



# Examiners' Report Principal Examiner Feedback

October 2020

Pearson Edexcel International Advanced Level  
In Economics (WEC13)  
Paper 3: Business behaviour

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## Introduction

The number of entries for WEC13 this October was quite low. There was, however, a good number of impressive responses to all parts of the paper.

In Section A, the multiple-choice section, the opening question addressed the type of firm integration between Sainsbury's and Asda. Students were able to identify these firms were at the same stage of production and this was an example of horizontal integration.

Q2 provided diagrams to illustrate different prices in perfect competition. Most students were able to identify that a profit maximising firm in perfect competition would make supernormal profits at price  $P_4$  as the average revenue curve is above the average cost curve.

Q3 tested the factors effecting the price elasticity of the supply of labour. Students needed to identify that a high skill required for engineers made the level of labour supplied inelastic. Many students answered this question correctly, however, a number selected option B innocently as the distractor mentioned the responsiveness to wage rates.

Q4 asked for the characteristics of a highly contestable market and students answered this question correctly. Identifying there would be low barriers to entry.

Q5 required students to calculate the price elasticity of demand for labour. Most students were able to use the formula to correctly calculate the fall in labour after a rise in wages. A number of students calculated the right change in demand, however, chose a rise in demand for labour instead of a fall. A few students divided price by quantity, confusing the formula and giving them the wrong answer.

For Q6, students were provided with a diagram of a perfectly competitive labour market and asked to consider the cause of a wage rate increase. Students were able to accurately identify the correct answer, as derived demand would cause an increase in the demand for labour leading to a higher wage equilibrium.

Section B, the data response section is based on information provided in the source booklet. The Extracts focused on coal industry and the ride-hailing taxi industry in India market and the Zambian sugar industry.

Q7a, asked for a percentage change in Uber's revenue in India. Most students were able to offer a correct answer, though some only worked out the revenue and not the change in revenue.

Q7b, required students to define privatisation. Most students could define privatisation and identify a relevant example from Extract B. Some students did not offer more than a very basic definition and did not receive the additional knowledge mark, some also did not provide enough application for two marks.

Q7c, students examined two effects of deregulation and privatisation. Marks were not awarded for definitions of privatisation. Many students were able to offer two effects, though not all students offered sufficient application for full marks. A few students did not offer analysis of the points they had identified, or only analysed one effect. Some students failed to offer any evaluation.

Q7d, asked students to analyse the effects of predatory pricing on the profits of a ride-hailing taxi firm. Students often offered vague and inaccurate definitions of predatory pricing. Many students also failed to explain the impact of this pricing strategy on the profits of the firm, losing analysis marks. A large number of students evaluated their answers, and this was not awarded any marks.

Q7e, required students to provide a diagram of price discrimination when exploring the impact of this strategy on the consumer. Many students failed to support their answers with accurate diagrams. Some students did not offer any application, providing generic answers and only achieving level one. The better students were able to explore the impact of predatory pricing on consumer surplus. These students often achieved level three from knowledge application and analysis.

Section C, the essay section offered students the opportunity to choose between three questions. The distribution of candidates choosing between the essay was fairly even, though slightly less opted for Q10. In all cases students offered quality knowledge. The ability to apply and analyse was less strong in Q9. Evaluation was often superficial and lacked development in all essays.

Most students were able to complete the paper in the time available. There was examples of students providing shorter, narrow essays that suggests they had not managed their time effectively. The performance on individual questions is considered in the next section of the report.

## **Question Level Feedback**

The feedback on each question shows how they were well answered and also how to improve further.

### **Section B**

#### **Question 7(a):**

Students could typically access at all of the marks for this question as they were confident calculating both revenue and percentage change. A small number of students did only calculate the revenue and achieved one mark for doing this.

#### **Question 7(b):**

Students were able to provide accurate definitions of privatisation. Not all students expanded upon their definition to provide additional information for the second knowledge mark. Students would benefit from practising this style of question, to learn how much knowledge they need to provide for two marks.

The case study provided lots of opportunities for application. Most students achieved at least one mark for doing this. A few students only offered one application.

