

Examiners' Report  
June 2014

GCSE Business Studies 5BS05 01

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## **Introduction**

This paper was accessible to most candidates. Question 8(b) proved to be the main differentiator between candidates because of the understanding and use of examination skills rather than their subject knowledge, for example, the use of context and balance. A lot of more able candidates were capped because of the generic use of words such as 'product,' 'business' etc. instead of using contextualised words from the source material. This was evident on all questions which assessed AO2 and, especially so, with regard to the levels questions 4(d), 7, 8(b) and 10.

## Question 1 (b)

This question was satisfactorily answered. However, several responses just stated 'social success' without further clarification.

- (3)
- 1 The amount of revenue in a business
  - 2 The amount of profit your business makes per annum
  - 3 The measurement of how good customer satisfaction is



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Examiner Comments

The third reason of 'customer satisfaction', although not specifically on the mark scheme, can be classed as 'any other appropriate answer'.

(b) State **three** ways of measuring business success.

- (3)
- 1 Profit
  - 2 Market share
  - 3 Social success (Corporate social responsibility)



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Examiner Comments

Profit and market share are on the mark scheme. Social success by itself does not merit the third mark, but corporate social responsibility qualifies the success and merits the mark. Therefore, 3 marks are awarded.

### Question 1 (c) (i)

On the whole this question was answered well. However, some responses did not identify a factor and contained an explanation.

(c) (i) Identify **one** factor that could lead to a change in demand for designer clothes such as *Karen Millen* and *Armani*.

(1)

A change in fashion trends



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**Examiner Comments**

This is part of bullet point 2 on the mark scheme 'changing tastes and preferences'.

(c) (i) Identify **one** factor that could lead to a change in demand for designer clothes such as *Karen Millen* and *Armani*.

(1)

Less people have enough disposable income due to a recession.



**ResultsPlus**

**Examiner Comments**

This response is covered by bullet point one on the mark scheme.

## Question 1 (c) (ii)

Even if the factor in 1(c)(i) was incorrect most accessed at least half marks. There was excellent use of context displayed in many 3 mark answers- 'trends', 'cheaper clothes available', 'Primark', 'celebrity endorsements' and 'brand image' for example.

(c) (i) Identify **one** factor that could lead to a change in demand for designer clothes such as *Karen Millen* and *Armani*.

A change in fashion/style of clothes  
people want. (1)

(ii) Explain how this factor might affect the level of sales of designer clothes.

If there is a change in fashion  
people will be wanting the new style of clothing.  
If designer clothes do not change their design  
to what people want it will mean  
there is a lower demand and therefore  
leading to a decrease in sales. (3)



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Examiner Comments

'Wanting the new style' 1 mark - consequence. 'If do not change design ----- lower demand' 1 mark - reason, 'decrease in sales' 1 mark - consequence. The response is contextualised 'new style' of clothing and 'their design'. Therefore, full marks are awarded.

(c) (i) Identify **one** factor that could lead to a change in demand for designer clothes such as *Karen Millen* and *Armani*.

An increase in sale prices could decrease the demand (1)

(ii) Explain how this factor might affect the level of sales of designer clothes.

(3)

Due to designer clothes being higher quality, they are already sold at a high price. If that price increases, customers are going to search for an alternative making the demand decrease along with the sales made.



**ResultsPlus**  
Examiner Comments

The first sentence is a reason in context. The reason is linked to the second sentence which is a consequence - 'seek an alternative'. The context in the first sentence is 'higher quality'. The last section of the second sentence 'decrease in demand --- sales' is a consequence. Therefore, full marks are awarded.

## Question 2 (b)

Most candidates gave appropriate answers.

(b) State **three** ways in which the standard of living can be measured.

(3)

1 Child mortality rate.

2 Literacy Rate, (How many are able to read)

3 Unemployment rate.



**ResultsPlus**  
Examiner Comments

The first two ways are on the mark scheme. Unemployment rate is not, but a similar macroeconomic indicator is 'economic growth'. This is clearly an appropriate answer.

(b) State **three** ways in which the standard of living can be measured.

(3)

1 Human Development Index (HDI)

2 Gross National Income per Capita (GNI per capita)

3 Infant mortality rates.



**ResultsPlus**  
Examiner Comments

The last two are correct, but the HDI is an 'index of the ways to measure', i.e. the source, but not an actual measure in itself. Therefore, 2 marks are awarded.



## Question 2 (c)

Most candidates found this question accessible using linked strands and the majority of answers gave education as the reason.

