board. (Evidence C)

3 Analyse the potential stakeholder conflict that could result from this situation.

Stakeholders, ~~are~~ individuals w or group of individuals  
with a keen interest in the operation of the business

According to evidence C) there are 2 types of directors  
the owners and professional management from outside  
the family. the owner objective would to maximise  
profits, so that they would be able to gain through  
higher return on their investments as a result they  
would be able to ~~make~~ improve their standard of  
living

on the other hand <sup>from the</sup> the management team ~~direct~~ director  
would be to maximise sales so that they would be able  
to gain through bonuses

On the other hand from the management team directors  
would aim to gain a higher salary and other benefits

Such as company car, which would raise the cost of  
business and eventually reduce profits - as a result,  
potential conflict would arise

Furthermore, directors would usually gain benefits such  
as salary increment or bonuses for achieving specific  
targets for example according to evidence of 400% sales.  
This would have been due to a cut in prices which  
would also lead to lower profits - another conflict  
would arise due to this

(Total for Question 3 = 8 marks)



**ResultsPlus**  
Examiner Comments

Advice for answering all questions in this paper is to read them, and any supporting scenario or evidence, thoroughly before starting to write an answer.



**ResultsPlus**  
Examiner Tip

Read the answer back and confirm that it does, in fact, answer the question asked.

## Question 4

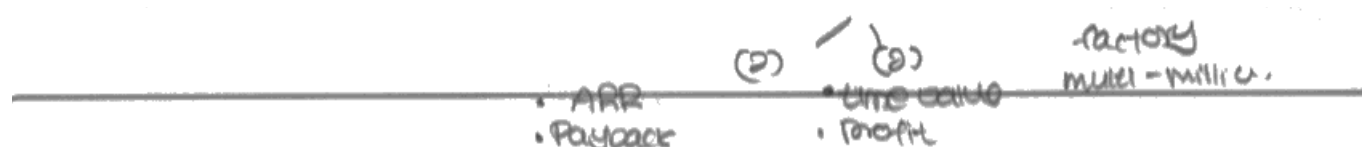
For this question, candidates were asked to assess the usefulness of investment appraisal techniques when the LEGO Group is making its major investment decisions.

To answer successfully, candidates were required to show knowledge and understanding of what is meant by investment appraisal techniques.

They then needed to apply this knowledge to the given evidence and identify examples of LEGO Group investment, where it might need to appraise such investments.

From this point, candidates needed to analyse how useful particular investment techniques would be in these situations, and for the highest, Level 4, marks to evaluate the usefulness of these techniques in LEGO's situation, possibly suggesting alternative methods of appraisal which might be more useful.

The strongest responses managed to achieve this, but many weaker responses were stuck just describing, often in great detail, a list of financial appraisal techniques learned from a book, without applying these to the LEGO situation or providing any context for the answer.



- 4 Assess the usefulness of investment appraisal techniques when the *LEGO Group* is making its major investment decisions.

(10)

Investment appraisal techniques consist of the payback period, Average rate of return and the net present value. These techniques help businesses identify if they should go ahead with an investment or not.

One usefulness of investment appraisal techniques such as the payback period is that it would enable LEGO to calculate the number of years it would take to recover its initial investment. For example, the extract mentions that LEGO is expanding its factories to Mexico. Thus the payback period may be significant in analysing this decision especially as the toy market is ever evolving and changing.

However, the payback period technique, does not take into consideration the profitability of the project after

the payback period. The manufacturing plant in Mexico may have a faster payback period but may have negative cash-flows after this period. On the other hand, the manufacturing plant in ~~the~~ <sup>China</sup> may have a longer payback period but may continue to generate positive cash-flows even after. Thus the payback period encourages short-termism and does not take account of profitability.

Moreover, Lego could also use the average rate of return technique to quantify the rate of return of the project each year. The extract mentions that these global investments are multi-million Euro investments. Thus ARR could help Lego decide if it should save this large amount in the bank or go ahead with the project. If the ARR is less than the prevailing interest rates, Lego may choose to save it in the ~~bank~~ <sup>bank</sup> or may choose to. (Total for Question 4 = 10 marks).

go ahead with the project if the ARR is greater than the opportunity cost which is the interest rate.

However, the ARR does not take into consideration the time value of money and thus the accuracy of the rate of return maybe low thus causing problems associated with decision making.

Concluding, Lego should not only focus on investment appraisal techniques to make investment decisions but should also focus on qualitative factors like the impact on the environment, local community and workers before making investment decisions.



