



Examiners' Report June 2017

IAL Economics 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 <u>www.edexcel.com</u> or <u>www.btec.co.uk</u>.

Alternatively, you can get in touch with us using the details on our contact us page at <u>www.edexcel.com/contactus</u>.



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<u>www.edexcel.com/resultsplus</u>. 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.

June 2017

Publications Code WEC03_01_1706_ER

All the material in this publication is copyright © Pearson Education Ltd 2017



0777898626

Introduction

This was the fourth series of summer examinations for WEC03 Business Behaviour. A further four papers have been set for previous winter series.

The examination seeks to test 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 may draw 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 3 was the most popular question (Is a perfectly competitive firm always more efficient that a monopoly firm?). Question 4 also proved to be a popular choice (Government measures to promote international competitiveness).

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. Question 6 was the most popular question.

It is most encouraging to note that the overall standard of answers is continuing to improve. There were 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 3 maintain a clear focus on **efficiency** concepts and in Question 4 focus on policies to improve **international** competitiveness.
- Draw and label appropriate diagrams accurately. For example, showing productive and allocative efficiency points on diagrams of perfect competition for Question 3 and a shut down point diagram for Question 5(b) and Question 6(c).
- Effectively time manage their answers. As was the case in the last series, there was far 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 focusing on issues of divorce of ownership and control without broadening the answer and in Question 2 discussing the advantages and disadvantages of a large firm rather than focusing on whether or not a large firm can maintain its cost advantages as it continues to grow.
- Drew inaccurate and inappropriate diagrams. For example, not showing the output level where MC = AR and not showing MC intersecting with AC at the lowest point of AC (Question 3).
- Confused contestability with competitive in Question 6(b).

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 contestable markets was weak in several cases.
- To encourage candidates to make full use of previous examination papers, mark schemes and examiners reports.



Question 1x

Candidates who performed well were able to identify a range of business objectives and how they may or may not apply to different types of business organisations. A sound response typically discussed how objectives vary both within and between private and public sectors and went on to consider how these objectives may be similar depending on circumstances. Diagrams were used to show profit maximisation, revenue maximisation and sales maximisation. Such a response would potentially achieve a sound Level 4 mark of 14/16.

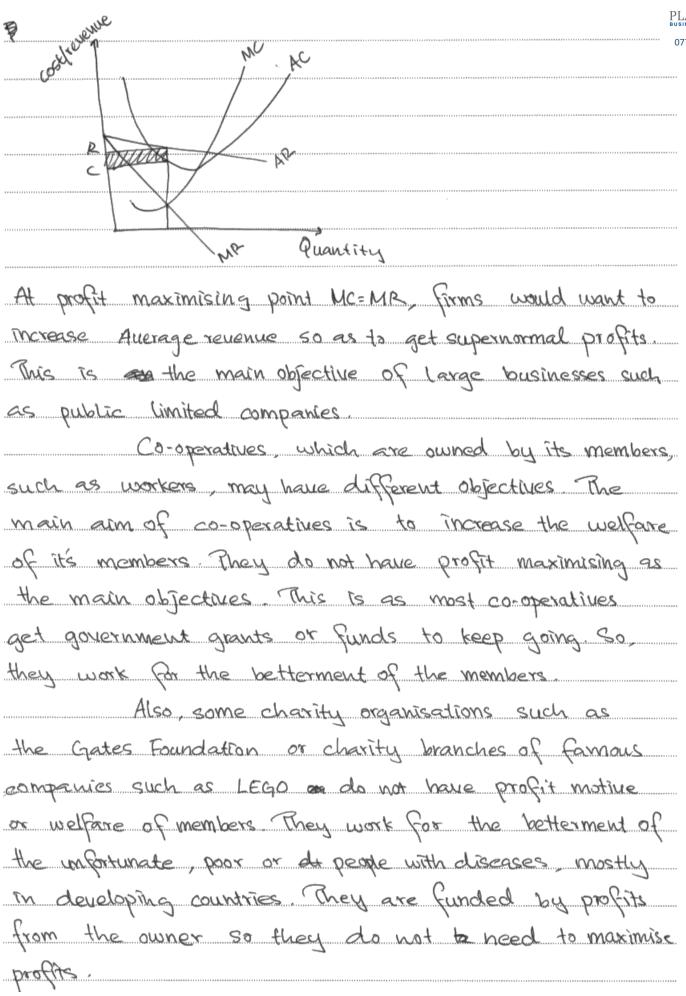
Further evaluation as to why similarities exist, e.g. private sector firms having increased social responsibilities and commercial public sector organisations having financial targets would open up the possibility of achieving a Level 5 mark.

