

# Examiners' Report June 2016

## IAL Economics 3 WEC03 01

## Edexcel and BTEC Qualifications

Edexcel and BTEC qualifications come from Pearson, the UK's largest awarding body. We provide a wide range of qualifications including academic, vocational, occupational and specific programmes for employers. For further information visit our qualifications websites at [www.edexcel.com](http://www.edexcel.com) or [www.btec.co.uk](http://www.btec.co.uk).

Alternatively, you can get in touch with us using the details on our contact us page at [www.edexcel.com/contactus](http://www.edexcel.com/contactus).

## ResultsPlus

### Giving you insight to inform next steps

ResultsPlus is Pearson's free online service giving instant and detailed analysis of your students' exam results.

- See students' scores for every exam question.
- Understand how your students' performance compares with class and national averages.
- Identify potential topics, skills and types of question where students may need to develop their learning further.

For more information on ResultsPlus, or to log in, visit [www.edexcel.com/resultsplus](http://www.edexcel.com/resultsplus). Your exams officer will be able to set up your ResultsPlus account in minutes via Edexcel Online.

### Pearson: helping people progress, everywhere

Pearson aspires to be the world's leading learning company. Our aim is to help everyone progress in their lives through education. We believe in every kind of learning, for all kinds of people, wherever they are in the world. We've been involved in education for over 150 years, and by working across 70 countries, in 100 languages, we have built an international reputation for our commitment to high standards and raising achievement through innovation in education. Find out more about how we can help you and your students at: [www.pearson.com/uk](http://www.pearson.com/uk).

June 2016

Publications Code WEC03\_01\_1606\_ER

All the material in this publication is copyright  
© Pearson Education Ltd 2016

## Introduction

This was the third series for a summer examination of WEC03 Business Behaviour.

The examination tests the candidates' abilities to select and apply appropriate economic concepts, theories and techniques in a variety of contexts. As Unit 3 is a synoptic unit, the examination draws on material from Units 1 and 2.

Candidates choose to attempt two out of four essay titles in Section A. Each essay is marked out of a total of 20 marks using a 5 level of response performance criteria. Question 2 was the most popular question. There was relatively little difference between the numbers selecting Question 1 and Question 3.

Candidates choose one out of two data response questions in Section B. Each question has four parts to it. Part a) is worth 4 marks and parts b) to d) are each worth 12 marks. For parts b) to d) it is vital that candidates make effective use of the information provided in order to access Levels 2 and 3 for knowledge, application and analysis marks. A further 4 marks are available for evaluation.

It is most encouraging to note that the overall standard of answers is continuing to improve. There was a number of high quality answers this year.

Successful candidates were able to:

- Clearly identify what they were being asked to do. For example in Question 4 consider the **impact on business behaviour** of measures to protect **employees**.
- Draw and label appropriate diagrams accurately. For example, diagrams for perfect competition and other market structures for Question 2 and the impact of a fall in demand on Sony's profits for Question 5b).
- Effectively time manage. There was less evidence of candidates having to rush part d) of Section B.
- Select and apply information from the extracts to enhance their answers in Section B.

Less successful candidates often:

- Presented a prepared answer rather than the one which was being asked. For example, in Question 1 discussing the advantages and disadvantages of being a small business rather than focusing on the factors which may constrain the growth of a small business.
- Copied out large sections of the Extracts in Section B under the misapprehension that this would score application marks.
- Drew inaccurate and inappropriate diagrams. For example, not showing the profit maximising output level where  $MC = MR$ ; not showing  $MC$  intersecting with  $AC$  at the lowest point of  $AC$ .

The main implications for future teaching, learning and examination preparation are:

- To ensure that **all** parts of the specification are taught and internally assessed. For example, knowledge of co-operatives was weak in several cases.
- To encourage candidates to make full use of previous examination papers, mark schemes and examiners reports.

## Question 1

The focus of this question was on what factors may or may not constrain business growth.

Candidates who performed well were able to identify why access to finance may be a limiting factor for a small business with developed analysis of the issue. A sound response went on to identify and analyse how other factors may act as constraints, such as owner objectives and/or the nature of the market. Such a response would potentially achieve a mid Level 4 mark of 14/15.

Further evaluation as to why access to finance may not be a major constraint, (e.g. favourable government treatment of the small business), would open up the possibility of achieving a Level 5 mark.

