

Examiners' Report
June 2016

GCE Economics and Business 6EB04 01

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Introduction

Once again, this session seemed to be very successful for many centres, with plenty of evidence of serious engagement by candidates with the subject of the case study. There was plenty of evidence of independent research linked to e-cigarettes, tobacco and to the treatment of smoking related diseases.

The fact that there were television documentaries and news items relating to the subject, clearly helped teachers prepare candidates for the essay questions. Many candidates achieved Level 4 on both extended essay items, with some achieving very high marks indeed.

What distinguished the more successful responses was an attempt to move beyond simple discussion towards an application of economic theory to the question being asked. Candidates who had learned the appropriate economic theory and were able to apply it to the context – price elasticity of demand for example – were well rewarded by examiners.

There remains a tendency for some candidates to simply rehearse and represent text book definitions and/or diagrams but not relate these to the context. This was successful, to some extent, for the 2 mark questions but not acceptable for the longer items.

Overall, this was a successful paper for many candidates, who were clearly interested in the case study and the topical issues surrounding it. What differentiated the top grade candidates was their use of economic and business concepts, the clarity and precision of their writing and a willingness to reach a reasoned conclusion or judgement.

Question 1

The aim of this question was to test the candidate's knowledge of a key area of economic theory related to the context. In this case we were looking for an understanding of price elasticity of demand. There was some evidence of confusion with income elasticity of demand. However, as in previous sessions, partial definitions could be awarded full marks if accompanied by a valid example. Even examples not directly related to the context, such as petrol or drinking water were awarded a mark.

There were many responses where the candidates offered a partial definition and then a valid example to achieve full marks. While this resulted in full marks, it often meant that candidates wrote more than was absolutely necessary, taking too long to answer a two mark question.

1 What is meant by the term **price elasticity of demand**? (Evidence J, Line 1.)

Price elasticity of demand is the responsiveness of demand to a change in price (-0.46 means local brand cigarettes are inelastic) - (Evidence J)



ResultsPlus Examiner Comments

This candidate achieved full marks with a definition and a valid, relevant example. In fact the definition was precise enough to have achieved two marks even without the example.



ResultsPlus Examiner Tip

Candidates must learn precise definitions and be able to write them clearly and quickly in the examination. Short classroom tests could be used for such examination preparation. Perhaps candidates could also be encouraged to create their own glossary of terms, which could be shared with the class.

Question 2

Here, we were looking for an understanding of economic theory, in this case an understanding that the real price of a good takes into account changes in the average price level. A surprisingly large number of candidates at A2 level did not define the term accurately, apparently believing that the real price is the pre-tax price.

As with Question 1, an accurate definition without an example could achieve 2 marks but in this case it was unlikely that a candidate producing a partial definition would offer a relevant example.

2 What is meant by the term **real price of cigarettes**? (Evidence J, Line 7.)

The real price of cigarettes is the price of cigarettes once inflation has been taken into account.



ResultsPlus Examiner Comments

This is a good example of a response where the two marks are achieved efficiently in one sentence.

There are no analysis marks for two mark questions, thus adding any additional content would not have achieved any more marks.



ResultsPlus Examiner Tip

Candidates should look carefully at the mark allocation and be familiar with the structure of the paper and previous mark schemes. Time taken on two mark questions can be thinking and writing time later on in the paper.

Question 3

Here, we were looking for an understanding of the impact of increasing demand for e-cigarettes upon the market for traditional tobacco products. The question was not about the health impact of tobacco products. For the analysis marks, we looked for a chain of reasoning linked to the knowledge and application points. If the chain of reasoning was not developed sufficiently then responses were awarded just 1 analysis mark.

Some candidates identified a likely fall in demand for traditional tobacco products but did not extend their analysis. In fact, a correctly labelled normal supply and demand diagram, showing an inward shift of the demand curve, could have achieved 4 marks.

- 3 Analyse **one** likely impact on the UK market for traditional tobacco products of the increased demand for e-cigarettes.