An answer which only considered a limited type of organisation, for example private sector companies, with sound analysis would have scored high Level 3, since the response would have lacked sufficient breadth.

It was disappointing to see that several candidates were unable to discuss a range of business objectives. Some answers veered away from the question and discussed different models of market structure.

Private sector businesses are those businesses which are owned and managed by private individuals These business organisations can include public limited companies and co-operative Some private firms have divorce of ownership and control, like public limited company, where shareholders own the company but bard of directors or managers run the company. Public sector businesses the those businesses owned and managed by the government. These business organisations an include governmental departments and commercially oriented businesses Business objectives can vary between private sector businesses and public sector businesses. Since private busihesses are owned by private individuals they have profit maximising as the main objective.







Moreover, public sector, businesses do not PLATINUL 0777898626 aim to maximise profits. But rather they work for the welfare of the public providing merit goods and public goods which private sector could not provide. They are funded by government tax revenues, so, they do not need profits. However carperation not all co-operatives get help from government to achieve its objectives. So when they do not get thelp funding from government co-speratives would have to make profit to survive, at least in the long run. So, it can be argued that all firms private firms have to make profit. Furthermore, large transnational companies and even other public limited companies have corporate social responsibility in their business agenda this is where they work for the betterment and improved living standard of It's customers or employees. Coca-Cola employs such techniques around the globe, such as providing clean water in India So welfare is a part of almost all private businesses, meaning there is lesser diffe variation in business objectives. Also, the commercially oriented businesses in public sector may will aim to maximise profits. Most of these & businesses are partly or mostly owned by private indruïduals, so in order to keep the owners happy, profit has to be made Also, these companies

0777898626

provide some sort of good, such as railway or electricity and so will need profit to innovate and enhance the sexvice. Eventhough most are supported by government nevenues this may not be possible for long run, so they have to make profit to survive. Lastly divorce in ownership of public limited companies may mean they do not always maximize profits Managers may aim for profit satisfying to keep shareholders happy, while engaging in other objectives such as higher wages or better working conditions.

ResultsPlus

Examiner Comments

This response showed a sound level of understanding and the candidate addressed the question throughout the answer.

There is a clear and succinct introduction outlining examples of organisations in both sectors. The candidate then compares company objectives with those of co-operatives, charities and public sector organisations. This would be worth a high Level 3 mark at this point.

The candidate then provides some balance to the response by introducing the possibilities of corporate social responsibilities for the private sector company and commercial targets for the public sector organisation. These factors are well explained and result in a final mark of 16 (Top Level 4).

The reason why this response did not achieve a Level 5 mark was because it lacked detail on different objectives in the private sector with no consideration of either revenue or sales maximisation. The final reference to profit satisficing and divorce of ownership and control could have developed these points.



Make sure you start your answer by directly addressing the question. A question like this one requires you to consider a range of possible objectives. As the statement refers to how objectives can vary, your evaluation will be based on how objectives may be similar.