An answer which only considered the issue of lack of finance with sound analysis would have scored high Level 3, since the response would have lacked sufficient breadth.

Weaker answers turned the question into one about the advantages and disadvantages of small businesses, spending a lot of time discussing different types of economies of scale. At best, such an answer would have scored a mid to high range Level 2 mark.

**Put a cross in the box  indicating the question from Section A that you have chosen for your FIRST essay. If you change your mind, put a line through the box  and then indicate your new question with a cross .**

**You must answer TWO essays in this section. Please start your second essay response on page 8.**

+ government policy to boost  
loans

Essay Choice 1:

Question 1

Question 2

Question 3

- other firms

Question 4

- other motives, revenue max.  
- Satisficing

- corporate soc. behaviour  
- desire of the owner

Small businesses remain small for a number of reasons. Notably, they have limited access to finance, meaning that the availability of cheap loans, credits and other financial means that can be used to supplement their growth is restricted. If firms cannot attain loans, they cannot finance investment, which is not only key to acquiring dynamic efficiency but also important in that it allows firms to acquire more sizable market shares or lower production costs. The key to the growth of a firm - economies of scale - is a long-run phenomenon that requires the firm to slash down its average

that requires the firm to slash down its average costs over time, hence attaining a number of benefits along the way. As the firm becomes larger, for instance, it can exploit marketing economies, allowing it to bulk buy raw materials at cheaper prices and thus sell a greater quantity of goods for greater profit. This is invariably difficult to do without access to finance.

Moreover, financial grants would allow the firm to reach out to other markets, but without any means of

employing more employees or distributing goods to other, geographically distant markets, a firm cannot grow. Bear in mind that although small firms are profit maximisers, their supernormal profits - they incur are minute, and hence they are otherwise unable to make long-term investments.

However, there may be many other factors holding the firm back, particularly behavioural factors. For one, the owner - principal - may choose to stay small. This may be for a number of reasons, one being that the owner does not wish to incur high levels of profit and become subjected to larger income tax withdrawals. Considering that marginal tax rates in the UK can rise to preposterous heights, the owner may simply prefer small in order not to have larger sums of his income withdrawn. Another case is oligopolistic market structures. In such markets as the UK supermarket



industry, despite contestability, small firms cannot grow because they lack access to large amounts of capital or even technological information. Moreover, smaller firms may find it hard to compete with large oligopolies on a one to one basis: they are not only not mainstream enough to attract the same bands of consumers and revenues as hypermarkets, but also ~~lack the~~ cannot compete with advertising or promotional

brand deals which large supermarkets regularly offer to gratify their market share and ~~reinforce~~ pinpoint their dominance. Yet small businesses may also fail to grow because they adopt corporate social responsibility. A small producer of silk shirts may pay attention to ~~social~~ environmental factors, employing safer production techniques which raise their average costs. However, over time they may still gain a monopolistically competitive edge and grow to become larger ~~as~~ in their respective niche markets. Finally, lack of finance is not always a credible reason: many firms in the UK are offered subsidies or are promised cheap, easy loans or low interest by government-backed banks. Some stay small in spite of this, possibly because of satisficing. The manager of a firm may be devoting those incomes for himself while keeping the firm at a moderately profiteering level, just enough satisfy the owner.



## ResultsPlus

### Examiner Comments

The candidate immediately addresses the question and provides a reason in relation to the difficulty in obtaining credit. This point is developed and analysed in the first paragraph. Issues such as lack of opportunity to gain economies of scale and problems of accessing other markets are considered. A high Level 3 mark is achieved at this stage.

Other factors are mentioned in the next paragraph with reference to decisions of the owner but the analysis added very little to the quality of the response.

The mark was pushed up to Level 4 14/20 with the valid conclusion at the end of the answer which considers the role of government support.



## ResultsPlus

### Examiner Tip

Make sure you start your answer by directly addressing the question. Remember that where a question has a statement in quotation marks like this one, there is going to be scope for you to agree and to disagree with the statement. This will help you to score analysis and evaluation marks.

Moreover, small businesses face difficulties when borrowing money from banks. Banks have a ~~serious~~ higher standard when the business cannot give them confidence in the return of profit. As small businesses often make less profit, ~~they~~ it is not easy for them to borrow money to invest.

However, there will be other factors affecting the growth of small businesses. For example, the motivation of business growth.



