

# Mark Scheme (Results)

## January 2008

GCE Level

### GCE Economics & Business Studies (Nuffield) (6362)

#### Paper 1

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## General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

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Question Number	Indicative content
1(a)(i)	<p>An imprecise definition may be raised to two marks with the aid of appropriate examples.</p> <p>Productivity is the amount of output created (in terms of goods produced or services rendered) per unit input used. For instance, labour productivity is typically measured as output per worker or output per labour-hour.</p> <p>2 marks</p>

Question Number	Indicative content
1(a)(ii)	<p>The measurement of a firm's specific technical efficiency is based upon deviations of observed output from the best production or efficient production frontier.</p> <p>A production process is said to be technically efficient when the costs of production have been minimised. It is achieved when the average total cost is at its minimum point. Factors of production must be combined in the most effective way.</p> <p>2 marks</p>

Question Number	Indicative content
1(a)(iii)	<p>Value added refers to the additional value created at a particular stage of production or through image and marketing.</p> <p>2 marks</p>

Question Number		Indicative content
1(b)		<p>Knowledge 2 Application 2 Analysis 2</p> <p>6 marks</p> <p>There are a range of factors that may affect the competitiveness of UK manufacturers. The most commonly identified are likely to be investment levels, innovation (an indicator of innovation levels may be found by examining the number of patents registered, the skills levels of the workforce, the adoption of new technology, the level of enterprise shown by entrepreneurs and firms and degree of competition faced by firms.</p>
Level	Mark	Descriptor
Level 3	5-6	Sound insights are offered identifying factors which may affect the competitiveness of UK manufactures. Some assessment of their significance will be made.
Level 2	3-4	Valid points are identified indicating some factors which may affect competitiveness. At this level the response may be more theoretical and not be tailored to address the context of UK manufactures. Expect to see the application of appropriate knowledge at this level. Some insights may be offered at the upper range of this level.
Level 1	1-2	Valid points are made but points are lacking in analysis or evaluation. Understanding of the potential factors which may affect international competitiveness is imperfect.

Question Number		Indicative content
1(c)		<p>Knowledge 1 Application 3 Analysis 3 Evaluation 1</p> <p>8 marks</p> <p>According to a recent report from the Department for Work and Pensions (DWP) high levels of qualifications continue to lead to higher levels of employment. Investment in education and training may be part of the government's strategy of turning the UK into a knowledge-based society.</p> <p>Improving human capital may be a way of improving international competitiveness and achieving economic growth.</p>
Level	Mark	Descriptor
Level 4	7-8	Look for logical examination of the significance of the reasons why the government may choose to invest large sums in education and training. At this level the candidate should consider the benefits of education and training for different stakeholder groups. At this level expect to see a recognition that investment in education and training could have significant benefits for economic growth and could be a strategy to ensure that the British economy can remain competitive in the face of cheap imports. Response should be developed to demonstrate appropriate knowledge supporting clear evaluation.
Level 3	5-6	Sound explanation of reasons why the government may choose to invest large sums in education and training with some attempt made at analysis. Consequences should be identified but at this level may not be fully developed. Response will not develop evaluative comment. Evaluation is implied rather than being fully developed.
Level 2	3-4	Points are made demonstrating an understanding of the reasons for government investment into training and education.
Level 1	1-2	Relevant assertions indicating some relevant insights regarding the reasons for investment into training and education. Answer at this level is likely to be largely descriptive. Higher skills are not developed. Answers are knowledge based.

