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Examiners' Report

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IAL Business Studies WBS04 01

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Introduction

The paper seemed to work well, there was a good range of marks showing that the paper had been able to differentiate. As with previous exam series, there were some less able responses that showed little understanding of, or even familiarity with, the specification content. Nevertheless there were some good and occasionally very good responses to the questions set.

The main reasons for some otherwise able candidates underachieving are the usual ones of not heeding command words and not reading the questions carefully enough. Command words are still being ignored by a sizeable number. Instructions to 'Assess' and 'Evaluate' were not followed by some candidates and as a result they failed to evaluate and so limited their marks.

Some of the candidates missed out on marks because they did not answer the question that was set. This was particularly the case with question 5.

It is worth reminding future candidates of the need to apply context to all responses. Repeating generic or stock answers will not access the higher levels of the mark scheme.

Question 1 (a)

Most candidates were able to at least partially answer this question by stating that a conglomerate meant one company with a range of different products. More able candidates developed this to explain that this meant different industries and different stages of the production process for the second mark.

1 (a) What is meant by the term conglomerate? (Evidence A, line 6)

(2)

A conglomerate is an organisation that has branches/businesses in different industries and at different stages of production. This may be done in order to reduce risks. Fosun is an example of a conglomerate, since it has branches in the travel, ^{and} financial, as well as the food and drink industries ^{or the production of} ~~or~~ ~~primary products~~ ~~drawn~~.



ResultsPlus Examiner Comments

2 marks - A clear definition which gained both marks and was well supported by an example.



ResultsPlus Examiner Tip

It is always worth using a valid example. If your definition is not quite good enough it can help gain the second mark.

Question 1 (b)

Mixed results here which suggested that many candidates were sure of the reason for investment but were not necessarily accurate in their understanding of how the investment was carried out, i.e. through expenditure. There were very few actual examples given.

(b) What is meant by the term investment? (Evidence B, line 7)

(2)

Investment is when a business spends money on the growth of the business. For instance spending on new machinery or even investment in acquiring another company. Evidence B states that Fosun has invested more than ^{\$ 5 bn} ~~\$ 5 bn~~ in the USA and \$ 500m in Japan. Fosun invested in Clubmed and silver Cross.



ResultsPlus

Examiner Comments

1 mark awarded for first sentence but the rest did not add anything of merit. Further development was needed for the second mark, e.g. some mention of future return/profit.

Question 2

Many candidates gave an unnecessary definition of trade barriers. Most of the candidates were able to explain two ways they might restrict trade, showing a good understanding of tariffs, quotas and embargoes, but few were able to provide their own examples as required by the question. As a result, many failed to get beyond 4 marks.

- 2 Using your own examples, explain **two** ways in which trade barriers might restrict or prevent trade.

Trade barriers like for instance a tariff could restrict trade. Tariffs would make a good imported from another country expensive. A tariff is a tax charged on imports of goods and services causing the price of the goods to rise. This would mean that people are less likely to demand these imported goods as they would now be ~~be~~ more expensive. For example when the USA imposed a tariff on Chinese solar pannels, it would have made the chinese solar pannels more expensive for the domestic consumers in the USA. This inturn would cause them to switch to buying domestically produced solar pannels preventing trade.

Further a government could ^{give} provide local firms subsidies. This inturn would help reduce the cost of production to fall and therefore lead to a fall in price of goods and services. As the price falls, domestic consumers are likely to switch from consuming imports to consume locally produced goods. This inturn would also prevent trade.



ResultsPlus Examiner Comments

A good response that gained 5 marks – 2 knowledge, 2 analysis and 1 application. Two ways identified and explanations developed. A good example used for tariffs but no example provided for subsidies.



ResultsPlus Examiner Tip

Make sure that you do what the question says. Many candidates failed to gain application marks on this question because they did not provide their own examples.