(c) Explain how an increase in government spending could reduce poverty.

(3)

If the government increases its spending, places such as schools and hospitals will get extra funding. With extra funding they can make the quality of education and health care better by buying better resources. They can also ~~use~~ use it, like a subsidy and reduce the costs of healthcare and education. This would mean that more people would be able to access these things and would get a much better service. This would lower the <sup>most</sup> rate of people in absolute poverty and so reduce poverty overall.



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Examiner Comments

The candidate has immediately introduced context 'such as schools' and 'with extra funding' etc. is a consequence and, despite a second non-related point being discussed, it has a further consequence 'more people would be able to access' etc. Therefore, there is identification and 2 linked strands in context.

(c) Explain how an increase in government spending could reduce poverty.

(3)

by reducing taxation on wages income families, you give them increased disposable income which they can spend on necessities and this can bring them out of poverty.



**ResultsPlus**  
Examiner Comments

The candidate is correct in what they say. Unfortunately, the question has not been answered as it is asking 'Explain how an increase in government spending.' Therefore, 0 marks are awarded.

## Question 2 (d)

There was a tendency to repeat the question, i.e. 'protect the rights of children', but most candidates opted for education/schools which again helped to gain marks for using linked strands.

Save the Children is an international charity set up to promote and protect the rights of children.

(d) Explain **one** way that charities such as *Save the Children* help to reduce international poverty.

(3)

These charities operate in MEDCs and get their funding through donations. 'Save the Children' uses the money collected and sends it to LEDCs where poverty is higher. This money ~~can~~ can be used in schools and education. ~~Therefore~~ It can make it more easily available and accessible. Therefore poorer children will be able to attend. If they become educated, they are more likely to get a better job with higher pay. Therefore in the future they will have a high income that would probably keep them out of poverty. Done on an international level it can reduce international poverty.

(Total for Question 2 = 10 marks)



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Examiner Comments

The way is 'donations' (1 mark). LEDCs is context. 'Used in schools and education' is development (1 mark). Later on 'better job, higher pay', second strand developed (1 mark). 3 marks are awarded.

Save the Children is an international charity set up to promote and protect the rights of children.

(d) Explain **one** way that charities such as *Save the Children* help to reduce international poverty.

(3)

They help the children have an education so that they can find work and have a stable income so they can have everything that they need therefore creating more opportunities for the country populations increasing economic growth.



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Examiner Comments

The way is 'help children have an education' (1 mark); the development is 'so that they can find work' (1 mark). There is no context; therefore, the candidate scores 2 marks.

### Question 3 (b)

A lot of candidates did not read the question closely, i.e. 'identify two drawbacks to Winsor and Newton.' Instead of focusing on the business, candidates tended to write about drawbacks to the environment, e.g. the use of natural resources/pollution.

(b) Identify **two** drawbacks to *Winsor and Newton* of using non-renewable resources.

(2)

- 1 It may cause media to exploit them as not being eco-friendly so they would get a bad name
- 2 If there business continued to grow when the resources run out they will face a big problem and have to invest in new resources being



**ResultsPlus**  
Examiner Comments

Both reasons given are valid. The first drawback can be categorised in the mark scheme as 'other appropriate answer'.

(b) Identify **two** drawbacks to *Winsor and Newton* of using non-renewable resources.

(2)

- 1 It creates pollution which can damage their brand image, which could result in a fall in sales.
- 2 It would be hard to operate in the future as there is concern over the supply of non-renewable resources. Therefore it is not sustainable.



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Examiner Comments

Two valid reasons are given, plus development which was not required, but does clarify. 2 marks are awarded.

### Question 3 (c)

Most candidates found this question accessible and were able to identify various forms of pollution but tended not to gain the context mark, i.e. re Winsor and Newton.

(c) Explain **one** negative externality that might arise as a result of *Winsor and Newton's* business activity.

(3)

A negative externality that could arise is air pollution from the factories which could affect third parties such as local residents. They would get affected by the air pollution being produced as it could arise in health problems. This could affect their quality of life.



**ResultsPlus**  
Examiner Comments

'Air pollution' is identified. 'factories' is context. 'Health problems' is consequence and 'quality of life' is a linked strand. Therefore, the candidate scores full marks.

(c) Explain **one** negative externality that might arise as a result of *Winsor and Newton's* business activity.

(3)

Although ~~using~~ using renewable energy resources, they are producing their products in a factory which can create pollution for its surroundings such as the housing nearby.



