

Examiners' Report
June 2015

GCE Economics & Business 6EB04 01

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June 2015

Publications Code UA041311

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Introduction

This session seemed to be successful for many candidates, with plenty of evidence of a serious engagement with the subject of the case study. There was plenty of evidence of independent research linked to the UK energy market, market failure and to regulation.

The fact that there were news items relating to the subject, in the context of the 2015 General Election, clearly helped teachers introduce topics for discussion. Many candidates achieved Level 4 on both extended essay items, with some achieving very high marks. What distinguished the most successful responses was an attempt to move beyond simple discussion towards an application of economic theory and business concepts to the question being asked. Candidates who had learned the appropriate economic theory and business concepts and were able to apply it to the context – price elasticity of demand to energy and green energy subsidies for example – were well rewarded by examiners.

There is still a tendency in this paper for some candidates to simply rehearse and represent text book definitions and/or diagrams but not relate these to the context or to the question. This may be acceptable, to some extent, for the 2 and 4 mark questions but is not acceptable for the longer items where application is required.

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 the nature of market regulation, linked to the concept of correcting market failure. 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 CMA or Ofwat were awarded a mark.

There were many responses where the candidate offered a partial definition and then a valid example to achieve full marks. While this meant 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 **market regulation** (see Evidence J, line 4)?

Market regulation is when a regulator such as Ofgem implements rules to ensure a market is operating in the public interest and to avoid market failure.

(Total for Question 1 = 2 marks)



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Examiner Comments

This candidate achieved full marks with a definition and a valid, relevant example. In fact there was enough here to achieve two marks (rules and market failure) without the example.



ResultsPlus

Examiner Tip

Candidates need to learn precise definitions and be able to write them clearly and quickly in the examination. Candidates who spend time creating their own definitions in the examination are not working efficiently. Perhaps short classroom tests could be used for such examination preparation. Candidates could also create their own glossaries of terms, which could be shared with the class.

Question 2

Again, we are looking for an understanding of the theory that human economic activity (such as electricity generation) may be producing emissions which alter the climate. Many candidates referred to this as "global warming" and this was rewarded.

Candidates who appropriately mentioned negative externalities we also rewarded, as this demonstrates knowledge of economic theory.

As with Q1, an accurate definition without an example could achieve 2 marks but there were plenty of partial definitions with examples. It was again the case that the example did not have to relate directly to the context, so examples related to road traffic pollution were rewarded. However, most examples referred to the perceived consequences of climate change: floods; droughts; rising sea levels; melting ice caps.

2 What is meant by the term **climate change** (see Evidence J, line 12)?

The impact of greenhouse gases on global warming and rising sea levels. Climate change is said to be the cause of increasing levels of carbon dioxide being released into the atmosphere through the combustion of fossil fuels etc.

(Total for Question 2 = 2 marks)



ResultsPlus

Examiner Comments

This is a good example of a response where the two marks are achieved efficiently in two sentences. There are no analysis marks for the two mark questions, thus adding any additional content would not have achieved any more marks.



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Examiner Tip

'Climate change' is listed in the teacher guidance notes for the syllabus. Teachers are reminded that they should be familiar with these.

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 one reason for the higher charges and not an ethical judgement of right and wrong. There are a number of reasons, each equally valid from the point of view of this question. 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 argued that meters are used to recover debts and this is certainly the case and accounts, to some extent, for some consumers being charged higher prices. This was awarded full marks as long as there as sufficient development for both analysis marks.

- 3 Explain **one** possible reason why energy companies charge higher prices to consumers with prepayment meters.

Prepayment meters allow you to pay for the energy in which you use. Evidence I states that 'energy companies offer just one tariff to prepayment customers, which is usually much more expensive. One possible reason for this is because they are costly to install. The energy companies therefore charge these higher prices in order to cover their costs of fitting, as well as covering the costs due to damage and repairs and the replacement of key cards. If they didn't charge these higher prices then the energy companies would be worse off.



ResultsPlus Examiner Comments

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

There is a clear understanding of what prepayment means for the consumer. This is then applied to the context, where the cost of installation and maintenance is identified as the reason. There is then a further consequence identified if the prices were not higher for prepayment meters.



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. Candidates need to spend some time answering such questions in timed conditions to get used to this efficient approach. It is also much more likely they will then answer the question rather than simply write everything they know.

Question 4

Here we were looking for candidates to show an awareness that cold weather payments are NOT the same as winter fuel payments. Cold weather payments are dependent upon weather conditions and income, whereas winter fuel payments are made regardless of weather (or income).

There needed to be an identification of a reason, some application and development of reasoning for full marks.