### ResultsPlus

#### Examiner Tip

Be sure to fully develop the point which you are making. For example, a bank may be willing to lend to the small business but it will charge a higher interest rate which adds to the firm's costs and may make it uncompetitive in the market.



### ResultsPlus

#### Examiner Comments

The candidate has started the answer by considering the disadvantages of owning a small business which is not getting to the heart of the question. Then there is some basic analysis relating to the difficulty faced when borrowing money. This paragraph could have been enhanced with reference to charging higher interest on loans and requiring more in the form of security.

The answer then introduces another factor, the motives of the owner, but once again there needed to be more development of this valid point.

The candidate has made an attempt to address the question and has shown some ability to apply economic ideas. The answer lacked both breadth and depth and taking the answer as a whole it was a low Level 3 response and awarded a total of 9 marks.



## Question 2

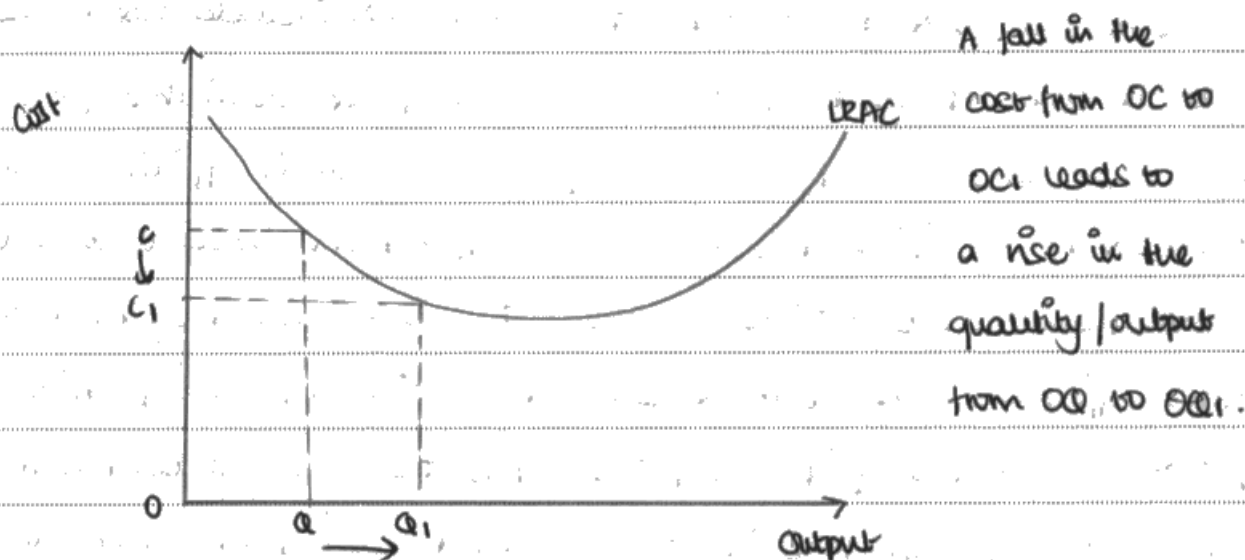
This question was answered well by a lot of candidates. The best answers analysed and evaluated possible benefits of business growth in an *international* context so that the identified advantages were applicable to firms looking to become a TNC.

Those candidates who performed less well neglected to frame their response to fit expansion as a TNC and discussed business growth in general. This meant that the answer was unlikely to score anything more than 8 marks at the top of L2. This illustrates the essential point that candidates must read each question very carefully.

If the ~~the~~ <sup>firm</sup> becomes a TNC, then it will enjoy numerous benefits. The firm i.e. Coca Cola will enjoy from the financial advantages countries in ~~which~~ which they are located in will come up with laws and regulations that ~~protect~~ favour the TNC. Such laws include tax breaks and tax cuts. Hence, they will have more funds available for investing in research and development. Consequently, dynamic efficiency will be realised. In addition, the banks will offer them services that will favour them such as low interest rates. This is because they tend to have sufficient collateral. As a result, they will have more funds available for buying capital equipment for example. This will increase the firm's productive capacity thus it will be able to enjoy from higher sales and revenues.

