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Examiners' Report

June 2017

GCE Economics B 9EB0 01

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Introduction

This was the first A level paper for the new specification, which was marked using the new levels of response marking criteria. The paper consists of 3 sections: Section A comprises of data response questions 1(a) to 1(h), Section B and Section C each comprise one extended open-response question based on data. All questions are compulsory and the duration of the exam is 2 hours with 100 marks available.

Overall, a good awareness of the subject was shown by candidates. Answers suggested that candidates on the whole had been well prepared for this paper.

There appeared to be good understanding of economic and business terminology throughout all sections of the paper. It was encouraging to see that most candidates appeared to have an excellent understanding of the command words, with two sided arguments presented by most for assess and evaluate questions.

The ability of the most able candidates was shown through their ability to apply their knowledge and understanding to the specific markets presented to them in the extracts, whereas those struggling with such concepts typically answered questions with a more general approach. There were far too many responses that relied heavily on assertion and generic answers which failed to fit the higher levels of response descriptors and therefore scored low marks.

This paper offered candidates a mix of topics and the questions seemed to discriminate well, with a wide variety of responses. Very few candidates failed to finish all the questions, although the average amount written on the last question suggested some candidates were struggling with time management. This was coupled with the fact that question 3 addressed a new topic to the specification which most candidates approached in a generic fashion and did not particularly answer the question set. For these reasons, the scores on question 3 were disappointingly low.

Question 1 (a)

This question was answered well in general and many candidates scored all four marks. Some candidates did not know the formula and calculated operating profit rather than operating profit margin and scored 1 mark for £132m.

- 1 (a) Using Extract A, calculate to 2 decimal places the operating profit margin for Costa for 2014. You are advised to show your working.

(4)

operating profit margin

rev inc

$$£951m - £807m = £144m$$

$$110 \times \frac{20}{100}$$

in 2013 → £110m

↓ 20% more ↑
in 2014 = £110 + £22

$$= £132m$$

(op profit for 2014)

$$£144m - £132m = £12m$$



ResultsPlus

Examiner Comments

Far too many candidates calculated operating profit instead of operating profit margin. This limited them to 1 mark only.



ResultsPlus

Examiner Tip

Quantitative skills are an important part of the new linear A Levels. Candidates will be expected to be able to apply a range of quantitative skills including the calculation of ratios. One knowledge mark is given for the formula and a further 3 marks for the workings and correct answer.

Question 1 (b)

Again, this question was answered well by most candidates although a small number forgot the minus sign and without any workings scored zero marks. Most candidates knew the formula for percentage change but still showed the Q1 and Q2 figures the wrong way around which resulted in a positive answer rather than the correct answer of -19.57%.

- (b) Using Extract D, calculate to 2 decimal places the percentage change in the coffee price from October 2014 to September 2015. You are advised to show your working.

(4)

OCT 2014 PRICE = 109.39

SEP 2015 PRICE = 87.98

$$\frac{87.98}{109.39} \times 100 = 80.43$$

$$100 - 80.43 = 19.57$$

$$\text{Percentage Change} = -19.57\%$$



ResultsPlus Examiner Comments

This response scored 4 marks as it showed that the answer was negative and also showed the percentage sign.