Responses which simply said that payments are made 'to help poor people pay bills when it is cold' could achieve 1 knowledge mark but there was not sufficient application to achieve 2 marks and no analysis.

Candidates who claimed it is because prices have gone up were not rewarded as the payments were made before the price rises listed in the pre-release evidence.

* because they

4 Explain **one** reason why the Department for Work and Pensions makes cold weather payments to vulnerable people.

The department for work and pensions makes cold weather payments to vulnerable people ~~to people who~~ are not able to adequately fuel their homes. Through this means-tested payment it helps people who are not able to fuel their homes do so. This would have a positive effect on economy if these vulnerable people receive this payment because pensioners would not affect the NHS through having problems because their houses can't be heated adequately, so there would not be a cost because of the payment. As well as children who are seen as vulnerable, through this payment they are able to concentrate better at school, have better health, which would lead to them becoming useful citizens adding to increasing GDP and economic growth. If this payment was

(Total for Question 4 = 4 marks)

not mean it could have the opposite effect and lead to negative externalities (negative external costs for society) e.g. crime. Through means tested payment it reduces cost to society as well as protecting vulnerable.



ResultsPlus Examiner Comments

This candidate achieved full marks. There is evidence that the candidate is aware that payments are means-tested and made to vulnerable people, not just pensioners.

There is good analysis with reference to NHS spending. There is then analysis of another possible consequence related to children. There is even further development related to the possible long-term impact upon economic growth. The response is probably too long, with the last sentence not achieving additional mark.

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



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 two distinct effects (implications) not the causes of gas rationing.

There are a few obvious effects:

- reduced output/production
- unemployment/underemployment
- higher costs for firms

Each of these was treated as a distinct implication.

Any valid development was rewarded, from reduced international competitiveness of UK firms, higher welfare payments by government to falling tax revenues.

Some candidates seemed to focus on either the impact upon domestic consumers (the question was about businesses users) or energy suppliers (who are not, to such an extent, business users).

Candidates who discussed the impact upon consumers needed to make a clear link to underemployment or unemployment, thus falling incomes and consequently falling demand for normal goods and services. Similarly, where reference was made to high gas prices for domestic consumers then there had to be an explanation as to how this may affect demand for goods and services for marks to be awarded.

There were a fair number of candidates who argued that gas rationing might have positive implications, forcing firms to use renewable sources. This was rewarded if they fully developed the analysis.

5 Analyse **two** likely implications of gas rationing for business users.

Gas rationing will limit how much gas the country can use, this should extend how long the country will be able to last on existing gas supplies. For highstreet shops they need gas/electricity to keep the shop open and running, and without this they will have nowhere to sell goods. As a result in this open hours will have to lower which affects the amount of time these firms have to turnover goods, leading to an overall drop in sales and therefore a hit to their profits. Also the Government tried to

attract higher supplies by using the price to 150p per ~~per~~ them. This again would harm highstreet firms as their Fixed costs will rise significantly due to brick costs and as a result of this businesses have to choose whether to take these costs internally or to pass them onto the consumer in higher prices, which would lead to a loss in demand and therefore less units sold and less profits.



ResultsPlus
Examiner Comments

This is a rare full-mark response, identifying two clear reasons with reference to the evidence. There is then a clear and precise development of each effect linked to a specific business sector, output and costs.



ResultsPlus
Examiner Tip

As in 2014, candidates need to be reminded that if an A2 question asks for two reasons then there must be two, distinct reasons given to access more than four marks. Unlike AS Level, there will never be two spaces provided with the labels "Reason 1" and "Reason 2" to remind candidates about this type of assessment.

Question 6

There were quite a range of answers here and responses were awarded final marks across the levels.

Assess means evaluate and ideally assess the case for and against high profits, in terms of benefits and costs for the UK economy. Many candidates attempted some assessment, often in terms of equity/fairness. Not as many actually answered the question set. In other words, identified and analysed the short and long term benefits **and** identified and analysed short and long term costs to the UK economy. In order to achieve level 4 this had to be present and for high level 4 this had to be in context (preferably with reference to evidence – either from the case study or their own examples).

There were many examples of what we would call “unsupported assertions” and conclusions beginning with “I believe”. Any conclusions should be based upon previous analysis and evaluation in context to be awarded level 4.

One sided responses (just benefits or costs) could not get above Level 3.

The mean and mode mark for this question was 7 (low level 4), which indicates that many candidates were attempting evaluation.