In addition, since it produces for the global market (the firm; Coca Cola for example) then Coca Cola will experience economies of scale (this is due to large scale production). Economies of scale refers to the fall in the long run average cost of production as it increases expansion towards the optimum. The such economies of scale include risk-bearing economies of scale. Firms such as Coca Cola will benefit from economies of diversification; both product and market diversification. Product diversification means a greater range of products will be produced by the firm. For Coca Cola, they tend to have Sprite, Fanta, Coca Cola, Dasani as some of their products. Hence,

If there is a fall in demand in any one of the products, then Coca Cola will still be able to survive. Market diversification refers to a firm operating in many countries. This is seen by Coca Cola operating in Kenya for example. The fall in the long run average cost of production means that their prices will be lower. As a result, they <sup>firm</sup> will experience increased sales, revenues and higher profits. The following diagram illustrates a ~~fall~~ <sup>movement along</sup> the long run average cost of production:


**ResultsPlus**

Examiner Comments

This is an example of a Level 5 response. There is a clear focus on the benefits of becoming a TNC throughout much of the answer. Advantages are clearly explained and the points are well developed.

However, the firm such as Coca Cola tends to experience diseconomies of scale, especially managerial diseconomies of scale. A lot of time is spent having meetings. Also, different managers may have different ideas. Firms such as Coca Cola experience problems in terms of coordination and control. Since there are many workers involved, conflicts are likely to arise which will cause a lot of disruptions. Sometimes, it may even cause hold-ups in the production process. Also, a lot of time is taken to resolve such conflicts. It is also difficult to pass on business decisions to all the staff. (Diseconomies of scale therefore lead to a rise in the long run average cost of production due to its expand beyond its optimum size.)

In addition, TNCs are greatly known to exploit labour through the use of "sweatshops". If the firm is caught doing this, then it may suffer from negative brand image. This is because there are many pressure groups that are against such practices. Such pressure groups will participate in polls and protests and media campaigns. As a result, consumers may not buy the firm's products hence the firm will experience a fall in their sales thus causing a fall in their revenues.

**ResultsPlus**

Examiner Comments

The candidate makes some sound evaluative points. Namely the dangers of diseconomies of scale which are couched in terms of control and coordination problems and issues of negative brand image due to possible unethical business practices.

**ResultsPlus**

Examiner Tip

Make sure that your evaluation comments are well linked to your analysis and are not simply generalised comments such as 'it may be expensive' or 'it depends on the timescale'.

This is a very sound response which showed a high level of understanding throughout. Relevant points were identified and well analysed all within the framework of becoming an expanding as a TNC.

A TNC is a firm that operates globally and conducts trade in international markets. There are many benefits a firm could have in becoming a TNC, such as;

Firstly, the firm will have access to a larger market, this is because a TNC firm will trade across many markets of different countries, this therefore means that the TNC will be selling products to a larger market with more consumers. The benefit to the TNC is that it will make larger supernormal profits as it is going to sell a larger quantity of output, this will increase its revenues and hence it will make a higher profit. The benefit may also occur if the firm's domestic market is too small i.e. a small island such as Madagascar, where there isn't a large market or high demands for goods. The diagram below illustrates the supernormal profits made:



### ResultsPlus

Examiner Comments

This answer goes immediately to the core of the question by identifying access to a larger market and develops this point by relating it to increased profits. A further relevant point is made in relation to the small size of the domestic market.

This is the very start of the answer but immediately the top of Level 2 is reached. The candidate then brought in the factors of weaker labour laws and access to cheaper raw materials and analysed these points quite well. This took the response to low Level 4 but the evaluation was weak and added nothing to the final mark of 13/20



### ResultsPlus

Examiner Tip

It is good practice to start with a definition but keep it brief and to the point. You can then go straight to the heart of the question.



### Question 3

There was a number of very sound answers to this question. Good quality responses were able to apply their economic theory of market structures effectively. In such cases diagrams were accurately drawn and labelled, with the analysis focusing on issues of contrasting efficiencies in different markets. High Level 4 and Level 5 answers considered, in some depth, the issue as to whether perfectly competitive markets will be the *only* type which is able to achieve efficiency, with a clear emphasis on the issue of dynamic efficiency.

Those candidates who performed less well often drew inaccurate diagrams and were unclear on the concepts of productive and allocative efficiency in particular.

Centres need to advise their students about the importance of knowing the market model diagrams and how types of efficiency can be illustrated with diagrammatic analysis.