Question 3

Again, many candidates gave an unnecessary definition of joint ventures. Despite the clear understanding of a joint venture, few responses managed to secure all 8 marks. Most identified a need for local knowledge or a sharing of costs with some application but usually with not enough development to reach the final 2 analysis marks. A significant number wasted time/space on evaluating their response, indicating a lack of exam technique or understanding of command words.

3 Analyse two possible reasons why Thomas Cook is forming a joint venture with Fosun.

A joint venture occurs when a foreign firm ^{collaborates} merges with or domestic firm to form a new firm that operates with a common interest. Thomas Cook could have formed a joint venture with Fosun to reduce the potential risk of entering a new market i.e. the Chinese market. Since 51% of the firm is now owned by Fosun, any potential losses incurred by Thomas Cook could now be shared with Fosun. This minimizes the risk of entering and operating in a foreign market. In this case Fosun would ^{incur} be ~~own~~ 51% of the losses whereas Thomas Cook will only incur 49%. Furthermore, by entering a joint venture Thomas Cook could understand the Chinese market ⁱⁿ more detail and cater to its specific tastes and preferences of Chinese consumers. Since Fosun is a market research company, the benefit of entering a joint venture with this firm is ~~maximised~~ as Fosun has a precise and detailed knowledge of the Chinese market. This ^{By} collaborating with Fosun, Thomas Cook could use their resources efficiently and cater to the exact requirement of Chinese consumers, thus preventing costs rising, thereby increasing the profitability of the firm.



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Examiner Comments

This response scored 6 marks – 2 knowledge, 2 application and 2 analysis. Two reasons identified and developed with context. However, the analysis needed to be developed a little more in each case to gain the remaining 2 marks.



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Examiner Tip

For each possible reason we are looking for an identification of that reason (Knowledge 1 mark), then putting it into context with a valid example (Application 1 mark) and then developing that reason by explaining the consequences with two points (Analysis 2 marks). Make sure you cover these three assessment objectives.

Question 4

This question was generally well answered. Most candidates were able to analyse the benefits for Fosun of expanding by inorganic growth, commonly referring to speed of expansion, acquisition of local knowledge, established supply networks and accessing trade blocs. Evaluation was generally not as well done and often only briefly referred to potential culture clashes.

4 Assess the benefits for Fosun of expanding by inorganic growth.

(10)

Inorganic growth is when a business such as Fosun grows ~~exp~~ externally through taking over or merging with another firm.

Fosun has taken over Clue Med, Cirque du Soleil and Silver Cross. Some other takeovers are Tata and Jaguar Land Rover and also Kraft and Cadbury.

One likely benefit for Fosun is likely to be that they could benefit from economies of scale. As they take over new companies, they are likely to ~~be~~ increase their output produced. As this takes place, they are likely to benefit from economies of scale. This in turn would lead to a fall in average costs and therefore it would lead to a rise in profits. This in turn could lead to Fosun reducing the price of the products sold leading to a rise in consumer welfare.

Further Fosun taking over these other firms would help them reduce risks. If one industry ~~is~~ in their portfolio is likely to fail, this failure could be offset by that of the success of another ~~product~~ part of the business. For instance if the market research part of the firm fails, Fosun may be able to offset this by the success of the travel sector.

However by taking over all these firms, Fosun may lose ~~the~~ ~~co~~competency of its main business. Fosun may lose focus of its ~~main~~ main sector of the firm which may lead to a fall in quality and therefore it could lead to a fall in ~~customer~~ customer satisfaction and brand loyalty leading to a fall in sales.

Further these takeovers could lead to culture clashes. The culture of Fosun and Silver cross may be very different. Fosun is a Chinese company whereas Silver cross is a British company and therefore the cultures of the two firms are likely to be different. This could lead to staff demotivation and a fall in productivity leading to a rise in per costs as wastage may begin to rise.



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Examiner Comments

An excellent Level 4 response which gained all 10 marks. Clear and well developed analysis in context followed by equally good evaluation in context.