E-cigarettes are often seen as a slightly safer substitute to tobacco products. Therefore, and increase in demand for e-cigarettes would ~~also~~ most likely lead to a decrease in demand for tobacco products, as the consumers have started to use an alternative product, so may not feel the need to consume tobacco products any more. This can lead to a fall in sales, and potentially a decrease in profits for the tobacco industry.



ResultsPlus Examiner Comments

This candidate writes concisely and achieves marks in each sentence. An efficient use of time for a four mark question.



ResultsPlus Examiner Tip

Four mark questions require knowledge, application and analysis. There is no evaluation required.

It is useful to think about analysis as involving the identification of a reason, a cause or a consequence. This is how experienced examiners think about what constitutes analysis.

Question 4

Again, we were looking for an understanding of economic theory and not a simple assertion that negative externalities are external costs or "are costs to society..." In this instance, an understanding that negative externalities involve costs to third parties (not directly involved in the production of, or consumption of tobacco). This understanding could then be linked to examples such as passive smoking or even higher tax for non-smokers to pay for the reduction of external costs.

This question was generally answered well by the more successful candidates. Below this level, many candidates only achieved up to a total of two marks for application and analysis.

4 Explain **one** negative externality of tobacco consumption.

A negative externality is an external cost so a negative side-effect on a third party which is not the producer or consumer.

Tobacco consumption is a demerit good and therefore produces an external cost. For example, the cost to the NHS of treating tobacco consumption related illnesses.

Evidence G tells us that smoking is likely to be costing the NHS between £2.5 and £6 billion.

NHS is provided for free by using tax payers money, therefore the negative externality is that non-smokers are effectively paying for the treatment of smokers who become ill with things such as lung cancer when smoking.



ResultsPlus Examiner Comments

This is a clear response showing good knowledge, application and analysis. Also, excellent engagement with the case study evidence.



ResultsPlus Examiner Tip

As with the other four mark question, candidates need to be aware that there will be one knowledge and application mark, along with two analysis marks for these questions.

A surprising number of candidates used extra paper to answer this question. The space provided is an indication of the appropriate length of the response.

Question 5

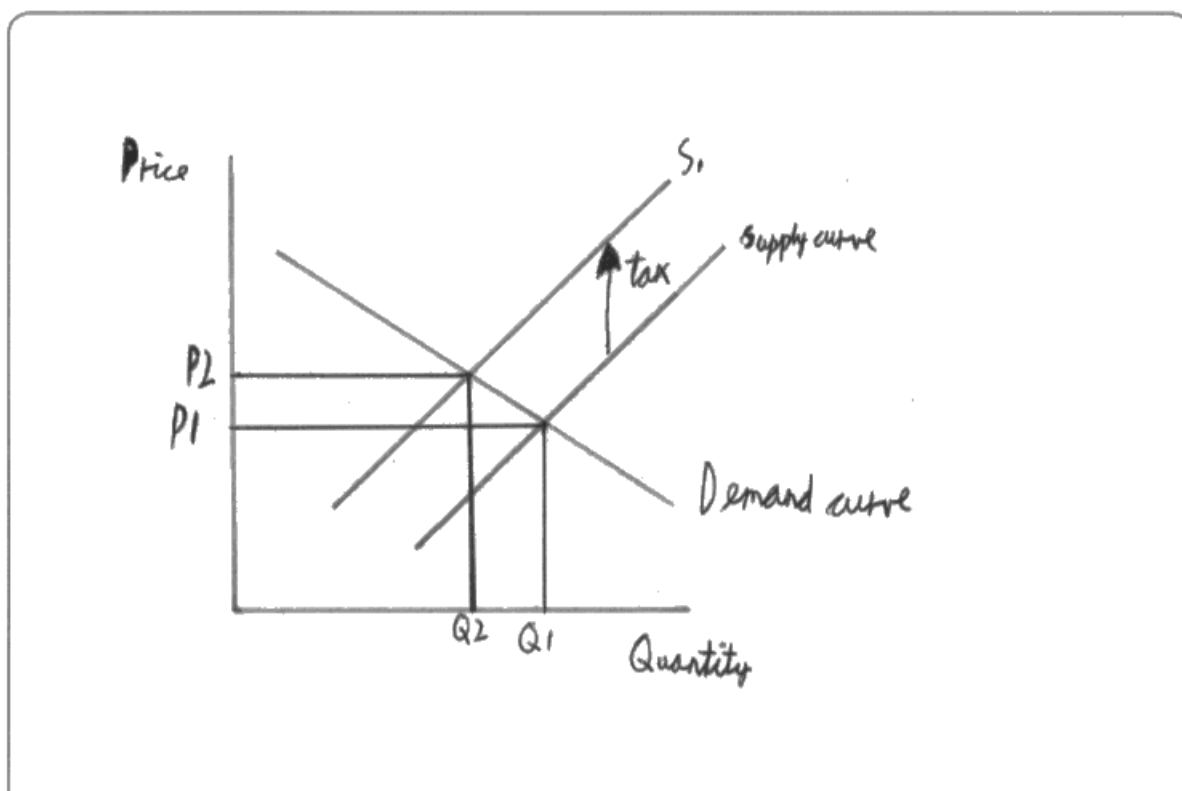
Here, we were looking for an understanding of the impact of indirect taxation (specific or ad valorem) upon the market for tobacco products. For 4 marks, the diagram had to show an inward shift in supply, with demand remaining the same, resulting in a higher price and lower quantity supplied and demanded. It had to be correctly labelled for the 4 marks to be awarded. For 4 marks, the demand curve did not have to be relatively steep to emphasise the price inelasticity for tobacco products. A mark for this application of theory could be awarded for the written explanation.

