

Mark Scheme (Results)

June 2011

GCE Economics & Business
(6EB02) Paper 01

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Publications Code US027746

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NOTE: If part (a) of the question is INCORRECT, then a maximum of 2 marks can be awarded for part (b)

| Question Number | Question | Marks |
|-----------------|---|-----------------------------------|
| 1(a) | <p>In 2009, the UK home DIY (Do-It-Yourself) market was dominated by businesses such as Homebase, B&Q and Focus who between them had over 50% of the total market.</p> <p>This market is best described as</p> <p>Answer: A (an oligopoly)</p> | 1 |
| 1(b) | <p>Explain why this answer is correct:</p> <ul style="list-style-type: none"> • An oligopoly is a market structure with just a few sellers/suppliers dominating the market and/or an oligopoly market is one which has a three firm concentration ratio of over 40% (1 mark). • The DIY market only has 3 major players such as B&Q, Focus and Homebase which own over 50% of the market share making it an oligopoly (1 mark) • Oligopolies have high barriers to entry such as start up costs (1 mark) • Homebase, B&Q and Focus sell branded products with large advertising budgets (1 mark) • A monopoly is where there is one supplier and/or has 25% market share (1 mark) • Monopolistically competitive is where there are many buyers/sellers all selling differentiated products (1 mark). • Perfectly competitive is where there are many buyers/sellers selling undifferentiated products/homogenous products (1 mark). <p>NB up to 2 marks out of 3 may be gained for part (b) if part (a) is incorrect</p> <p>Maximum 2 marks for explaining why distracters are incorrect</p> | <p>1-3 marks</p> <p>(Total 4)</p> |

| Question Number | | Marks |
|-----------------|--|-----------------------------------|
| 2(a) | <p>Nissan Motor Manufacturing UK Limited uses Just in Time (JIT) stock management in its plant near Sunderland.</p> <p>Just in Time (JIT) stock management is most likely to result in</p> <p>Answer: D (a reduction in capital tied up in stock)</p> | 1 |
| 2(b) | <p>Explain why this answer is correct:</p> <ul style="list-style-type: none"> • JIT stock management is a stock control method which relies on no buffer stock and/or has regular deliveries from suppliers when required (1 mark). • Nissan's capital expenditure on stock will therefore be less than traditional stock control methods as stock is not stored (1 mark) • Less capital will be required to store/warehouse the stock (1 mark). • Employee training may not necessarily change/decrease as there could be a need for more employee training to cope with the JIT system (1 mark). • There will be a decreased not an increase in product defects by using JIT as quality improves using JIT/lean management techniques (1 mark) • Average Costs are more likely to decrease rather than increase due to having less stock holding costs (1 mark) <p>Any acceptable answer which shows selective knowledge/understanding/application and/or development</p> <p>NB up to 2 marks out of 3 may be gained for part (b) if part (a) is incorrect</p> <p>Maximum 2 marks for explaining why distracters are incorrect</p> | <p>1-3 marks</p> <p>(Total 4)</p> |

| Question Number | Question | Marks |
|-----------------|---|--|
| 3(a) | <p>In 2009, a number of policies were introduced in order to stimulate aggregate demand within the UK economy.</p> <p>Which of the following policies are least likely to increase Aggregate Demand?</p> <p>Answer: B (An increase in interest rates)</p> | 1 |
| 3(b) | <p>Explain why this answer is correct:</p> <ul style="list-style-type: none"> • Aggregate Demand is the total demand for goods and services within an economy and/or consists of $C + I + G + (X-M)$ (1 mark). • An increase in interest rates will reduce aggregate demand because it will lead to less consumption by both consumers due to having less disposable income (1 mark) and investment by businesses as the cost of borrowing will increase (1 mark). • An increase in interest rates also means the consumers are more likely to save rather than spend on goods and services (1 mark) • Businesses and consumers will reduce their levels of demand (1 mark) and therefore shifting AD inward (1 mark). • An increase in government spending will in fact increase aggregate demand (1 mark). • A reduction in income tax will mean that consumers have more disposable income (1 mark) and will therefore spend and therefore aggregate demand increases. • A reduction in corporation tax will increase business investment due to an increase in retained profit (1 mark). <p>Any acceptable answer which shows selective knowledge/understanding/application and/or development</p> <p>NB up to 2 marks out of 3 may be gained for part (b) if part (a) is incorrect</p> <p>Maximum 2 marks for explaining why distracters are incorrect</p> | <p>1-3 marks</p> <p>(Total 4)</p> |