Question 5

This question was by and large very poorly answered. A significant number of candidates simply described what the WTO did, often just copying out the evidence. This failed to address the actual question, which was to assess the importance of the WTO in the growth of trade. Of those that did, many offered weak evaluation in pointing out the slow pace of change. More able responses went on to look at other factors that have influenced the growth of trade such as transport, communication and political change and then made a judgement as to the role and importance of the WTO.

5 Assess the importance of the World Trade Organization in the growth of international trade.

- ↓ disputes

- not enforce
- not all members.
- trade liberalisation

(12)

The World Trade Organization is a global organisation/body that works towards the elimination of trade barriers and the increase in international trade.

The WTO has steadily been working with many countries around the world to increase global trade. The WTO has been able to increase trade through agreements and the promotion of dialogue and negotiations. Furthermore, the WTO has helped decrease the number of disputes between countries and resolve existing/inherent disputes. By doing this, many countries have reduced or eliminated trade barriers - promoting global trade.

Nonetheless, the WTO ~~is~~ is unable to enforce its agreements, making it ~~unable~~ ^{And so, decreasing their real value} difficult to ensure its trade agreements are followed.

As a result, it ~~is~~ ^{could} be said to have not prevented disputes among countries ~~and~~, since countries that fail to comply with agreements inevitably cause trade disputes. Furthermore, WTO negotiations are slow. Notably negotiations for the Doha Development Agenda (DDA) have lasted for

14 years. ~~It~~ ~~is~~ Consequently, the WTO's role is ~~is~~ limited since its slowness makes it ineffective and unhelpful. Additionally, not all countries in the world are members of the WTO. This further limits the WTO's effectiveness, since any agreements ~~may cause~~ ~~re~~ do not involve all the countries ~~(the WTO has 62 members)~~ ~~and so cannot be~~ ~~said to~~. Finally, the WTO, although playing a significant role in promoting trade and peace, is not the only factor that has ~~is~~ helped increase global trade. Notably, trade liberalisation, ~~the~~ improvements in transport, ~~and~~ communication and technology, the increased presence of MNCs or migration and population growth have all helped increase international trade, and (Total for Question 5 = 12 marks)

are independent to the WTO.

TOTAL FOR SECTION A = 40 MARKS



ResultsPlus Examiner Comments

Another excellent Level 4 response which gained all 12 marks. Clear understanding of the role of the WTO which was then linked to the growth of trade. Evaluation covered both the effectiveness of the WTO and considered other factors that may also have been an influence. There was also a brief conclusion to round it all off.



ResultsPlus Examiner Tip

On the longer questions (Q5, 6 and 7) it is always a good idea to end with a reasoned conclusion. This should bring the arguments to a closing judgement and not just repeat the main points again.

Question 6

Most of the responses for this question were able to access the evaluation level marks. The majority of these evaluative answers were in the lower range of Level 4 and many just used the example from the evidence of Thomas Cook.

There was some good use of context, many used examples from their own studies and wider reading. Candidates showed knowledge of western businesses that had been successful, and in some cases unsuccessful, in adapting to the growing Chinese economy. They were also able to use examples of successful Chinese businesses that were growing and posing a threat to the markets of established western businesses. Some more able responses discussed the impact of Chinese growth on commodity prices and the implications for western businesses. Others looked at the likely impact of growth on wage levels and the costs for western businesses which had offshored production to China.

A significant number of responses simply repeated a generic answer on China as a location for production because of a cheap and plentiful supply of labour and failed to consider how the growth of the Chinese economy might change things.

4 7 7

- tourism
- edu = ↑
- welfare

investment
- trade
- cheaper inputs/supplies
- comp = efficiency

market opp
- cost of growth
- labour opp

↑ competition
- exchange rate
↑ labour factories → wages
- threat manufacturers
↑ power of China
↑ own bus compete local
↑ cheaper inputs

6 Evaluate the impact on western businesses of the growing Chinese economy. (20)

A growing economy is one where ~~output~~ total output of goods and services has increased relative to the year before. Growth may be measured by using GDP (gross domestic product).