There may be some candidates who attempted to show the impact upon MPC (shifting the MPC curve closer to the MSC curve), thus reducing or eradicating the negative externality of consumption. Again this was awarded up to 4 marks.

We were then looking for some further analysis for the additional 4 marks. This could take the form of a development of the explanation or an evaluative comment on PED, tax burden etc. While there were no evaluation marks (A04) for this question, candidates who analysed the extent to which taxation may reduce externalities were rewarded; for example candidates who looked at why taxation may not reduce negative externalities and may not be the most effective way of reducing negative externalities.

If there was no diagram, up to a maximum of 4 marks could be awarded for the written explanation. The question specifically asks for a diagram and space was provided for this.

- 5 Using a fully labelled supply and demand diagram, explain how taxation of tobacco products may reduce negative externalities.



Externalities are effects on third parties by an action. For tobacco products, the highest externality is the cost to the NHS for treating smoking related illnesses. Taxation will result in the supply curve shifting upwards as the price to produce increases, meaning the equilibrium price increases from P_1 to P_2 . This will result in less demand for tobacco products and the tax collected from the sale of tobacco products can be reinvested in the NHS to fund the costs to treat patient with smoking-related illnesses, reducing externalities. Whilst the tax outweighs the NHS cost, other externalities like litter and damages by fires caused by cigarettes also need to be paid for and so taxation can pay for externalities whilst also reducing the amount of negative externalities as demand decreases.



ResultsPlus
Examiner Comments

This was an excellent response, achieving full marks.

There is an accurate diagram and a development of analysis to explain the likely impact upon negative externalities.



ResultsPlus
Examiner Tip

Candidates must practice drawing diagrams to represent markets in a range of contexts. Short tests could be given in class to encourage candidates to rehearse this essential technique.

Question 6

There was quite a broad range of answers to this question and examiners awarded across the levels.

Assess means evaluate; ideally assess the evidence for and against, in terms of the likely benefits and costs of higher prices for tobacco products. There was plenty of evidence that raising the price reduces smoking for some demographic groups. However, there was also evidence that it is not as effective for other demographics groups. Of particular evaluative importance was the rise of an unofficial, unregulated market if the price becomes too high through increased taxation.

In order to achieve level 4, evaluation had to be present and for high level 4 this had to be in context (with reference to the evidence – either from the case study or candidate's own examples).

There were many examples of what we would call “unsupported assertions” and conclusions beginning with “I believe”. To be rewarded, any conclusions had to be based upon analysis in context.

One sided responses (just arguments for or against) could not achieve above Level 3.