ResultsPlus Examiner Tip

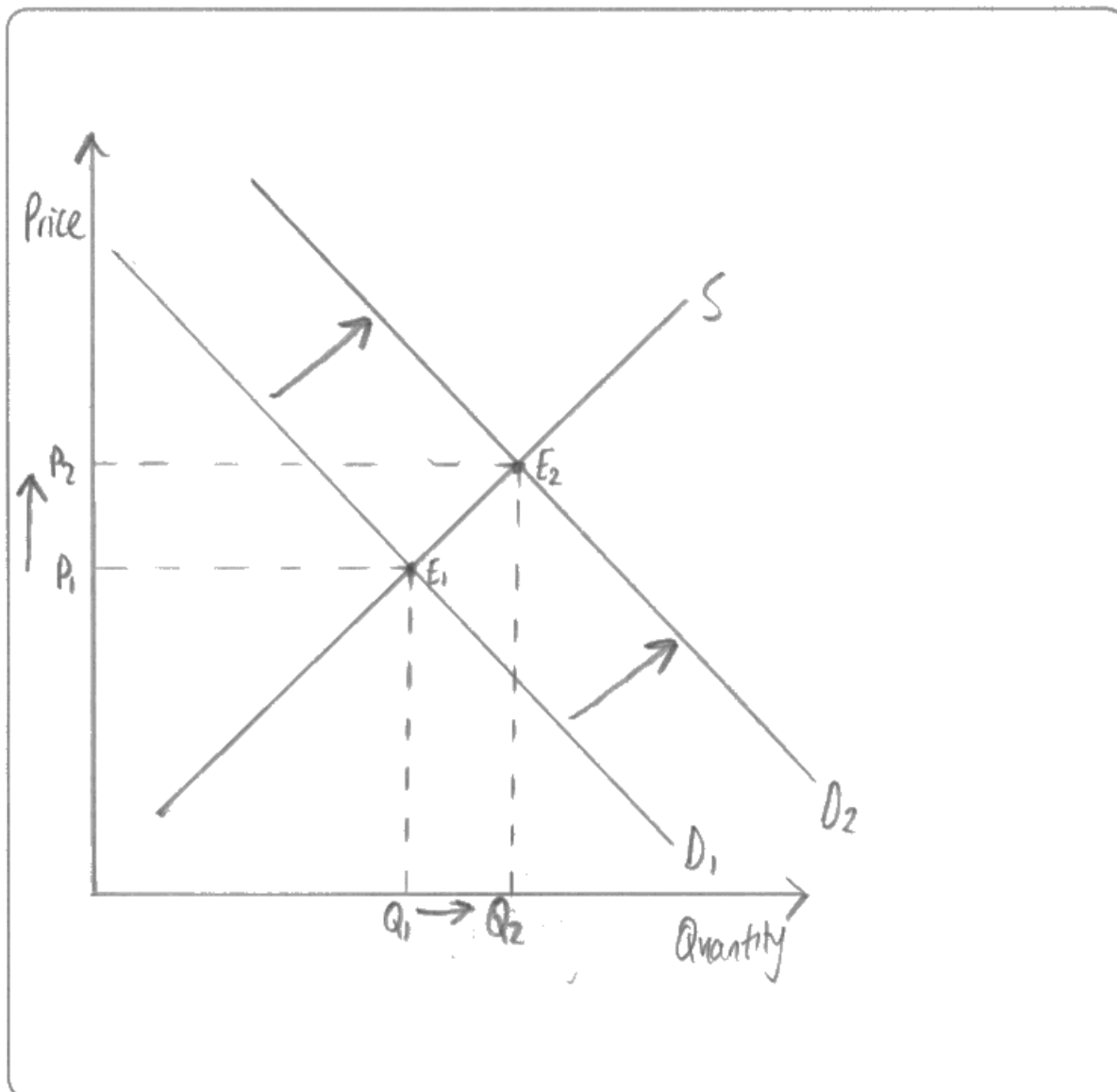
Quantitative skills are an important part of the new linear A Levels. Candidates will be expected to be able to apply a range of quantitative skills such as percentage change. If the question asks for a percentage or an answer to 2 decimal places, then marks will be deducted if the response does not do what the question asks.

Question 1 (c)

Most candidates were able to draw and label a supply and demand diagram showing the original equilibrium which scored 2 marks. A few candidates showed either a shift to supply or an inward shift of demand, limiting their marks to 2.

- (c) Using a supply and demand diagram, illustrate the impact on the coffee shop market of the change in taste and fashion. (Extracts A and C)

(4)



ResultsPlus Examiner Comments

This response was awarded 4 marks as it has correct labelling, the correct original and new equilibrium positions and the correct outward shift in demand.



ResultsPlus Examiner Tip

The diagram should be fully labelled with equilibrium point(s) shown on the axes. When a shift is required, it must not be ambiguous.

Question 1 (d)

This question was marked using points based AOs of 2 knowledge, 2 application and 2 analysis marks. The knowledge was awarded for correctly identifying the market structure (oligopoly), and a second mark for knowledge of a suitable pricing strategy. Application could be gained from reference to the number of stores operated by the top three firms, the concentration ratio and relevant reference to other firms in the market. Analysis marks were awarded for explaining the causes and/or consequences of such a strategy, for example competitive pricing may prevent price wars in the highly competitive coffee market.