The Chinese economy is growing at an incredible rate; in less than 10 years, Chinese GDP has risen from 1740 (2005) to 3866 (2014) per capita.

~~The growth~~ Chinese growth has meant that by 2015 ~~the~~ ~~of~~ China ~~the~~ ~~esp~~ ~~to~~ was producing one quarter of the total production output in the world. This level of growth has a series of benefits on western businesses. For example, the growth of the Chinese economy will have meant increased ^{average} income. This will have resulted in an increase in demand for goods and services.

an increase in demand for goods and services. This increase will have created an opportunity for western businesses to expand its market and thus ^{possibly} escape saturated domestic markets. This expansion of the potential market may have meant increased sales and increase profit for western businesses. Furthermore, the increase in sales might have meant western businesses grow in size. This could have resulted in economies of scale for western businesses, such as bulk-buying or technical economies of scale. Furthermore, with Chinese growth, competition may have increased; which will have forced western businesses to become more efficient. Therefore, they could have decreased average costs. Furthermore, the growth of China's economy could present ^{other benefits for western businesses.} ~~western businesses with opportunities~~ For example, an increase in growth is likely to have resulted in a better educated population. This means western businesses breaking in China will have access to ~~a~~ better quality labour and will provide recruitment opportunities - for example, ~~the~~ western businesses may be able to hire ~~of~~ Chinese managers who have a better understanding of the market and do not have language barriers. Additionally, Chinese growth has meant an increase in the investment of foreign businesses. China has, for example, invested in the USA (\$68 bn), Australia (\$59 bn), Europe (\$54 bn) and the UK (\$23 bn) and Canada (\$39 bn). This investment may help economies grow.

Nevertheless, Chinese growth also presents a number of threats to western businesses. For example, China will have ~~a~~ increased its need of commodities, which will, in turn, increase worldwide prices of these. Thus ~~increasing~~ ^{increasing} costs for western businesses. ~~In~~ In addition, with the growth of the Chinese economy and standards of living, western economies may see the costs of production branches and factories in China increase, since workers are likely to be paid more as the standards of living ^{and education levels} increase ~~and~~. Moreover, China's growth has significantly augmented its global power, meaning western governments and businesses have become more vulnerable to China's actions and decisions in negotiations. A weakened west may create economic difficulties for businesses, as exchange rates fluctuate ~~and~~. Moreover, China's growth has meant

its levels of exports have **(Total for Question 6 = 20 marks)**

increased. ~~In~~ Since they are able to produce at a lower cost, cheap imports may threaten western business in the west. ~~China's~~ China's competition and lower prices may ~~also~~ destroy domestic industries and cause ~~to~~ western business that are unable to compete to close. This increases unemployment and damaged consumer demand in the domestic market, further damaging western businesses.

Finally, western businesses may be unable to take advantage of opportunities in the Chinese market for the sale of goods since Chinese businesses are likely to develop and offer their own products and services in the market. Also, China's

Trade barriers may prevent businesses from entering the market. In conclusion, although there are a number of benefits to Chinese growth, there are also threats. Some of these threats could be prevented ~~by~~^{through} trade barriers, but these could cause retaliation.



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Examiner Comments

A strong Level 4 response which gained 18 marks. It could perhaps do more to distinguish between the different types of business that may be affected and a conclusion would have been useful. Nevertheless, a very good answer.



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Examiner Tip

Questions 6 and 7 carry 8 marks each for evaluation and can make the difference between a top grade and an average one. Make sure that you do fully evaluate and use suitable context throughout.

6 Evaluate the impact on western businesses of the growing Chinese economy.

(20)

~~The~~ Growing Chinese economy ~~mean~~ means that China is growing at a rate above the global average. It ~~has~~ is the country with the highest GDP increase ~~p~~ of the last 20 years.

