

Examiners' Report
June 2014

GCE Business Studies 6BS03 01

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Introduction

This paper has proved to be an accessible one and a good discriminator with the exception of the final question. Despite the wording of the question coming straight from the specification, many students, perhaps in the heat of the moment, misinterpreted it and offered a different answer, thus missing out on a potential 15 marks. Elsewhere in the paper, many candidates were able to demonstrate a good theoretical understanding, backed up by good use of examples, often taken from wider reading rather than the paper itself. Other answers were rather tangled and often relied on assertions rather than the construction of logical argument.

Some candidates weakened their responses by failing to apply the terms and theory they had been taught, using generalities and non-specialist language. This does not convince examiners that answers deserve high reward. For example, "to make lots of money", or "the business will do well" are not convincing reasons for entering an emerging market (question 5) and are unlikely to gain marks for analysis.

This year seemed to have more than its fair share of difficult to read and at times, illegible scripts. Other arrangements are available for students who have handwriting issues and centres are advised to utilise these options if required.

The main reasons for otherwise able candidates underachieving are the usual ones of not heeding command words and not reading the questions carefully enough. Command words are still being ignored by a sizeable number. Instructions to 'Assess' and 'Evaluate' were not always followed by some candidates.

Very few candidates failed to finish all the questions.

Question 1

Nearly all the candidates were able to identify two negative impacts that MNCs can have on the countries where they operate. By far the most common were environmental pollution and the exploitation of labour. Most candidates used the example from the evidence of BP and the oil spill but examples of MNCs exploiting labour were comparatively rare. Where many candidates failed to gain marks was in not developing any analysis. Simply saying that MNCs pollute is not enough, candidates need to show how pollution has a negative impact. Stronger candidates linked the oil spill in the gulf to the loss of livelihoods for local fishermen or the costs of cleaning up the mess. Many candidates seemed to think that just saying MNCs pay low wages was enough to show the negative impact. Low wages by themselves are not even a negative impact if the alternative is no wages at all; there is also the question of what exactly a 'low' wage means.

~~env~~ Environmental cost, compete with home industry

- 1 Explain **two** possible negative impacts that MNCs can have on the countries where they operate.

Multinational companies (MNCs) can have damaging effects on the environment of their host countries. Evidence A describes the disasters imposed the BP oil spill has had, warranting a \$20bn fund for clean up. MNC's damaging the environment could ~~also~~ result in lower tourism, if areas of natural beauty are destroyed less people may come to visit the company, lowering revenue from tourism, which could lead to job losses.

MNC's can also ~~also~~ compete ^{smaller} ~~local~~ ~~national~~ companies. Walmart can benefit from huge economies of scale resulting in much lower costs in their business meaning they can price products very competitively. Smaller local companies cannot benefit from economies of scale and have to price their products higher, this ~~fact~~ leads to lower demand for smaller food outlets such as grocery stores. This could result in higher unemployment as these smaller companies fail.



ResultsPlus Examiner Comments

This is a detailed response giving two valid negative impacts; these are then applied in context and the consequences given thus gaining all 6 marks.



ResultsPlus Examiner Tip

For each possible negative impact we are looking for an identification of an impact (knowledge 1 mark), then putting it into context with a valid example (application 1 mark) and then developing that impact by explaining how it has a negative impact on the country (Analysis 1 mark). Make sure you cover these three assessment objectives.

Question 2

Most students scored well although few managed to reach all 8 marks. Context was used well and quoting from the case study was very popular.

Application was good in most cases, with candidates often using Microsoft and Nestle as examples. The analysis tended to be limited in most cases, with many candidates accessing just 1 of the 2 marks available for each way. This was because candidates made an analysis point but then failed to develop it beyond stating that it would lead to an improvement in local living standards. Stronger answers considered the impact on the local residents, then the multiplier effect, then the opportunity cost of government spending being focused on improvements rather than putting right problems.

2 Analyse **two** possible ways that MNCs might contribute to an improvement in local living standards in the countries where they operate.

An important benefit for MNCs in host countries is the creation of jobs they bring. E.g. a new factory can require hundreds of workers, providing many jobs. Therefore previously unemployed citizens can enjoy a wage and ~~there for~~ therefore living

standards can be improved not only for the individual as they have money to spend but also for the economy as the consumer has a higher spending power. This money can then be re-invested back into the area. E.g. Nike in China has helped the economy to boom, resulting in a wealthier Chinese population.