(d) *Costa Coffee, Starbucks Coffee Company and Caffè Nero* are the UK's leading coffee shop chains. (Extract B)

Analyse **one** possible impact of the market structure on the pricing strategy of these firms.

(6)

The market structure of the UK coffee shop market is likely to be an oligopoly due to the fact there are a handful of large leading businesses ^{such as Costa and Starbucks} but also an existence of smaller firms ^{such as Mynzi Break}. Therefore firms may adopt a competitive pricing strategy as oligopolists are interdependent therefore any coffee shop which in the market is likely to charge a similar or slightly lower price than competitors. Also as there is 'increasing competition' in the market and 'more choice' if a business charging prices much higher than other chains may simply lose demand as consumers favour other, cheaper coffee shop. Therefore Costa, Starbucks and Caffè Nero may charge similar prices in order to retain their market share and profits as a price cut may reduce profits and a price increase may be risky to market share.



ResultsPlus

Examiner Comments

This response scored 5 marks. The candidate shows knowledge of an oligopoly and suggested a competitive pricing strategy. Whilst marks were not awarded for mentioning Costa and Starbucks (which were mentioned in the stem of the question), one application mark was awarded for contrasting these firms with smaller firms such as Muffin Break. Analysis was provided by explaining that due to more choice in the market, firms would lose demand if they used alternative strategies and as a consequence would protect their market share.



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Examiner Tip

The AO allocation for this question will always be: 2 knowledge, 2 application and 2 analysis marks, so ensure that you provide enough use of context to be able to gain both application marks. Many candidates only gave one clear point of application and so reduced the total marks achieved on this question. It is worth noting that simply copying the stem of the question cannot be considered for application marks.

Question 1 (e)

This was the first question marked using the new levels based marking grid. On the whole, many candidates have been able to evaluate on this question and the vast majority of candidates were able to access Level 2. A really good one-sided answer with relevant evidence could access Level 3 but was unlikely to fulfil a balanced awareness of competing arguments' (which is part of the descriptor) in order to achieve full marks. Examiners did see some generic responses and in order to achieve the higher marks, examiners were looking for coherent reasons explaining why market share may be an objective and why other objectives may have been more apt.

Many candidates recognised that Timberyard would have differing objectives from the main competitors. Nearly all candidates considered both sides but the strength of answers and the use of relevant evidence differed substantially.

(e) Discuss whether market share is the most important business objective to a coffee shop chain, such as Timberyard.

(8)

Business objectives focusing on Market Share will aim to expand their business organically through increased sales and stores in the UK. For small independent coffee shop chains such as Timberyard, Market Share may be a long-term goal. Market Share allows potential for greater sales, expansion into new areas and market segments as well as an option for profitability and profit focuses once the brand is established. I'm sure Timberyard may see this in the future and gain from productive efficiency benefits e.g. Mass economies of scale ~~lower~~ like Costa with its 1,552 stores UK wide. However, Timberyard are not on the graph or extract B. leading to believe they have less than 35 stores and maybe only the one store therefore Market Share may not be an immediate objective as focusing on the Market leader of Costa or Starbucks is unlikely. I believe Timberyard are ^{past} focusing on survival and now will be looking at more social goals and

aims to focus on as well as some aspects of Profit Maximisation (Timberyard want some profits). The fact that timberyard purchase from, "high quality local producers" and are providing, "a creative hub in the heart of London." Suggests they are a ~~firm~~ Coffee Shop with local goals of unity, Londoners, helping the local suppliers and economy, and are looking at providing quality services for customers with a CSR instead of sales or Profit Maximisation!



ResultsPlus

Examiner Comments

This response was awarded Level 3, 8 marks. There are clear chains of reasoning throughout the response, good use of relevant evidence and a balanced awareness of competing arguments.



ResultsPlus

Examiner Tip

A conclusion is not required on an 8 mark question. However, balance and context is required to achieve the highest marks.