6 Assess the view that the high profits made by energy companies benefit the UK economy.

(10)

The UK energy market is dominated by the Big Six energy companies which possess 92.4% of the total market share. It is deemed that they generate abnormal profits and an example of this was 2011 when Npower made £3.90Mn profits from the previous year and this occurred during hikes in inflation suggesting market failure some may say. High profits should be usually translated onto the customer however this is not the case as despite drop in oil prices in 2014 only EDF and Npower announced price reductions at the start of Jan 2015. This means the customers do not benefit from abnormal profits made by the Big Six.

On the other hand the government can benefit from increased revenue from taxation such as corporation tax which could be used to reduce the deficit and spend more on public services to help improve standards of living however some of the Big Six e.g. Npower has admitted to not paying corporation tax e.g. in 2011 Npower has admitted to not paying corporation tax for three years as it was written off against investments made into building new power stations.

Building new power stations does benefit the UK economy as it creates a positive multiplier effect as it generates jobs, raises disposable incomes and increases standards of living also reducing unemployment and government spending.

However - in conclusion although energy companies generate employment and improve UK infrastructure, raising standards of living four out of the Big six are foreign owned companies and the excessive profits made by them are a huge leakage to our economy especially that we are a net importer of energy and that they are able to avoid taxation.



ResultsPlus Examiner Comments

This response is one of the stronger ones, 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

The stronger answers were from those who fully developed the reasoning around one analysis point and then evaluating before moving on to another analysis point.

There is still a tendency to write all the "good things and then write all the "bad things". This often means evaluation is limited and answers are often unbalanced.

Question 7 (a)

This question was generally well answered this year, with many candidates achieving Level 4. The mean mark being low Level 4 with 16 marks.

Some candidates produced diagrams for this question:

- A correct diagram (correctly labelled showing outward shift of the supply curve) with no written explanation was put at the top of level 1 (awarded up to 3 marks).
- A correct diagram with some written explanation was put in Level 2 (awarded up to 8 marks).
- A correct diagram which showed a higher level of understanding, perhaps with annotation showing the cost of the total subsidy, could be placed into Level 3.
- A correct diagram used in evaluation to show that the reduction in production costs is not passed on in the form of lower prices for consumers was put in Level 4. There were a few of these responses and they demonstrated excellent understanding of the economic theory.

For the higher Level 4 responses we were looking for an understanding of short term costs versus long term benefits; how, for example, higher prices now may mean sustainable and possibly cheaper energy in the future due to higher level of investment.

7 *(a) Assess the case for the UK Government subsidising renewable energy. (20)

A subsidy is when the Government incentivises a product like solar panels because it has positive externalities.

The subsidy on solar panels was £2000. The graph below highlights the benefits for the UK Government subsidising. Evidence suggests that this is reasonable.

Shifts outwards meaning that quantity increases and prices fall thus more people will purchase them so and it reduces the carbon emissions divide emissions. Furthermore, ~~is~~ Although, Furthermore, carbon emissions cause illnesses like cardiovascular and ~~respiri~~ respiratory diseases as stated by the pressure group HEAL whom are concerned with the welfare of the public. Although, in the long coal is used as it is the cheapest source and in the long run it means that

costs are saved as the Swansea Bay Lagoon has gone ahead and the BBC have said that it costs £168 per kilowatt to run compared to coal's £52. Gas costs will be higher therefore reducing the poss. of amount of spending the UK Government can do in areas like NHS.

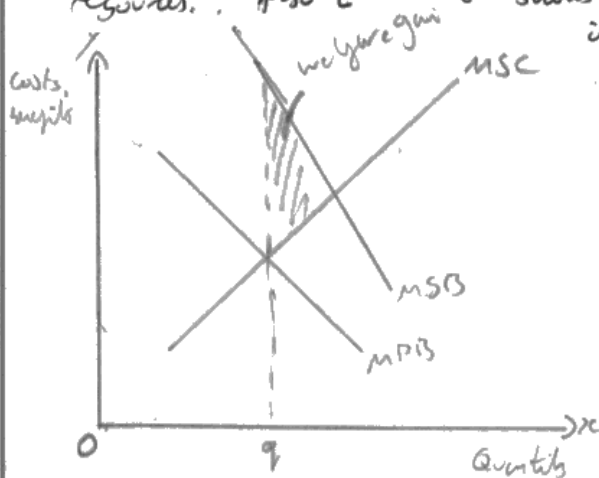
However, if the UK Government subsidised renewable energy it means that the UK will have it's own sources of energy through projects like Hinkley Point C therefore increasing the supply of energy which may make prices for consumers fall. Also, the UK imports gas from Russia and it's around 30%. ~~and if~~ This means that the UK wouldn't have to import nearly that which benefits the balance of payments and means that any political turmoil wouldn't affect the UK energy supply as Russia switched off Ukraine's supply which affected ^{the UK} via the pipelines. Evidence A proves that ~~sub~~ subsidising renewable energy will be to a beneficial ~~as~~ otherwise gas rationing will return. Although, ~~are~~ large returns ~~are~~ would to have to be ~~promi~~ made as investors want something.

