

Examiners' Report
June 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. 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 explained why their chosen answer was 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 practising 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.

Question 1

The vast majority of candidates were able to get part (a) correct - oligopoly. Examiners only awarded the mark if a candidate used 'few' to define oligopoly and we did not accept '3-5', 'small number' and 'handful' as an accurate definition of oligopoly. Many candidates then did explain why this market structure was not a monopoly and it was pleasing to see candidates using the correct terminology in their responses.

- 1 (a) In 2011 the combined market share of Tesco, ASDA, Sainsbury's and Morrisons supermarkets was 75%.

This is best described as

(1)

- A a monopoly
- B an oligopoly
- C monopolistically competitive
- D perfectly competitive

Answer

B

- (b) Explain your answer.

(3)

An oligopoly is a market which is dominated by a few large firms, but also contains a number of smaller firms which have very little power over the market. It is not a monopoly, because this is when a market has just one dominant firm. It is also not monopolistically competitive, because that is when there are many small firms selling differentiated goods, with no dominant firm in the market. Finally it is not perfectly competitive, as this is when there are many small firms, selling homogenous goods, again with no dominant firm in the market.



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Examiner Comments

This candidate scored the full 3 marks for part (b). There is an accurate definition of oligopoly (1 mark) and then the candidate goes on to explain why the distracters are incorrect with very good use of economic terminology.



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 2

This question was answered correctly by the majority of candidates for part (a). Many gave either a definition of contingency planning or market research to gain 1 knowledge mark. The more able candidates were able to fully explain how market research could reduce uncertainty as well as a full explanation of the distracters.

2 (a) Lloyds TSB Bank plc advises its business customers to prepare a contingency plan.

Which **one** of the following is **most likely** to reduce uncertainty for a business?

(1)

- A Market research
- B Government intervention ✗
- C Macroeconomic change ✗
- D Exchange rate movements ✗

Answer

A

(b) Explain your answer.

(3)

A is correct as market research allows a business to see how the market was changing so allows them to prepare for any changes that may happen. Then could create a contingency plan and this would reduce the uncertainty for the business.

D is incorrect because if the business is involved in imports and exports in some way then a exchange rate movements are likely to worry a business causing uncertainty not reducing it.

B is incorrect as if the government intervened this could be bad for a business as it may impact anything from the products they are allowed to sell to what prices they are allowed to

(Total for Question 2 = 4 marks)

change for them. This would cause uncertainty.



ResultsPlus Examiner Comments

This response scored 3 marks for part (b). There was a fully developed explanation of why market research can help reduce uncertainty as well as why the distracters were incorrect.



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

This was a popular question with candidates, who had clearly understood the concept of the long tail and the impact of the internet on business. The question did ask about why price is likely to decrease and some candidates did not explain why this was the correct answer so restricted themselves to 2 marks for part (b). Examiners were looking for business/economic explanations as to why prices have decreased rather than common sense answers - the impact of lower overheads and fixed costs.

3 (a) Amazon, iTunes and Argos are all online retailers that stock a wide range of products.

An increase in online retailing has led to a decrease in

(1)

- A the number of consumers
- B choice of products
- C prices of products
- D consumer knowledge

Answer

C

(b) Explain your answer.

(3)

online retailing is selling products over the internet. C is correct because ~~of~~ selling over the internet ~~means~~ means that you don't need to have a decorated place where ^{customers come to} you sell products and you ~~only~~ don't need to rent out a premises you can store them in your home so lower costs so focused onto customers to give lower prices. B is incorrect because online retailing has lead to a (Total for Question 3= 4 marks)
increase in choice as you don't have to buy many products from shops. Also A is

incorrect because it has increased Number
of customers as they can buy when and
where they want and they don't
need to travel to buy a product.



ResultsPlus

Examiner Comments

This response scored 3 marks for part (b). We awarded 1 mark for the definition of online retailing. The candidate then fully explains why prices are likely to decrease with reference to premises and then explains why option B is incorrect.



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 4

This question posed problems for candidates. The majority of candidates were able to get part (a) correct but were unable to explain why this was the correct answer. Examiners were looking for **why** advertising on national TV would spread the fixed costs and therefore reduce average costs. Examiners did not reward simple definitions of the distracters and these had to be fully explained to gain marks. Again, examiners were looking for a precise definition of economies of scale - output not size.

- 4 (a) British Airways (BA) advertises using media such as TV and national newspapers. This policy helps to spread some of BA's fixed costs.