Question Number	Indicative content
1(d)	<p data-bbox="429 461 1086 488">Knowledge 2 Application 2 Analysis 2 Evaluation 4</p> <p data-bbox="429 521 531 548">10 marks</p> <p data-bbox="429 589 1342 824">Companies can increase productivity in a variety of ways. The most obvious methods involve automation and computerization which minimize the tasks that must be performed by employees. Recently, less obvious techniques are being employed that involve ergonomic design and worker comfort. A well motivated employee, the theory maintains, can produce more than a counterpart who is demotivated. Reward candidates who seek to use motivation theory in their answer.</p> <p data-bbox="429 864 1190 925">Candidates may also seek to apply their knowledge of lean production.</p> <p data-bbox="429 965 1318 1200">Reward all valid responses which draw on established theory. For example - some studies claim that measures such as increasing workplace temperature can have a drastic effect on office productivity. Experiments also suggested that productivity could be increased by means of perfuming or deodorising the air conditioning system of workplaces. This type of response is likely to be less common, but remains valid.</p> <p data-bbox="429 1240 1350 1301">Some candidates may choose to examine macro economic factors such as exchange rates.</p> <p data-bbox="429 1341 507 1368">Level 4</p> <p data-bbox="429 1373 1302 1541">Look for appropriate examination of two strategies which might be employed to increase manufacturing productivity. Candidates may, for example, argue that lean production could help to improve productivity. Candidates demonstrate appropriate knowledge of economic and business theory and offer evaluative comment.</p> <p data-bbox="1209 1543 1353 1570" style="text-align: right;">9-10 marks</p> <p data-bbox="429 1581 507 1608">Level 3</p> <p data-bbox="429 1612 1342 1742">Look for logical explanation and clear analysis of two strategies which might be employed in order to increase manufacturing productivity. Candidates are likely to demonstrate good knowledge of business and economic theory.</p> <p data-bbox="429 1783 544 1809">7-8 marks</p> <p data-bbox="429 1814 507 1841">Level 2</p> <p data-bbox="429 1845 1318 1975">Sound insights but analysis of strategies which might be employed in order to increase manufacturing productivity will not be fully developed. Candidates should be able to demonstrate a clear link between their chosen strategies and increased output.</p>

	<p>4-6 marks  Level 1  Some valid insights offered  1-3 marks</p>
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Question Number	Indicative content
2(a)	<p>Knowledge 3 Application 3</p> <p>6 marks  Incomes are one of a number of variables in the housing market. The best candidates will recognise this and will qualify their responses accordingly. Private housing is a normal good for most people. As average living standards rise, the total demand for housing expands, as does the demand for more expensive properties as people look to move "up market". It would therefore be reasonable to expect a rise in incomes to lead to a shift in the demand curve to the right.</p> <p>Other factors such as employment levels, consumer confidence and changes in government policy regarding housing subsidies and taxes may counter the affect of any changes in income.</p> <p>Two plausible points are identified and the relationship to the demand for housing is explicitly stated.</p> <p>5-6 marks  Candidates offer a partial examination of the relationship between incomes and housing demand. One plausible reason explained or two partially developed points would be sufficient to access this level. An appropriate diagram with an inadequate explanation could also access this level.</p> <p>3-4 marks  Candidates look briefly at only one point with limited development</p> <p>1-2 marks</p>



Question Number	Indicative content
2(b)	<p data-bbox="507 539 1353 808">Return on Capital Employed (ROCE) is used in accounting as a measure of the returns that a company is realizing from its capital employed. The ratio can also be seen as representing the efficiency with which capital is being utilized to generate revenue. It is commonly used as a measure for comparing the performance between businesses and for assessing whether a business generates enough returns to pay for its cost of capital.</p> <p data-bbox="507 846 1353 1115">6 marks Operating profit may increase because one of the variables changes. Operating profit may rise or fall. Changes in operating profit may be due to an increase/reduction in sales or a change in the firm's costs. Alternatively the amount of capital employed may change. In answering this question we are looking for candidates to explain why this change may occur.</p> <p data-bbox="507 1153 986 1182">Two plausible points examined well</p> <p data-bbox="507 1220 1353 1391">5-6 marks One plausible reason explained accompanied by one or two plausible but unexplained points such as, a fall in interest rates might have led to an increase in sales as the cost of borrowing fell.</p> <p data-bbox="507 1429 1353 1554">3-4 marks Candidates look briefly at only one reason or two reasons are listed without development as to why Persimmon's ROCE may have changed.</p> <p data-bbox="507 1592 643 1621">1-2 marks</p>

Question Number	Indicative content
2(c)	<p data-bbox="507 1700 1182 1729">Knowledge 1 Application 3 Analysis 3, Evaluation 1</p> <p data-bbox="507 1767 1353 1962">8 marks Persimmon may wish to purchase Westbury in order to increase shareholder value. Purchasing Westbury may enable Persimmon to exploit economies of scale. This refers to the fact that the combined company can often</p>