**ResultsPlus**  
Examiner Comments

Pollution is identified as the negative externality, 'factory' is context, but there is no development of the consequence of the pollution. Therefore, 1 mark is awarded.

### Question 3 (d)

Lack of context impacted on good responses accessing full 4 marks. Those that did use context used: 'artists', 'easels', 'paints'.

(d) Describe why *Winsor and Newton* might want to be more environmentally responsible.

(4)

The company may wish to appear environmentally responsible to build positive public relations and have a unique selling point in that the products it produces are sustainable and environmentally friendly. This may attract certain customers into buying the products produced by 'Winsor and Newton'. The increase in demand would result in an increase of revenue for the company. Therefore, perhaps the company wishes to be more environmentally friendly simply to increase sales.

(Total for Question 3 = 10 marks)

The energy it does use is likely produced by fossil fuels. Fossil fuels produce polluting gases which damage the environment, in the form of acid rain or global warming. This business activity is paid by environmental protection agencies and animal species or people affected by the increased pollution.



**ResultsPlus**  
Examiner Comments

There are more than 4 points made here in this 'describe' question. The context is 'products are sustainable' and, therefore, this lifts this response to full marks.

(d) Describe why *Winsor and Newton* might want to be more environmentally responsible.

(4)

By being more environmentally responsible it gives them stronger branding and therefore higher added costs. This means customers are likely to be willing to spend more on their products than increasing revenue without an increase in cost. This will result in higher profits for the business.



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Examiner Comments

A reason why has been identified 'stronger branding' and there are 2 linked developed points. There is no context; therefore, 3 marks.



### Question 4 (b)

There were many responses which defined 'opportunity cost' not 'trade off'. Those that did identify trade off produced some excellent responses identifying benefits/features lost. On the whole most obtained 1 mark.

Top 5 New Family Cars by sales volume (January 2011)

Top 5	Make	Model	Price (£)
1	Ford	Mondeo	17 295
2	Volkswagen	Passat	18 470
3	Skoda	Superb	16 670
4	Mazda	6	17 429
5	Toyota	Avensis	17 184

(Source: adapted from <http://www.whatcar.com>)

Alan has to make a decision between buying a Mazda 6 and a Ford Mondeo.

(b) Outline the trade-off that Alan is faced with.

(2)

The trade-off is that Alan can only buy one car, and the car that he decides to not pick is a trade-off as he sacrifices the benefits



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Examiner Comments

The candidate has identified that a choice needs to be made and in addition recognises that benefits (of the other car) are sacrificed. Therefore, 2 marks are awarded.

Top 5 New Family Cars by sales volume (January 2011)

Top 5	Make	Model	Price (£)
1	Ford	Mondeo	17 295
2	Volkswagen	Passat	18 470
3	Skoda	Superb	16 670
4	Mazda	6	17 429
5	Toyota	Avensis	17 184

(Source: adapted from <http://www.whatcar.com>)

Alan has to make a decision between buying a Mazda 6 and a Ford Mondeo.

(b) Outline the trade-off that Alan is faced with.

If he chose one of those then he would be (2)  
unable to buy the Toyota Avensis or the  
Skoda Superb or the opposite to whatever he chose.



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Examiner Comments

The candidate recognises that Alan cannot have both, but there is not the development to state why. Therefore, 1 mark is awarded.



### Question 4 (c)

A lot of candidates misunderstood this question and tried to discuss price, size of families, recession etc. as factors affecting the price sensitivity of cars. Those candidates who understood the question mainly discussed the substitutes available and based their answers around this factor. Again, very little context given, even though it would have been easy to mention the car manufacturers listed in the table ('Top 5 New Family Cars by sales volume (January 2011)').

(c) Explain **one** factor that would affect the price sensitivity of family cars.

One factor could be the brand image<sup>(3)</sup> the family car has. For example, if Skoda had a strong brand image then if they raised their price, demand would stay the same because people are willing to pay extra for the fact that they're driving a car from ~~sk~~ Skoda.



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Examiner Comments

The factor identified is 'brand image' (1 mark). There are two developed points that are linked and it is in the context of 'Skoda'. Therefore, 3 marks are awarded.

(c) Explain **one** factor that would affect the price sensitivity of family cars.

One factor that would affect<sup>(3)</sup> the price sensitivity of family cars is the demand for it. This is because there are many substitutes and a car is not really a necessity.



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Examiner Comments

Although there is much incorrect or not relevant in this answer, the candidate says 'because there are many substitutes'. Therefore, 1 mark. 'A car is not really a necessity' is a second factor, but there is only 1 mark for identification of a factor. There is no development.