This is **best** described as

(1)

- A purchasing economies of scale
- B diseconomies of scale
- C managerial economies of scale
- D marketing economies of scale

Answer



- (b) Explain your answer.

(3)

Economies of Scale occurs when a business expands such that the average output cost per unit decreases. The above is an example of marketing economies of scale. Smaller businesses cannot compete with BA on a large scale. However, if smaller businesses target niches they may do better. ~~They~~ ^{easy} jet charges cheap flights which attract more individuals with less disposable income. whereas BA charge higher.

(Total for Question 4 = 4 marks)

B is wrong because diseconomies occurs when a companies average unit cost increase. This

is due to poor communication etc. A is wrong because this is to do with larger businesses buying in bulk on agreeing discounts which smaller businesses cannot.



ResultsPlus

Examiner Comments

This candidate gains the 3 marks for part (b) by giving a definition of economies of scale and then further develops why BA is able to do this unlike smaller businesses. The candidate also explains why the answer is not diseconomies of scale.

Question 5

It was pleasing to see that the majority of candidates were able to get part (a) correct and gain marks for part (b) with good use of economic and business terminology as to why Poundland sells inferior goods. Again, more able candidates used the economics and business concepts from the specification rather than 'common sense' answers.

- 5 (a) In March 2011, the retailer Poundland reported a record annual turnover of £642m which was a 26% rise on 2010 – at a time when consumers' real incomes were falling.

This suggests that Poundland sells

(1)

- A luxury goods ✗
B normal goods ✗
C complementary goods ○
D inferior goods ✓

Answer

D

- (b) Explain your answer.

(3)

$$YED = \frac{\% \text{ quantity demanded}}{\% \text{ change in income}}$$

Income elasticity is the ~~area~~ measure of responsiveness to a of demand to a change in income.

When incomes fall inferior goods have an increase in demand as they are cheaper substitutes to normal goods. For example, Poundland is much cheaper. This is because consumers have less disposal income to spend on luxury goods. Complementary goods are goods that go well with other products. This doesn't relate to Poundland.

(Total for Question 5 = 4 marks)



ResultsPlus
Examiner Comments

This response scored 3 marks for part (b). There was clear understanding and application as to why these were inferior goods with the use of economic/business terminology rather than just a common sense approach.



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Examiner Tip

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

Question 6

This question was probably the best answered by candidates. Many were able to write an accurate definition of empowerment as well as link this to motivation and therefore productivity. The distracters on this question seemed to be better developed by candidates and clearly this is a popular and well taught concept.

- 6 (a) Siemens AG had a turnover of nearly £60 billion in 2011. Siemens' operations are based on an empowerment culture called People Excellence.

Greater empowerment is **most** likely to result in

(1)

- A closer supervision of the workforce ✗
- B less worker participation in decision making ✗
- C increases in productivity ✓
- D less delegation of tasks ✗

Answer

C

- (b) Explain your answer.

(3)

Empowerment is the delegation of freedom and responsibility to staff by employers and managers. The answer is C, increases in productivity as workers are given more freedom in the workplace and therefore feel more motivated to work and work more efficiently, increasing the company's productivity such as Siemens AG £60 billion turnover in 2011. The answer is not A, because empowerment requires the delegation of freedom and allowing workers make decisions therefore close supervision is not needed in order to gain the result sought for in empowering workers.



ResultsPlus

Examiner Comments

This response gained 3 marks for part (b). There is an accurate definition of empowerment and then a fully developed explanation as to why productivity would increase as well as why the distracters were incorrect.



ResultsPlus

Examiner Tip

Try and use the context in the stem to enhance your response. This response has tried to tie it back to the stem with reference to the £60 billion turnover of Siemens AG.

Question 7

Many candidates were able to define dynamic market in order to gain 1 knowledge mark and then apply this to takeaway food such as a change in consumer tastes for Thai, Chinese and Indian food for the application mark. Examiners were looking for the impact of changing consumer tastes or the fact that there were low barriers to entry allowing easy entry and exit into the takeaway food industry. Many candidates incorrectly focused on the shortage of coconuts rather than why the market was dynamic in terms of changing food tastes and restaurants.

7 Explain **one** reason why the takeaway food market may be described as dynamic.

A dynamic market is a market that is constantly changing. The takeaway food market may be described as dynamic, because consumer tastes and preferences are constantly changing. For example, Indian takeaways have been extremely popular recently and as a result, some Chinese takeaways have suffered a loss in demand. Because consumer tastes are constantly changing, producers must be able to keep up with tastes using market research and must constantly look for ways to gain a competitive advantage, making ^{the market} dynamic.