#### **Question 7(c):**

For question 7(c) students were asked to examine two likely effects of deregulation and privatisation. Most students were able to identify effects using the case study for application. Most students identified an increase in the level of competition in the market as suggested by the case study.

A large number of students directly quoted from the case study when identifying an effect of deregulation or privatisation. This could not be awarded marks for both knowledge and application. Students should practise separating out their knowledge and application to ensure they receive all the marks available. Most students offered some development of their effect for analysis marks.

Some students were providing a lot of analysis in their answer and overwriting for this type question. This will make timing in the exam difficult.

Not all students offered evaluation and did not identify the command word in the question. Students should be able to identify that examine questions require evaluation. The question order does change from paper to paper and students should learn to carefully read the command words to ensure they address the question fully. Stronger students identified that trade unions feared that privatisation and deregulation may lead to job losses in Coal India, negatively impacting employment.

#### **Question 7(d):**

Q7(d) required students to analyse the effects of predatory pricing on the consumer. Most students were able to offer a definition of predatory pricing, however, many of these were too vague to be awarded the full two marks available. Though not a requirement, a number of students used diagrams effectively in their answers to explain the impact of predatory pricing on the firms' profits with a price below the AVC curve and a loss clearly shown. These were awarded application and analysis marks and the write up of these diagrams often achieved further analysis marks.

Many students were able to identify that predatory pricing would cause a fall in profits in the short-run. A number of students provided a generic answer that did not achieve application marks.

Some students provided evaluation for this question, having misinterpreted the command word in the question. No marks were available for evaluation. I would recommend that centres revise command words with their students to ensure they are able to fully address the question asked.

#### **Question 7(e):**

On Q7(e) students discussed the likely effects on the consumers of the price discrimination strategy used by in the Zambian sugar industry.

Most students offered a good definition of third degree price discrimination. A number of students also provided information on all three types of price discrimination without any reference to the context. Students should avoid repeating learned notes that do not address the question, as these sorts of responses only achieve level 1 for knowledge, application and analysis.

Students were required to provide a diagram to support their answer. The best diagrams provided both the profits made from selling at different prices in the elastic and inelastic markets with a third diagram showing the profits from a single price. A number of students only showed the profits after price discrimination with no comparison. A number of diagrams were not accurately drawn with the elasticity of the MR and AR curves very similar in both markets. Some students did not include a diagram, restricting their answer to level 2.

Application was not always present, and a number of students provided generic answers. Stronger students correctly identified that domestic consumers were worse off after price discrimination as they had an inelastic demand. Consumers who exported Zambia's sugar or industrial consumers benefited as they had an elastic demand. These answers often accessed level 3.

The evaluation on 7(e) was not always well developed and often generic. Better answers identified the fines placed on Zambia Sugar for their price discrimination and this would stop the long-run negative effects on the consumer. Other students compared the profitability before and after price discrimination, if Zambia Sugar's profits are lower after they may revert back to a single price. A number of students offered generic evaluative comments, for example, linking to magnitude of the discrimination. It is important that evaluation is both developed and in context to be able to access Level 3.

## **Section C**

### **Question 8:**

For Q8 students needed to evaluate why some firms remain small. Most students drew an economies of scale diagram and suggested the MES (minimum efficient scale) was achieved at a low output therefore any increase in size would reduce productive efficiency.

Students also identified the lack of finances to grow, low demand for the product and managers objectives as reasons to remain small. These points were often limited in their development only offering two stages of analysis. This kept their answer in level 2.

Stronger students offered well developed chains of reasoning and examples when explaining why firms remain small. Students still struggle to access Level 4 for their Knowledge, Application and Analysis. To achieve this, the use of precise key terms, theories and models must be included. Students must refer to an industry for application; using the stem in their answer would help with this. Analytical points must be fully developed, showing clear chains of reasoning.

A number of students attempted to evaluate why some firms may want to be large. This was not effective as it did not address the question asked. Stronger students evaluated with a change in objectives over time. In the long-run firms may need to grow for profit, they may start small to survive in the short-run. Change in ownership and governmental financial support were also popular evaluation points. Few students provided adequate development and context to move into level three. Many students offered short, two-stage evaluative points that achieve low level two.