| Question Number | | Marks |
|-----------------|---|-----------------------------------|
| 4(a) | <p>In August 2009, the exchange rate of pound sterling (£) against the US dollar (\$) was £1= \$1.70. By January 2010 it had depreciated to £1= \$1.60</p> <p>This will result in</p> <p>Answer: C (US dollars will become dearer in terms of pound sterling)</p> | 1 |
| 4(b) | <p>Explain why this answer is correct</p> <ul style="list-style-type: none"> • A depreciation means a fall or a decrease (1 mark) • Exchange rate means the value of one currency expressed in terms of another (1 mark) • A depreciation of the pound against the dollar means that one pound will buy less, in terms of dollars, than it previously did (1 mark) • After the depreciation/fall of the pound against the dollar more pounds will be needed to buy the same amount of dollars (1 mark). Thus the dollar has become more expensive to buy (1 mark). • UK imports will become more expensive rather than cheaper due to the depreciation as more pounds will be needed to buy dollars (1 mark). • UK exports to the USA will become cheaper rather than expensive due to the depreciation (1 mark). <p>Any acceptable answer which shows selective knowledge/understanding/application and/or development</p> <p>NB up to 2 marks out of 3 may be gained for part (b) if part (a) is incorrect</p> <p>Maximum 2 marks for explaining why distracters are incorrect</p> | <p>1-3 marks</p> <p>(Total 4)</p> |

| Question Number | Question | Marks |
|-----------------|---|-----------------------------------|
| 5(a) | <p>In 2007 the food retailer the Co-operative Group (Co-op) became one single business with its headquarters in Manchester.</p> <p>Having a centralised organisational structure is least likely to lead to</p> <p>Answer: D (greater empowerment by employees)</p> | 1 |
| 5(b) | <p>Explain why this answer is correct:</p> <ul style="list-style-type: none"> • A centralised organisation structure is one which has decisions made in a Head Office/central point with many management levels (1 mark) • This may lead to senior managers at the Co-op retaining the major responsibilities/ powers at HQ/central point (1 mark) • Decisions are made without consultation therefore leading to less empowerment by employees (1mark) • Greater empowerment tends to be associated with a decentralised structure where decisions are delegated to local managers (1 mark) • There will be less duplication of resources due to the fact that all operations are carried out at HQ/central point rather than in individual outlets (1 mark) • Senior managers will have greater control over employees due to the nature of the structure and there is more likely to be standardised procedures (1 mark) • This will lead to less decision making by employees (1 mark) <p>Any acceptable answer which shows selective knowledge/understanding/application and/or development</p> <p>NB up to 2 marks out of 3 may be gained for part (b) if part (a) is incorrect</p> <p>Maximum 2 marks for explaining why distracters are incorrect</p> | <p>1-3 marks</p> <p>(Total 4)</p> |