## Question 4 (d)

A popular question that enabled the majority of responses to access marks. There were some excellent responses that would have accessed 6, but a lack of context prevented them from doing so. Many responses showed evidence of balance and the use of the 'it depends' rule with further development/support/consequences which enabled them to achieve Level 3. A great deal of responses looked at each method with development but did not balance their analysis so, therefore, achieved 4 marks, top of Level 2.

A Volkswagen dealer wants to increase revenue. It can use one of two tactics; cutting car prices by 10% or offering a free holiday with every car sold.

\*(d) Which of these two tactics do you think would be more effective in increasing the dealer's revenue? Justify your answer.

(6)

I think that cutting car prices by 10% is more effective in increasing revenue than offering a free holiday with every car sold. This is because if you are selling cars slightly cheaper it isn't going to affect your revenue too much as ~~few~~ <sup>more</sup> people will want to buy the cars once there is a deal on. However, if you give a free holiday away with every car sold even though a lot more people will buy your cars you will be spending that money on a holiday for them. Which would mean you won't net benefit from it ~~and~~ <sup>whereas</sup> the customer will get a car and a holiday for the price of a car. In conclusion, cutting car prices by 10% is the best way to increase revenue because more people will be buying the cars and you won't have to give away holidays.

(Total for Question 4 = 12 marks)



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A judgement is given, so Level 1 is accessed. Is the development simple? No, 'isn't going to affect revenue as more people will want etc.' A reason is given, therefore Level 2 is accessed. The analysis re: holidays is relevant, therefore, Level 2, 4 marks. Is there balance on either/both? Is the conclusion a conclusion that draws the analysis together or is it a repeat of the judgement made at the beginning? Is there any context? The answer to the last three questions is no; therefore, this response merits 4 marks.

A Volkswagen dealer wants to increase revenue. It can use one of two tactics; cutting car prices by 10% or offering a free holiday with every car sold.

\*(d) Which of these two tactics do you think would be more effective in increasing the dealer's revenue? Justify your answer.

(6)

Both of these techniques would be seen as ~~a~~ good deals for consumers. By cutting car prices by 10%, people may consider buying ~~a~~ more high end models than before as they are less expensive which would increase his revenue. Having said this, offers such as this can be matched by rivals, whereas if he offers a free holiday with every car sold, this is a unique selling point and offers a ~~core~~ competitive advantage over his rivals as it is ~~defensible~~ defensible and distinctive. In my opinion offering a free holiday would be more effective in increasing revenue.

(Total for Question 4 = 12 marks)



**ResultsPlus**  
Examiner Comments

There is developed analysis on both tactics. There is balance with regard to cutting prices and there is context (line 4 'more high-end models'). The conclusion is different to the judgement made in the first 2 lines - there is no need for a developed conclusion, as it just needs to be drawn from the analysis.

## Question 5 (a)

Most candidates found this question accessible and used the exchange rates provided in the mini case study at the start of Section B to help them access full marks.

5 (a) What is meant by the term **weaker pound**?

(2)

This is when the exchange rate of the pound is becomes lower ~~and~~ overtime e.g. the exchange rate of a pound to euros was £1 = €1.50 in 2007 and it weakened in 2012 falling to £1 = €1.22.

Exports



### ResultsPlus Examiner Comments

This response has in the first sentence 'exchange rate', 'pound', 'lower' and 'over time'. This in itself would merit full marks. It could be noted that there is no mention of another currency in the first sentence, but 'exchange rate' is sufficient. In this case, there is an excellent example taken from the source anyway. 2 marks are awarded.

5 (a) What is meant by the term **weaker pound**?

(2)

This is when the value of the pound decreases, therefore as the pound is worth less against other currencies than it was before.



### ResultsPlus Examiner Comments

Simple and straightforward. 'value of the pound decreases' (1 mark). 'against other currencies' (1 mark). In addition, there is the time element 'than it was before'.

## Question 5 (b)

The majority of candidates understood the effect of weaker/stronger currencies and what the benefits were but again the context was missing from many responses.

(b) Explain how UK manufacturers might benefit from a weaker pound.

(3)

A weaker pound means exports are cheaper.  
This means UK manufactures will benefit from foreign demand and also tourism from foreign countries.  
If there is an increase in demand, there is less risk.



