

Examiners' Report  
June 2013

GCE Economics and Business  
6EB04 01

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## Introduction

This was the fourth Unit 4 summer examination of the current specification. Of the 80 marks available, 16 are for knowledge, 16 for application and 24 each for the higher skills of analysis and evaluation. The Railway topic again proved accessible for the vast majority of candidates and a similar, if slightly lower mark distribution was seen to January's paper. Generally candidates were well prepared. A number of candidates produced MSC/MSB diagrams. Whilst these can be helpful in supporting CBA arguments, centres should note that the specification doesn't actually require them.

Again, many candidates brought useful newsworthy evidence in from outside the pre-release as HS2 was prominent in the news prior to the examination. Where used in conjunction with the evidence provided, full reward was given.

Almost all candidates completed the paper in the time allotted. A cautionary note here on extra sheets. The senior team have worked very hard to ensure there is enough space on the paper to accommodate the vast majority of candidate responses. Whilst it isn't unreasonable to request extra sheet just in case, it does lead to wrongly assume that candidates need to write more, writing far too much on the earlier lower mark questions and coming under time pressure on higher mark questions. This adversely affected marks.

Centres are reminded that we can only mark what we can read. Also remember QWC is assessed in questions 7(a) and 7(b).

Candidates who sought to second guess likely questions and relied on pre-prepared answers generally fared much less well than those making full use of the wide range of pre-release material to directly answer the questions we asked. A few appeared to expect a repeat of January's paper.

It was again clear that many centres had made excellent use of the pre-release materials in the classroom. A small number of candidates attempted to evaluate without analysis on Section B of the paper, simply quoting the evidence directly without development. The use of recent newspaper articles often proved worthwhile.

## Question 1

A straightforward knowledge question. A clear definition was required for this question.

Most candidates gained both marks here by giving a valid definition. This was often extended with a sound example.

**SECTION A**

**Evidence A to I was pre-issued before the date of the examination.**

**Using ALL the evidence and your own knowledge, answer all six questions (total 30 marks).**

**Time allowed (35 minutes).**

**Additional Evidence J**

**French row could derail Eurostar's expansion**

The French Government is refusing to back down over its opposition to Eurostar's decision to buy 10 new trains from German manufacturer Siemens; it argues they do not comply with existing safety regulations for trains using the Channel Tunnel. This has led to claims that the French Government is using protectionism on behalf of the French company Alstom which lost the contract to Siemens.



The French Government stunned Eurostar by condemning the €674m Siemens deal, after the trains had been cleared to run through the tunnel by the Intergovernmental Commission (IGC), the Anglo-French tunnel safety regulator.

No longer able to block the deal on safety grounds, the Government is believed to have put pressure on SNCF, the French rail operator which owns 55% of Eurostar's share capital, to scrap the Siemens contract. The state-owned company resisted this.

10

15

(Source: adapted from *The Daily Telegraph*, 24 January 2011)

**1** What is meant by the term 'protectionism' (see Additional Evidence J, line 7)?

*Protectionism is the action taken by the government to protect/preserve the domestic market from foreign competitors e.g French Gov. protecting against Siemens.*

**(Total for Question 1 = 2 marks)**



**ResultsPlus**  
Examiner Comments

Context isn't required on straight knowledge questions.



**ResultsPlus**  
Examiner Tip

Always give a brief example when you can.

## Question 2

Another straightforward knowledge question. Surprisingly many candidates were unclear on this.

A straightforward definition of this unit 1 term was all that was called for.

2 What is meant by the term 'share capital' (see Additional Evidence J, line 14)?

Government resources that are run by private companies. For example the rail tracks are own by Network Rail, a government organisation, who lease the routes to private companies to run trains on. There can be many leases, so multiple private companies.

(Total for Question 2 = 2 marks)



**ResultsPlus**

**Examiner Comments**

Candidates often gave definitions of capital, shares, joint ventures, fixed assets, net worth - almost anything but the correct answer.



**ResultsPlus**

**Examiner Tip**

Usually, at least one question will be synoptic, so make sure you revise earlier units.

### Question 3

In addition to explain and knowledge, some application and analysis is called for. Too many candidates believed they could just read the answer from the evidence, without putting any thought into it and gave safety regulations as the reason, despite evidence to the contrary.

Most candidates at least recognised the jobs aspect, but many were happy to leave it there without explaining why.

3 Explain **one** possible reason why the French Government intervened in the Eurostar contract (see Additional Evidence J).

Protectionism are the actions a government takes to ~~pre~~ guard domestic businesses. The French Government intervened to try to protect Alstom from the foreign competition of Siemens. Without the €674m contract Alstom would face a massive loss of revenue. ~~Because of this~~ As a result they may have had to lay off staff. This would increase unemployment and with it the governments welfare costs. At the same time, the people who got laid off would have less money to spend in the economy and so other businesses would suffer.

