Examiners' Report/
Principal Examiner Feedback

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Pearson Edexcel
International Advanced Level (IAL)
Economics (WEC03) Unit 3

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INTRODUCTION

This was the third opportunity for candidates to be entered for the IAL Unit 3 Business Behaviour examination paper and the second winter series examination. A total of 460 candidates sat the examination. Questions were drawn from all sections of the specification and provided much scope for candidates to display a range of knowledge and skills.

SECTION A

QUESTION 1

This was the least popular question in this section (attempted by 16.5% of candidates). There were very few good answers and a high proportion of low quality responses. A small number of candidates were able to identify factors which would influence the firm's average costs in both short and long run –namely, diminishing marginal returns, the relative size of AFC and AVC and the impact of economies and diseconomies of scale. Stronger responses also included appropriate average cost diagrams. However, the majority failed to appreciate that the question related to **average** costs and many answers contained a number of key inaccuracies. The relationship between cost and output and the underpinning theory of the firm is an important section of this specification and it was disappointing to encounter a significant lack of understanding by candidates.

QUESTION 2

This was the second most popular question in this section (attempted by 57.6% of candidates) and it differentiated well with scores distributed right across the possible mark range. Strong responses showed a clear understanding of the differences between the two types of market structure using appropriate and accurate diagrams for analysis. These answers focused on the relative advantages and disadvantages of monopolistic competition for both producers and consumers. Weaker responses often confused monopolistic competition with monopoly and/or failed to fully address the question by simply covering the market structure models. A significant minority of candidates wrongly interpreted normal profit to mean no profit at all.

QUESTION 3

Again, marks were widely distributed with some excellent responses from candidates. The concept of contestability was well understood in the vast majority of cases and candidates were often able to illustrate the impact of more or less contestability with the appropriate use of diagrams. 31% of candidates achieved a mark of 14 or more. Somewhat predictably, weaker responses confused 'contestable' with 'competitive' and tended to confine their response to markets akin to perfect competition, not understanding that the concept may apply to any form of market structure where barriers to entry and exit are lowering. Higher quality responses were able to provide relevant examples of trends in markets where firms' behaviour has needed to respond to growing contestability e.g. the impact of the internet and growing global competition.

QUESTION 4

This was the most popular question on the paper chosen by 68% of the total entry. Generally the question was very well answered, with 54% of responses gaining 14 marks or more. Sound answers clearly identified, analysed and evaluated several appropriate government measures which may improve a country's international competitiveness. Policies to lower unit labour costs, reform labour markets, lower the exchange rate and improve the infrastructure were amongst the most relevant. Weaker responses failed to recognise the importance of the **international** context of the question and discussed government policies in the generic sense.

SECTION B

36% opted to answer Question 5 as compared with 64% choosing Question 6.

There was a notable improvement in the quality of part a) responses compared to the previous two series, with candidates recognising the need to apply their knowledge and understanding by referring to the relevant contexts.

However, for section B as a whole, it is still the case that weaker responses typically copy out parts of the extracts instead of applying the context to each question. All part b) – d) questions award up to 4 marks for evaluation. This is often overlooked by candidates who would otherwise be achieving improved marks for Section B.

QUESTION 5

5a

The vast majority of candidates were able to identify that the market was an oligopoly and could apply relevant data to back up their assertion.

5b

This question discriminated well. Sound responses discussed the possible reasons for airlines resorting to a price war and considered the range of possible effects making good use of the context with or without appropriate diagram(s). Lower quality responses tended to list a series of points with little or no developed analysis or evaluation.

5c

A good discriminator with 29.5% achieving a mark of 8 or more. Many candidates displayed a sound understanding of collusion and how it may operate in practice. The dividing line between average and higher marks tended to hinge on whether or not the policy of collusion was a **rational** approach for oil companies both short and long term.

5d

Marks were spread across the board with 18.8% gaining a mark of 8 or more. It is vital that candidates think carefully about which government policies are likely to be appropriate in a given context rather than simply reiterate a prepared answer. For example, the imposition of a minimum price would not help to control anti-competitive behaviour whereas a price ceiling might. Candidates had the option to relate their answer to an industry of their choice but it was important to confine their answer to one industry and not several.

QUESTION 6

6a

Most candidates could explain the difference between organic growth and takeovers. Full application marks proved more elusive for a significant minority.

6b

This question had the highest proportion of very good responses in Section B with 56.2% achieving a mark of 8 or more. Many candidates were able to relate their answer specifically to horizontal mergers and consider the likely impact on both the supermarket and consumers. The weaker responses often automatically assumed that a horizontal merger would result in monopoly power.

6c

A good discriminator. Sound responses focused their answer on how a monopsony might impact on fruit suppliers in the developing countries. High quality answers were able to include a consideration of how suppliers might be able to survive through possible countervailing power and pressure group activity. 8 or more marks were gained by 26.1%. Once again, weaker responses often resorted to copying out parts of the extract.

6d

Sound responses focused on how various appropriate government measures may impact on both suppliers and employees whereas weaker answers included irrelevant sections covering the impact on consumers and supermarkets. 17.5% of candidates scored 8 marks or more. The issue of whether any national government working independently of international co-operation was raised by very few candidates.

Grade Boundaries

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