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Examiner Comments

The benefit identified is 'cheaper exports' (1 mark). 'Benefit from foreign demand' is a consequence. (1 mark). Although the words 'increase in' are not written, there is enough to suggest this is a consequence. The reference to tourism is not relevant as the context is UK manufacturers. The last sentence develops demand to 'less risk'. To get from demand to less risk would require more sales, more profit and then perhaps one could talk about less risk. So 'less risk' is not a linked strand and no merit can be awarded. Even if it were correct, only 2 marks can be awarded as there is no context. Therefore, 2 marks are awarded.

(b) Explain how UK manufacturers might benefit from a weaker pound.

(3)

A UK manufacturer will benefit because the cost of exports will fall and will be cheaper. As a result, the manufacturer will make a large profit margin through exporting more goods. As a result, they can afford to lower their prices which can lead to an increase in demand. This will also occur because the foreign goods are more affordable in other European countries when the pound is weak, so revenue and profits increase.



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'Exports cheaper' is the benefit (1 mark). The second sentence 'as a result the manufacturers will make a large profit margin (1 mark) through exporting more goods' (1 mark). Goods is in context so 3 marks are awarded at this point. The remainder is also valid analytical development.



## Question 5 (c)

Popular and well answered but the same points as before apply re context. Some excellent responses identified that supplies had switched from countries in the Euro such as France to New World countries such as Argentina.

(c) Explain **one** reason why a strong euro led to *Magnum Wine* buying more supplies from 'new world' countries.

(3)

Magnum wine used supplies from 'new world' countries rather than Europe due to the price of the pound being stronger in these countries rather than in Europe and the euro as the euro is also strong they would get less supplies for the same amount of money.



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Examiner Comments

Here we have two reasons identified: the first is rather confused and it is unclear what the candidate is exactly saying. The second is correct but poorly explained, but this meets the sense of the first bullet point in the mark scheme. Therefore, 1 mark.

(c) Explain **one** reason why a strong euro led to *Magnum Wine* buying more supplies from 'new world' countries.

(3)

If the Euro was strong, then imports from the European countries would have been much more expensive. This would have meant that Magnum Wine would have wanted to buy more supplies from the 'new world' countries as the imports from it would have been cheaper and so their products would have been able to be sold cheaply so a <sup>better</sup> revenue could be made from these imports.



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Examiner Comments

The reason is 'imports from European countries more expensive' (1 mark). The first consequence is New World is cheaper (1 mark); the second consequence is better revenue. The context is 'European'. Therefore, the candidate scores 3 marks.

## Question 6

6(a)(i): The vast majority of responses identified a correct stakeholder; some, however, identified 'owner' which is incorrect as the company, Magnum Wine, is clearly stated as being a PLC in the source material/stem.

6(a)(ii): A correlation of marks from the full 3 to 1 was very much linked to the stakeholder chosen in 6(a)(i). The responses that had identified 'shareholders' found it difficult to obtain 3 marks as their responses tended to discuss how a drop in share value would impact on the business and not the individual shareholder. This did occur with other stakeholders too. The more able responses came from those that had chosen employees.

6 (a) (i) Identify **one** stakeholder that might be affected by the fall in profit of *Magnum Wine*.

(1)

One stakeholder would be the ~~supplier~~  
owner

(ii) Explain how the stakeholder you have identified above will be affected by the fall in profit of *Magnum Wine*.

(3)

The owner of of Magnum Wine would be affected by the fall in profit because it would mean that they wouldn't have a lot of money and their cashflow forecast may change because of the different costs and money coming in and out of the business.



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Examiner Comments

The stakeholder identified 'owner' is incorrect. In the evidence it states that it is 'Magnum Wine plc'. If they had said 'owners' then this would have been acceptable. However, even though 6(a)(i) is incorrect, it does not mean that 6(a)(ii) is incorrect, as the explanation might be relevant. Unfortunately, in this case, it is not, so 0 marks are awarded.

6 (a) (i) Identify **one** stakeholder that might be affected by the fall in profit of *Magnum Wine*.

(1)

Workers.

(ii) Explain how the stakeholder you have identified above will be affected by the fall in profit of *Magnum Wine*.

(3)

The fall in profit of *Magnum Wine* would mean the business would have to cut costs. This could mean that they cut the wages of workers. This leads to the workers getting less money and having to make cuts on their home life i.e. selling luxuries so they can pay the bills.



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Examiner Comments

Workers gains 1 mark. Here we have 3 linked strands - 'cut wages/less money' (1 mark), 'having to make cuts' (1 mark) and 'selling luxuries etc.' (1 mark). The context is wages, i.e. relating to workers in *Magnum Wine* plc. The first sentence also merits 1 mark as it is a reason.