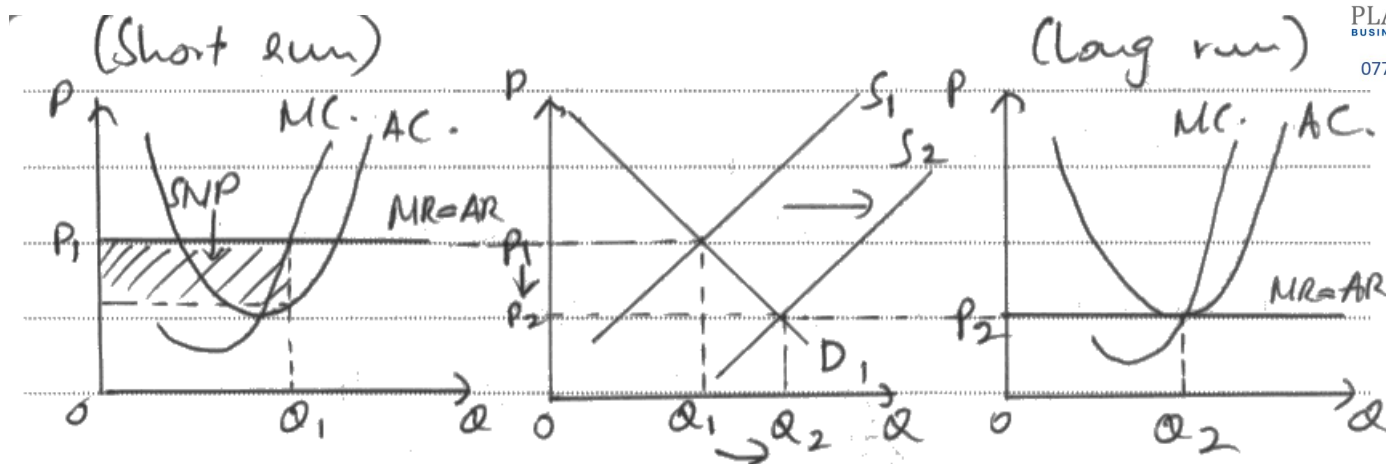
Economic efficiency can be divided into 2 main types. The first one is productive efficiency where the firm aims to produce output at the lowest unit cost. It is the output level where  $MC = AC$ . The other type of economic efficiency is allocative efficiency. This is where the firm allocates its resources in such a way so that the cost of producing the last unit of output equals the benefit gained by consuming that unit of output. In other words, it is where  $MC = AR$ .

Perfect competition is a market structure where there are many firms operating in the market and sell homogenous goods.

The ~~the~~ firm is too small to influence prices and thus firms are "price takers."

A perfectly competitive market also has low barriers to entry and exit.

Perfectly competitive firms will have low levels of x-inefficiency due to the high degree of competition.



As the diagrams show, a firm operating in a perfectly competitive market is allocatively efficient in the short run as well as the long run and it is productively efficient in the long run. In the short run, the firms can earn supernormal profits which can be reinvested back into the business for R&D which promotes dynamic efficiency in the long run.



### ResultsPlus

Examiner Comments

The candidate makes a succinct start to the answer providing accurate definitions of productive and allocative efficiency. The next paragraph defines perfect competition and quite rightly keeps the definition brief as the focus of the answer should be about efficiencies.

The short run and long run diagrams are accurately drawn and curves are accurately labelled. Efficiency points could have been shown on the two diagrams showing price and output of the firm.

Had this same level of performance been maintained throughout the remainder of the response this candidate would have scored a high Level 4 mark.



### ResultsPlus

Examiner Tip

Always make sure your diagrams are clear, accurately drawn and accurately labelled. Only use a diagram where you feel it will add to the quality of your answer.



## **Question 4**

There was a clear division between those candidates who had read the question carefully and those who had not.

Sound responses discussed how a business may respond to measures and actions seeking to protect employees. The impact on a firm's costs and the consequent implications for its pricing and output decisions were central to providing a Level 4 or Level 5 answer. Higher level responses also offered valid analysis and evaluation in terms of the possible impact on future employment decisions, business reputation and business objectives.

Less successful responses simply identified a range of government measures and described the role of pressure groups without developing any links as to how business behaviour may be affected. Such a response would gain some marks but would not attain anything above a Level 2 mark of 8/20.