~~Hinkley Point C~~ and the Lagoon have ~~been~~ promised China a large payment and a department with Chinese employees which will cost the UK Government ~~more~~ as they'll receive the ~~more~~ in the

On the other hand, ~~there~~ ~~is~~ ~~revenue~~ if the UK Government ~~subsidises~~ subsidises renewable energy projects ^{like in Evidence D, it} ~~it~~ will create more jobs which helps the level of employment as the Government can gain income through tax and reduces the amount of spending that is put to waste.

welfare. However, the Swansea Bay Lagoon project is said to harm fish migrant workers as well as jobs as the fish will be caught in the turbines and this means that they'll lose their jobs as well as the promise of Chinese workers having their own department meaning that less jobs are available, as stated by a BBC News article.

In the short term, it will involve high levels of capital in order to invest in but in the long term new jobs means more disposable income, increasing spending, consumption and aggregate demand thus subsidising renewable energy is beneficial. The benefit is shown by the welfare gain graph below as to see represent the social benefits that come with subsidising renewable energy resources. Also evidence E shows how renewable is at 6% and if subsidising it makes it will increase the price ~~and~~ that making the the increase in energy resources.



ResultsPlus
Examiner Comments

This was certainly a strong response and was awarded a high Level 4. There was clear structure, a good use of economic terms and theory and a definite conclusion which continued the evaluation.



ResultsPlus
Examiner Tip

Evaluation is best conducted in the course of the essay, with each point being evaluated before another argument is presented. Writing must be legible for marks to be awarded. It is worth completing timed essays, using pen and paper, before the examination. It is quality rather than quantity that is being assessed. Candidates would do well to be guided by the space provided even in the 20 and 30 mark questions.

Question 7 (b)

We expected to see some understanding of the (limited) power of Ofgem and in the stronger responses some awareness that Ofgem has a responsibility to consumers and to investors in the energy market.

There were some really good answers here. We were looking for the application of economic theory to the question of intervention.

The best responses (high Level 4) looked at 2 or 3 of the arguments for increased intervention on behalf of consumers and/or investors and thoroughly evaluated each one in the course of the essay (looking at the implications for demand and supply). Conclusions should have been based upon prior evaluation. Some of the really strong responses demonstrated an awareness of the complexity of the problem and that de-carbonisation targets have added even more complexity to the market and to the role of the regulator.

Less able responses (Level 2 to Level 3) tended to produce a list of interventions by Ofgem to protect consumers (including referral to the CMA) and then a list of "bad things" about some or all of these interventions. Conclusions tended to be unsupported assertions or begin with "I believe" and simply repeat previous content.

There are still a few examples of candidates who run out of time and produced some brief notes. These responses could get out of Level 1 (see the level descriptors in the mark scheme). Fortunately, these do appear to have been rare this year.

The mean mark for the question was 19 (low level 4).

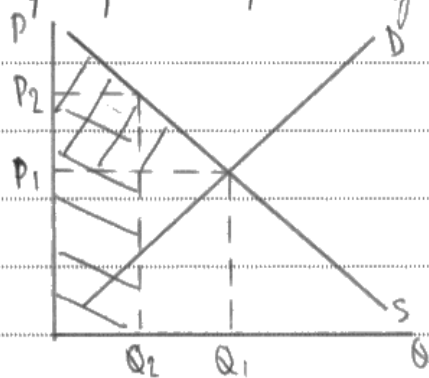
*(b) Evaluate the case for further intervention by Ofgem in the UK energy market.

(30)

A regulatory body is one that is responsible for exerting autonomous control over a sphere of business activity, in this case Ofgem regulate the UK energy market.

On one hand the Ofgem should intervene more in the energy market in order to protect the interests of ~~consumers~~ present and future energy consumers. They currently play a large role in this area with ~~out~~ which consumers may struggle. For example Ofgem have a 4 point plan by which to protect customers of which one of the strands is ~~value~~ promoting value for money. This includes dealing with information failure by permitting energy companies to only display 4 tariffs on their websites, consumers also have to be made aware of the cheapest tariff available and of their next 12 month bill. Also Ofgem provide energy companies with price controls to which they have to stick. If Ofgem were

to reduce their ~~invest~~ intervention their world be a loss of consumer surplus as prices may rise and information failure takes place.



/// = consumer surplus
\\ = producer surplus.