PLATINUM BUSINESS ACADEMY 0777898626

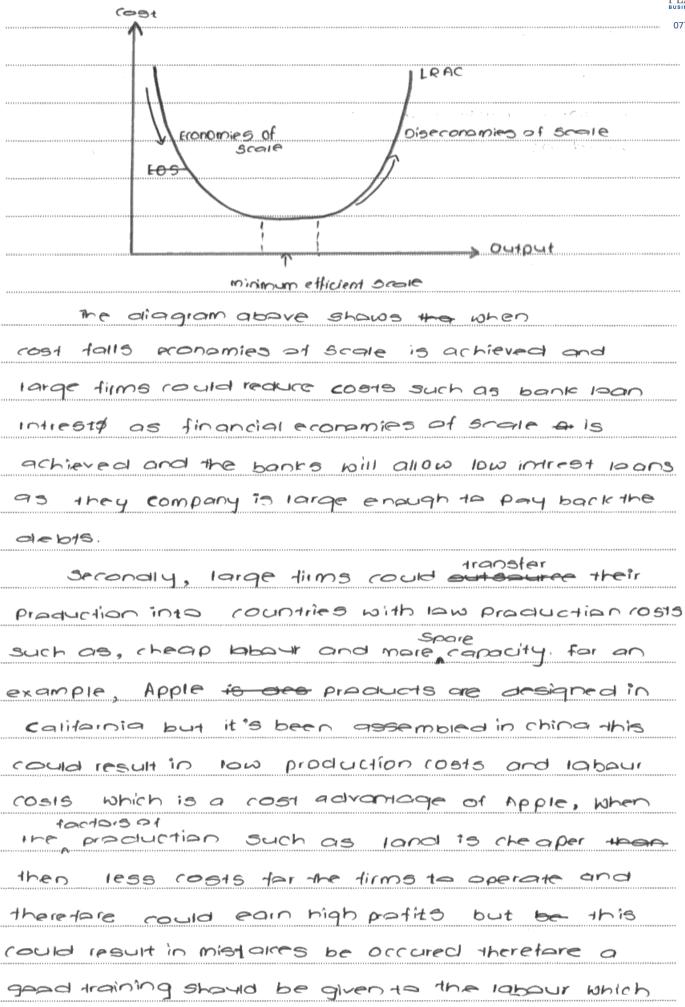
Question 2x

There was a significant variation in the quality of answers to this question. The stronger responses focused on the main thrust of the question, namely whether or not a large firm can *maintain* its cost advantages as it grows. Candidates were able to draw upon their understanding of economies and diseconomies of scale and go beyond this to consider issues such as variations in the minimum efficient size, natural monopolies and government competition policies. Such a response, often with appropriate and accurate diagrams, typically scored a high Level 4 or Level 5 mark.

Those candidates who performed less well discussed economies of scale at some length or framed their answer in terms of advantages of large firms compared with small firms. This meant that the answer was unlikely to score anything more than a mid-level 3 at best. This illustrates the essential point, that candidates must read each question very carefully.

Yes, Large times can benefit from cost advantages
compared to small firms, as it helps the tallowing
could be some of the epivontages.
Firstly, large films thay expolit economies
of scale which is the failing of average costs
due to the expansion of the scale of operations
for an instance, purchasing economies of scale
helps to buy row materials in bulk, Meter parts
Risk bearing economies of scale is also achieved
as large firms get have a large product portfolio
for an example, for TATA, if the fail they have
vehicles and even torits the which deesn't make
them dependent on one product.





