

Examiners' Report  
January 2013

GCE Economics and Business 6EB02 01

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## **Introduction**

It was pleasing to see candidates showing a sound grasp of economic and business concepts. There appeared to be better use of precise economic and business terminology throughout rather than generalised comments. Again, the more able candidates demonstrated excellent application of their knowledge to the precise question set, while the less able candidates attempted questions from a 'common sense' approach rather than demonstrating any economic and business concepts. Examination timing skills appeared to be very good on the whole with the majority of candidates completing all questions fully.

## **Section A Marking**

There are a variety of ways to gain marks for part (b) Supported Multiple Choice questions: 1. If responses in part (a) are wrong then the maximum mark available for part (b) is 2 marks. If a candidate does no more than explain distracters in part (b) then a maximum of 2 marks is awarded. We expect to see at least a definition or explanation for selecting the correct response. Some candidates only explain why their chosen answer is correct and depending upon the quality/development of this answer, they can score 3 marks for part (b). We expect to see candidates who have briefly explained the correct answer followed by explanations as to why the other options are incorrect. This method can gain the candidate 3 marks.

2. Again, it is essential that candidates are taught how to tackle these questions and it is quite evident that some centres do spend time preparing and practicing these types of questions. It is not sufficient enough to simply state that the other options are incorrect. The candidate should explain why the distracters are incorrect. If the examiner can ask the question 'why?' then the answer is not fully developed to gain marks.

## Question 1

On the whole, this question was answered correctly for part (a), an increase in Empowerment. Many candidates managed to gain at least 2 marks for their explanation as to why there would be an increase in empowerment as well as a definition of TQM. In addition, many then explained how TQM would lead to a decrease in wastage levels (option B)

1 (a) Tata Steel uses Total Quality Management (TQM) in its steel production processes.

Which **one** of the following is likely to increase as a result of Tata Steel using TQM?

(1)

- A Empowerment
- B Wastage levels
- C Labour turnover
- D Stock levels

Answer

A

(b) Explain your answer.

(3)

TQM is the concept that everyone in the business has an active role in improving quality in all stages of the production process. As everyone has an active role in doing so, this will increase empowerment for each employee as they have an important role in the success of it. Wastage levels are likely to decrease as TQM will aim to minimise wasted ~~from~~ ~~containing~~ materials. Stock levels will stay the same.



### ResultsPlus Examiner Comments

This response scored 3 marks for part (b) by defining TQM (1 mark) and then by showing why TQM might lead to an increase in empowerment (1 mark). They also mentioned why there would be less wastage levels due to TQM (1 mark).



### ResultsPlus Examiner Tip

You can gain 1 Knowledge mark for a definition of a key term. This can be either from the question itself or the correct answer. No definition marks are available for the incorrect options.

## Question 2

This question was testing whether the candidate could understand the difference between perfect and imperfect competition. This was answered well with most candidates selecting the correct answer for part (a). Many responses gained up to 2 additional marks by explaining why the distracters were incorrect. It was pleasing to see that candidates have learnt economic concepts such as perfect competition and were able to show the difference.

2 (a) The model of perfect competition is at one end of the spectrum of competition.

Which **one** of the following is a characteristic of a perfectly competitive market?

(1)

A Several large firms dominating the market

B Homogeneous products ✓

C Non-price competition ✗

D High barriers to entry ✗

Answer

B

(b) Explain your answer.

(3)

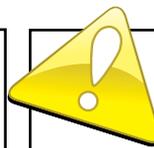
A perfectly competitive market is one which has lots of buyers and sellers. They usually have many businesses which are competing and selling products which are the same. They do not have high barriers to entry as there are lots of companies in the market and anyone can sell the products and enter the market. They are likely to be homogeneous products, which means all the products in the market are the same and this is why the market is competitive - as companies compete to sell the same items.

(Total for Question 2 = 4 marks)



### ResultsPlus Examiner Comments

This response scored 3 marks for part (b). Marks were allocated for a combination of explaining the correct answer and using the distracters. There is good use of economic and business terminology throughout the response.