Secondly, as mentioned in evidence B, MNCs can be very generous with their wealth and simply donate money to developing countries. E.g. MTN donating \$20 million annually to improve water delivery in Ghana. Ghanaian people therefore have clean water supplies, less chance of diseases/illnesses and higher living standards plus life expectancy. Although it could be argued MNCs donating money leads to the money going to the wrong place e.g. the government, MNCs

Such as Microsoft have insured that doesn't

happen.



P 4 3 2 8 6 R A 0 4 2 0



ResultsPlus
Examiner Comments

This candidate scored 7 marks, 4 for the first discussion on creating employment and 3 for the second on donations. It just failed to develop the analysis far enough for the second analysis mark.

Question 3

Most candidates were able to offer some awareness of the trade-off between ethical behaviour and profitability with many scoring in the Level 4 range. Some struggled with context and just said 'BP' however the stronger candidates brought in the BP example from the evidence. Having said that, quite a number of candidates had misinterpreted the evidence and seemed to think that BP being forced to set up a \$20bn fund was an example of ethical behaviour.

3 Assess the potential trade-off between ethical behaviour and profitability for a MNC such as BP.

~~Ethical behaviour~~ Trade-off is the benefits or costs from making one decision or a different option. Ethical behaviour is about doing what is morally right. If a business is acting ethically they can attract a wider range of customers as some people like supporting companies that act ethically. An example would be Cadbury's whose cocoa beans are ~~for~~ Fairtrade.

By acting ethically, there is a better perception of a brand. When it was discovered that Primark were using sweat shops people were put off, or when it was found that many supermarkets were using horse meat in beef, they lost sales and businesses such ~~at~~ as Waitrose whose meat was properly sourced. People are more willing to buy brands that are more trustworthy.

However, being ethical increases costs. By giving a workforce better than the minimum wage, it can seem like you are treating your workers better. However, by increasing your labour costs you have higher overall costs, and therefore you will be making less profit. Other schemes such as Nestlé's ~~corporate~~ rural development (Evidence B) also have very high costs, and if a company tries to be ethical but has to stop due to too high costs then ~~they can look very bad~~ there can be negative impacts.

Overall being ethical can be very good as it ~~is~~ shows

the business cares for the environment, but it can come with high costs.

(Total for Question 3 = 9 marks)



ResultsPlus

Examiner Comments

A good response that scored 8 marks. The candidate writes clearly and is able to use examples effectively on both sides of the argument.

Question 4

All candidates were able to give at least one way in which MNCs could be controlled and took advantage of the application provided in the course material. Many also considered the other side and were able to provide a balanced argument. The more able candidates really considered both sides and showed a good understanding that it depends on the government of the country that they are operating in. The best candidates made effective use of the 'it depends on the size and power of the host country's government' argument, often contrasting the case of the USA with that of Ghana, which was a good way into the top band for evaluation. Less able candidates could offer ways in which MNC's could be controlled but the other side of the argument was much weaker or prone to simplistic assertions.

2xL4 = NO \leq P. g. no legal power
bring FDI
2xL3 = YES \leq P. g.

*4 Evaluate the extent to which the activities of a MNC such as BP can be controlled.

Yes, they can be controlled with government policies, eg. Barack Obama's compulsory \$20bn funds for BP to set up. This would slowdown BP oil company's actions, therefore ~~be~~ reduce environmental damage caused by oil spill, therefore Gulf of Mexico could improve its conditions.

They ~~all~~ can also be controlled by pressure groups such as Greenpeace, which would build a bad reputation for the MNC and boycott it, which could cause a loss of sales if customers are aware and care, therefore slowdown MNC's activities.

However, MNC bring FDI to a country, therefore more jobs and GDP, this would mean that the government doesn't want to hamper MNC activity, as it could stop benefitting the country, ~~at~~ therefore won't control all the activities as much as they could do.

~~Also~~ Also, pressure groups have no legal power, therefore BP could keep spilling oil and pay even if Greenpeace starts a campaign against it, which would lead to no control power on the MNC whatsoever.

In conclusion, it depends on how much does the host country need the MNC.

Short run they might not control them, however



P 4 3 2 8 6 R A 0 7 2 0

7

Turn over ►

long run governments may start to introduce some policies to limit the MNC's activities.