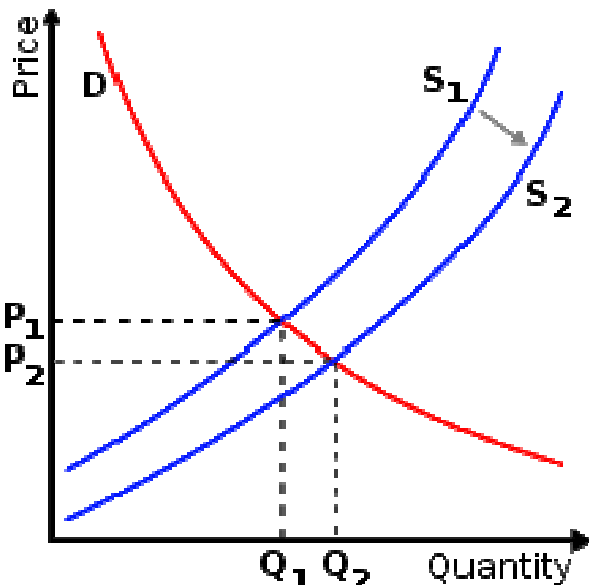
| Question Number | | Marks |
|-----------------|--|-----------------------------------|
| 6(a) | <p>Charles Tyrwhitt is known for its high quality shirt brands in Britain. In 2009, the company had a turnover of £65 million, in a profitable niche selling exclusive office wear.</p> <p>Operating in a niche market is most likely to lead to</p> <p>Answer: B (less competition)</p> | 1 |
| 6(b) | <p>Explain why this answer is correct:</p> <ul style="list-style-type: none"> • Niche markets are smaller but profitable segment of a market (1 mark). • A niche market involves specialist goods or services with relatively few or no competitors (1 mark). • Niche consumers often look for exclusiveness or some other differentiating factor such as high status (1 mark). • Alternatively, they may have a specific requirement not satisfied by standard products which Charles Tyrwhitt caters for (1 mark). • Economies of scale are unlikely to be gained due to the small nature of the niche (1 mark). • Some niche markets charge higher prices rather than lower prices due to the exclusivity of the niche (1 mark). • Profit margins can be higher rather than lower due to the higher prices (1 mark). <p>Any acceptable answer which shows selective knowledge/understanding/application and/or development</p> <p>NB up to 2 marks out of 3 may be gained for part (b) if part (a) is incorrect</p> <p>Maximum 2 marks for explaining why distracters are incorrect</p> | <p>1-3 marks</p> <p>(Total 4)</p> |

Section B Mark Scheme

| Question Number | Question | |
|-----------------|---|--|
| 7 | Explain why research and development (R&D) is so important in the mobile phone market. | |
| | Answer | Mark |
| | <p>(Knowledge 2, Application, 1, Analysis 1)</p> <p>Knowledge/understanding: up to 2 marks for defining or showing implicit understanding of what is meant by R&D e.g. discovering new knowledge about products, processes, and services, and then creating new and improved products, processes, and services (1 mark) and/or stating why this is needed in any market e.g. in order to stay competitive (1 mark).</p> <p>Application: up to 1 mark for contextual answers demonstrating the reasons for R&D in the mobile phone industry e.g. very technological (1 mark), FMCG industry (1 mark)</p> <p>Analysis: up to 1 mark for is available for giving a reason/cause/consequence e.g. in order for mobile phone companies to gain a competitive advantage they need to constantly improve the handsets (1 mark) and/or features offered to consumers (1 mark)</p> | <p>1-2</p> <p>1</p> <p>1</p> <p>(4 marks)</p> |

| Question Number | Question | |
|-----------------|--|--|
| 8 | One estimate is that a 10% reduction in the price of Tesco iPhone contracts would increase demand by 4%. Calculate and comment on the price elasticity of demand in this case. | |
| | Answer | Mark |
| | <p>(Knowledge 2, Application 1, Analysis 1)</p> <p>Knowledge/understanding: up to 2 marks for:</p> <p>Showing the correct formula (2 marks)</p> <p><u>% Change in Quantity Demanded</u> = % Change in Price</p> <p>OR If no calculation is given or incorrect formula used then 1 mark is available for a definition of PED e.g. measures the responsiveness of demand to a change in the price</p> <p>Application: 1 mark is available for the correct figures:</p> $\frac{+4\%}{-10\%} = -0.4$ <p>Analysis: up to 1 mark for stating that the PED is 0.4 and therefore demand is price inelastic.</p> | <p>1-2</p> <p>1</p> <p>1</p> <p>(4 marks)</p> |