## Question 7

Most candidates found this question accessible. Many candidates achieved high marks because they understood the type of market Magnum Wine operated in and could display examination skills (as this was the first 8 mark question), such as balance and context, e.g. champagne, wine etc.

7 Two ways in which *Magnum Wine* might achieve higher profits are to:

- reduce costs
- improve quality.

In your opinion, which of these two ways will be more effective in helping *Magnum Wine* achieve higher profits? Justify your answer.

(8)

I think ~~improving~~ reducing costs will be more effective because with lower costs to make the products they can <sup>either</sup> sell them for less to ~~take~~ <sup>get</sup> more customers and increase the market share or they can yield a higher profit as ~~the~~ their will be less ~~revenue~~ taken away from fixed and variable costs. Reducing costs will be a quick way to ~~is~~ achieve higher profits as it can be promoted as being cheaper and in turn getting a higher customer base, whereas improving quality would be good but majority of people want cheaper than expensive with better quality. Moreover reducing costs doesn't mean sacrificing on quality, ~~at~~ because as the ~~business~~ grows they can exploit economies of scale and so buying more ~~at~~ <sup>at</sup> a discounted price, ~~ever better quality~~

(Total for Question 7 = 8 marks)



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Examiner Comments

A judgement is made – 'reducing costs'; there is development 'sell for less' 'get more customers' 'increase market share'. There is also 'or higher profits'.

Is this in Level 1, one option with simple development (2 marks) or does it access Level 2? It merits Level 2. The bottom of Level 3 requires balance and context. There is neither. Therefore, it does not access Level 3. The top of Level 2 requires balance, but we have already said that there is none. Therefore, this response will merit 3 or 4 marks.

Does this response have more detailed development (3 marks) or with reason/cause/consequence (4 marks). The three linked points above 'sell for less – customers – market share' is consequence. If it were just 'market share or profits' it would be more detailed development.

Therefore, this response scores 4 marks.

7 Two ways in which *Magnum Wine* might achieve higher profits are to:

- reduce costs
- improve quality.

In your opinion, which of these two ways will be more effective in helping *Magnum Wine* achieve higher profits? Justify your answer.

(8)

Reducing costs will mean that there is a higher profit margin (difference between cost and selling price) leading to more profit, provided demand and sales are sustained, but by reducing costs they may be reducing the quality of their wine, which could be a <sup>significant</sup> strong factor, if other people pay specially to import wine from them, and so demand would be reduced, reducing sales, revenue and profit.

Improving the quality could set them ~~at~~ apart from the market and give them a USP, which could in time deem their wine price insensitive if there are no substitutes meeting that quality or they could become a well established brand name, leading to them being able to increase

(Total for Question 7 = 8 marks)

prices and sustain demand, leading to more sales, revenue and profit.

Overall, I believe that improving the quality of their wine will <sup>ultimately</sup> help the most in achieving higher profits, but also if they've been facing declines, it may be a good idea to cut prices in the short term, but improve quality in the long term.



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Examiner Comments

Both options are considered; reason/cause/consequence on both; balance on both. Crucially there is context – 'reducing the quality of their wine' and 'people pay specially to import wine from them'. This has all the criteria to satisfy the requirements of the top of Level 3, 8 marks are awarded.

### Question 8 (a)

Answered well in the whole. However, some candidates described measures of personal income.

8 (a) What is meant by the term **Gross Domestic Product (GDP)**?

(2)

Gross domestic product is what is used  
to measure the wealth of an economy.



**ResultsPlus**  
Examiner Comments

An incorrect definition of the term. It is not a measure of wealth.

8 (a) What is meant by the term **Gross Domestic Product (GDP)**?

(2)

The <sup>total</sup> value of ~~the~~ all the goods and  
services produced in a country ~~over~~ in  
a year.



**ResultsPlus**  
Examiner Comments

A textbook definition.

## Question 8 (b)

Many candidates did not answer the question set and just used the data table as support for their answers. If candidates had structured their answers using theory (Why interest rates are reduced and the likely impact) and used the data table to support their answers then they could have accessed Level 2/3. However, many candidates provided a commentary on the data table with no application to the 'effects of a decrease...on economic activity in the UK.' Many candidates could not understand the 'time lag' provided in the data table and relate it to these trends. Those candidates who achieved Level 3 applied their answers to the economic recession of 2008. There were some very good responses that linked the data to the global recession and the impacts that this had on the UK economy, pulling evidence from the data.

\*(b) With reference to the table, assess the effects of a decrease in the Bank of England interest rate on economic activity in the UK.