Overall, the government wants to control MNC, but MNC are often rich and powerful, and could just footloose if they feel like they're being controlled too much, therefore governments usually limit their constraints.



ResultsPlus

Examiner Comments

This response shows understanding of some of the ways in which an MNC can be controlled and uses the BP example to give context. However there is only one piece of context and the evaluation is generic; some of the analysis is a little dogmatic. Nevertheless it reaches L4 and scored 8 marks.



ResultsPlus

Examiner Tip

Always use the conditional when analysing and evaluating, use words such as 'may' and 'could' rather than 'will'.

Question 5

This was answered very well overall. The most common responses focused on home markets being saturated and the potential high sales and profits to be gained from emerging markets and made good use of the evidence.

Some candidates did struggle for a second reason and thus repeated the same point but phrased differently, so they were limited to 3 marks. Some candidates did not read the question carefully enough, which specifically required a response on sales and instead discussed why cheaper production would be important.

5 Explain two possible reasons why sales in emerging markets are important to 'Large western pharmaceutical companies' (Evidence C).

One Reason for this is to extend the product ~~type~~ lifecycle. By introducing a product to this new market it restarts the product life cycle of introduction to the market. which is likely to lead in an increase in profit for a very low amount of research + development (just marketing). which also is less risky than designing a new product ~~for~~ ^{for} the market which may be unsuccessful.

Another reason would be to increase global market share. This would lead to an increase in sales and \therefore an increase in profits. which could be reinvested into the company in order to expand into further markets.



ResultsPlus

Examiner Comments

This response scored 4 marks. It has good knowledge and analysis but unfortunately no context and therefore did not gain the 2 application marks available.



ResultsPlus

Examiner Tip

Always try to bring in some context to get the application marks. The stimulus material will help if you are stuck.

5 Explain two possible reasons why sales in emerging markets are important to 'Large western pharmaceutical companies' (Evidence C).

One reason is that western markets are saturated with competitors and western pharmaceutical companies want to diversify. This means if sales start to slow in the west - which they are by 2.3% in America - then the loss in sales can be made up in emerging markets where sales are rising very fast. Saturated markets cost a lot more than open ones because a lot of money has to go into competing to keep market share. For example M&S have moved to India because the European market is so saturated.

Another reason is that emerging economies like India and China are booming, in both countries there is a fast growing population of middle class and rich people that are now demanding medical products because standards of living are rising. By 2015 emerging markets will make up 25% of pharmaceutical sales so there is a very large potential market which will increase turnover and profits for companies that move into emerging markets.



ResultsPlus
Examiner Comments

This response does make good use of context throughout and gained all 6 marks for this question.

Question 6

From an examining point of view this was a relatively disappointing question as most candidates achieved similar marks. They could usually identify a potential difficulty and explain why it was a problem but few were able to provide any context. Those that did made good use of wider reading and classroom case studies. A wide range of reasons were offered, but the most common were language, culture, market saturation and brand recognition. When candidates selected language or culture, they failed to bring in context and analysis and often struggled to give a reason as to why this may prove to be a difficulty.

6 Explain **two** possible difficulties Indian pharmaceutical companies might face when entering the US market.

One difficulty is that consumers may be weary of the Indian ~~pharm~~ pharmaceutical companies, as ~~they~~ ^{if} they were trying to enter the market. Current companies in the US market will have ~~been~~ consumer loyalty so it would be difficult to gain enough consumers to be successful. Another difficulty is that rival pharmaceutical companies may price their drugs competitively to drive the Indian pharmaceutical companies out. It would be difficult for the Indian companies to lower their prices, as they will be quite new and possibly smaller than those in the US market. This would make it difficult for them to compete effectively.



ResultsPlus
Examiner Comments

This response was typical of many in that knowledge and analysis were fine but no application present and only 4 marks were awarded.

Question 7

This question triggered the most 'textbook' responses with the majority of candidates producing carefully rehearsed standard answers, many of which had limited context or lacked it altogether.

Those that did use examples were able to explain a number of benefits and drawbacks and most accessed Level 4 marks, although many were restricted to 6 marks as application was on one side only. Only a small number of students were able to evaluate in context throughout.

7 Assess the likely benefits for European pharmaceutical companies, such as Reckitt Benckiser, of expanding by takeovers.

A takeover is when a business completely buys another business and their assets, gaining full control of it.