(Total for Question 3 = 4 marks)



**ResultsPlus**

**Examiner Comments**

This candidate gained all four marks by giving a reason; using two items from the evidence and explaining a consequence.

## Question 4

In addition to explain and knowledge, some application and analysis is called for. The most likely reasons were better quality and lower prices, but few explained these would lead to higher profits. Despite the evidence being clear, too many didn't understand the relationships between SNCF, Eurostar and the French Government. Some believed Siemens and Alstom were TOCs.

Most candidates gained two or three marks here by offering a reason with some explanation.

4 Explain one possible reason why SNCF resisted pressure from the French Government regarding the Eurostar contract.

One possible reason for resisting the pressure could be that ~~the~~ SNCF believe that the Siemens proposal is simply better than that of Alstom. This could be that ~~the~~ Siemens ~~contract~~ <sup>require</sup> a ~~smaller~~ smaller payment than Alstom which therefore could be a reason for SNCF resisting the pressure to scrap the Siemens contract. ~~The~~ SNCF may also believe that the Siemens trains are better than Alstom's and that there will be more benefits by going with their ~~for~~ company. Due to it ~~being~~ not being allowed to choose a company in your own country & just to benefit your own economy, ~~the~~ SNCF may have just chosen Siemens because they were better, and the French government cannot ~~do~~ (Total for Question 4 = 4 marks) that.



**ResultsPlus**  
Examiner Comments

This candidate gained two marks for smaller payment and better (quality), but no consequence.



**ResultsPlus**  
Examiner Tip

Always look for consequences if there are any, such as this would make Eurostar more profitable.

## Question 5

The evidence clearly pointed at competition and safety as the key issues. Interoperability was another plausible possibility. Too many candidates came in with pre-prepared answers that were just different aspects of competition in essence.

Many candidates dropped marks by being vague in their analysis, often only gaining 3 or 4 marks. A number chose two closely related competition issues, limiting their answer to half marks.

5 Analyse **two** possible reasons for the regulation of the European rail industry.

One possible reason is to make sure that in the future the railway systems are suited to be supportive of any European train. This means that the ~~French~~ railway markets could be opened up into European competition. As a result, ~~they~~ the inefficient systems would be forced out of the market, leaving only the better quality, cheaper services remaining. Therefore, whilst some industries may lose out, consumers should all receive a better service and it should also increase the general efficiency of the economies.

Another reason for the regulation is to ensure that the lines are kept safe. Whilst not that many people in the UK use trains, in other countries such as France it is the major source of transport. Therefore by having one overarching set of regulative measures, there could be no discrepancies and consumers would remain safe wherever in the EU they travelled on train. Consequently, ~~they~~ there would be fewer complaints from consumers in this respect and the EU should become more popular.



**ResultsPlus**  
Examiner Comments

This candidate gave us all we'd hoped for. Two sound reasons with application to the context plus analysis of each.

## Question 6

Candidates who didn't know what a trade off was, were finding this question difficult. Many just thought any pros and cons of HS2 would do. We were looking for what would have to be sacrificed.

Candidates who did know what a trade off was, were able to evaluate in context.

6 Assess the possible trade-offs involved in making the policy choice of investment in UK High Speed Rail.

A trade off is when more of one thing leads to less of another. Evidence B is ~~a proposal~~ highlights the positive externalities of the HS2 such as "generate wider benefits of £44 billion". Investing in HS2 is an expensive move since the costs go into the billions. A positive of investing in High Speed Rail is that the economy can benefit by mir High Speed Rail since new jobs will arise, reducing unemployment. ~~It~~

The success of investing in UK High ~~speed~~<sup>speed</sup> rail can be measured by if the GDP increases of the UK, and if the government make a return on the investment within a certain time.

However the negative side of the trade off is that the existing rail network ~~will be~~ may be ignored. If investment in a High Speed Rail Project does not prove successful, a possible deficit could be created in the government's transport budget. This would leave the existing rail network ~~with~~ with no investments from subsidies to improve the service and ~~update~~ and keep up with technological improvements. This would result in ~~less~~ less demand for ~~the~~ train usage as consumers would feel

that the train network is not being maintained  
and quality of service may ~~not~~ reduce as a  
sign of reduced maintenance.

(Total for Question 6 = 10 marks)

TOTAL FOR SECTION A = 30 MARKS



**ResultsPlus**

**Examiner Comments**

A good answer gaining 8 of the 10 marks available.

## Question 7 (a)

Many candidates did not answer Cost Benefit Analysis in any depth. Those who had were able to analyse strengths and weaknesses of the technique in context.