Evidence E shows that Chinese visitors to the UK have more than doubled in five years. Evidence E also ~~states~~ ^{estimates} that 30% of all global investment will come from China by 2030. ~~China's~~ The country in which China is making more investment is in the USA (\$68bn). Evidence E also predicts an increase of 800% in ~~the~~ of the amount of money invested in UK by China ~~in~~ in the following ~~2~~ years. ~~The~~ Figure 1 shows that China's GDP is increasing each year.

Because China's ^{economy} ~~GDP~~ is growing, ~~perh~~ Chinese people's disposable income is increasing too. They are having more money to spend e.g. in tourism in western ^{countries} ~~businesses~~. Tourism will ~~create~~ ^{mean} greater revenue for a country, resulting in more employment and higher levels of disposable income.

Chinese multinationals ~~may~~ ^{may} set up in western ^{countries} ~~businesses~~, creating jobs and contributing to Europe's economy by paying tax and by contracting workers. As China's economy grows, the amount of money invested in western ~~business~~ countries such as in the UK increases too. If Chinese businesses locate in western countries, western businesses will be forced to be more efficient and

which could be then spent in western businesses

as a result, their customers could be more satisfied, leading to brand loyalty and so repeat purchases. Chinese companies might want to form joint ventures with western businesses, allowing western businesses to grow together with Chinese ones and gaining more market power.

However, China could end up dominating the global market. This will enable them to have a big influence on prices, making western businesses more susceptible to Chinese firms. Chinese multinationals could force out of business western businesses by selling similar products at a much lower price. Although, Chinese multinationals will contribute to a ~~great~~ western country's economy, governments should place regulations in order to protect their host companies. Furthermore, China's growing economy will potentially be able to steal western workers and western consumers ~~from~~ from western businesses too.



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Examiner Comments

This response had some basic analysis and evaluation with limited context but did just get into Level 4 with 13 marks.

Question 7

Most candidates answered this question with some degree of success, as it was an accessible and popular topic.

In the less able responses, assertions were made without development or substantiation by example. A significant number of candidates copied directly from the source material, without adding their own thoughts or using the evidence as a basis for further analysis and evaluation.

There were some very able responses to this question and some candidates scored high marks here. They were able to develop their answers well and demonstrate a good understanding of how multinationals might be controlled and the factors that might influence this. A good range of examples from case studies beyond the evidence was present.

legal political pressure - groups social media

7 Evaluate the extent to which it is possible to control the actions of multinational companies.

(20)

Multinational companies (MNCs) are businesses that operate in several countries; that is, they do not only export products but have branches of production/service overseas. Examples of multinationals include Apple, McDonalds or ~~Essex~~ BHP Billiton.

There exist several ways in which governments and consumers try to control the actions of multinationals. Governments may ~~try~~ try to control the actions of multinationals. This may include political and legal action. Political action may be effective in controlling MNCs and may enable elected officials to challenge ~~MNCs~~ the power of MNCs. However, political actions have failed before, and have, in turn, created multiple corruption cases. This is especially true in Third World nations and developing countries, where politicians have accepted bribes ~~to control~~ and failed to ~~control~~ the activities of MNCs. Still, governments may be able to sue MNCs, such as Brazil's

government has used mining grants BHP Billiton and Vale. However, these processes are lengthy and costly and may not get a favourable resolution.

Legal action may also be taken in order to control the activities of MNCs. Through competition policy the government may be able to prevent MNCs from abusing smaller businesses or carrying out uncompetitive strategies, such as predatory pricing. In the UK, the OFT works to prevent these. Also, taxation policy may be used to control MNCs and their benefits. ^{for example, Ireland has a lower corporation tax than the EU to attract MNCs} However, MNCs operate in a number of different countries. As a result, they operate in different institutional frameworks and so are ~~also~~ difficult to control. Additionally, since many lack commitment to particular countries and have become footloose, attempting to control MNCs by, for example, raising corporate tax, may cause them to relocate their premises. This could result in job losses, increased unemployment and a damaged economy. Therefore, the government may be uneasy about controlling MNCs, especially developing countries that aim to attract them and FDI. This makes MNCs extremely difficult to control.