The mean mark for this item was 7 marks. While this is relatively high, many responses failed to offer a reasoned conclusion or judgement.

- 6 “There is clear evidence that increasing the costs of smoking encourages smokers to quit and discourages young people from taking it up.”

(Source: Chancellor George Osborne; Budget Statement in March 2012)

Assess this view in relation to the evidence on smoking in the UK.

Government may raise VAT and levy tobacco duties on tobacco products in order to raise the price of such products for consumers. On one hand the evidence does suggest that increasing the costs of smoking via these fiscal methods does encourage users to quit and discourages young people. Over the last twenty years the level of VAT and taxation on cigarettes has risen hugely. (Evidence H₁ shows

it to have increased from £1.20 in 1990 to ~~£2.28~~ £6.17 in 2013) and the number of users has fallen (evidence B shows that the number of smokers between the age of 16-19 has fallen from 26% in 1988 down to 15% in 2012). and This is arguably, at least in part due to consecutive rises in the price of a pack of cigarettes due to government measures.

However, there are obviously many other factors at play other than sheer increases in price alone. The introduction of the e-cigarette has seen demand for traditional cigarettes drop and continues to see rises in consumer demand. Evidence C highlights that (according to ASH) that the number of e-cigarette users in the UK had risen to 2.1 million in 2013. It also predicted global sales to be hitting £10bn within a few years. The use of e-cigarettes as a substitute product has undoubtedly made a huge contribution to the effort in encouraging and enabling users to quit the habit.

Smoking has also greatly declined in the 21st century due to government legislation (i.e. the Health Act 2006 which outlawed

smoking in covered public places) and increased awareness as a result of better education regarding the negative ~~ex~~ costs to the consumer and wider environment.

Therefore I dispute Chancellor Osborne's claim that there is clear evidence to support the claim that increases in price alone are the reason for the relative decline in cigarette consumption. As I have illustrated here are many other factors, such as the increase in popularity for cigarette substitutes which have also contributed to such an outcome.



ResultsPlus Examiner Comments

This response is one of the stronger responses, showing good use of economic terms, analysis and evaluation in context. There is a clear, logical progression to the response and the candidate was awarded Level 4 – 10 marks.



ResultsPlus Examiner Tip

As with previous papers, the stronger answers were from those who fully developed the reasoning around one point before moving to another. There is still a tendency from candidates to write all the "arguments for" and then write all the "arguments against". This often means evaluation is limited and answers unbalanced.

Question 7 (a)

This question focused upon arguments for treating e-cigarettes the same as tobacco products (partially accomplished through the EU TPD of May 2016) and argument against (based upon the understanding that they are less harmful, substitute products).

Again, in order to achieve level 4, evaluation had to be present and for high level 4 both sides in context (preferably with reference to the evidence – either from the case study or candidate's own examples).

For Medium Level 4 (17-18 marks) there had to be an attempted conclusion, based upon prior analysis and evaluation. If the conclusion amounted to simply an unsupported assertion, not linked to previous analysis and evaluation, then the response would not be awarded Medium Level 4.

SECTION B

Decision-making report

Using ALL the evidence provided and your own knowledge, answer both parts of the question.

Time allowed (55 minutes)

7 *(a) Assess the case for the UK Government regulating e-cigarettes in the same way as real cigarettes.

(20)

E cigarettes are electronic cigarettes that simulate smoking by delivering nicotine through a battery powered inhaler. If e cigarettes were to be regulated in the same way as cigarettes, all the same bans and restrictions would also be imposed on e cigarettes, which have been found to be '60% more effective in helping people quit than pure willpower'. Demand for e cigarettes is currently elastic as only 0.01% of e cigarette users are non smokers, as stated by evidence C. The increase in tax would then cause many people who are planning on quitting remaining to use traditional cigarettes. This would be because smokers do not gain as much benefit from using e cigarettes. This is because prior to the increase in tax

e cigarettes were seen as relatively cheap. A report from Daily mail states that, 'e cigarettes can even be afforded by the poor'.