Question 1 (f)

As with 1(e), this was a levels-based question. A 10 mark question has 4 levels. Many candidates were able to evaluate why the prices in coffee shops may decrease and alternatively why some firms may choose not to lower prices to consumers. Whilst many arguments were often evaluated, some responses were very basic and generic, and did not specifically address the coffee market.

(f) Extract D shows a fall in the wholesale price of coffee during 2015.

Assess the impact this might have on prices charged in coffee shops.

(10)

The fall in the ~~price~~ wholesale price of coffee could result in coffee shops reducing prices. Coffee shops may do this in order to gain a competitive advantage over their rivals if they charge cheaper prices. In the October 2014 - September 2015 period, the coffee price fell by almost a fifth (19.57%), which could be a ~~not~~ substantial enough decrease for coffee shops to warrant a price reduction. Smaller ~~of~~ coffee chains like Tombegard in Extract C are more likely to do this because they are more keen to compete with the larger chains; Because of the market dominance of large chains like Costa and Starbucks, these are often more convenient for people to visit; ~~so~~ they have an edge on the ^{place} ~~location~~ part of the marketing mix. Therefore; smaller firms are likely to seek ^{a price} an advantage over their larger rivals. Doing this could lead to an increase in demand for coffee at these shops, ~~so~~ they could capitalise on elastic ~~this~~ if the coffee market is elastic. Even if the market is moderately inelastic then they could still get more revenue from ~~increasing~~ ^{decreasing} the price as long as they do not go beyond the 20% (approximate) ~~drop in price~~ which is what wholesale coffee has decreased by. However, it could be argued that the fall in the wholesale price of coffee during 2015 will not actually lead to a decrease in ~~the~~ coffee shop prices because there is already a huge mark up on coffee so relative to the price of a cup of coffee, the drop in price (14% from January 2015 to September 2015) is not actually that

substantial. Furthermore, coffee shops have also diversified so that they are not solely reliant on coffee sales. For example, they now sell other drinks such as tea and soft drinks as well as food like sandwiches. This ~~reason~~ could mean that coffee buying wholesale coffee only makes up a small amount of their costs of goods sold, so a 14% drop in the price in 9 months in 2015 may only change their ~~prices~~ ~~very~~ variable costs ~~a~~ by a small amount. Larger chains such as Costa Coffee and Starbucks may be less inclined to drop their prices as they are established chains, ~~with little~~ and if one drops the price of coffee in the shops, it may cause others to ~~follow~~ ^{follow} out. A price war could ensue, ~~and~~ and no parties benefit ~~as~~ from extra revenue and profit.



ResultsPlus

Examiner Comments

This is a good response which gained 9 marks. The candidate shows accurate knowledge and understanding with the use of relevant evidence. Arguments are developed and balance is shown. All fit the descriptors of Level 4. It would have been good to see a conclusion which addressed the significance of competing arguments.



ResultsPlus

Examiner Tip

The command word "Assess" will always require a deeper evaluation of an economic concept compared to the command word of "Discuss".

Question 1 (g)

This is a 12 mark levels-based question with 4 levels of response. Many candidates have been able to show good understanding of non-price competition. Stronger responses provided reasons as to why it is important in an oligopoly market, however many responses were very generic in nature and simply provided examples of non-price competition in the coffee market.

Due to the nature of the question and the fact that non-price competition is indeed of great importance in the coffee market, examiners did see some one-sided responses with limited relevant evidence but these were unlikely to enter Level 4 as the bulk of the descriptors are concerned with the candidate providing evaluation and a full and balanced awareness.

So, whilst the majority of candidates understood that non-price competition is very important in this market, they failed to see that price competition might be relevant for some coffee shops in the market.

For a Level 4 response, examiners were looking for arguments which were developed and evaluated and were supported throughout with relevant evidence. For a high Level 4 response, examiners were looking for developed evaluation as well as a full and balanced awareness of the validity and significance of competing arguments.

(g) Assess the importance of non-price competition in the UK coffee market.

(12)

Non-price competition includes product differentiation, advertising and good locations of coffee shops.