One ~~bad~~ benefit of expanding this way would be that they don't have to worry about growth in the business as it is likely that it is already established if it was worth taking over. They would also gain the brand name and all its customers which is likely to then have an effect on the original business.

The ~~old~~ customers from the business ~~that~~ has been taken over are likely to start buying products and services from the original business.

Another benefit of expanding by takeovers would be that you gain access to other markets which may have higher demand.

For the European pharmaceutical companies, they may want to gain access to the Indian and US markets as they have higher growth and lower production costs. Expanding through takeovers would be a good way of gaining access. However, it is always a risk to ~~takeover~~ takeover another company as the initial cost is always high and the risk may not pay off.

(Total for Question 7 = 8 marks)





ResultsPlus
Examiner Comments

This response gained 5 marks. There is reasonable analysis and some context and reaches Level 3. There is an attempt at evaluation at the end but it is assertion based and there is nothing there to support the assertions and so does not reach Level 4.

Question 8

The best answered question in terms of the level of evaluation and the level of wider reading and use of examples. The question was accessed by almost all candidates although high level 4 was rare as conclusions were often not fully developed or contextual.

All candidates understood the importance of low labour costs and applied the case study appropriately to back up their arguments. The counter argument proved more challenging and some candidates only considered the importance of low labour costs and therefore restricted themselves to Level 3 marks. More able candidates provided a well balanced argument and considered other factors, mainly time zones, infrastructure, skills and the cost implications of training.

- 8 Evaluate the relative importance of low labour costs to a company's decision on where it will outsource its production.

Outsourcing is where ~~the raw materials are brought in from the outside of the~~ the production is set up away from the base of the company.

It is a compromise of low labour cost and skilled workers. Like Dyson who outsourced their production in Malaysia when at the time China would have been a cheaper option. ~~the~~ However Malaysia had a skilled workforce who were more used to speaking English in a business context. This shows that there are many factors to where the production should be placed.

Language barriers are also a very important part, the workers must be able to understand and communicate effectively so that they are cost effective. It

Skilled workers are also key as it will cost the company a large amount of money if they have to train all the workers to use the machines and technology. However it is sometimes the case where the unskilled workers may just do the simpler jobs and other people could be brought in to do the harder jobs. Nike used this in their production very effectively. They did this by making the simpler products in one factory in China



P 4 3 2 8 6 R A 0 1 5 2 0

and the more complicated products in a different country. But not all companies can do this.

Therefore low labour costs are important so that the business can be profitable however other things must be taken into account in the decision on where outsourcing will be done.

(Total for Question 8 = 10 marks)



ResultsPlus

Examiner Comments

A good answer that scored 8 marks. Evaluation is clear and the candidate makes good use of examples to reinforce the argument. There is a conclusion but it repeats the main point and does not really add anything new.



ResultsPlus

Examiner Tip

Questions 8 and 9 have a lot of marks for evaluation (5 and 8 respectively) and can make the difference between a top grade and an average one. Make sure that you do fully evaluate and that you use suitable context throughout.

Question 9

For most candidates this was a bit of a disaster, despite the wording for the question being taken directly from the specification. Although the question asked for the impact on individuals – many candidates simply ignored this and launched into a pre-prepared answer on the impact on businesses and the economy. Unfortunately, this meant that many otherwise able candidates only reached Level 1 or 2 at best and did not do as well as expected. It really is crucial that candidates read the question carefully and check that they answer it properly.

Those that did answer the question produced some good responses, examining the impact on individuals in terms of employment, choice and price of consumer goods and the impact from rising commodity prices. Even then, many of these stronger responses were let down by lack of examples. The stronger responses did make use of valid examples such as Tata/JLR and its impact on jobs and the pharmaceutical companies from the case study.

*9 Evaluate the impact of India's growing economic power on individuals in western countries such as the USA or the UK.

India is predicted to catch up with USA's economic power by 2050 which ~~can~~ will result in various benefits and drawbacks for individuals in the UK.

India's economic growth means India's middle class is growing and spending power is increasing. This increased spending power results in an increased demand for ^{largest consumer} and to become the fifth ~~super power~~ by 2025.

Luxury UK products which means individuals in the UK who work at places manufacturing luxury goods can enjoy greater job security and potentially higher wages due to increased profits by selling to India.

Competition is always good for consumers such as UK individuals, as Indian businesses are growing they force UK businesses to compete and may introduce lower their own prices meaning UK individuals can purchase goods at a lower price increasing their spending power and quality of life.