		<p>reduce duplicate departments or operations, lowering the costs of the company relative to theoretically the same revenue stream, thus increasing profit.</p> <p>Purchasing a competitor may enable Persimmon to increase its market power (by capturing increased market share), giving Persimmon greater power to set prices.</p> <p>Synergy may be achieved enabling more effective use of complementary resources.</p>
Level	Mark	Descriptor
Level 4	7-8	Examination is balanced leading to an evaluative conclusion. There should be a clear appreciation of the reasons behind Persimmon's decision to purchase Westbury homes. At this level candidates are expected to have a clear appreciation of how investment might be used to facilitate change and also relationship to other factors influencing change management such as the attitude of staff to change. At this level candidates will be expected to demonstrate clear evaluation
Level 3	5-6	Sound application of knowledge to the context. Explanation of the reasons for acquiring Westbury homes may not be fully developed. Responses which offer only one reason may access the lower end of the mark range. Candidates should offer some plausible explanation as to how Persimmon's decision to purchase Westbury might benefit it. Evaluation at this level may be limited.
Level 2	3-4	Candidates will develop some relevant reasons why Persimmon may wish to purchase a rival. Responses will rely to a large extent on assertion rather than coherent evaluation.
Level 1	1-2	Some merit in assertions but no creditable development of a response which assesses the importance of investment to the management of change.

Question Number	Indicative content
2(d)	<p>Knowledge 2, Application 2, Analysis 2, Evaluation 4</p> <p>10 marks</p> <p>A range of possible strategies could be used, ranging from taxation on second homes to tax incentives to house owners to encourage letting. Social housing could be increased by government investment. New housebuilding could be stimulated by clearing and cleaning brownfield sites. Relaxation of planning controls could also be an effective measure. This has recently been proposed. The government has also considered giving local councils the right to seize unoccupied property and rent it out. The difficulty will always remain that land available for development is finite.</p>

		<p>Government may try to encourage people to buy where there is a housing surplus rather than where there is a housing shortage. This is likely to be difficult.</p> <p>Candidates may propose that one strategy would be to do nothing and allow market forces to achieve a market equilibrium. The danger of this is that inflationary pressures may build up.</p>
Level	Mark	Descriptor
Level 4	8-10	Responses should focus on two plausible points developed in context, with analytical development of points building to a convincing evaluative conclusion. For example at this level candidates are detailed examination of two strategies to address the housing shortage.
Level 3	5-7	Expect a convincing application of knowledge leading to the development of appropriate strategies to address the housing strategies. Examination of the strategies may be one-sided. Expect to see clear application of toolkit. At this level candidates may be able to identify appropriate strategies to address market disequilibrium.
Level 2	3-4	Sound points are made with candidates developing potentially valid assertions as to how the housing shortage might be addressed. Candidates may access the lower end of the mark range if they identify an explanation for the imbalance in one of the housing markets.
Level 1	1-2	Responses have some merit. Knowledge may not be applied in context. General comments about the housing market may be made.

Question Number	Indicative content
3(a)	<p>Knowledge 3 Application 3</p> <p>6 marks</p> <p>Candidates will be expected to understand that depreciation is a decline in the value of one currency relative to another currency and that depreciation occurs when, because of a change in exchange rates, a unit of one currency buys fewer units of another currency. In the context of the question this means that US profits when converted into sterling may be less than if the exchange rate had remained unchanged.</p> <p>A plausible explanation of the exchange rate movement is made. Candidates should be able to explain that profits converted into sterling may be less than before devaluation.</p> <p>5-6 marks</p>

	<p>A partial explanation of the impact of devaluation is offered. Candidates may drift from the question focus i.e. the impact on the profits of Wimpey. Answers may drift towards the abstract.</p> <p>3-4 marks</p> <p>Candidates look briefly at possible consequences. There may be errors evident in the response</p> <p>1-2 marks</p>
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Question Number	Indicative content
3(b)	<p>Knowledge 2 Application 2 Analysis 2</p> <p>One way of measuring economic growth is by measuring GDP. (<u>Gross domestic product</u>), GDP, is defined as the total value of all goods and services produced within a country during a given year. GDP is designed to measure the market value of production that flows through the economy.</p> <p>There are three methods of calculation - calculating total income, output and expenditure. A growing business can help to increase the value of total output and therefore increase GDP.</p> <p>One firm growing, however large, is unlikely to bring about significant growth in the economy overall. For this to happen a significant number of firms will have to grow.</p> <p>Expect to see two plausible points examined well. Candidates at this level should identify that a single firm growing is unlikely to create a dynamic and growing economy and will be able to explain the link between growing firms and a growing economy. At this level the response may lack balance. Candidates may overstate the significance of Persimmon growing.</p> <p>5-6 marks</p> <p>At this level the critical awareness may be lacking. Nonetheless candidates should be able to establish a causal link.</p> <p>3-4 marks</p> <p>Candidates look briefly at the potential relationship but fail to demonstrate a theoretical understanding. Points may be listed without development.</p>