(Total for Question 7 = 4 marks)



ResultsPlus Examiner Comments

This was an excellent response which starts off with a definition of a dynamic market. Excellent application and analysis and therefore scores the maximum 4 marks.



ResultsPlus Examiner Tip

Use the context provided to give examples to show understanding. Good use of economic and business terminology will always be welcomed. For Analysis, examiners are looking for a reason, cause or consequence.

Question 8

This question was testing PED with a simple calculation. Examiners still gave the full 3 marks to candidates who simply wrote the correct answer as this implied that they knew the formula for PED. It is better if candidates do write out the formula and show workings in case of mistakes in the calculation part of the question. Examiners did give 1 knowledge mark for the correct formula.

Candidates could still get 1 mark for part (b) even if they got the answer wrong for part (a) if they identified that PED was price inelastic.

- 8 It has been estimated that a 40% increase in the price of coconut milk would decrease demand by 10%.

(a) Calculate the price elasticity of demand for coconut milk.

(3)

$$\text{PED} = \frac{\% \Delta QD}{\% \Delta P} = \frac{-10}{40} = -0.25$$

(b) Comment on your result.

(1)

The result is price inelastic.



ResultsPlus

Examiner Comments

This candidate scored full marks for part (a) and (b). There is a correct PED formula given with the correct calculation performed. They also state that the result is price inelastic for part (b).



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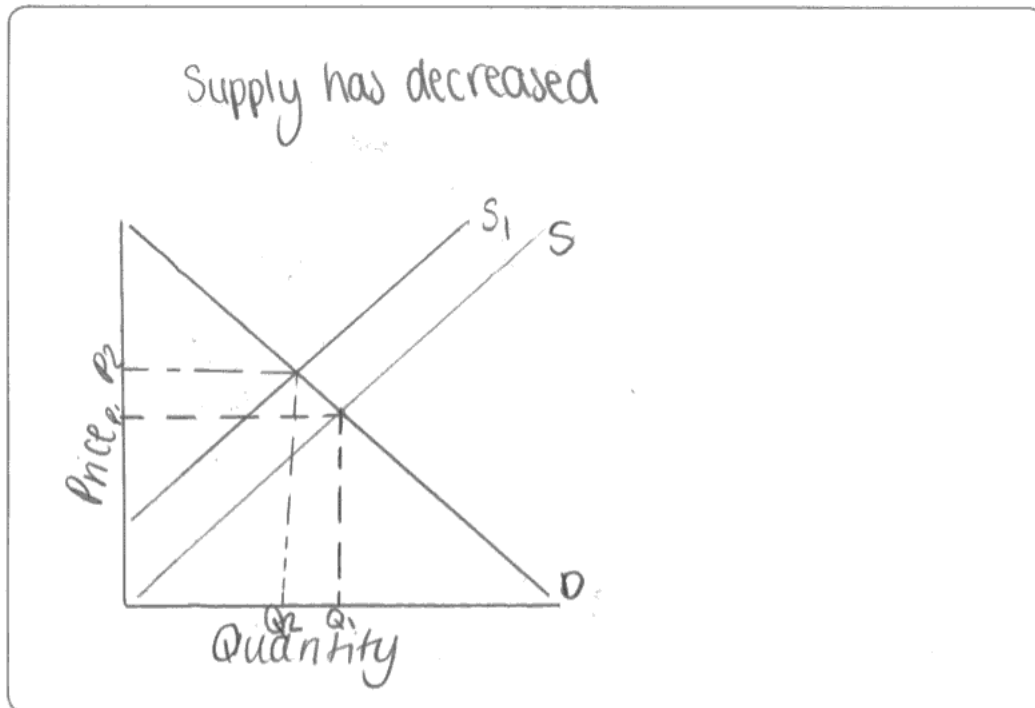
Examiner Tip

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

Question 9

This was the supply and demand question showing an inward shift of the supply curve. There were 5 marks for the correct diagram and 3 marks for the written explanation. Examiners marked the diagram out of 5 and if there were errors in the diagram eg not labelling axes then examiners deducted 1 mark for each error. To be consistent with previous years, examiners only accepted Price or P and Quantity or Q for the labels on the axis. More able candidates referred to demand or supply being inelastic and this was rewarded as an analysis mark. Again, it was very disappointing that many candidates did not label either the axes or curves correctly. Candidates need to learn the supply and demand diagrams. It is important to be able to draw these accurately with the curves correctly labelled.