## ResultsPlus

**Examiner Comments**

No matter how well written, generic answers could only be given marks limited to the level below that which they would have achieved had the answers been in context - answers need to be in context to be given marks in the higher level.

## Question 5

To successfully assess the extent to which the LEGO Group could be classified as having a 'power culture' as defined by Charles Handy, candidates were required to not only be familiar with the model for the classification of corporate cultures developed by Charles Handy, but also to be able to apply this model to the LEGO business as described in the given evidence.

Unfortunately it was apparent, based on the quality of some answers, that some candidates had never learned about Charles Handy and his concepts – some answers being blatant guesses, some an extended definition of the word 'power', some focussed on the economic power of LEGO.

The only advice here is to make sure that the entire specification is covered during teaching and preparation.

Some candidates just seized on the idea that the question was concerned with corporate culture in general.

Conversely, a good many did know about Charles Handy and gave strong answers, often posing well-argued assertions that LEGO might be better described as having a task culture or a people culture.

Handwritten notes above the question:   
- family run (6)  
- directors 9  
- motivation  
- encourage creativity (8)

5 Assess the extent to which the *LEGO Group* could be classified as having a 'power culture' as defined by Charles Handy. (12)

culture is the set of attitudes, beliefs and ethics shared by employees within a business which influences the way decisions are made. Power culture is when the power is held at the top levels in the business.

reason  
One way *LEGO* group can be classified as having a power culture is because the extract mentions that the company has been privately ~~seen~~ <sup>owned</sup> by Kirk Kristiansen family. Thus it could be said that family ~~seen~~ <sup>owned</sup> businesses usually have power culture as employees may have to take orders from these family members due to a centralised approach. The same culture could be seen in *Ted* in which power radiates outwards.

to the rest of the employees from the center. The benefit with this is that Lego would be able to make quick decisions in dynamic situations.

Another reason Lego group has a power culture is because in the extract it mentions that the owners are close to the day-to-day running of the business. This indicates that the owners of Lego, make all the strategic and tactical decisions associated with the running of the business illustrating that power is kept at the top levels of management hence ~~illustrating~~ <sup>portraying</sup> a power culture.

However, pursuing a power culture may bring about large amounts of demotivation within the business as lower level employees may not be able to voice their opinions. Hence this would reduce motivation, productivity and thus increase costs.

Moreover, since Lego functions in a dynamic business environment in which the taste of children continuously change, it maybe more suitable for the business to pursue task culture which involves team work resulting in a large number of innovative ideas which could give Lego distinctive capabilities over its rivals.

Furthermore, it could also be (Total for Question 5 = 12 marks)

said that Lego has ~~set~~ role culture within its business. The extract mentions that over the last 10 years, Lego has elected a chairman

from ~~power~~ among the independent directors which may symbolise a hierarchical ~~to~~ structure within the business, especially since the is corporate governance involved indicating that ~~power is~~ a role culture.

concluding, different departments in the Lego business may have different cultures for example the research and development department may have task culture, the financial department may have role culture and so on. But it could be said that the dominant culture is power culture due to the reason that it is family owned.



### ResultsPlus

#### Examiner Comments

Despite early weakness in this answer, there is good application and analysis, and it develops into a strong conclusion, which takes the answer to the top of Level 4, gaining full marks.



## Question 6

This is an essay length question, marked on levels. Candidates were asked to assess the corporate strategy for company growth used by the LEGO Group. This required them to identify, from the given evidence, a strategy that LEGO has pursued that has resulted in company growth, and then to assess the extent of company growth that has resulted from the strategy that they identified.

Unfortunately, many of the weaker responses were on the nature of company growth, mainly generic descriptions of different strategies which could be employed, with little or no reference to LEGO.

Others focussed on the words 'corporate strategy,' defining the term in many different ways, not answering the question.

Many candidates just copied out evidence, the more original candidates rephrasing, but essentially repeating given information; this approach did not produce any marks.

Also, some candidates tried the trick of concluding their answer with a phrase starting 'However...' and making a few comments that countered their positive descriptions of growth or strategy.

Such answers appear to be trying to put the answer into Level 4/evaluation – but unless the evaluation, or analysis, was in context the answer was capped at a lower level.