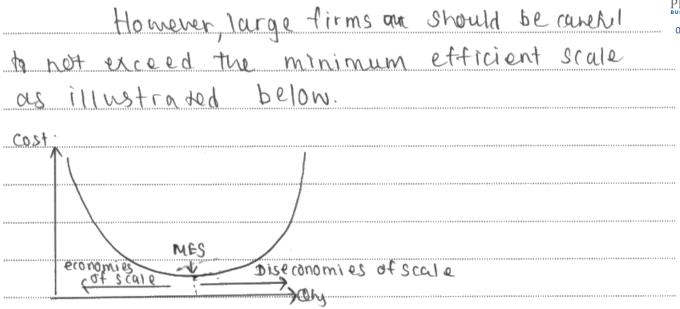


will cause the firms firm to spend honey.	,А інея 777
further, large firms could be olready formous	
and some large firms such as Macdonals, ktc are	
located all actross the globe and this may keep	
advertising and marketing costs 100 as they	
don't have to advertise cause ronsumers	
already know these com firms. This rould also	
be an a cost advantage but some countries could have	
different cultures or beleits which may the firm may have	
to develop special products such as, Mac, donals provide	
all regetration faced to it's costomers	



The response starts reasonably well by identifying economies of scale and illustrating the concept with a good diagram. Development occurs with some analysis of financial economies of scale, low cost locations and savings on advertising and marketing costs. If this standard was maintained, but not improved upon for the remainder of the answer, this would achieve a high Level 3 mark.





Once a firm exceeds the minimum efficient lew! of output, their and long run average costs will start risting. for example, a company like Apple which has sakes outlets and production facilities all over the world might not be able to meanage all ot ils outlets. There might be est coordination and control problems due to over expanding. Therefore it is very important that large firms to do make sure they expand only unbit it is efficient. This proves that even large firms Cannot continue growing endlessly. They have to step at one point. Another way theat large companies can

and off-shoring. For example of part of Appli's production process takes place in China. This is because the unit rabaar costs in China and



	07
have the capacity to off-shore because they	**
can research about the best places to lucate	11.
and they can afford to do such a startup in	
a tereign country. Furthermore, governments	41
Min melcome FDI win be willing toget	
a reputed country like Apple or General Motors	
to have a point of their production process m	
There country.	



This section of the candidate's answer focuses on the main issues of the question. A good example is used to discuss why a large firm, (in this case Apple), may not be able to maintain its cost advantages. If this standard had continued over the remainder of the answer the mark would be a high Level 4 and potentially a Level 5.



Make sure your answer really focuses on the question. In this case, you would need to consider why large firms may or may not be able to maintain cost advantages. Think about factors which can work in their favour and also those factors which might work against them. This is *not* an advantages and disadvantages of large firms question.



Question 3x

There were a number of very sound answers to this question. Good quality responses were able to apply their economic theory of perfect competition and monopoly effectively. In such cases, diagrams were accurately drawn and labelled, with the analysis focusing on issues of contrasting efficiencies in the two markets. High Level 4 and Level 5 answers considered, in some depth, the issue as to whether perfectly competitive markets will always be more efficient, discussing issues of dynamic efficiency and minimum efficient scale.

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 candidates about the importance of knowing the market model diagrams and how types of efficiency can be illustrated with diagrammatic analysis.

GHR MC As shown Aί firm competitive P D=AR = NR allocatively effecis AR = berause output 6 creating price prisuborg 94 Output and short they mare wou supernormal profits the shaded area. Ol the bener no barniers Due and perfect knowledge, firms will industry as they would see abnormar made profits pried



P CHR MC Sz JAC. $\overline{\gamma}_{1}$ D. = AR, = MR, P.2 D_ AR2 MP G* 31 Q1 output -Qz G The diagram above shows supply increasing from S1 -> S2 as more firms enter the market. This causes a shift in price from P, -> P2 and reduces output from Q, ->Q Firms become productively effectent in the long run as MC = Ac at price P2, and anly normal profits are made. However, although pexfeetly competitive firms are allocatively and productively effectent, they are unable to be dynamical efficient in the long run as no supername profits are being made to neinvest nnovate.