Centres are advised to provide students with examination practice questions of this type, where the focus is on how businesses might respond to forms of intervention, be it government or otherwise.

### **Question 5 (a)**

Up to 2 knowledge marks were awarded for a definition of 'loss'.

Centres need to remind candidates how marks are awarded for this short question. It is necessary to provide a clear definition of the key term in the question in order to gain the 2 knowledge marks.

Up to 2 application marks were awarded for explaining **one** possible reason why there was an expected loss using information from the extract. A number of responses provided more than one reason but did not explain how this could lead to a loss and were therefore awarded just 1 mark for application.

### **Question 5 (b)**

This question was very well answered by a significant number of candidates. It was encouraging to see diagrams which showed a shift to the left in AR and MR curves and an explanation of what impact this would have on profit (or loss).

By contrast, some candidates clearly struggled to produce an appropriate diagram but many were still able to gain both KAA and evaluation marks for other parts of the response. Some responses incorrectly showed a rise in costs whilst others did not consider the impact on profits.

### **Question 5 (c)**

Successful answers displayed a clear appreciation of the likely differences in business objectives between co-operatives and large private sector companies. These answers showed an understanding of co-operative organisations which was not replicated across other responses.

Less successful answers displayed little or no understanding of co-operative organisations, with many believing that they are government-owned.

Where KAA marks are being awarded for differences, evaluation marks are awarded for recognising that there may be similarities in objectives or that the differences may not be very significant. Alternatively, candidates may start their answer by identifying and analysing the similarities and then consider the possible differences. In such a case the KAA and evaluation marks are reversed.

Centres are advised to alert students to this aspect of the mark scheme for Section B questions of this nature.

This response identifies different business objectives and attempts to explain how these may differ for large private sector firms as compared with co-operatives. The candidate uses the context but to no great effect. There is also an attempt to evaluate.

- (c) Discuss the extent to which the business objectives of a large private sector company, such as Sony, are likely to differ from those of a co-operative organisation.

(12)

Business objectives refer to the reasons for firm's undertaking their principle activities.

Private sector companies are those owned by private individuals and free from government control when making decisions.

Cooperatives are firms that come together to share information and resources for a predetermined amount of time, or permanently. Most cooperatives are permanent. They include firms with similar goals and similar ways of doing business.

Private companies are profit maximisers and therefore operate at the point where marginal cost = marginal revenue ( $MC = MR$ ). Any other point of production yields a lower profit. These profits are paid out as dividends to shareholders.

Private companies may also be profit satisficers such that directors aim to make just enough profit to satisfy shareholders, but not the maximum. Directors aim at maximising their own benefits such as salaries, allowances and fringe benefits.

An example of these is seen by Sony which is expected to make a "US\$ 486 million" loss. It is holding "talks" with "trade unions" in order to minimise labour costs and improve productivity. This minimises losses

which is the same profit maximisation.

Private sector companies are also likely to be sales maximisers. This occurs where  $\text{Total Average Cost (TAC)} = \text{Total Average Revenue (TAR)}$  and implies the highest sales are made without making a loss. Sony is a sales maximiser as it has a "sales target" which was cut by "14%".

Private sector companies may also be revenue maximisers such that they produce where marginal revenue (MR) = 0. This is likely to be Sony's new objective, along with sales maximisation, if they are to recapture market share and convert their loss into a profit.

Cooperatives are likely to have growth as their objective because many of them are still relatively new. Extract 1 suggests this by saying "In Finland, 75% of the population are members of retail cooperatives" and in the EU, they employ "over five million people".

However, the two types of firms may have similar objectives in the long run, such as social responsibility by the TCGA who want to "improve the living conditions for cocoa growers". Private companies, like Sony, may use long run profits earned to use, for example, in charitable donations.

Furthermore, the type of industry in which a firm is located will influence its objectives. Sony is in electronics, where competition is extremely fierce. Its objectives are likely to primarily be

sales maximisation and possibly survival. Cooperative seen as the TCGA may aim for growth initially and then social responsibility, such that they can influence government policy.



## ResultsPlus

**Examiner Comments**

The answer starts with definitions of both types of business but the definition of co-operatives is weak. Low Level 1 at the end of the second paragraph.

There is a recognition that firms may have different objectives - profit maximisation, profit satisficing, sales maximisation and revenue maximisation and the level of understanding is good. The reference to Sony's financial problems meaning that the company may have to sacrifice profit maximisation places the answer in Level 2 KAA.