The graph shows that if ofgem reduce their intervention in the energy market ~~that~~ their would be a loss of consumer surplus as price rises from P_1 to

P_2 and output falls from Q_1 to Q_2 .

However, further regulation can have a serious impact on ~~rease~~ the energy companies.

Firstly the time ~~in~~ by which it takes for ofgem to ~~a~~ carry out investigations to see if intervention is needed can increase uncertainty and cause a delay in decision making within a company. This time means money ~~with~~ which means that further intervention from ofgem in the energy market may result ~~of~~ in an increase in business cost.

Another issue for business that comes with ^{an} increase in intervention ~~is~~ the cost of compliance for business. For example, another strand ^{of} ~~involve~~ ofgem's 4 point plan involves implementing government regulation, this includes schemes such as the feed-in tariff. This sees that energy companies buy a fixed amount of their energy from small-scale producers of renewable energy, for example houses with solar panels. This ~~is~~ would increase the business cost as energy supplied from these suppliers is likely to cost more than normal energy coming from the national grid.

P₂ and output falls from Q₁ to Q₂.

However, further regulation can have a serious impact on ~~recess~~ the energy companies.

Firstly the time ~~in~~ by which it takes for Ofgem to ~~a~~ carry out investigations to see if intervention is needed can increase uncertainty and cause a delay in decision making within a company. This time means money ~~with~~ which means that further intervention from Ofgem in the energy market may result ~~in~~ an increase in business cost.

Another issue for business that comes with ^{an} increase in intervention is the cost of compliance for business. For example, another strand ~~of~~ Ofgem's 4 point plan involves implementing government regulation, this includes schemes such as the feed-in tariff. This sees that energy companies buy a fixed amount of their energy from small-scale producers of renewable energy; for example houses with solar panels. This ~~is~~ would increase the business cost as energy supplied from these suppliers is likely to cost more than normal energy coming from the national grid.

Finally, increasing intervention could have an impact on the UK economy as a whole if the ~~in~~ intervention by Ofgem is taken to a level at which it discourages foreign direct investment. If the restraints ~~in~~ on the industry are too high companies from overseas will not be encouraged to invest in the UK energy sector. As a result the UK economy will not benefit from investment in terms of taxes paid or jobs created.

Similarly if intervention is too heavy in the energy market it may cause a 'race to the bottom' to take place and force our

energy companies out of the country, in search of a nation with less intervention. This would not only lead to unemployment but also raise the UK's vulnerability to security issues in terms of energy supply. As a result the government have to decide how much intervention is truly necessary in the UK energy market

(Total for Question 7 = 50 marks)



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Examiner Comments

This is an example of a strong response achieving high Level 4 and 27 marks. While the diagram does not add anything to the response as it is not accurate, 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.



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Examiner Tip

This final 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. This is really important.

In addition, to emphasise again, writing must be legible. Preferably in black biro and not felt tip.

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 continues to be a large number of scripts sent to be reviewed by examiners due to the quality of handwriting. It is important that basic handwriting is of an appropriate standard and I strongly recommend that candidate classwork and homework is handwritten, rather than word processed, during the teaching course. It is frustrating 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. Many write too much for 2 and 4 mark questions and this meant they were wasting time which could be used more effectively on longer essay questions.
- 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. There was some improvement this year with fewer evaluating in analysis questions however; some candidates were using additional paper for 4 mark questions.
- In the levelled questions, candidates need to practice writing, by hand, in timed conditions. Evaluation is more effective if it takes place systematically throughout the paper rather than being left to the final couple of paragraphs. The use of simple connectives such as 'however' and 'on the other hand' is not sufficient for evaluation marks unless there is some development of the point being made.
- Conclusions need to add something to what has already been said and be based upon prior analysis. It is very unlikely that marks will be awarded for simply repeating earlier comments. However, there were some responses where the 'conclusion' was longer than the previous content and consisted of a one-sided argument, for or against subsidies, for example. A conclusion is a judgement not a repetition of analysis.
- Evidence and examples need to be used to support analysis and evaluation. It 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 positively or negatively in some way to support a point or illuminate analysis.
- Candidates also need to remember that there is a synoptic element to the paper, thus appropriate use of business and economic terms will be rewarded and their use may well lift a response to a higher assessment level. For example, an accurate diagram used to support analysis or evaluation will be rewarded and may raise the level of response.
- This was a successful paper for many candidates who were clearly, in some cases, introduced to the idea of a market for energy in the case study and the many important issues surrounding it. What differentiated the top grade candidates from the rest was their use of economic and business concepts, the clarity and precision of their writing and a willingness to reach a reasoned conclusion.

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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