6 Assess the corporate strategy for company growth used by the LEGO Group.

(20)

Corporate strategies are the long term plans implemented by the business to achieve a corporate objective. According to Evidence E, it has been stated that most of LEGO's ~~workforce~~ employees have been replaced by Flextronics employees in Mexico and Eastern Europe due to cheap labour. This means that LEGO is carrying out a cost ~~different~~ leadership strategy. This means that LEGO is producing products for cheaper prices. ~~so~~ So when LEGO produces products for cheaper prices, LEGO will be able to increase its profits due to the cost being reduced and when profit's increases, the brand image will also increase which as a result can attract shareholders. When there are more ~~share~~ shareholders investing in LEGO, LEGO will be able to increase its capital and will be able to expand the business. For e.g. - it is stated that due to

the cost reduction plan ~~business~~ <sup>it caused</sup> LEGO <sup>to</sup> ~~go~~ earned a profit of DKK 702m before tax in 2005 and ~~was~~ <sup>had</sup> a loss before implementing this strategy. Another strategy that ~~was~~ LEGO had used is outsourcing. This is when a business ~~is~~ contracts out to another business in another ~~to~~ ~~is~~ country to carry out production ~~is~~ such as LEGO contracting out 80% of its production to Flextronics. When a company outsources the benefit is that LEGO will be able to reduce its cost on production. fore.g- After LEGO signed a contract with Flextronics ~~is~~, LEGO had to cut 1200 jobs ~~is~~ because the remaining production is given to Flextronics. This as a result can cause LEGO to reduce its cost on wages which means the profits will increase. ~~is~~ This will allow ~~to~~ LEGO to use that profit for <sup>expanding</sup> ~~growing~~ the business further, as LEGO is outsourced to a company in Singapore, LEGO will be able provide its goods <sup>to</sup> ~~in~~ Singapore as well which thereby cause market share to increase.

However, According to Evidence F, the strategy of outsourcing to Flextronics had failed. For e.g- Due to LEGO being confident ~~was~~ about outsourcing to Flextronics <sup>LEGO</sup> ~~they~~ had close down major parts of its existing production capacity in Europe. This as a result can cause the productivity of LEGO to decrease and in addition cause the growth rate of ~~the~~ LEGO to drop which thereby can cause LEGO to lose its sales ~~and~~ ~~market~~ and market share. Another drawback of its

strategy is that when LEGO employ~~es~~<sup>s</sup> a cheap labour force, the quality of the products LEGO produces will decrease and this as a result can cause the brand image to decrease and cause the sales and profits for LEGO to also decrease.



### ResultsPlus

Examiner Comments

Candidates need to know that simply rewriting the evidence provided is not answering the question and that generic answers which just write about the concept of corporate strategy, but do not apply the answer to the evidence related to LEGO, will only produce low level marks.

However, in this example, whilst there is some rewriting there is also some evaluation which just takes the mark into Level 4.

## Question 7

This is an essay length question, marked on levels.

This is another question where weaker responses listed knowledge about contingency planning as a business practice, but failed to apply the answer to the usefulness of contingency planning to the LEGO Group when making the changes to their business, as outlined in the given evidence.

As a result of exam practice, many candidates just produced generic, low level answers, some with a piece of simplistic evaluation at the conclusion of their answer, attempting to boost their mark beyond the mark appropriate for the overall quality of their answer.

At this level, candidates should be reading the question and applying what they know about contingency planning to the major changes in production and business location that LEGO has pursued.

To achieve marks in the higher levels the candidate has to answer the question, rather than just expanding what is meant by 'contingency planning' or just giving graphic examples of disasters to avoid.

Higher level answers need to have a good deal of evaluation, presenting the problems that could befall the business through the major changes in production, using the available evidence and analysing it, then coming to some conclusion or evaluation.

However, it should be noted that even well written answers, in terms of communication and fluency, which just expand on contingency planning as a process, with little or no reference to the LEGO situation, were limited to Level 2 if there is analysis but no context, and Level 3 if there is evaluation but no context.

While planning changes to production, the *Lego Group* will have made contingency plans.

7 Evaluate the usefulness of contingency planning to the *LEGO Group* when making these changes.

(20)

A contingency plan is when businesses plan for any unforeseen events that may take place.

One benefit of having a contingency plan is that it would help lego to reduce costs and get back on track quickly. The extract mentions that lego's venture with flextronics had not worked. Thus lego may have had a contingency plan in place in which it may not have had its

• ramp ad (3)  
• stakeholder  
• motivated en  
• constant  
• cost  
• All even  
• Quality

former production plants in Denmark. This may be the reason that even after 2008 after Lego returned its revenues and operating profits continued to rise, thus enabling Lego to recover quickly and continue to make profits.