| Question Number | Question | |
|-----------------|--|--|
| 9 | Briefly explain two possible non-price factors which may affect the demand for a product such as the Apple iPhone | |
| | Answer | Mark |
| | <p style="text-align: center;">Knowledge 2, Application 2, Analysis 2</p> <p>(Each Factor: Knowledge 1, Application 1, Analysis 1) x 2</p> <p>Knowledge/understanding: up to 2 marks are available for defining what is meant by demand (1 mark) e.g. demand is the amount of a good or service that is wanted at a given price and a given time and/or showing factors which affect demand for a product e.g. income (1 mark), substitutes (1 mark), tastes/fashion (1 mark), population (1 mark), complements (1 mark), expectations (1 mark) and/or an explanation of what is meant by non-price factors e.g. promotion (1 mark), place (1 mark and product (1 mark)</p> <p>Application: up to 2 marks are available for applying these factors to the Apple iPhone e.g. a change in income will affect the number of iPhones purchased as they are expensive (1 mark), e.g. the price of substitute phones will affect demand for iPhones (1 mark), e.g. tastes/fashion affect if the iPhone is popular or not (1 mark), e.g. an increase in the population will affect how many phones are purchased (1 mark), e.g. change in the price of complements (1 mark), e.g. expectations of consumers (1 mark), e.g. promotional campaigns (1 mark), e.g. innovative features of the iPhone (1 mark)</p> <p>Analysis: up to 2 marks are available for giving a reason/cause/consequence e.g. Apple is currently popular and has innovative products which may also have contributed to demand (1 mark). Apple is the market leader and a very innovative company (1 mark) with a large advertising budget which may also increase demand for the iPhone (1 mark)</p> | <p style="text-align: center;">1-2</p> <p style="text-align: center;">1-2</p> <p style="text-align: center;">1-2</p> <p style="text-align: center;">(6 marks)</p> |

| Question Number | Question | |
|-----------------|--|--|
| 10 | Using a fully labelled diagram, illustrate and explain the likely impact of increased competition on the price of Apple iPhones contracts. | |
| | Answer | Mark |
| | <p style="text-align: center;">(Knowledge 3, Application 3, Analysis 2)</p> <p>Diagram: 5 marks + Written Explanation: 3 marks</p> <p>Diagram: There should be a supply and demand diagram showing: <ul style="list-style-type: none"> • Correct labelling of axes (1 mark) • Supply and demand curves drawn correctly (1 mark) • Initial equilibrium (1 mark) • Shift in supply curve to the right (1 mark) • New equilibrium correctly showing decrease in price and increase in quantity (1 mark) </p> <p>Written Explanation: Application: 1 mark is available for written explanation which must be set in context e.g. referred to iPhones (1 mark). Application mark is only to be awarded if explanation correctly refers to supply and NOT demand.</p> <p>Analysis: up to 2 marks for explaining that there are more suppliers of iPhones such as Tesco and Orange increasing the supply of iPhones (1 mark) and therefore driving prices down due to increased competition. (1 mark).</p> <p>NB: A total of 5 marks are available for the correct diagram: Correct diagram if shifting the supply curve right</p> <div style="text-align: center;">  </div> <p>NB: Answers lacking a diagram, maximum of 3 marks. For a diagram only, they must be perfect and clear to gain 5</p> | <p style="text-align: center;">1-5</p> <p style="text-align: center;">1</p> <p style="text-align: center;">2</p> <p style="text-align: center;">(8 marks)</p> |

| | | |
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| | marks. Otherwise 4 marks or less, dependent upon quality. | |
|--|---|--|

| Question Number | Question | | |
|-----------------|--|---|---|
| 11 | <p>Critically assess two possible marketing strategies a business might adopt in order to enter the market for mobile phone contracts.</p> <p>(Per Strategy: Knowledge 1, Application 1, Analysis 1, Evaluation 2) x 2</p> | | |
| Level | Mark | Descriptor | Possible Content |
| 1 | 1 | Available for knowledge such as identifying what is meant by market/ strategies to enter a market | <p>e.g. A market consists of all the consumers who purchase a particular type of good or service</p> <p>e.g. marketing strategies include Product, Price, Promotion, Place</p> |
| 2 | 2 | Available for contextualising the response by referring to the market for mobile phone networks/application of the marketing strategies | <p>e.g. there are currently 5 main providers of mobile networks and who hold 90% market share making it a tight oligopoly with high barriers to entry</p> <p>e.g. A business may use penetration pricing to undercut existing mobile providers</p> <p>e.g. a business may use advertising to gain recognition and to promote the new mobile network</p> |
| 3 | 3 | Available for considering the impact of these marketing strategies for entering the market for mobile phone networks. | <p>e.g. a new business may offer cheaper tariffs which will help a foothold in the market and gain market share</p> <p>e.g. innovative phones which have the latest technology which helps them gain market share</p> <p>e.g. consideration that there will be barriers to entry which may restrict new entrants in the market</p> |