- 9 Using a fully labelled supply and demand diagram, analyse why the price of coconut milk has increased.



~~The price~~ Since the supply of the coconut milk has decreased it means that the quantity of the product will decrease from Q_1 to Q_2 and the price of the product will increase from P_1 to P_2 as S moves to S_1 .



ResultsPlus Examiner Comments

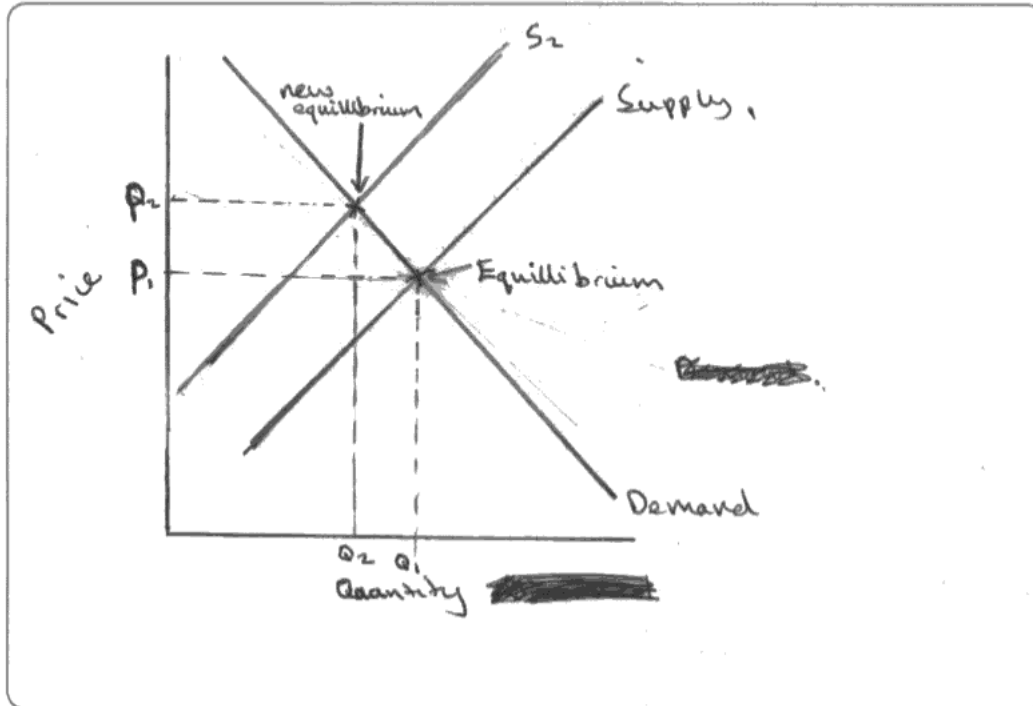
This scored 5 marks overall for the correct diagram. The candidate simply repeats what is happening in the diagram in the written explanation and does not analyse why the price of coconut milk has increased. Coconut milk is used in the question so this cannot be classed as application. Examiners were looking for reference to poor weather, drought or beetle infestation as application.



ResultsPlus Examiner Tip

Use a ruler when drawing supply and demand diagrams - it makes it much easier for the examiner to see what is happening.

- 9 Using a fully labelled supply and demand diagram, analyse why the price of coconut milk has increased.



Supply is the amount that a business is willing to supply at a given price. Demand is the amount people are willing to buy at a given price.

The supply of coconut milk has decreased due to natural phenomena, in this case drought and ^{battle} infestation, therefore there's more limited availability so the price will rise, but ~~being an~~ ~~elastic~~ ~~good~~ ~~a~~ ~~price~~ having inelastic demand means a price change will have a less proportional effect on the quantity demanded.

(Total for Question 9 = 8 marks)



ResultsPlus

Examiner Comments

In comparison, this candidate does analyse **why** the price of coconut milk has increased (with a correct diagram) and does not just repeat what is happening in the diagram. There is also reference to inelastic demand.

Question 10

The assessment objectives were 2 Knowledge, 2 Application and 2 Analysis for this question. Many candidates were able to easily pick up the Application and Analysis marks but were lacking Knowledge marks. Examiners were looking for understanding of fixed and variable costs for knowledge marks where definitions were lacking. Some candidates approached this from a gloomier aspect with responses focusing on the business immediately closing down and having to 'sack workers'. Although rising food costs will have a negative impact on a takeaway restaurant, they are unlikely to close down in the short term and rising food prices may in fact decrease in the future.