Non-price competition could be seen as very important in the UK coffee market, since there is stiff competition from big brands such as Costa but also small innovative brands such as Timberyard therefore ~~that~~ non-price competition is essential to differentiate your product from your competitors. ~~Therefore~~ In addition, ~~if you~~ because coffee is a small percentage of people's income then potentially if you successfully differentiate your product then people would be willing to forego a ~~the~~ cheaper option for your coffee - for example, if you have managed to make a really tasty cup of coffee or have a wide range to choose from including special items such as vanilla lattes and frappés, then this may

increase demand, therefore sales revenue and potentially profit. Also, in use non-price competition to differentiate your product, for example through renting a shop in a convenient location (eg. in a train station), then people may be willing to pay slightly more for your coffee due to the good location. Non-price competition is also important because it may lead to customer loyalty and repeat purchases, which is essential to a coffee shop - for example, if a coffee shop operates a loyalty ~~the~~ scheme then this would encourage customers to return and buy ~~more~~ coffee again, thus potentially increase future revenue and potentially profit for reinvestment.

However, it could be said that there is a limit to the importance of non-price competition in the coffee market because coffee is still a luxury good, ~~so~~ ~~consum~~ good and not a necessity so consumers will still be price sensitive.



ResultsPlus Examiner Comments

This response achieved Level 3 – 7 marks. It provides reasons of importance for non-price competition in the coffee market and gives some evidence. There are limited chains of reasoning but this was lacking on the counter argument. This response was awarded 7 marks, a mid Level 3, due mainly to it lacking a balanced awareness of the validity and significance of competing arguments.



ResultsPlus Examiner Tip

If you are asked to "assess" the importance of an economic concept, you must give the benefits of that economic concept as well as give other factors which may also be as important. Do not just agree with the question and give a one-sided response.

Question 1 (h)

Like 1(g) this is a 12 mark question with 4 levels of response. This question proved to differentiate candidates. Some candidates clearly did not understand the theory of contestability. Other candidates showed good understanding of contestability and made good use of the evidence to give examples but did not develop the reasons as to why the market may be contestable or not, so in many instances the chains of reasoning were lacking and answers were generic in nature.

(h) Assess whether the UK coffee shop market could be considered contestable.

(12)

A contestable market is when there are low barriers to entry allowing firms to enter and leave the market freely, as well as no anti-competitive practises occurring, enabling price competition. The UK coffee shop market has a small number of dominant firms, although there are many smaller firms also present.

The large number of smaller coffee shops present within the UK coffee shop market could be a sign that the market is contestable. Extract A showing that there were 271 stores added during 2014 suggests that barriers to entry are quite low. The total number of outlets at 5781 in the UK also suggests low start-up costs, possibly with no sunk costs. This large number of outlets should mean that, (as the number of substitute goods are high) no particular outlet can exploit consumers ^{as} ~~or~~ ~~any~~ market power is not high enough to influence the entire market. This should mean the UK coffee shop market is ~~more~~ contestable to a degree.

On the contrary, the UK coffee shop market could not be considered contestable due to its market structure. The ~~oligopoly~~ possible oligopoly present between large firms Costa, Starbucks and Caffé Nero could mean the market is less ~~contestable~~ contestable. As these top 3 coffee firms in the UK own 2842 of the 4144 outlets, close to 70% of the total number of outlets, their market powers either individually or combined may be large enough to make the market less contestable through price fixing, price leading, erecting barriers to entry or supply constraints for example.

To conclude, the UK coffee shop market should not be considered contestable, despite the high number of outlets. This is because extract D shows that only 10 leading brands make up the 4144 outlets and so it depends on how many other brands are in the market.

(Total for Question 1 = 60 marks)



ResultsPlus Examiner Comments

This answer scored 10 out of 12 marks. Accurate knowledge was shown about contestability and supported by good evidence. There are some good chains of reasoning as to why the market might be considered contestable, although some examples of sunk costs would have improved the answer. The counterbalance shows good understanding of contestability and uses the number of stores operated by the top three firms to provide some evidence. The answer is fairly generic in nature and the conclusion simply repeats the points already given and so the answer was given 10 rather than full marks.