### ResultsPlus Examiner Tip

It would have been better if the candidate had used some sort of example to contextualise their response. However it does gain all 3 marks for part (b). Using the context provided or a candidate's own example always enhances a response.

### Question 3

Economies of scale questions always seem to cause problems for candidates who incorrectly choose a decrease in total costs rather than a decrease in average costs per unit. Again, many candidates are unable to define economies of scale and tend to attempt it with some sort of reference to 'bulk buying'. There is an assumption that there is only purchasing economies of scale and ignore others such as technical, managerial, marketing and financial economies of scale. Examiners rewarded candidates who could fully explain why profitability may in fact increase due to a reduction in average costs. Better responses were able to contextualise their comments with references to pizzas and the purchasing of cheese!

- 3 (a) Goodfella's Pizza use mass production techniques to produce more than 150 million frozen pizzas a year. This helps the company to achieve economies of scale.

Economies of scale for Goodfella's are **most likely** to lead to a decrease in

(1)

- A output levels
- B total costs
- C average costs
- D profitability

Answer

C

- (b) Explain your answer.

(3)

Economies of scale are when the long-run increase in output leads to a reduction in unit costs. Average costs will fall because fixed costs will be shared across a greater quantity of output, leading to internal economies of scale. Total costs are in fact likely to rise because a greater quantity of output suggests more materials and labour will be required.



**ResultsPlus**  
Examiner Comments

This response scored 3 marks for part (b) as they fully explained why average costs would decrease as well as why total costs would in fact increase. Use of the context would have enhanced this response.



**ResultsPlus**  
Examiner Tip

Always explain at least 1 of the distracters in order to gain vital marks for part (b). If short of time, then just explain 1 rather than 2.

## Question 4

This question required the candidate to select the correct way to measure labour productivity. Many were able to correctly identify this for part (a) but were unable to fully explain their answer for part (b) and simply repeated the answer from part (a). Examiners were looking for some reference to what labour productivity measured or that it could be used to see how efficient a workforce was. Candidates were awarded marks for giving a numerical example or stating that it could be compared with other countries such as China.

- 4 (a) Between 2005 and 2011, labour productivity in the UK grew on average by less than 1% compared to 10% in China.

Labour productivity is measured by

(1)

- A hours worked per worker
- B output per worker in a fixed time period
- C the knowledge and skills of a workforce
- D the level of motivation of a workforce

Answer

A  
 B  
 C  
 D

- (b) Explain your answer.

(3)

Labour productivity is how efficient a labour force are in that by how productive they are. It would not be measured hours per worker as that still doesn't define how ~~prod~~ much they are producing. It also wouldn't be the knowledge and skills of a workforce as this also doesn't necessarily effect their practical skills in producing. The level of motivation would have an effect on a workforce as the more motivated then the more likely they are going to produce more, however labour productivity can't be measured by this.

(Total for Question 4 = 4 marks)



### ResultsPlus Examiner Comments

This response narrowly scored 3 marks for part (b) as it does explain that labour productivity can be used to see how efficient workers are, plus a combination of why the distracters are incorrect.



### ResultsPlus Examiner Tip

If in doubt over an answer for part (a) then fully explain 2 of the distracters to gain 2 marks.

## Question 5

This question caused some candidates problems as they clearly did not know what was meant by 'structural change' which is a fundamental part of the specification (2.3.6). Many confused this with macroeconomic change often referring to recession or the business cycle. The better answers were able to use examples to show that there has been a change from primary and secondary sectors to the tertiary sector. They were then able to use one of the distracters to pick up an additional mark.

5 (a) There has been significant structural change in the UK economy in recent years.

Which **one** of the following is an implication for UK business resulting from this structural change?

(1)

- A Increased opportunities in the knowledge economy
- B A reduction in employment in all industries
- C Reduced uncertainty
- D An increase in demand for all goods and services

Answer

A

(b) Explain your answer.

(3)

Structural change in the UK has been from the primary manufacturing sector to the tertiary knowledge sector, so more people can be employed in services such as banking and law. There will be increased uncertainty as people who work in steel manufacturing may lose their jobs. There won't be a reduction in employment everywhere, as people will find new jobs in different sectors.