10 Explain the likely impact of rising food costs on an independent takeaway business such as Leon.

Costs to a business are ~~known~~ fixed and variable costs. They include rent of a premises, employee wages, costs of production and gas and electricity bills. If there is a rise in food costs such as rice or coconut milk, this will increase the average unit cost for Leon, ~~thereas~~ which means for every meal Leon makes, the cost will be higher. This could effect Leon because his profit levels will decrease, meaning less money can be spent on things such as increasing the size of the business, new food ovens or better ingredience. Alternatively, Leon could increase prices so his profitability stays the same but ~~passes~~ the increased in cost is past on to his customers in the form of higher prices. Depending on price elasticity of

"his takeaway meals this will effect demand. If customers find Leon's their food inelastic then Leon would happily increase prices and see only a small drop in demand. However, customers may find his food elastic and Leon could see a decrease in demand as customers ~~would~~ can go else were to get cheaper food." (Total for Question 10 = 6 marks)



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Examiner Comments

This scored 6 marks and demonstrated knowledge of costs and elasticities. There is plenty of application and analysis throughout the response.



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Examiner Tip

Always read the case study really well before attempting any questions in Section B. The case study is there to help you contextualise your answer.

Question 11

This question was an 'assess' question therefore examiners were looking for evaluation in order to get into Level 4. If there was an attempt at analysis (reason, cause or consequence) then Level 3 could be achieved. It was disappointing to see the number of candidates who wrote excellent responses but without any evaluation so were restricted to Level 3. The question was about marketing strategies **not** cost reduction strategies and many candidates incorrectly focused on JIT and Lean Management which are not marketing strategies. The most popular strategies examiners saw were pricing (such as penetration), product (offering inferior goods) and promotion. Examiners did reward candidates who used the case study information and discussed how a UK business could export to other countries and we allowed this as a Place strategy.

The UK's economic recovery has been described as 'fragile' (see Evidence B, line 3).

11 Assess **two** possible marketing strategies a UK business could adopt under these circumstances.

Strategy 1

(5)

The 'fragile' nature of the UK's economy could be overcome by using marketing strategies. A business could identify their specific target market. A marketing strategy such as promotion could be used by businesses to try and increase the aggregate demand within the British economy. By advertising and producing themselves to the customers, this is likely to increase demand. As the UK economy is 'fragile' as explained in evidence B, to generate a stronger economy, business may have to use marketing strategies such as advertising to promote and gain demand within the economy. This strategy could be largely costly, so the business may need to try and reduce the costs but ensure the demand will increase.

Another marketing strategy that could be used by UK businesses could be to target a larger market, this may be helpful under these 'fragile' circumstances. By widening the target market and possibly diversifying and trading in a more global way the business is likely to improve. As explained in

evidence B, "businesses must... seek new markets," they are also encouraged to export. By targetting new markets and trading ~~globally~~ internationally, the UK businesses are likely to see an improvement. If UK businesses export, they are likely to a growth in the demand as the weak pound makes buying these products cheaper. This is a key marketing strategy to adopt when in these circumstances as it may help the 'fragile' economy to grow and benefit the UK's current account.

(Total for Question 11 = 10 marks)



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Examiner Comments

This candidate is typical of many - some really good analysis but no evaluation of the proposed strategies. Both strategies gained Level 3 - with 3 marks each; which was a shame as there was good use of economic and business concepts being used.



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Examiner Tip

It is essential on any Assess or Evaluate question that candidates do exactly this otherwise Level 3 is the maximum that can be achieved.

The UK's economic recovery has been described as 'fragile' (see Evidence B, line 3).

11 Assess **two** possible marketing strategies a UK business could adopt under these circumstances. ~~diversification~~ cut prices.

Strategy 1

(5)

Marketing is the ~~a strategy~~ base of strategies used by a business to promote and sell its products. It's made up of the 4 Ps: Price, product, promotion and place. The first possible strategy is a promotion strategy and that is to cut prices in a strategy called predatory pricing, which cuts prices to a low enough level to drive competitors out of the market. On the one hand, in a 'fragile' climate, where there's lots of uncertainty amongst consumers about their job security, as evidence B says jobs 'job cuts' are 'expected'. This means that demand will be more price elastic than ever as consumers look to save money wherever they can. Therefore, predatory pricing could ~~success~~ succeed in improving demand, market share and profits in the long and ~~short~~ medium term.