(8)

There are signs from the table that a change decrease in interest rates actually negatively affects the UK economy, shown by February 2008 to October 2008. A decrease in interest rates means that loans have to be paid back at a slower rate so people have more money, however this means that banks don't which can lead to economic stress and less GDP, as shown by the table. This is because people want to save money and have less consumer confidence. However, there's evidence that a decrease is beneficial, as the base rate goes to 0.5 for March 2009 and November 2010, which shows a 78% increase. This is because people are encouraged to spend their money and savings because their payback is so low and they aren't going to earn money by putting it in a bank to earn interest. This means that economic activity will increase because people are spending their money. Overall, a decrease can lead to the UK having little consumer confidence and therefore less spending. However, holding the decrease and having a very small interest rate can encourage people to spend and therefore increase economic activity massively, as shown by the table.



**ResultsPlus**  
Examiner Comments

This has good use of data, understanding of the transmission mechanism of changing interest rates and economic activity, and balance explaining why, despite lower interest rates, GDP fell. There is context. This meets the criteria for Level 3. There is, however, some incorrect analysis and some of the analysis lacks clarity. Therefore this candidate scores 6 marks.



\* (b) With reference to the table, assess the effects of a decrease in the Bank of England interest rate on economic activity in the UK.

(8)

~~On the other hand~~ The trend in the table shows that reducing the interest rates has decreased economic activity and dramatically decreased the GDP. This is shown when in August 2006 the interest rate was 4.75% and the annual change in GDP was +2.9%, whereas in March 2009 the interest rate was 0.5% and the annual change in GDP was -6.0%.

On the other hand in November 2010, when the interest rate was still at 0.5% the annual change in GDP was +1.8%. This is because people saved less as they got less money in return so they spent more, economic activity rose and the country made more products so GDP rose.



### ResultsPlus Examiner Comments

The data is used in the first paragraph. It is just stating figures from the table correctly. There is simple development (dramatically decreased). This paragraph by itself would merit 2 marks. The second paragraph starts 'On the other hand'. Normally, one would expect balance. However, the balance is a comparison of figures not analysis, so there is no balance so the maximum the candidate can score is 4 marks.

There is developed analysis in the second paragraph, but none in the first. This meets the criteria for Level 2, 4 marks.

## Question 9 (a)

This question was answered well on the whole; most imperfect definitions were supported with a relevant example of an MNC such as Apple to push their mark to 2. Some got confused and stated that an MNC helps other countries.

9 (a) What is meant by the term **multi-national corporation**?

(2)

More than one country having a share within a business/organisation.



**ResultsPlus**  
Examiner Comments

An incorrect response. 0 marks.

9 (a) What is meant by the term **multi-national corporation**?

(2)

A multinational corporation is a company that is ~~based~~ set up in many countries. For example Nike and McDonalds.



**ResultsPlus**  
Examiner Comments

An imperfect definition. However, the 2 examples are relevant, thus being 'some kind of accurate elaboration'. Therefore, 2 marks is awarded. If the candidate had just given the two examples, then no marks would have been awarded.

## Question 9 (b)

A variety of factors were given that were not on the mark scheme. The popular ones from the mark scheme included: increase in government spending, lower taxation and investment. Some responses had excellent context in terms of 'Tullow Oil' and 'extraction of oil'. Some based it on the UK economy with valid contextualisation but sometimes provided text book answers that did not provide context.

(b) Identify **two** possible factors that cause economic growth in an economy. For each factor explain how it leads to economic growth.

(8)

Factor Interest Rates

Explanation Interest rates effect on customer spending or saving in the economy. Lower interest rates encourage customer spending, business borrowing and a lower payment to give for mortgages.

Factor New Businesses

Explanation Newly made businesses and ~~compa~~ corporations create many open new jobs. This increases the average income rate, standards of living and economic growth.



**ResultsPlus**  
Examiner Comments

Factor 1, interest rates (1 mark). 'Lower interest encourage customer spending etc.' (1 mark)  
Factor 2, new businesses (0 mark). There needs to be some cause of new business start-up to warrant a mark. Nevertheless, the explanation has merit. 'Creates...jobs' (1 mark).  
Increases average income rate etc (1 mark). There is no third development point and, even if there were, there is no context. Overall, this candidate scores 2 + 2 = 4.

(b) Identify **two** possible factors that cause economic growth in an economy. For each factor explain how it leads to economic growth.

(8)

Factor Increasing human ~~and~~ capital and physical capital

Explanation By increasing the training in business and the development of machinery, ~~the~~ a business will have a rise in resources and products. This will mean that they will increase their output therefore a rise in economic growth.