| | | | |
|---|-----|--|--|
| 4 | 4-5 | Available for providing balance e.g. showing possible advantages and disadvantages of the different strategies available to enter the market for mobile phone networks. | e.g. due to the nature of the market (oligopoly) it may be difficult to undercut current providers so lowering prices may not work. e.g. advertising may attract new customers but there is an opportunity cost for advertising and other non- price competition such as innovation and service. |
|---|-----|--|--|

| Question Number | Question | | |
|-----------------|---|--|---|
| 12 | Evaluate the likely impact on two stakeholder groups of the proposed merger between T-Mobile and Orange. (Per Stakeholder: 1 Knowledge, 2 Application, 1 Analysis, 3 Evaluation) x 2 | | |
| Level | Mark | Descriptor | Possible Content |
| 1 | 1 | Knowledge must be present. Some awareness of what is meant by stakeholder groups <i>QWC: To achieve a mark of 1 the candidate will have struggled to use business terminology or write legibly with frequent errors in spg and/or weak style and structure of writing.</i> | e.g. stakeholders are individuals/groups who are affected by a business such as customers, employees, shareholders, local community, suppliers, the Government |
| 2 | 2-3 | Application must be present, i.e. the answer must be contextualised and be applied to the merger of T-Mobile and Orange on a stakeholder group Low Level 2: 2 marks Just a simple reference to the context High Level 2: 3 marks A specific reference to the context <i>QWC: To achieve a mark of 3 the candidate will use some business terms but the style of writing could be better / there will be some errors in spg / the legibility of the text could have been better in places.</i> | e.g. Employees within T-Mobile and Orange will be affected by the merger. Some employees may experience redundancy e.g. Shareholders in T-Mobile and Orange may see the value of their shares increase or the dividend yield increase. (or any other stakeholder groups identified such as customers) |
| 3 | 4 | Analysis must be present, i.e. the candidate must give reasons/ causes/ consequences of the merger of T-Mobile and Orange on a stakeholder group | e.g. stating whether this change is an advantage or a disadvantage for shareholders e.g. stating whether this change is an advantage or a |

| | | | |
|---|-----|--|--|
| | | <p><i>QWC: To achieve a mark of 4 the candidate will use business terminology well/style of writing is appropriate to the question/ reasonable to good spg</i></p> | <p>disadvantage for employees. (or any other stakeholder groups identified such as customers)</p> |
| 4 | 5-7 | <p>Low Level 4: 5 marks. Evaluation must be present, i.e. the candidate must present an argument for how a stakeholder group can be a winner and a loser from the merger of T-Mobile and Orange</p> <p>Medium Level 4: 6 marks Evaluation must be present to convincingly illustrate the impact of the merger of T-Mobile and Orange on a stakeholder group</p> <p>High Level 4: 7 marks A convincing and balanced answer throughout making good use of concepts and terminology</p> <p><i>Assessment for QWC: The candidate will use business terminology precisely and effectively/organises their answer to provide a coherent and fluent response/ good to excellent spelling, punctuation and grammar.</i></p> | <p>e.g. If the merger is successful, shareholders are likely to see profits and dividends increase. Share prices may also increase due to increased power within the market. The evaluative element may take the form of questioning the success of the merger or the sharing of gains between the two shareholder groups. Could lead to diseconomies of scale and therefore shareholders may not gain from the merger.</p> <p>e.g. The merger will result in some reorganisation and restructuring, this will probably lead to some employees losing their jobs. The evaluative element may take the form of the extent of these losses and the effect on the remaining workforce in terms of motivation and/or job security.</p> <p>(or any other stakeholder groups identified such as customers)</p> |

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Order Code US027746 June 2011

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