However, predatory pricing has lots of limitations. It's limited only really to business already making strong super-normal profits. Businesses like Leon who are already struggling may not be able to withstand the fall in profit margins. Also, in the short term it will be difficult unless a business has a large base of cash and retained profit to avoid the problems that lower profit margins could cause in the short term. Overall, businesses should consider whether it's suitable for them individually but ~~adaptability to improve demand~~ if it is then it could be successful.

(5)

Secondly, UK businesses could focus on building brand loyalty in order to reduce their price and income elasticity. They could do this through promotion techniques like branding and advertising, which differentiate the business by giving it a distinctive identity.

This could successfully ~~improve~~ reduce price and income elasticity because if consumers were loyal to a particular business for example

They were loyal to Leon in the takeaway market then they'd be more willing to continue buying takeaways from there even if prices were forced up by ~~exte conditions~~ ~~and~~ uncertain events or if their incomes fell because of a recession, (which seems possible based on the description of the economy as 'fragile').

However, there's the disadvantage that such heavy promotion will be very expensive, and an increase in costs could be very damaging, especially for a business like Leon which is already experiencing shortages.

Overall, branding is a good strategy in the long term \rightarrow although in the short term the positives could outweigh the negatives.

(Total for Question 11 = 10 marks)



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Examiner Comments

This candidate does evaluate both strategies and scored 9 marks overall. There was plenty of theory and development throughout both parts.

Question 12

The assessment objectives were split as usual - 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 to help structure their responses. It was pleasing to see lots of SPICED and WPIDEC used and many candidates were able to explain the impact on imports and exports. Better answers did contextualise their responses to specific businesses such as the car industry and consider businesses that both import and export. For Level 4, examiners were looking for some understanding about the extent of the depreciation, the PED of the products being manufactured and the extent of how much a firm was affected by exchange rates. Candidates who simply stated 'imports would be more expensive and exports would be cheaper' only achieved Level 2 unless there was sufficient development. Part (a) was slightly better done than part (b) where many candidates were restricted to Level 3 due to a lack of evaluation. Again, to get into Level 4, examiners were looking for other factors which might affect tourism such as the weather and if tourists want to come to the UK in the first place.

*12 Evaluate the likely impact of a depreciation of the pound sterling on the:

(a) UK manufacturing sector

(7)

If the pound ~~was~~ loses value compared to foreign currencies, UK manufacturers could benefit from the cheaper exports. If a company manufacturing car parts and sells them in Europe, they ~~had~~ exporting of their products could bring in more turnover than before: if the exchange rate was once $\pounds 1 = \text{€}1$, and is now $\pounds 2 = \text{€}1$, the manufacturers can ask foreign buyers for the same ~~€~~ price in euros but end up with twice as many pounds due to exchange rates.

However, a depreciation of the pound ~~could~~ ^{could} hinder UK manufacturers due to more expensive imports. ~~for example~~ If a manufacturer requires materials ~~to~~ from abroad, like our car parts company needs metals, buying them in from abroad becomes more expensive - increasing average unit costs, decreasing contribution and ultimately lowering profits.

In reality, it depends on how heavily a UK manufacturer relies on the rest of the world for buying materials or selling products.

(b) UK tourist industry.

(7)

If the pound depreciates, our ~~currency~~ currency becomes cheaper for foreigners to buy; for them, this decreases the cost of a trip to the UK, & possibly increasing demand for holidays within the UK. For ~~businesses like~~ ~~like~~ ~~like~~ For tourist attractions like the London Eye, this increase in ~~sales~~ sales from ~~the~~ visiting foreigners could increase turnover and profits. ~~sales~~

However, ~~all~~ businesses like Thomas Cook and other UK tourist businesses could suffer from this depreciation. Holidays outside the UK become more expensive ~~for~~ ~~the~~ ^{for} Britons - possibly decreasing demand & sales - turnover and profit for holiday/tourism businesses in the UK. Given the poor state of the UK economy and low lower incomes, these more expensive holidays could be too much for people to afford.



ResultsPlus

Examiner Comments

This candidate scored 5 marks for both parts. There is an attempt at evaluation in context and there is a good use of economics and business concepts in both parts.



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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.

Paper Summary

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

1. Read the Supported Multiple Choice carefully in terms of most likely, least likely and except. Many did not spend enough time doing this and did not fully develop their reasons as to why distracters are incorrect.
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. Draw accurately labelled supply and demand diagrams. 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. Calculate PED and YED.

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