However, monopolies are able to be 0777898626 dynamically effectiont as large supernorme profits are being made. This means reinvest to innovate new they can products and give higher quality and larger variety of products to consumers which ineneases consiner welfare. Profils are shown by the shaded pac. Although monopolies, are not productively effectiont they are said to have lower costs in comparison to perfectly competitive firms because they can take advantage of porchasing, marketing fechinal, financial and risk bearing economies of scalle. This would reduce areasge costs as costs unlike perfectly competitive LRAC firms, they have enough output to achieve manac economies of scale (Minimum efferient scale, Mes on diagran). Mes outer





Having correctly defined both markets in the previous paragraph, the candidate correctly shows the short run profit maximising output for a perfectly competitive firm. This would have been further improved if allocative efficiency had been labelled on the diagram. No mention is made of productive efficiency at this juncture. The long run diagrams are correctly drawn and the analysis of perfect competition is sound. A correct point is made about dynamic efficiency. This would represent a low level 3 response at this point.

A correct diagram and analysis of static efficiencies for monopoly followed.

The second clip shows that the candidate considered concepts of dynamic efficiency, economies of scale and minimum efficient scale for a monopolist. This moved the quality of the response into high Level 4.



Make sure your diagrams are accurately drawn and relevant. Use correct labelling and appropriate annotation. Provide analysis to accompany your diagrams.

Question 4y



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

Sound responses discussed how a range of government measures might improve a country's *international* competitiveness. For example, a response which analysed the potential impact of policies aimed at export industries, developing education and skills and subsidising firms seeking overseas markets would potentially be in Level 4 or Level 5. Higher level responses also offered valid evaluation in terms of the possible limited impact of such measures and constraints on government (e.g. financial, exchange rate system).

Less successful responses identified a range of government measures but provided tenuous links as to how these might affect international competitiveness. Such a response would not attain anything above a mid-level 3 mark.

International competitiveness (IC to the a country toreign mar æ gov can promote IC way in wh 1 ch within ountry is the bys ses ia snesses export-onented Īn cost of produc will reduce their 2 thus pass those enabling them prices by decreasing. Assu to a sheir goods are elastic, the i will sey rice in nevenue as man in the fordat 2/1/1/ m in the foreign mark Thee U way, gov can promote ulating exc rein rrigte ei ca enn a Worrence, through



currency resoures. This will no increase 0777898626 the supply of domestic currency in the marked, their their value will tall. This will result is a domestic goods becoming cheaper in the foreign market. As a result, demand for exposts will rise this will been increase exports which will increase revenue for businesses in the country. They'll be able to carn higher profits, thees making them more competitive in the international market. Another measure, which ger can take to improve IC of the countries. is by using protectionism measures, This will enable tomestic businesses to taceless competition and give them a higher chance to grow Firthermore, it also ensures the growth of infant industries within the economy Aence, it will result in

denistic businesses beag becoming larger. This may enable them to achieve higher economies af scalp and thus reduce cost. Jence, the ill may become more competitive in the international most market.

toor can also inplement measures to implem sent measures to improve human infrastructure in the economy This can be through por



increase accessability to education, healthca 0777898626 by imple training progras will and knowledge a increase skills bour, d reduce health issues, wh decrease absenteeism. Hs labour becom more skilled their occupational mol produci will nige long with TVVI 10 Ras ICHI VITY W Drod ADD FIND (a а mall $\Delta \rho$ a

nonneu 900 AG THVR e



The response starts with a correct definition of international competitiveness. The following two paragraphs are very sound and focus on the question. Good analysis of both subsidies and exchange rate manipulation within the context of export-oriented businesses. Protectionist measures are discussed in relation to enabling infant industries to grow, rather than simply reducing imports and improvements to education and health are linked to improvements in overseas markets at the conclusion of that paragraph. At this point the response is a low Level 4.

The evaluation which followed discussed the drawbacks of the measures in a general sense without considering why they might not lead to improvements in international competitiveness. The final mark was Level 4, 15 marks.





If you attempt a question which is asking about the *effectiveness* of government measures, your evaluation needs to focus on what might make the measures *less* effective.

In this question you could discuss, for example, the limitations facing a government when trying to lower its exchange rate; the price elasticity of demand for exports; the time lag for more long-term measures such as infrastructure, investment in education and health services.