The point about co-operatives having growth as the main objective is not convincing but there is an understanding that social responsibility will be important. Top Level 2 KAA

Evaluation as regards the similarity of objectives only refers to one issue regarding social responsibility of Sony. This is developed to a limited extent and worth 2 evaluation marks

Total mark 8/12

The answer would have gained more marks if the candidate had a clearer understanding of co-operatives and had then explained how the objectives of the two types of business may converge to some extent.



## ResultsPlus

**Examiner Tip**

Be sure to learn about the different types of business - public and private sector. Understand that the private sector includes co-operatives and not for profit organisations.

## **Question 5 (d)**

Sound responses focused on the possible effects of government support for co-operatives. This provided plenty of scope for candidates to consider, such as the impact on the co-operatives organisations per se, on the market and on the economy. Those answers which utilised relevant information from the extracts with, for example, references to international competitiveness and a reduction in poverty levels scored highly on KAA with 7 - 8 marks often being awarded.

Less successful responses misread the question and provided a description of government measures without considering the possible effects. Such answers were only able to achieve Level 1 KAA marks.

Evaluation marks were awarded to those candidates who discussed the factors which would make forms of government intervention more or less likely to succeed. For example, how sustainable might levels of support be; might not subsidies be protecting inefficiencies?



## **Question 6 (a)**

Centres need to remind candidates how knowledge and application marks are awarded for this short question. It is necessary to provide a clear definition of the key term in the question in order to gain the 2 knowledge marks.

Up to 2 knowledge marks were awarded for a definition of price elasticity of demand.

Application marks were awarded for explaining that PED was likely to be relatively inelastic since a price rise was expected to raise revenue.

A significant majority of candidates were able to gain 3 or 4 marks on this question.

## Question 6 (b)

(b) With reference to Extract 1, discuss whether it is possible for a monopoly to charge its customers lower prices than firms in a competitive market.

(12)

A monopoly can be defined as one single firm dominating the entire market. As a monopoly a firm would always aim to charge a higher price from its customers. According to Extract 1, NHS RC raised its prices in October 2013 from 7.1% to 9.7%. Since they are the only dominant supplier in the market they would naturally charge a higher price from its customers. However, it can be argued that monopolies can charge a price lower than firms in a competitive market. This is because monopolies usually operate large scale production processes and therefore are producing a higher level of output. This would help them to spread their fixed costs over a larger unit of output which would help them to reduce their average costs and achieve economies of scale. Due to this monopolies can pass on this benefit to customers in the form of lower prices. This may not be possible for firms in a competitive market as they would not be able to gain a cost benefit the same as a monopoly. This is because their relative costs may be higher than that of a monopoly and would thereby not be able to achieve or exploit economies of scale.

Moreover, a monopolist would have cheaper access to

var materials compared to firms in a competitive industry  
this is because as they buy in bulk they would be able  
to obtain large discounts from their potential suppliers, this  
is also known as purchasing economies of scale and would  
give a cost benefit to a monopolist which would enable  
them to once again lower the prices charged from  
their customers. This may also be a profitable option  
for a monopolist as they would still be able to  
achieve profits and revenues.



## ResultsPlus

### Examiner Comments

The response starts with a definition of monopoly and then refers to the context.

It is followed by two valid analytical developed points relating to the spreading of fixed costs over a higher output and purchasing economies of scale. The analysis would have been enhanced by being placed in context: references to buying more trains, carriages (for the fixed cost point), and food and drink for the restaurant carriages (bulk buying point). Given the previous reference to THSRC, analysis is in L2 and not L1 but the context is not strong enough to move into L3.

This part of the answer was awarded 5 marks



## ResultsPlus

### Examiner Tip

Wherever you see 'with reference to the extracts' in the question be sure to analyse your answer by using information from the relevant extract(s).

For this question you could use the concept of economies of scale and relate it to larger trains or bulk buying of supplies for the buffet carriages. You could also refer to the Taiwanese Government's competition policy which may result in THSRC having to lower its prices to avoid heavy fines.

This approach will boost your score for the knowledge, application and analysis marks taking you into Level 2 and hopefully into Level 3.

## Question 6 (c)

(c) With reference to Extracts 2 and 3 and your own knowledge, evaluate the benefits to a supplier of selling to a monopsonist.