ResultsPlus Examiner Tip

Generic responses are unable to get full marks. One of the Level 4 descriptors states that "full understanding of the question" is needed. Candidates need to ensure they show good understanding of economic theory and use this knowledge to develop coherent chains of reasoning based on the evidence provided.

Question 2

This question produced a wide variety of responses and discriminated well between candidates. Examiners were looking for an evaluation in terms of positive and negative effect of falling oil prices on the UK economy.

More able candidates were able to use the evidence provided as well as their own knowledge to determine the impact on the economy and provide a well-balanced answer. Some candidates were able to show very perceptive conclusions which made links to the current depreciating pound and the potential impact of Brexit.

Unfortunately, examiners did see many responses with incorrect economic understanding and also generic answers which did restrict the level it could access.

Furthermore, many candidates failed to fully answer the question, which specifically asked about the impact on the UK economy, with many candidates giving impacts on consumers and firms.

positive
negative

Short term
Long term conclusion

pollution, negative externalities

inelastic product.

2 Using Extract E evaluate the likely impact of falling crude oil prices on the UK economy. (20)

Falling crude oil prices could have a positive impact on the UK economy. Figure 1 and 2 in extract show that crude oil prices fell by 57% from \$114.34 a barrel in 2014 to \$48.7 a barrel in 2015 which lead to a decrease in retail prices of diesel and petroleum. This decrease in the price of fuel could lead to consumers with vehicles having more disposable income and therefore higher standards of living. Additionally this could lead to UK businesses transport costs being decreased ~~at~~ which could lead to lower costs of production. Therefore consumers may increase spending which would benefit the community and businesses may see ~~a~~ profit margins rise as a result of decreased costs ~~however~~ of production. Additionally, falling crude oil prices could benefit UK businesses trading internationally ^{and exporting} become more competitive as they could potentially reduce prices

to become more price competitive as a result of falling unit costs of transport. Therefore stimulating the economy.

Falling crude oil prices could however, negatively impact the UK economy. Extract E shows that "the slump in global crude oil prices makes the alternative method of fracking for oil increasingly uneconomic," which could ~~negatively effect~~ act as an opportunity cost as fracking could have stimulated employment, independence and growth for the UK economy. This could lead to the UK being more reliable on the Middle East for crude oil which could be harmful if crude oil prices suddenly fluctuated or political conflicts affected the price of crude oil that the UK pays for.

Additionally, falling crude oil prices could negatively affect the UK economy because more people will be incentivised to use their own form of transport because it's less costly than other types of public transport such as the railway. This increased level of vehicles on the road could lead to an increase in congestion which has negative knock on effects such as contributing to air and noise pollution, negatively affecting businesses productivity and consumers health. In the long term this could result in increased pressure on the NHS because of health issues, increased government expenditure on ~~the environment~~ measures to preserve the environment and ~~and on public transport~~ increased cost to the government as public transport is not being used effectively which could then lead to prices increasing and consumers using public transport to be

worse off.

Overall Falling crude oil prices can have positive impacts on the UK economy in terms of growth and negative impacts on the economy in terms of negative externalities. The impact on the UK economy depends on how much the crude oil prices have fallen and for ^{what} the length of time, as crude oil prices fluctuate.



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Examiner Comments

This answer was given Level 3, 14 marks. Whilst the candidate used the extracts well to give context to their points, some of the chains of reasoning were limited and generic.

The candidate did not fully answer the question which focussed on the impact on the economy. The response on the whole gave impacts to individual stakeholders. The answer gave balance and attempted a conclusion. However, as arguments were not fully developed and did not show full understanding of the question, the score was limited to Level 3 marks.



ResultsPlus

Examiner Tip

It is important that the candidate fully answers the question. They should take time to read the question carefully to identify both the topic, and also which economic agents they are being asked to write about.

Question 3

This was the last question on the paper and worth 20 marks. Like question 2, it has 4 levels of response.

It was clear that some candidates simply ran out of time for this question and careful consideration of time management would improve marks.

This question discriminated well between candidates. However, average scores were rather disappointing.

The topic was new to the specification and whilst it was clear that the topic had been taught well, many candidates failed to adequately answer the question. Examiners were looking for an evaluation in terms of the positives and negatives of the regulation of the banking industry to the UK.