Other groups that aim to control MNC activities are pressure groups and social media. For example, Thatcham.org has started a campaign to fight Unilever for its contamination with mercury called #WontBuyUnilever and is being supported

by Indian actors such as Bobby Simha. These groups and social media ~~are~~ may be able to influence ~~United~~ MNCs (Unilever for example) through direct action and boycotts. Boycotts may severely damage ~~a~~ a MNC's ~~or~~ profitability, forcing them to make changes. Moreover, name shaming and bad publicity may, also, be able to influence MNC's decisions; since the damage to their reputation can be very costly due to the loss of sales and brand image. Furthermore, social media and pressure groups may be able to rapidly spread ideas and news and highlight issues so that politicians take notice. By attracting public attention, they may be able to force MNCs to change their behaviours due to public or political pressures. However, pressure groups and social media campaigns may lead misinformed campaigns. Also, (Total for Question 7 = 20 marks)

TOTAL FOR SECTION B = 40 MARKS

TOTAL FOR PAPER = 80 MARKS

they may lack organisation, making ~~them~~ ineffective and their resistance (protest ineffective). In addition, ~~as~~ as MNCs may change their processes/products or behaviours only superficially to prevent brand image, but continue unethical practices. Finally, public pressure may not influence MNCs if their product has ~~demand~~ ^{inelastic demand} or if consumers are not worried about the problems they pose. In conclusion, MNCs ~~are~~ are extremely difficult to control because of their power and economic significance. Some MNCs have outputs and profits bigger than some countries' GDP. Legal, political and public action may try (and succeed) to influence MNCs and control their activities. But, all three methods of control are fallible.

especially considering MNCs operate in various institutional ~~as~~ frameworks and ~~cultural~~ different cultures with different customs and moral standards.



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Examiner Comments

A very good Level 4 response that gained 17 marks. It was well developed with logical and coherent chains of reasoning and ended with a valid conclusion. It could have used more examples particularly in the last page or so.

7 Evaluate the extent to which it is possible to control the actions of multinational companies.

(20)

A multinational business is a large company that has assets in at least one country other than its home country.

Multinational companies such as BHP, ~~and Vale~~ are the world's biggest mining company and Vale. The world's biggest iron ore specialist have suffered a collapse of a dam at an iron ore mine and ~~as~~ as a result, Brazil's government is going to sue them for B\$ 2bn. Given its size and success, they will feel forced to compensate for the damage caused in order to maintain reputation. Therefore, the government can control MNCs financially ~~intensity~~.

Pressure groups such as The Green Orgs can also control MNCs. Celebrities have also an influence on customers that influence multinational companies' performance. This is why Bobby Simha, Rukmi and Kalai Rami support publicly the campaign #WontBuyUnilever. This strategy is known as naming and shaming which ~~negatively~~ publishes immoral actions of multinational companies in order ~~to affect its demand~~ affect its demand.

Actions of MNCs can also be controlled through social media. By posting the video 'Kodakikanal Won't' rep video, it went viral and all customers were exposed to that information about Unilever. The drawback of social media is that if something gets viral it is very difficult to counteract, which shows that MNCs ~~should~~ are threatened by this and must regulate and behave morally since the beginning. However, growing digitality transmits transparency and honesty.



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Examiner Comments

A brief response that was placed in low Level 3 with 8 marks. This mostly just repeated the evidence given in the source material. There was an attempt at evaluation at the end but it was not convincing.

Paper Summary

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

- Do read the question carefully and answer the question that is set.
- Do watch out for command words such as Assess or Evaluate.
- Do use examples to illustrate your argument.
- Do use the language of the subject and avoid generalities.
- Do watch your timing and do not spend too long on one question.
- Do write concisely.
- Do add a conclusion to the longer questions.

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