~~However~~ However this may result in UK businesses having to close as they can't compete with Indian businesses resulting in loss jobs for UK individuals.

~~Despite this~~ Despite this I believe job losses are exaggerated as the growing economic power of India means higher costs for businesses to operate in India which is ~~the~~ ~~main~~ a reason why Sainsbury decided to



move back to the UK and brought back jobs for UK individuals.

Although India is set for being a larger power than the UK I think it's important for UK individuals to reverse the effects on them won't be drastic.

Another example of balancing out the job losses for UK individuals to China is Tata (an Indian firm) taking over Jaguar securing jobs for UK individuals. ~~due to the fact~~ ~~the~~ ~~Indian~~ ~~firm~~ ~~growing~~ ~~in~~ ~~fact~~ one of the UK's most well known brands 'Tetley's' is owned by Tata which and without the growing economic power of India such businesses may not operate and offer products to UK individuals.

Taking all this into account I think it's clear both the short and long term effects on the UK due to India's growth won't be too drastic as the direct foreign investment / companies moving back to the UK balances out the job losses from increased competition from Indian businesses. I think the main benefit is that UK individuals spending power increases due to more competitive prices ~~as~~ as a result of competition from Indian businesses.

(Total for Question 9 = 15 marks)



ResultsPlus Examiner Comments

A good response that scored 12 marks. It is focused on the question, makes good use of examples and rounds off with a conclusion.

*9 Evaluate the impact of India's growing economic power on individuals in western countries such as the USA or the UK.

Growing economic power is where a country's ^{economic} ~~spending power~~ economy is in the high rising stage of development, and it is able to compete with already existing strong economies such as the USA.

The impact of India's rise to individuals in growing countries such as the UK and USA, is positive or negative. ^{services} ~~goods~~ for some individuals may become cheaper, as India has no minimum wage, so ~~it~~ Indian companies are able to charge less than companies in the UK, as their labour costs are low compared to ~~costs~~ those in the UK as there is a minimum wage.

However, one negative could be that people in the UK/USA lose out on their jobs, as businesses start to operate in India as there is more prosperity over there. ~~And~~

~~Products in the UK~~ ~~market~~ ~~may~~ ~~face~~ ~~a~~ ~~fall~~ ~~as~~ ~~companies~~ ~~spend~~ ~~more~~ ~~time~~ ~~and~~ ~~effort~~ ~~trying~~ ~~to~~ ~~conquer~~ ~~the~~ ~~ever~~ ~~growing~~ ~~Indian~~ ~~consumer~~ ~~market~~, ~~as~~ ~~more~~ ~~money~~ ~~can~~ ~~be~~ ~~made~~ ~~over~~ ~~there~~ ~~than~~ ~~it~~ ~~is~~ ~~in~~ ~~the~~ ~~UK~~ ~~as~~ ~~the~~ ~~UK~~ ~~consumer~~ ~~markets~~ ~~may~~ ~~be~~ ~~nearing~~ ~~saturation~~ ~~whereas~~ ~~the~~ ~~Indian~~ ~~market~~ ~~is~~ ~~not~~.



Also, with increased economic power, Indian companies may look to ~~purchase~~ ^{take over} British companies, which is ~~negative~~ ^{not} meaning sales revenue from those businesses will eventually go back to India and help the Indian economy, and not ~~so~~ much the British economy, meaning for example every individual suffers as ultimately the UK's ~~gov~~ government has less spending power as more money is being taken out of the country.

Overall I believe that India's growing economic power will have a ^{more} negative impact on individuals in Western countries as their economies will eventually suffer as India keeps growing and takes over more of the Western ~~markets~~ markets.



ResultsPlus Examiner Comments

This response only scored 7 marks as it has no context, just repeating India or the UK is not enough.



ResultsPlus Examiner Tip

The specification requires candidates to study the impact of the growing economic power of China and India. It would be a good idea for students to have a list of examples of Chinese and Indian businesses ready to use should the need arise.

Paper Summary

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

- Do read the question carefully and answer the question that is set
- Do watch out for command words such as 'Assess' or 'Evaluate'
- Do use examples to illustrate your argument
- Do use the language of the subject and avoid generalities
- Do watch your timing and do not spend too long on one question
- Do write concisely
- Do add a conclusion to the longer questions

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