A good example.

### SECTION B

#### Decision-making report

Using ALL the evidence and your own knowledge, answer both parts of the question (total 50 marks).

Time allowed (55 minutes).

- 7 \* (a) Assess the likely value of cost benefit analysis to the UK Government in deciding whether to expand the rail network.

(20)

Cost-benefit analysis is when the social benefits and social costs are weighed up to decide if a decision should or should not go ahead.

The cost-benefit analysis would've been very beneficial and valuable to the UK government in deciding whether to expand the rail network.

Cost-benefit analysis would've been able to list all the pros and cons of building the rail network. The pros would've included 'shorter journey times', more access to the cities, which would 'bring cities closer' and hopefully reduce the north/south divide. <sup>it would also create '40,000 jobs' reducing unemployment.</sup> The building of HS2 would come with many benefits, however it would also come with some negatives such as it may 'add to congestion and encourage car use' and the locals will be faced with many inconveniences such as noise pollution.

Overall, the cost-benefit analysis would've been very useful in deciding whether to expand the rail network, however it is also very unpredictable as it is not easy to accurately forecast the outcomes of expanding the rail network, and the outcomes may end up being very different to what

the cost-benefit analysis stated.

~~the~~ But on the other hand, it would allow the government to see the externalities, both positive and negative, of building the line, and if the pros dramatically outweigh the cons then there's no reason why it shouldn't go ahead. But there is still a risk as a cost-benefit analysis is not 100% accurate.

Furthermore, if the cost-benefit analysis shows that the cons outweigh the pros it might help the government come up with a different solution as to what it was trying to achieve by expanding the rail network, for example if it was trying to reduce the amount of road congestion or pollution, the government could instead introduce road tax or increase fuel prices, which would be an alternative to expanding the rail network. This way, the cost-benefit analysis would've been helpful to prove that the ~~to~~ expand in rail network wouldn't have been successful, but alternative solutions are available.

Overall, cost-benefit analysis is very useful in deciding to expand the rail network, and usually, if the cost-benefit margin is less than 1.5 then it is most likely that the expansion shouldn't go ahead, so it is very useful in forecasting decisions, however they need to take into account that this forecast may not be completely accurate as it is hard to predict.



**ResultsPlus**  
Examiner Comments

Evaluated all the way through with frequent reference to the evidence.

The focus here was the pros and cons of Cost Benefit Analysis in context.

## SECTION B

### Decision-making report

Using ALL the evidence and your own knowledge, answer both parts of the question (total 50 marks).

Time allowed (55 minutes).

- 7 \*(a) Assess the likely value of cost benefit analysis to the UK Government in deciding whether to expand the rail network.

(20)

Cost benefit analysis refers to the weighing up of potential ~~and~~ negative ~~the~~ occurrences which may be created from a certain act, with the potential positives. Once ~~an~~ ~~action~~ the UK government has grasped a conclusion to the analysis they are in a better position to make a rational decision. Currently the rail network is relatively large, with tracks ~~of~~ all over the country, however it could be argued that in expanding the rail network even further, full capacity will not be reached.

The potential costs of expanding the rail network are, for one, that the rail network is still relatively low in its consumption, with ~~the~~ only 12% of the population consuming it. It is also shown in studies by transport mode in 2010, that the amount of journeys made by train is ~~less~~ ~~an~~ insignificant 5 percent, compared to car travel which is ~~the~~ 64%. This prompts the question of whether expansion would be worth it.

Also, the ~~costs~~ ~~of~~ financial costs of expansion should also be considered when dealing with expansion in the rail industry. The financial costs are likely to exceed any reasonable level, for example

The project HS2 will cost the government £32 billion. In times of austerity and debt, it is unlikely that high investments like this will bring about significant benefits.

It must also be considered that the cost of 'brain drain' would become more high in volume and evident, whereby the intellectual talent of the north will move to the prosperous cities of the south, leaving the north 'intellectually failed'. In a time of recession, failed cities are not a good or beneficial situation due to the lack of income and productive capacity.

However, many benefits will arise from the expansion. The expansion may mean that projects can be built to EU standards, much like HS2 would be, meaning that the countries barriers will not have an effect. International competition would increase giving customers more choice and sovereignty, possibly increasing consumption of the industry and boosting consumer up from 12%.

Also, geographical equality will be increased due to this expansion, as individuals of high intellect in country will gain the advantage of easier access to property and higher paid jobs. This would be beneficial to the government as they would be able to gain higher income tax revenue from the increase in the number of high earners.

Furthermore, expansion of the rail industry would be likely to ensure that more people will have access to a means of transport which reduces the cost of congestion to the government. Currently spending £1.3 billion of the other congestion costs a year, expansion

leading to more consumption of a good which decreases consumption, may lead to lower costs for the government.