	1-2 marks
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Question Number		Indicative content
3(c)		<p>Knowledge 1 Application 3 Analysis 3 Evaluation 1</p> <p>8 marks</p> <p>Widening gap between North and South is likely to have an impact on the type and quantity of goods and services consumed. There are also implications for population movement and investment. The following indicators of a North-South divide may become more pronounced:</p> <ul style="list-style-type: none"> <li>• Health conditions, which are generally seen as being worse in the north.</li> <li>• House prices, which are higher in the south, particularly the south-east.</li> <li>• Earnings, which are higher in the south and east. The differential may become more pronounced</li> <li>• Government expenditure may be diverted to reduce the adverse consequences of the North-South</li> <li>• Political influence may become more centred in the South and this may cause alienation amongst some of the electorate.</li> <li>• Consumption of income elastic goods may vary from region to region. Issues of unemployment, trade off of quality of life of migration.</li> </ul>
Level	Mark	Descriptor
Level 4	7-8	Examination is balanced leading to an evaluative conclusion regarding the impact that a widening gap in the North-South divide may have upon patterns of demand. Responses are likely to demonstrate a clear appreciation of the impact of the divide on employment, incomes and living standards. The

		consequence for investment may also be considered.
Level 3	5-6	Sound application of knowledge to the context. Explanation of the effect of a widening economic divide between North and South are considered. The response may lack balance and evaluation may be weak.
Level 2	3-4	Candidates develop some relevant issues. Responses will rely to a large extent on assertion rather than coherent evaluation of the impact of the widening North-South divide.
Level 1	1-2	Some merit in assertions but no creditable development of a response focusing on the likely effects of a widening divide.

Question Number	Indicative content
3(d)	<p>Knowledge 2 Application 2 Analysis 2 Evaluation 4</p> <p>10 marks</p> <p>Rising employment may have a number of consequences for firms. Rising employment may create labour shortages in some sectors of the economy. This may lead to wage levels rising. In turn this has the potential to cause cost-push inflation. A general and sustained rise in prices may prompt intervention by the MPC.</p> <p>Increasing wage costs could affect business costs. The ability to pass these costs onto the consumer will depend upon the ability of firms to pass the cost onto their customers. This may depend upon Ped.</p> <p>Higher levels of employment may lead to increased consumer spending which could stimulate aggregate demand. Some firms may benefit as a result.</p> <p>Overall there are likely to be winners and losers.</p> <p>The Phillips curve is a historical inverse relation and tradeoff between the rate of unemployment and the rate of inflation in an economy. Stated simply, the lower the unemployment in an economy, the higher the rate of change in wages paid to labour in that economy.</p> <p>It is reasonable to expect knowledge of the Phillips curve for this response. Alternative theories may be identified but are not required in order to access the highest level of the mark range.</p>

Level	Mark	Descriptor
Level 4	8-10	Responses should focus on the plausible points developed in context, with analytical development of the potential impact of rising employment on firms. Look for appropriate use of theory.
Level 3	5-7	Sound application with the development of appropriate explanations based upon appropriate knowledge. Responses will lack sound evaluation. Expect to see application of appropriate toolkit and some appreciation of the potential tradeoffs. Consequences for firms of rising employment should be identified. Positive and negative consequences should be considered at the top of the mark range.
Level 2	3-4	Sound development of a response which shows an understanding of the implications of rising employment for firms. Explanations are not developed to support analysis and evaluation. Examination of the impact of rising employment are likely to be one-sided. For example candidates may focus on rising wage costs.
Level 1	1-2	Responses have some merit. Knowledge may not be applied in context. At this level it might not be unreasonable to expect an understanding of the meaning of the relevant terms.

Question Number	Indicative content	
4(a)	Knowledge 2 Application 3 Analysis 3 Evaluation 2  10 marks Manufacturing costs could be reduced using a number of approaches. Possible strategies include the adoption of lean production strategies, automation and outsourcing. Staff training and capital investment may also be suggested. Reward all valid responses to this question. The stimulus refers to motivation and this may be considered as one approach	
Level	Mark	Descriptor
Level 4	8-10	Responses should focus on two plausible points developed in context, with analytical development of points building to a convincing evaluative conclusion. At this level we expect a critical examination of the approaches proposed.
Level 3	5-7	Sound application with the development of appropriate explanations based upon appropriate knowledge. Responses will lack sound evaluation. Expect to see clear application of toolkit
Level 2	3-4	Sound development of two points with candidates developing valid assertions. Explanations are not developed to support analysis and evaluation.