The candidates were given evidence of a variety of current regulations in the industry but this stimulus material was not utilised well.

Many candidates instead wrote in great length about the causes and effects of the 2008 financial crash. They failed to address the question about how new FCA and EU banking regulations would possibly affect the U.K.

Stronger answers focussed on the positive impacts on consumers, firms and taxpayers due to added protection whilst the counterbalance focussed on the implications of the costs of regulation and limiting bankers bonuses, plus the consequences of potentially reduced levels of loaning and risk taking in the UK.

3 Evaluate the likely impact on the UK of increased regulation of the UK banking industry.

(20)

Increased regulation of the UK banking industry by bodies such as the Financial Conduct Authority may have some negative impacts. One negative impact of increased regulation may be a loss of profit for UK banks. This is likely to lead to a less industrial banking sector, that no longer has a "global power" status in terms of since and banking. This may cause many banks and other businesses in the financial sector to relocate to less regulated markets in other countries, where they are free to operate with few restrictions, leading to higher profits. This could

potentially have a disastrous effect on the UK, as many banks and other businesses in the sector move and create higher levels of unemployment in the UK. These people are also likely to be highly skilled, leading to an under-utilisation of resources and wasted skills. This may also lead to "brain drain", as many highly skilled workers also move out of the UK in search of higher skilled work and better wages. This may have wide ranging consequences for the UK as it will lead to skill shortages, a lack of business confidence and investment and possibly the negative multiplier effect, as business investment continues to decrease and unemployment rises, leading to a budget deficit due to an increase in benefits and decrease in income tax being paid to the government.

However, increased regulation may also have a positive impact on the UK. More regulation, including regular stress tests and monitoring of bank activities is likely to lead to increased confidence in the UK banking system, as consumers and businesses feel more confident in spending and investment, as they feel protected from another financial crisis such as the one in 2007 - 2009. This is likely to lead to sustained economic growth and the positive multiplier effect. Increased stability will lead

to trust in the banking system, allowing them to effectively fulfill their functions as financial intermediaries. Being somewhat protected against risk is likely to lead to benefits for the consumer, businesses and the government. A reduction in the dependence on ideas such as "moral hazard" are too big to fail" means UK banks will not make the same mistakes as the Lehman Brothers did in 2008. Overall, I think stricter regulation of banks in the UK is likely to have a positive impact on the UK, as it will create trust, confidence and stability in the system, despite the potential loss of jobs that could ~~result~~ come from high regulatory standards. This will lead to more effective risk management and protection of consumers and businesses, which is likely to have a positive impact on all areas of the UK economy.



ResultsPlus Examiner Comments

This candidate obviously understands the topic and has good awareness of the 2008 financial crash. There is balance to the answer with some good points made, and an attempt at a conclusion though it is very limited.

The answer is fairly generic in nature and fails to use any of the evidence in the extracts which provides details of new banking regulation. Use of this evidence would have helped to strengthen the candidate's arguments and chains of reasoning. For these reasons, the candidate is unable to access Level 4 marks and remains in Level 3,



ResultsPlus Examiner Tip

Many examiners commented on the fact that this response seemed to be rushed compared to other questions. Make sure you plan your timings carefully. Also, use relevant evidence throughout your response. Responses with good use of relevant evidence scored highly compared to generic answers.

Paper Summary

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

- Do not forego marks for not fully labelling diagrams. Some candidates failed to correctly label the supply and demand diagram in Q1(c).
- Read the questions carefully. It was clear that many candidates calculated operating profit rather than operating margin on Q1(a).
- Follow the instructions given. Some candidates failed to round up to 2 decimal places on Q1(b).
- The use of relevant evidence is required throughout the paper and is a significant element of the response. Evidence can be from the extracts provided or using examples provided by the candidate themselves.
- The command word "discuss" is an evaluative command word so candidates must provide both sides of an economic argument in order to achieve full marks.
- Use economic concepts rather than generic 'common sense' answers. This particularly applied to Q1(f), Q1(h) and Q3 of this years paper.
- Examination timing is important. Far too many candidates did not leave sufficient time for Q3, which is worth one fifth of the total marks available.

Grade Boundaries

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

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