Question 5 (a)



Two knowledge marks were awarded for a correct definition of predatory pricing with a brief development. A number of candidates provided an incorrect definition, often confusing predatory with limit pricing.

Up to two application marks were awarded for appropriate use of the extract and/or for providing examples where predatory pricing may occur.

Question 5 (b)

The best responses were able to draw accurate diagrams which showed the shut-down point in both the short run and the long run. This then enabled candidates to make a clear distinction between online services, which may be able to survive in the short run because at least AVC was being covered, and those which could not survive. The high quality answers used the context effectively and were able to make valid evaluative comments.

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.

Question 5 (c)

Successful answers made the link between a product differentiation strategy and a potential increase in profit. The purpose of the strategy is to (amongst other things), raise demand, increase sales and encourage consumer brand loyalty (less elastic demand). The best responses recognised this and used the context of the Spanish tuna market to analyse these issues.

Evaluation involved turning the tables and considering why the strategy may not work. Factors such as increased costs, consumers not switching, highly competitive market (availability of substitute goods) were relevant here.

It is important to note that candidates could justifiably restructure their response so that the emphasis was focused on why the strategy may *not* be effective.

Weaker responses provided a very descriptive answer covering several different forms of product differentiation without considering the economic concepts involved in the question. Something as basic as increased demand and a rightward shift of the AR curve, (in context), would have represented a qualitative improvement in some cases.

Question 5 (d)

Sound responses focused on the potential benefits to *consumers* from lower prices. As with all other questions, economic concepts are central to forming a quality answer. Analysis of consumer surplus, more income available for savings and greater impact on low income earners were the types of concepts which could be applied to this question.

Less successful responses did not focus on consumers and tended to discuss the impacts on the firm.

Evaluation marks were awarded to those candidates who considered why benefits may not apply or may be short-lived. For example, by considering the effects of predatory pricing, the possible reductions in quality or standards of service.



With reference to extract I, some 'some Arms choose to use predatory pricing'. Therefore prices of products are \$ lowered Significantly to drive out competition. Hence as proces are low fire consumers would have access to cheap products, there by increasing pro Consumer suplus. Consumer surplus is the difference in what consumers are willing to pay and What they actually pay, The following diagram Austra les consumer samplue. With reference to extract 2, 'A subway tuna sandwich and drink on the food app Eleine, is priced 9 your including delivery, compared to 31 yuan at the nearest Subway shop 1. As prices are far lower than at the subway store shop consumers satisfaction is mu high as Eleime delivers as well. Therefore they en have a large benefit of ordering from the Site rather than having to go to the shop. Another benefit to the consumers of a firm's decision to lower prices is that consumers feel they have got their value for money and It increases consumer welfare affordability for bu income earners, Therefore Standard of living



for these low income earners increase as they be 0777898626 more disposable income However, with reference to extract z 'In the long run consumers may ruffer if prices Mise again once competitions are eliminated from the market'. Therefore in the long run consumers will most likely suffer high prices once again as competitors are likely to be unable to compete with the low prices. Hence the benefits to reduction in price will be short lived. Another Consumers may suffer iF price are reduced as the firms evold revenue would fall, Therefore quality of products and investment in research and development would abso falland as a result consumers would a suffer from poor quality products and those of which could be outdated as no research and development has ceased due to the low propiets Mence consumer satisfaction would be diminished.





This is a very good answer. The candidate starts by discussing the benefits of predatory pricing to the consumer and introduces the concept of consumer surplus.

The second paragraph references inclusion of delivery charges (standard of service), increased consumer satisfaction is identified and there is good use of context. At this point KAA is worth 6 marks.

A further benefit is developed in relation to value for money and affordability. This represents a Level 3 KAA response.

The evaluation comments are both sound and well developed.

This response attained the maximum 12 marks.