Level 1	1-2	Responses have some merit. Knowledge may not be applied in context. Expect to see some recognition of ways that costs can be controlled.

Question Number		Indicative content
4(b)		<p>Knowledge 3 Application 5 Analysis 4 Evaluation 8</p> <p>Motivational strategies may improve productivity. They may also improve worker satisfaction, reducing absenteeism and staff turnover. It is appropriate to recognise that motivating staff does not always lead to improved profitability. The most able candidates will recognise this.</p>
Level	Mark	Descriptor
Level 4	16-20	Knowledge is applied in context. Responses should be plausible, in context, with analytical and evaluative development of points
Level 3	11-15	Sound knowledge and application in context, with the development of analysis but without convincing evaluation.
Level 2	6-10	Responses draw on the evidence, but with thin or flawed analysis. There is likely to be a reliance on assertion or implication.
Level 1	1-5	Candidates attempt to apply knowledge to the question. Answers may be fundamentally flawed. Logical development is lacking but responses hint at something of merit. Simple insights regarding the benefits of new product development will be offered.

Question Number		Indicative content
5(a)		One reason may be to provide public goods. Public goods



		<p>provide an example of market failure, in which market-like behaviour of individual gain-seeking does not produce efficient results. The production of public goods results in positive externalities which are not remunerated. No private organisation can reap all the benefits of a public good which they have produced, there will be insufficient incentives to produce it voluntarily. Consumers can take advantage of public goods without contributing sufficiently to their creation. This is called the free rider problem. Government may step in to provide these goods.</p> <p>A second reason may be to provide merit goods. Government may choose to encourage greater production or consumption of a merit good through state provision, regulation, or subsidies to encourage production of the good.</p> <p>Government may also intervene to protect consumers from the excesses of dominant firms. Regulation and policies to stimulate competition may be suggested.</p>
Level	Mark	Descriptor
Level 4	8-10	<p>Knowledge is applied in context. Responses should be plausible, in context, with analytical and evaluative development of points. A wide range of possible points might be made. One possibility might be for candidates to consider the arguments for the provision of public and merit goods. Reward candidates who are able to sustain evaluative comment at L4. Reward all valid responses.</p>
Level 3	5-6	<p>Sound knowledge and application in context, with the development of analysis but without convincing evaluation of the impact of government economic policy.</p>
Level 2	3-4	<p>Responses draw on the evidence, but with thin or flawed analysis. There is likely to be a reliance on assertion or implication regarding the reasons why governments may choose to intervene into markets .</p>
Level 1	1-2	<p>Candidates attempt to apply knowledge to the question. Answers may be fundamentally flawed. Logical development is lacking but responses hint at something of merit. Knowledge of why government may wish to intervene into markets.</p>

Question Number	Indicative content
5(b)	<p>Greenfield sites are areas of land, usually agricultural or amenity land, which are being considered for urban development. This is a highly contentious issue, particularly in the UK, where the development of land is split between Greenfield and brownfield sites. It becomes contentious, and political, due to a limited amount of physical space available, competing with an expanding population that needs housing. The effects of developing Greenfield sites are that: once land</p>

		<p>has been converted to development, it is unlikely to ever be converted back to Greenfield use; development may lead to the destruction of the natural habitat of some animal and plant species; loss of agricultural land results in loss of production and loss of employment; reduction of or complete loss of amenity or recreation value; the negative effect upon transport and energy use and loss of the green belt of agricultural or designated wildlife land, that clearly defines and separates areas of difference, be they cities, towns, suburbs, villages or hamlets of housing. Increasingly popular is the reference to carbon footprint associated with development.</p> <p>The positive externalities may be seen in the development of energy efficient housing and raising the standard of the housing stock. The current demand for housing exceeds available supply at the moment and new housebuilding could address the market imbalance and stabilise house prices. Social benefits may also accrue in terms of improved quality of life.</p>
Level	Mark	Descriptor
Level 4	16-20	Responses should focus on at least two plausible points developed in context, with analytical development of points building to a convincing evaluative conclusion.
Level 3	11-15	Sound application with the development of appropriate explanations based upon appropriate knowledge. Responses will lack sound evaluation. Expect to see clear application of toolkit.
Level 2	6-10	Sound development of two points with candidates developing valid assertions. Explanations are not developed to support analysis and evaluation.
Level 1	1-5	Responses have some merit. Knowledge may not be applied in context.

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