Overall, in an economy which is in a recession, with low unemployment, cost benefit analysis would prove highly beneficial to the government and its policies. Weighing up potential downsides and upshots, and how it will affect the state of the economy and its financial wellbeing, would be evidently more valuable than the process of decision making. Though cost benefit analysis of concludes that expansion of the rail industry, will bring about more negative effects, financially, economically and socially, the expansion will come with costs which will be likely to overcome the benefits, as only 12% consumption of the industry is not high enough to ensure economic costs.



### ResultsPlus Examiner Comments

A significant minority evaluated rail expansion meaning we couldn't allow more than Level 2 Application. This candidate only gained six marks for hard work.



### ResultsPlus Examiner Tip

On essay questions, read the question carefully and read it again every time you turn a page (just in case you've strayed).

## Question 7 (b)

Responses to this very open question were often quite workmanlike, the majority entering Level 4, though full use of the arguments offered in the pre-release material was rare. Conclusions, where offered, usually lacked balance as a result.

This one evaluates throughout.

\*(b) Evaluate the likely economic effects of reduced government subsidies to the rail industry.

(30)

Subsidies is an amount of money that is provided by government to the rail industry who think ~~that~~ that the rail service is a merit good and it should continue ~~sup~~ supply in a greater <sup>amount</sup> ~~den~~ for the public.

Referring to evidence C, the UK government has ~~paid~~ made £5.2 bn of subsidies to the rail industry in ~~2011~~ ~~year~~ over the past year. Some people suggested that this is such a huge amount that should be reduced. ~~But~~ if the rail operating companies and the network rail received less subsidies from the government it would be more costly for the firms to run and exist in the market because as costs rise, the supply is likely to drop as less profit can be made. One way to maintain the profit for firms is to reduce the cost of production. It can be done by ~~made~~ making ~~an~~ ~~employee~~ firing their employees. This would generate a multiplier effect as the unemployment rate increases, ~~they~~ they are less confident in ~~the~~ finding themselves a job. Therefore they save most of their money in bank rather than ~~on~~ spending on goods, demand for a product reduces and firms are also ~~less~~ less confident in the economy and to spend less in investment as well as to make further unemployment to reduce the cost of production. The UK economy is likely to see a slow down in the economic growth. Recession may also be incurred. Unemployment may lead to poor quality of services and this may encourage the rail user to switch back into driving their cars, this would further ~~add~~ add on effect on the road congestion.

Carbon dioxide emission also rises ~~and the~~ by the increase ~~in~~ no. of car ~~is~~ driving. ~~The~~ If the rail service is becoming less convenient for workers ~~some people might~~ more people would stop working because the cost of transport takes a high % of the employees' income so it is not worthy for people to continue working away from home. The ~~gross~~ total production for the UK reduced and more people are entitled for the claim of benefit. The ~~tax~~ UK government is likely to experience ~~deficit~~ deficit because the government spending (G) is less than the taxation (the ~~revenue~~ revenue).

And ~~if~~ If ~~the~~ <sup>amount</sup> ~~amount~~ of subsidies are reduced, the money can be spent elsewhere with the lowest opportunity costs.

However, if people say that the government should continue subsidizing the rail industry because the rail industry brings many positive externalities to society. For example reduced road congestion, lower CO<sub>2</sub> emission, less noise pollution. This also maintain the employment rate in the UK. Less people need to ~~be~~ claim benefit therefore ~~government is~~ ~~it~~ less likely to ~~experience~~ the UK economy is less likely to experience recession.

Some people suggested rather than reducing subsidies on the rail industry, the UK government should rise the taxes on the used of the road. The drivers are likely to switch from their cars to the rail service between it costs

less for them to travel to work. As the demand for the rail increase, less subsidy ~~is~~<sup>is</sup> needed from the government.

It is also more profitable for the ~~any~~ operating companies to run the service. This attract more companies to enter the market.



**ResultsPlus**

**Examiner Comments**

It lacks a real conclusion, so only 17 marks awarded.



**ResultsPlus**

**Examiner Tip**

Always come to a balanced conclusion.

## **Paper Summary**

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

- Before the examination, make sure you are familiar with the pre-release material and thoroughly understand it and all key terms used.
- Ensure coverage of the whole unit in your revision.
- Include earlier units in your revision programme.
- Take ownership of the pre-release topic and read related news.
- On opening the paper, carefully read the additional evidence and all the questions before answering any.
- On section B questions, only use diagrams where they help you to analyse the situation.
- Each time you start a new page, check to make sure you are still answering the question set, not the one you would have preferred.

## **Grade Boundaries**

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