Factor ~~Government Spending~~ Government ~~raise~~ lower taxes

Explanation ~~If the government were to increase the amount they spend on~~ <sup>the infrastructure</sup> ~~education, ~~marketing~~ ~~or~~ ~~transport~~~~  
If the government use the fiscal policy and lower taxation, more people would have disposable income therefore there would be an increase in economic activity. Businesses will make larger profits, expand and raise wages or employ more workers. This would mean that more money would be going in and out of an economy therefore raising economic growth.

(Total for Question 9 = 10 marks)



**ResultsPlus**  
Examiner Comments

There are two relevant factors identified. Factor 1: the first sentence repeats the factor but in different words, 'a business etc to products' adds nothing. A consequence is arrived at 'increase their output' therefore this part merits 1+1=2 marks. Factor 2: factor (1 mark). This basically is two separate responses, i.e. two separate strands of development, (a) consumers and (b) businesses. There is no context, therefore, this factor merits 1+2 = 3 marks. Overall this response merits 5 marks.



## Question 10

Most candidates found this question accessible, although some candidates did confuse 'subsidies' with 'tariffs' and tried to reinterpret this question about international trade. Some candidates tended to ignore the role of Government in their answers and consequently missed out on context marks. However, those candidates who achieved Level 2/3 were able to successfully apply their answers using context and balance.

Governments can use taxes and subsidies as methods to help protect the environment.

\*10 Using the evidence that is given in Section C and your knowledge of Economics and Business, which of these two methods of protecting the environment do you think would be more effective? Justify your answer.

Being environmentally responsible means to look after the natural environment by polluting less or not using non-renewable resources

Governments can increase taxes on products which may damage the environment, like oil. This has the effect of increasing the cost of these products so people can't afford to buy as much of it. This forces people to be more economical in their use of oil. This means that the negative externalities are reduced as land fossil fuels are burnt <sup>less</sup> reducing pollution.

On the other hand, by using subsidies the government can promote 'better' products that do less damage to the environment. Subsidies are based on output and for example if the government subsidised solar energy plants then the cost of producing it would fall. This lower price will be passed on to customers and so more people could use renewable energy sources like solar and wind. This means that the amount of pollution is reduced as renewable <sup>sources</sup> don't <sup>pollute</sup> <sup>me</sup>

In conclusion, taxes are usually effective because with higher prices people buy less, reducing global warming and pollution. However, it depends on the extent to which oil is a necessity for people if their job involves driving then raising the price will merely create other externalities like poverty and not reduce pollution. So, I

(Total for Question 10 = 10 marks)

strongly believe that subsidising renewable energy like solar <sup>power</sup> will be more effective in the long term as more people will

TOTAL FOR SECTION C = 20 MARKS

TOTAL FOR PAPER = 90 MARKS

use them as they are cheaper, thus reducing damage to the environment.





Both methods are considered with developed analysis on both and both parts in context. There is balance in the final paragraph, e.g. 'taxes are usually effective...however it depends on the extent to which oil is a necessity' and later on 'merely create other externalities'. Therefore this is Level 3. The conclusion has 'it depends' and 'in the long term' and both are developed, not stand alone statements. Therefore, this response merits the full 10 marks.

Governments can use taxes and subsidies as methods to help protect the environment.

\*10 Using the evidence that is given in Section C and your knowledge of Economics and Business, which of these two methods of protecting the environment do you think would be more effective? Justify your answer.

There are 4 methods which could be effective in this situation to protect the environment; self-regulation, pressure groups, subsidies and taxes. Taxes would be the least efficient as the company is paying the government more money but it does not affect their actions or activities therefore not protecting the environment. Pressure groups would influence the company to consider the environment without any cost. Self-regulation would also be efficient as the company would use no chance but the market has impact however it would be less efficient than pressure groups as they would have to allocate staff to do this. A combination of pressure groups and self-regulation would be the most efficient method to protect the environment.



From the initial sentences it seems that the candidate has a good grasp of what the government can do to help protect the environment, but then seems to answer the question that they want and not the one set. However, one reason, taxation, is developed with limited support (lines 5-9). This response is, therefore, Level 1 and is awarded 2 marks.

## Paper Summary

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

- remember to use contextualised words from the source material instead of using generic words such as 'product,' 'business'
- read the questions carefully, so that you produce an answer for what is being asked
- don't repeat the question in your answer
- contextualise your answers to the question and any source material or data.

## 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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