Moreover, a contingency plan may also guarantee safety for all stakeholders and thus improve Lego's public reputation. For example, during the changes Lego may have had contingency plans ready such as produce recalls or crisis funds in case electronics did not produce quality products or just in case Lego's profits continued to decline.

Thus stakeholders such as consumers and shareholders would feel safe as ~~lego has~~ Lego has their best interest in mind. Thus this would significantly improve brand image and public reputation thus leading to improved profits.

Furthermore, contingency plans may also motivate the workforce. For example, the extract mentions that Lego continuously reduced its workforce from 8,300 to 2,000. This reduction in workforce may have caused top managers to leave the business in fear of being laid off. Thus, Lego may have had contingency plans in place such as who would take over in case ~~of~~ an important manager leaves. Thus employees would continue to have direction as this new manager may replace the

old one. Thus employees would feel safe and motivated as they continue to have guidance.

However, a contingency plan has to be regularly updated. Firms may run the risk of following outdated contingency plans which may have negative implications on the firm's workforce. Thus it is important that Lego continuously updates its contingency plans to ensure that all its stakeholders remain safe.

Moreover, contingency plans may be significantly costly especially as plans such as fire drills or earthquake drills within Lego may have to be practiced. Thus this may be significantly time consuming and costly as a large amount of resources may have to be allocated.

Furthermore, it is not sufficient for just a contingency plan to be in place. The quality of the plan also matters to a great extent. Managers should effectively carry out the contingency plan with all sections falling into place. Thus, the effectiveness of a contingency plan also depends on the quality of it.

Moreover, it is not possible for Lego to cover all eventualities. For

(Total for Question 7 = 20 marks)

example, Lego may not be able to foresee unexpected eventualities like <sup>beach</sup> hotels in Sri Lanka faced during the first Tsunami wave. Thus Lego may

TOTAL FOR SECTION B = 40 MARKS

TOTAL FOR PAPER = 80 MARKS

not be able to plan for all eventualities while planning changes to production.

concluding, a contingency plan is essential for a ~~best~~ lego. This to a certain extent may build confidence for employees and ~~the~~ would allow them to trust the business more which maybe significantly important due to the reason that lego is continuously cutting down on its jobs positions which could lead to demotivation of employees. Thus a contingency plan maybe significantly important to lego in order to keep its existing workforce well motivated ~~the~~ leading to an increase in productivity and thus a ~~peder~~ reduction in costs.

**ResultsPlus****Examiner Comments**

In this example the candidate shows good understanding of the subject, and some application and analysis; evaluation is somewhat generic, but sufficient for a mid Level 4 mark.

## Paper Summary

Based on the work seen from candidates in June 2016 the main issues are summarised as follows:

- Preparedness

Some candidates were not fully prepared, showing gaps in knowledge of specific business terms, a tendency for generalisation, using a rehearsed formulaic approach to answer questions, plus a lack of application in some of the responses, and little depth of assessment or evaluation.

- Rewriting question and copying given evidence

Whilst it would appear that some candidates find it a good way to lead their thoughts into an answer, candidates should be reminded that simply rewriting a question is not usually sufficient to gain marks.

Rewriting the question or information given in the evidence will not produce marks unless it is being used in context, to support a statement being made in the answer.

The question asked needs to be answered.

- Not answering question

Some candidates pick a word or topic from within the question, and then write all they know about that particular word or topic, rather than answering the question asked.

This could be a way of demonstrating knowledge of general business terminology, but candidates need to understand that marks are only given for an answer that addresses the specific question asked.

Candidates need to focus on the question asked, and answer it, rather than just writing about something referred to in the question which they may know about.

Linked to this is a tendency for less successful candidates to throw into their answer general expressions such as '...increase profit...', '...grow market share...', '...sell more...' etc.

Again, candidates should be made aware that such general terms are unlikely to result in marks unless they are related directly to an answer to the question asked.

Just writing '...which means or which will lead...to more sales and more profit...' at the end of an answer will not lead to more marks.

- Overwriting

Quantity does not necessarily equate to quality nor to higher marks.

Some candidates appear to think that if they fill the space in the answer booklet, plus several extra pages, then they will get higher marks: this is rarely the case.

Often the sense of what the candidate is writing gets lost in the words which just fill the pages.

Markers read every word to see if there are points worthy of credit within the text, but this can be difficult if they are hidden within long general descriptions.

The space provided in the answer booklet is planned to match the marks available and consequently the amount of writing that candidates should produce: any more and they are usually wasting time in the exam.

As candidates move from education and into the world of business they will soon learn that a concise analysis or report is much more useful than a long and rambling piece of writing.





## 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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