A large number of students achieved level one or low level two as answers were too generic, narrow and not developed.

### **Question 9:**

Q9 required students to compare whether a perfectly competitive market is more efficient than a monopolistically competitive one. Students were able to provide accurate diagrams of both monopolistically competitive markets and perfectly competitive markets. Strong students used these as the bases of their analysis, fully explaining the areas of efficiency in their diagrams.

Many students answered this question reciting pre learned notes on both perfect and monopolistically competitive market structures. They didn't always fully explain the impact on efficiency and offered lots of irrelevant information. These responses achieved level one. Students achieving level three and above drew direct comparisons between the market structures. Level four students were able to explain how the different assumptions of the market structures led to different efficiency outcomes.

The most popular evaluation was the lack of dynamic efficiency in perfect competition compared to the potential for dynamic efficiency in monopolistically competitive market in the short-run. A common issue with evaluation was the inability for students to compare markets. Many students did not evaluate in their answer and just explained the efficiency and inefficiency associated with each market structure. Centres would benefit from practising this style of question when comparing market structures to prepare students to draw comparisons, to enable them to achieve level three and above.

### **Question 10:**

This question required students to evaluate how different objectives would affect a firm's profits. Stronger students were able to offer diagrammatical analysis of each of the objectives (profit maximisation, revenue maximisation and sales maximisation) would impact a firm's profits with clear analysis of each diagram. Some students also offered good examples to explain reasons for the objective and why profit may or may not be important to the firm.

Students that offered descriptive answers without diagrams were limited to 9 marks for knowledge, application and analysis and for many of these students their answer remained in level one.



Again, many students explained the objectives with a diagram, however, they did not explain the impact on profits and did not fully answer the question. Lists of facts were often presented without full analysis or linked to the question. Analysis was often only two stage chains of reasoning. Limiting the mark that could be achieved for this question.

Many students evaluated with public sector may not need to make profits or satisficing behaviour of the firm. These points were often stated and lacked full development. Evaluation was not strong on this question and few students achieved level three evaluation.

## Paper Summary

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

### Section A:

#### Multiple Choice Questions

- Students need to ensure they can analyse different points on market structure diagrams, knowing the profit levels at each point.
- Students need to be able to calculate the elasticity of the supply and demand for labour, multiplying out the formula.

### Section B:

#### Data Response

- On Q7(a) students must be able to calculate percentage change and revenue.
- On Q7(b) two pieces of application are needed and development of the definition to achieve all the marks available.
- On Q12(c) two pieces of information from the extract needed to access the two application and linked development of each point identified is needed for two analysis marks.
- Students must learn to read command words and include evaluation for examine questions.
- In 7(d) accurate definitions of predatory pricing were needed. Two separate applications were needed to achieve all the application marks.
- In 7(e) Students need to be able to draw accurate diagrams for price discrimination, with clear differences in the elasticities for the AR and MR curve and a third diagram of the combined revenue for development.

Students must remember to use application in their answers and refrain from listing generic relearnt content.

Section C:  
Essay

- In Q8 diagrams should be drawn where helpful and many students successfully incorporated an economies of scale diagram. Stronger responses fully developed their chains of reasoning to explain why some firms remain small.
- Evaluation needed to explain why the situation may change, comparing to a large firm was not classed as evaluation.
- In Q9 students need to compare the markets for analysis and evaluation, rather than explain the market structures separately. The use of pre learned notes did not help students address the question.
- In Q10 students need to ensure they link their diagram to their write up for higher knowledge application and analysis marks.

The use of examples enhanced students answers significantly.

Students would benefit from revising why some organisations do not need to focus on profits and how business objectives can change when economic circumstances change.

Unfortunately, many students that did analyse diagrammatically the impact of both demand and supply factors. However they often considered the two reasons in isolation. That is they referred to the demand factor and shifted demand appropriately on one diagram and then referred to the supply factor and shifted supply appropriately. Whilst both diagrams and both reasons were credited they gained five marks when all completed correctly. However, the final mark for the final equilibrium could only be achieved where both shifts of supply and demand were drawn on the same diagram.

On this type of question where two shifts are required students are strongly advised to draw them on the same diagram and to show the original and final equilibrium.