**ResultsPlus**

**Examiner Comments**

This response gains all 3 marks for their understanding of structural change with examples to support this. They have also explained option B.



**ResultsPlus**

**Examiner Tip**

Use context to help structure your answer.

## Question 6

This was the only calculation on the paper and the majority of candidates answered part (a) correctly. To get full marks for part (b) candidates needed to show the formula (or definition of PED) + their workings with the figures given in the stem. Candidates did not need to show - or + signs. Candidates **did not** need to state that the result was elastic either as this was a supported multiple choice. It was very discouraging to see many candidates still getting the formula the wrong way round and therefore incorrectly putting option B for part (a). A tip is to remember Queen and Peasants! The Queen (Quantity Demanded) is always above her Peasants (Price). Simple but effective!

- 6 (a) In August 2011, Primark cut the price of its clothing by 20% which led to clothing sales increasing by 40%.

Calculate the price elasticity of demand for Primark's clothing.

(1)

A -0.25

B -0.5

C -1.0

D -2.0

Answer



- (b) Explain your answer (show your workings).

(3)

$$\frac{\% \text{ change in quantity demanded}}{\% \text{ change in price}}$$

$$\frac{40\%}{20\%} = -2.0$$

The answer is D as it is -2.0. This means that it is price elastic meaning demand rises more than price.



### ResultsPlus Examiner Comments

This response scored 3 marks:

1 mark for the correct formula

2 marks for using the correct figures.

Although, the candidate did explain that the result was elastic, this was not needed.



### ResultsPlus Examiner Tip

Always show the formula and your workings for a calculation question.

## Question 7

The assessment objectives for this question was Knowledge 1, Application 1 and Analysis 2. Some candidates defined what was meant by either exports or a weaker pound in order to gain the Knowledge mark. Many candidates simply did not show any application but did show some analysis.

- 7 Explain why the 'weaker pound' may have helped to boost exports from UK businesses using eBay (see Evidence A, lines 4-6).

with a weaker pound as <sup>fashion</sup> ~~clothes~~ company such as Hollister using ebay to sell its products will see more exports from the UK as the pound is now worth less in other countries such as  $\text{£}1 = \$1.50$  to  $\text{£}1 = \$1.40$  so you can get more <sup>pounds</sup> ~~off your~~ for your own currency so <sup>it seems</sup> ~~the~~ cheaper to purchase products from the UK as there money is now worth more in pounds leading to higher exports for Hollister. Exports are the products which are bought from a country and delivered abroad.



### ResultsPlus Examiner Comments

I really like this example as there was very good application to Hollister of the impact of a weaker pound. The candidate also uses exchange rate data to illustrate the impact. This response scored 4 marks.



### ResultsPlus Examiner Tip

If you get a question on exchange rate then remember SPICED (strong pound imports cheap exports dear) or WPIDEC (weak pound imports dear exports cheap) to help you work out the impact on both importers and exporters. Using exchange rate data is also classed as Application so can gain you marks if you do not write in a specific context.

## Question 8

The assessment objectives for this question were Knowledge 1, Application 1 and Analysis 2. This proved difficult for some candidates who just stated 'profit attracts businesses' (which is given in the question) and examiners were looking for **why** this might happen. Candidates were allowed Knowledge marks for a definition of profit or an explanation of the profit signalling mechanism. For Application, candidates were awarded for any marketplace and it did not have to be eBay but many candidates did use the case study regarding the number of eBay millionaires to show why this might attract new entrants into the market.

8 Explain why high profits can act as a signal to enter a marketplace such as eBay.

Profits is the difference between total revenue and total costs. Profits are usually the main motivation for businesses and entrepreneurs. As the current businesses turning over more than £1 million pounds is expected to increase and reports are higher, other ~~the~~ businesses would find this attractive and see that they would gain high profits if they sell on eBay because customers buying from eBay are plenty so there is high demand so they would take the opportunity to make high profits and start selling on eBay probably things with high demand. Fashion, cars, electronics

(Total for Question 8 = 4 marks)



**ResultsPlus**

**Examiner Comments**

This response scored 4 marks. There was a definition of profit and the answer was written in context of the increasing number of eBay millionaires. The candidate did state that profit was the main motivation for businesses.