In Section B keep your answers succinct and to the point. Make relevant use of the information provided. Make sure you include at least two developed evaluation comments (but no more than three).



Question 6 (a)

Two knowledge marks were awarded for a correct identification of oligopoly plus a brief definition of oligopoly.

Application marks were awarded for using the data from the pie chart.

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

Question 6 (b)

able markets involve low ex ant. enta 1Š becomin glocen Nore Snuller Hins S Caphday Machet larger firms Over cordin 000 \sim exti 6 Ne. hils Aeu Shops 619 00 Hrms. expansion New ana aI DU hic low cos Nur het ю Some Nus a'i che of convintence Snu Th acc ω local Ø Monopolier Ma gard online Major 64 OL NI line which Meloura Cani lig lare oreover, · OL 0 Superno tag low 1 be Dercertan Lon e 081 lst. Nai tras S. Shown promising



Annon a Ocado boo will be competiting our contine groceries a home run capture the matet she die to convinience i ease.



The response shows an understanding of contestable markets. Good use is made of the information with regard to growth of "smaller" supermarkets and the growth of online shopping with a reference to changing market share. The quality of analysis places this at the top of Level 2 KAA.



In order to score Level 3 KAA marks, be sure to apply your understanding of economic concepts using the information provided.

In this answer, a more detailed consideration of the possible reduction of sunk costs and changing consumer shopping habits (more elastic demand) would have moved this answer into Level 3.



Question 6 (d)

The more successful candidates were able to select two or three appropriate government measures which could potentially benefit UK dairy farmers. Policies such as minimum price legislation, subsidies and reducing monopsony powers of large supermarkets were amongst the most relevant. Sound evaluation was based on considering why these measures may not be particularly effective e.g. powerful monopsonists, higher prices to consumers.

The less successful candidate tended to identify more policies, some of which would not be relevant in this situation (e.g. local sourcing) and provided little in the way of analysis.

Monopsony is where there is a single Large buyer in the market who has the price setting power. In UK, the largest supermankets are monopsony over drany farmers and they have reduced price of mille to 23p. So the government of UK would intervene to protectes uppliers The way government could proted suppliers in by setting a minimum price. Are S P Minimum price R of de as Quantity of Let above equilibrium minimum price would quarantee that farmers are able to cover their costs of 32p and survive in the market



The government could also aim to increase 0777898626 the condestability and competitiveness of the supermanker helustry. This can be by subsidising new firms. The More finns in supermarket industry would mean that monopsony power of traje supermarkets reduce and drany farmers can sell 4 to other supermarkers at higher price. Also, the UK government can take action against Tesco and other firms for engaging in price war. Fining and failing will discourage these firms from buering prices and so & milk farmers prices will marease and their producer surplus

would rise.

However, the benefits for suppliers depend on government ability to control large apermarkets. Tesco and others have high market ghave and turnover, and so government may not be able to control their actions.

Moreover setting the minimum price can lead to surplus wilk supermarkets would ust demand ad higher prices and may switch to abroad milk producers. So, milk farmers in UK are not able to sell milk and their nevenues are not increased. Lastly, action against Tesco may be short lived and they will engage in other unfair practices

long run. So, suppliers may have to a 0777898626



This is an example of a sound response. Three relevant measures are identified and analysed in some depth. This is worthy of a Level 3 KAA mark.

The candidate makes three separate evaluative comments, all of which have some merit. Top evaluation marks were awarded.



Make sure when answering a question about government measures you only select those measures which you think are going to be appropriate. Avoid choosing all of those which you can remember in the hope that some will be correct.



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 that your diagram(s) is relevant and appropriate.
- Include evaluation comments in all of your answers apart from Section B part (a).
- Do not copy out large sections of the extracts in Section B. If you do copy a small part of the extract use quotation marks.
- Your analysis in Section B needs to be in context, so use the information as directed by the question.



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









Llywodraeth Cynulliad Cymru Welsh Assembly Government



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