However as stated by evidence C, 'no one is yet sure how safe e cigarettes are'. Regulating

e cigarettes would lead to an increase in research into their long term effects and ensure that they are safe to be used by the public. The WHO states that 'no there isn't much ~~for~~ research into the long term effects of e cigarettes'. Thus many people may be using them with the misconception that they are just 'inhaling heated air as many adverts wrongly propose', found by the WHO. ~~ASH~~ also found that '20%'. The telegraph also found that '75% of flavouring for e cigarettes has been found to contain diacetyl which causes the respiratory disease popcorn lung'.

E cigarettes are sold in many different flavours such as pina colada and tutti frutti and this may encourage smokers to begin using e cigarettes if they know they can get them in unique flavours. Regulation of e cigarettes may lead to some people of these flavours being removed as they may be seen as encouraging young people to begin smoking. However as stated by AHA, '2/3 two thirds of e cigarette users are smokers looking to cut down'.

However e cigarettes are currently advertised pre water shed and thus may encourage young people to try e cigarettes out because they may be

seen as cool. The WHO also argues that 'the current promotion of e cigarettes may encourage the young and non smokers to begin smoking'. This is especially as the e cigarette market is becoming increasingly owned by cigarette companies.

To conclude I believe that the government should not regulate e cigarette like cigarettes. This is because BBC found that 'they are found to be 95% safer than usual cigarettes' and thus can reduce the £6 billion it costs the NHS every year to treat smoking related illnesses, as stated by evidence C. ~~It~~ In the short term it may lead to

more people switching back to traditional cigarettes however in the long term more people may switch to e cigarettes if they can be proved to be safe and effective in helping people quit. Instead of regulating e cigarettes, ~~people who~~ more research should be carried out on their long term effects to ensure that they are safe. Whether the government regulates e cigarettes like usual cigarettes is also likely to depend ~~on what~~ on if they are found to be dangerous, this is as at the moment e cigarettes have proven to be helpful in allowing people to quit without regulation. Also depends on government spending as regulation is expensive.



ResultsPlus Examiner Comments

This was certainly one of the stronger responses and was awarded a high Level 4 with 19 marks. There was clear structure, a good use of economic terms and a definite conclusion which continued the evaluation.



ResultsPlus Examiner Tip

Writing must be legible for marks to be awarded. It is worth completing timed essays, using pen and paper, before the examination.

Question 7 (b)

We expected to see some understanding of the way in which the NHS is currently funded and how this represents a classic economic problem. For example, the allocation of finite resources to satisfy infinite wants.

There were some really good answers here. We were looking for the application of economic theory and business concepts to the question and not seeking an ethics essay.

The best responses (high level 4) looked at 2 or 3 of the arguments for or against charging for treatment and thoroughly evaluated each one in the course of the essay. There also had to be a conclusion, based upon the previous evaluation. Some of the really good responses also showed an awareness of the complexity of the problem and that answering the question involves a normative (moral/political) judgement.

Level 2 and 3 responses tended to produce a list of reasons for or against, with little development, and then a list of "bad things" about some or all. At this level, conclusions tended to be unsupported assertions, often beginning with "I believe" and simply repeated previous content.

There were a few examples of candidates who had run out of time and produced some brief notes. These responses tended to remain at Level 1 (see the level descriptors in the published mark scheme). Such instances did however appear to be rare this year.

It was rare to see a poor response to this question and most candidates seemed to have heeded the time advice issued in previous reports. The mean mark for this item was 21.

7 * (b) Evaluate the argument that the National Health Service (NHS) should charge patients for the treatment of smoking-related conditions.