(12)

A monopsonist is a market structure where there is a single buyer in the market and many sellers. A monopsonist has tremendous power over suppliers and can easily dictate the terms and prices for trade to occur. Suppliers usually have a lot to lose and are often at the bad-end of the bargain.

Monopsonists can use their huge buying power to push down prices and suppliers will have no choice but to comply to their demands.

For example, extract 3 states Morrison's charged 67 of its suppliers for displaying their names on their website without their permission.

It also states that suppliers have seen reduced profit margins as Super-markets try to cut costs by bargaining lower prices. Thus suppliers will face lower profits and some may even be forced to leave the industry, because if they don't cope with the demands of the monopsonist, they will have no sales.

The abundance of suppliers for monopsonists also allows them to exploit suppliers further by setting up ridiculous terms and conditions.

Eg extract 2, states how EPTC only purchases electricity from companies within the Vietnam Electricity group, forcing firms to join this group and thus increasing the costs for such suppliers. Extract 3 also mentions how Tesco asked suppliers to pay for the best shelf positions, which increases the costs for suppliers, further reducing their profit margins.

Thus suppliers not only face lower prices but also have to meet unnecessary demands made by the monopsonist, if they want to maintain sales to the monopsonist.

The monopsonist also shows no loyalty to any supplier, because it can shift from one supplier to another very easily and ~~has~~ can demand its specific requirements. Suppliers are thus not guaranteed a steady demand by the monopsonist and this can deter any future planning they want to do e.g. whether to expand production.

However suppliers can gain huge quantities of demand if they can form a contract with a ~~so~~ monopsonist and will be able to ~~g~~ make huge profits from simply that one sale. By only selling to the monopsonist they save on costs of advertising and marketing and can lower their costs in this way, hence having higher profits.

Additionally, they can grow and create a well known brand, that customers identify with, because they become associated with the monopsonist e.g. the makeup brand Sonia Kashuk is stocked exclusively at Walmart, and this helps create demand for the product, allowing them to grow and enjoy higher profits.

Thus, suppliers can benefit only if laws are set in place protecting them and preventing abuse of power by the monopsonist.



### ResultsPlus

Examiner Comments

This is an excellent response which provides sound analysis in context throughout. Several key points are well developed. Lower profit margins for suppliers as a result of supermarket buying power, imposition of harsh terms and conditions in order to maintain sales and problems concerning future planning because of the threat that the monopsonist will buy from other suppliers.

Evaluation is equally as strong with clear explanations covering long term contracts and possible savings on advertising and marketing costs.

This quality of response achieves 12/12 marks

NOTE: The KAA and evaluation marks are reversed due to the structure of the candidate's answer.

## Question 6 (d)

There were relatively fewer quality responses to this question than any other 12 mark question on Section B.

The more successful candidates recognised that the answer needed to focus on how **monopsonies** may be affected by, and how they may respond to, government measures designed to protect suppliers.

A Level 2 KAA response typically explained that costs for monopsonies would be likely to rise, (e.g. due to minimum prices or fines). A Level 3 response typically developed these points and explained how monopsonists might react by, for example, raising prices or choosing alternative suppliers. Context, either from the extracts or the candidates own knowledge, needed to be applied for Levels 2 and 3. Evaluation marks were awarded for appreciating that the impact of such measures may be slight or insignificant with candidates giving reasons for Level 2 evaluation marks.

Less successful candidates ignored the last seven words of the question and discussed the impact of government policies on *suppliers*. Credit could still be available for evaluation (at Level 1) but the maximum mark for this type of answer was  $3 + 2 = 5$  marks.

This is another example whereby candidates could improve their performance by careful reading of the question.



## Paper Summary

Based on their performance on this paper, candidates are offered the following advice:

- Make sure that you read each question very carefully before starting your answer
- Draw and label your diagrams accurately
- Make sure you include evaluation in all of your answers except for the 4 mark question in Section B
- Your analysis for 12 mark Section B questions needs to be in context so always use relevant information from the extracts to help to develop your analysis and boost your mark
- Do not copy out large sections of the extracts - this is not application

## 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>



Ofqual  
■■■■■■■■■■



Llywodraeth Cynulliad Cymru  
Welsh Assembly Government

Pearson Education Limited. Registered company number 872828  
with its registered office at 80 Strand, London WC2R 0RL.