## Question 9

Many candidates were able to apply the impact of rising unemployment in major cities to either an increase or decrease in sales of inferior and luxury goods. Many candidates also saw this as an opportunity for redundant workers to start up their own business on eBay due to low barriers to entry. Analysis could be both positive and negative and many candidates did very well on this question. There was good use of economic and business terminology which is very pleasing.

- 9 Analyse **two** ways in which businesses selling on eBay might be affected by increased unemployment in large cities.

One way which unemployment may affect a business on eBay is the reduced profit margin a business could have. For those companies selling cars or other luxury goods, it is unlikely that demand will be high, if the majority of potential ~~cars~~ buyers are either unable to do so due to a low disposable income, or because the consumer does not need a consumer durable, such as a car. Therefore, if demand is low, then the prices for their product may have to be ~~also~~ decreased in order to provide an incentive to buy. A similar problem presents itself with electronic vendors.

However, it could be argued that areas with a higher unemployment rate may not be affected, as they are large cities such as London, Birmingham and Nottingham. There may still be a large pool of demand for other products, such as clothing and electronics, which appeal more to larger cities, which may tend to be more modern and/or fashionable. Therefore, unemployment will only affect businesses on eBay depending on the type of product it sells. Demand will be high for clothing, such as rare dresses or shoes, but not so high for luxury or extreme luxury goods, like ~~cars~~ expensive cars (as opposed to second- or third-hand cars).



### ResultsPlus Examiner Comments

This response scored 6 marks and was very well structured. There was plenty of context through the response with good use of economic and business terminology rather than a 'common sense' approach which is often seen in Section B.



### ResultsPlus Examiner Tip

Always write in context for Section B. Spend time reading the evidence before tackling any questions.

## Question 10

The majority of candidates did well on this question with many being able to give 2 separate reasons why 'Child of the Jago' was able to survive despite the industry being dominated by larger businesses. It was pleasing to see that the evidence was being used in answers with references to the small batch sizes and reusing of old material to make the clothing. Better answers really developed their reasons and showed detailed analysis for both points.

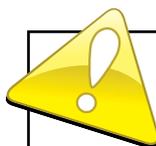
10 Analyse **two** reasons why 'micro businesses' such as 'A Child of the Jago' are able to survive in industries dominated by large businesses.

Micro businesses are businesses which sell ~~products~~ products to niche markets. One reason why micro businesses such as 'A Child of the Jago' are able to survive is because they are able to charge high prices as their products are usually price inelastic. Price inelastic products allow businesses to make a large increase in price, while causing a small change in quantity demanded. ~~The~~ The reason for this is because micro businesses usually produce one-of-a-kind products as they are products which are designed for a specific consumer for example, tailor made men's shirts. The micro business is able to charge a high price as there is usually minimal copies of the same product which makes the product exclusive. ~~Another reason why micro businesses~~ Another reason why 'A Child of the Jago' is also able to survive is due to the fact that the business has a unique selling point which is a competitive advantage. ~~Some consumers~~ As the business offers some consumer sovereignty, like high quality and innovative products, consumers are willing to pay the extra price. In conclusion, I believe that micro businesses can be successful even though they cannot benefit from economies of scale as they are able to charge premium prices.



### ResultsPlus Examiner Comments

This response was excellent and showed great analysis in context. It was very well structured and used economic and business terminology.



### ResultsPlus Examiner Tip

Use the context provided to give examples to show understanding. Good use of economic and business terminology will always be welcomed.

## **Question 11**

This question was an 'Assess' question therefore examiners were looking for evaluation and used a levels of response mark scheme. If there was an attempt at analysis (no context was needed), then Level 3 could be achieved. For Level 4, there did need to be context and examiners awarded 4 marks if one side only was in context and 5 marks if both were in context.