(30)

~~The NHS~~

It is estimated that smoking costs the NHS between £2.5 - £6 billion per year. The NHS is funded by the UK government, who get their money from taxes. ~~These~~ These taxes include direct taxes, such as income tax and corporation tax, and indirect taxes such as VAT and tobacco duty. Smoking can cause many different conditions, such as lung cancer, bronchitis and emphysema. More than one quarter of all cancer deaths can be attributed to smoking. (evidence D)

Benefits of the NHS charging patients for the treatment of Smoking-related conditions would be that the huge amount of money the NHS put into smoking could then be spend elsewhere in the public sector, such as on education or infrastructure. It could also be argued that the tax money the NHS uses comes from all people & businesses, regardless of ~~whether~~ whether they smoke - so why should someone who does not smoke have to pay tax money towards the treatment of someone who chooses to smoke? Also, evidence shows that the largest percentage of smokers come from the 'ILO unemployed' category. These people will have lower incomes and so be paying much less in come tax, but will be the ones receiving most NHS care for smoking related illness. Also, smoking is something a person chooses to do - so by NHS treatment for smoking-related illness having to be paid for by the person themselves, it may be quite a large incentive for some people to stop smoking, or for younger people to not start.

However, this idea has many issues. Firstly, as the largest percentage of smokers come from the 140 unemployed category, charging for NHS treatment of smoking-related illness would massively increase inequality, as many people would not physically be able to afford their treatment. It could also be argued that this would be very unethical, as many people would die from their condition, or have a poor quality of life as a result. Smoking currently causes around 100,000 deaths per year in the UK (evidence D) and this number

would increase massively if NHS treatment was no longer free. Also, people get free NHS treatment for other self-inflicted illnesses, so why not smoking? For example, a person needing an operation ~~to~~ for heart disease, due to the fact that they were obese, would not be denied their treatment. Although smoking costs the NHS & the Treasury huge amounts of money each year, the Treasury also takes in huge amounts of money from tobacco duty. 82% of the price of

a pack of cigarettes is tax and it is estimated that the Treasury is taking in about £12 billion per year directly from tobacco sales (evidence 6). So, the money taken in more than covers the costs to the NHS of smoking. ~~Therefore, someone~~ It could also be difficult to tell whether someone's condition is due to the fact that they smoke, as all the conditions associated with smoking can still happen to a non-smoker - it is just less likely. Finally, someone could end up with a smoking related illness as a result of passive smoking even if they do not smoke themselves. For example, this could happen to someone who grew up with their parents always smoking indoors. In this case it would be very unfair to deny the person treatment.



ResultsPlus Examiner Comments

This is an example of a strong response achieving high Level 4 and 27 marks. There is a balanced conclusion and recommendation based on sound analysis of the economic situation and case study information. The candidate uses economic and business terminology precisely and effectively with good spelling, punctuation and grammar.



ResultsPlus Examiner Tip

This final extended essay question can only be done well if candidates have had plenty of timed practice on a range of possible topics, prior to taking the exam.

In addition, to emphasise again, writing must be legible. Preferably in black biro and not felt-tip pen. Candidates cannot expect to be rewarded for sections of text which simply cannot be read by the examiner.

Paper Summary

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

- There were an unusually large number of scripts sent to be reviewed by examiners due to the poor quality of handwriting or the use of inappropriate felt-tip pens. It is important that basic handwriting is of an appropriate standard and I would recommend that candidate assessed work is handwritten, rather than word processed, during the teaching course. It is a shame to see potentially good scripts not achieving marks because of illegibility.
- Candidates need to learn precise definitions of syllabus terms and practice answering definition type questions in timed conditions.
- Candidates need to take note of the marks available for each question and, using previous papers and mark schemes, be more aware of how knowledge, application, analysis and evaluation marks are allocated and awarded.
- In the levelled questions, candidates need to practice writing, by hand, in timed or test conditions.
- Evaluation is more effective if it takes place systematically throughout the paper rather than being left to the final couple of paragraphs.
- Conclusions need to add something to what has already been said and be based upon previous analysis. It is very unlikely that marks will be awarded for simply repeating earlier comments.
- Evidence and examples need to be used to support analysis and evaluation. It is not enough to simply repeat or quote evidence from the case study or from a candidate's own research. The evidence has to be used in some way to support a point or illuminate an argument.
- Candidates also need to remember that there is a synoptic element to the paper, thus appropriate use of business and economic terms are rewarded and their use may well lift a response to a higher assessment level.

Grade Boundaries

Grade boundaries for this, and all other papers, can be found on the website on this link:

<http://www.edexcel.com/iwantto/Pages/grade-boundaries.aspx>

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