This question specifically asks for methods to reduce uncertainty **due to macroeconomic change** and many candidates ignored this part of the question and simply wrote about methods to 'reduce uncertainty' without any reference to macroeconomic change such as GDP, inflation, unemployment etc. Candidates had to show how using methods such as market research and contingency planning (the two most popular methods) could help 'Child of the Jago' to reduce uncertainty caused by macroeconomic change. Many simply evaluated market research with no reference to any context or to the macroeconomic indicators so restricted their marks for this question.

## Question 12

The assessment objectives were split: Knowledge 1, Application 2, Analysis 1 and Evaluation 3 for both parts of this question. Many candidates were able to write in context and did use the evidence from the case study. In order to get into Level 3, context was not needed but in order to get into Level 4, there had to be context; examiners awarded 5 marks if only one side was in context and 6+ if both sides were in context.

Many candidates approached this question from looking at how Fox Brothers could increase its revenue/sales (i.e. through marketing strategies, advertising etc) and how Fox Brothers could decrease its costs (i.e. lean production, redundancies etc). Examiners were looking for how these strategies could make Fox Brother's profitable.

Fox Brothers is currently unprofitable.

\*12 Evaluate **two** possible strategies Fox Brothers might adopt in order to become profitable.

Strategy 1

(7)

One strategy Fox Brothers may adopt is to raise the price of its wool and cashmere. As it currently supplies to top fashion houses and some raw buyers, it is likely a small increase in the cost of this wool would be relatively unnoticed if Fox Brothers can keep the quality the same throughout every batch produced. Initially they would see an increase in profitability. This profit made could be invested into developing new, more efficient ways of producing the wool, further raising its profit margin.

However, it is dependent upon the level of competition that Fox Brothers have got. Although wool could be classed as generally a homogeneous product, it could ~~also~~ be argued that alternative companies producing this wool do not take advantage of the increase in price to widen customer base. When selling homogeneous products such as wool, the only way businesses can compete is on price and so Fox Brothers need to consider this.

Only using top fashion houses as its main supplier could mean that Fox Brothers are limiting their profitability and that if these houses were to go out of business, they would realistically be left with no customers.

Another strategy could be to widen its customer base. If Fox Brothers were to successfully establish themselves with lower end fashion houses in providing wool, they may be able to reduce quality whilst still gaining extra profit.

However this may prove to be extremely risky when Fox Brothers have already established themselves as a supplier of "the most wool and consumers". This could lead to a reduction in sales or suppliers for Fox Brothers as valued expensive suppliers such as saule can take business elsewhere.

To avoid this however, Fox Brothers could consider making alternative materials to supply to a variety of customers. Therefore differentiating materials made from these other than wool, could spread the risk of selling to and end fashion houses, through diversification.

Usually, this way if the demand for products containing wool decreases, then Fox Brothers can still remain profitable through its alternative lines. Although in the ~~long~~<sup>short</sup> term this may actually increase for Fox Brothers, the long-term benefits of increased profitability would be a good opportunity cost to take.



### ResultsPlus

#### Examiner Comments

This response scored 7 marks for both parts as it was written in context and gave two clear strategies linked to increasing profitability for Fox Brothers.



### ResultsPlus

#### Examiner Tip

The command word 'evaluate' will require the candidate to give at least 1 advantage and 1 disadvantage (in context) to enter Level 4. If there is no context then the mark will be restricted to Level 3.

## Paper Summary

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

1. Read the SMC carefully in terms of most likely, least likely and except. Many did not spend enough time doing this and consequently misread 'least likely' for 'most likely'.
2. Contextualise responses both in Section A and Section B. This is particularly important for Section B where Level 4 can only be accessed if the response is in context.
3. Pay attention to the command words - Assess and Evaluate are largely ignored and this will restrict marks to Level 3.
4. Use economic and business concepts rather than generic 'common sense' answers.
5. Be able to accurately draw and label a supply and demand diagram. It is still very worrying that many candidates do not know how to correctly label axes and curves.
6. Read and use the Evidence provided - it is there for a reason!
7. Be able to calculate PED and YED.

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