

Examiners' Report

June 2013

GCE Business Studies 6BS03 01

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Introduction

This paper has proved to be a good discriminator with a couple of quite testing questions. Many candidates were able to demonstrate a good theoretical understanding, backed up by good use of example, often taken from wider reading rather than the paper itself. Other candidates found some concepts such as exchange rates, exports and imports difficult to apply, particularly in question 2. Other answers were rather tangled and at times it was not always clear just what candidates meant. Phrases such as 'exporting from' and 'importing to' only added to the uncertainty.

Some candidates weakened their responses by failing to apply the terms and theory they had been taught, using generalities and non-specialist language. This does not convince examiners that answers deserve high reward. For example, forecasting that PPR would "gain a lot of money", or that "the future looks rosy" is unlikely to gain marks for analysis.

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

Significant numbers of candidates missed out on marks because they did not answer the question that was set. This was particularly the case with questions 7 and 8. Very few candidates failed to finish all the questions.

Question 1

This was generally well answered, with candidates usually using the protecting domestic/infant industries and tax raising arguments. A significant number stated that high tariffs were a deliberate ploy to encourage more FDI. This is a consequence of high tariffs but not a reason for them; evidence B clearly explained that the Brazilian government was concerned over the amount of Chinese FDI and Chinese companies setting up in Brazil.

- 1 Explain two likely reasons why Brazil imposed high tariffs on Chinese imports.

Tariffs are taxes placed on imported goods. One reason for Brazil imposing high tariffs on Chinese imports is to protect the domestic market. Tariffs on Chinese goods would make foreign goods from China more expensive for Brazilian consumers to buy, encouraging them to buy products from their own country. Especially with the large quantities of manufactured goods that China exports, it is important that Brazil prevent them from being too much competition. Therefore, as a result of these high tariffs, Brazil will gain tax revenue and their domestic market will flourish, allowing their economy to grow.

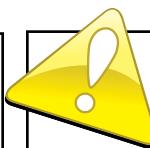
Another reason is to protect ^{infant} domestic industries and allow them to grow. Brazil is a BRIC country and an emerging economy, and so is recently making a shift in industry from agriculture to manufacturing. China specialises in manufacturing, so without high tariffs the new manufacturing industry would face tough competition. The tariffs prevent this from happening and allow them to grow. Therefore, making the protection of infant industries in Brazil a reason for Brazil to impose high tariffs on Chinese imports.



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Examiner Comments

This is a detailed response giving two good reasons, it also gives a third in passing (raising tax revenue) but we are only concerned with the main two as per the question. These two reasons are then applied in context and the consequences given thus gaining all 6 marks.



ResultsPlus

Examiner Tip

For each reason we are looking for an identification of a reason (knowledge 1 mark), then showing how that reason might apply to Brazil (application 1 mark) and then developing that reason by perhaps explaining the consequences (Analysis 1 mark).

1 Explain **two** likely reasons why Brazil imposed high tariffs on Chinese imports.

The first reason why Brazil has imposed high tariffs is to protect the home businesses so they don't have a competitive advantage over them. This means China's products will be higher in cost and therefore won't undermine home businesses to make them unemployed.

The second reason is that with these tariffs it will mean more tax revenue going to the Brazilian government. As a result the Brazilian government can then use that money to then spend it on things, like for example developing infrastructure.



ResultsPlus

Examiner Comments

This response has two valid reasons and valid analysis but has no context; it could be about any country and its imports and so does not get the application marks. It received 4 marks in total.



ResultsPlus

Examiner Tip

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

Question 2

This proved to be a testing question for many candidates with some failing to achieve any marks. Many did not get beyond a basic statement that all exporters were doomed or that cheap imports meant that all Brazilian businesses would cease to exist. Misconceptions abounded, with many claiming that exporters would get more revenue for their goods. However, there were a pleasing number of very good and perceptive responses, which applied the context well by pointing out that even though exports were increasing in price, Chinese demand was relatively price inelastic and unlikely to reduce by much. Others looked at the possible benefits for importers who were either re-selling or using raw materials in production.

- 2 Analyse **two** effects that a strengthening Real (Brazil's currency) might have on Brazilian businesses.

Currency is the money a country uses.

Brazil use Real, whereas other countries use the pound, euro or dollar etc.

One effect that a strengthening Real may have on Brazilian businesses is that they will be able to get their products cheaper if they source from another country. For example if they were to buy Chinese imports they would be a lot cheaper than buying from local sources. Therefore they would be able to minimise their unit costs so can afford to lower their prices and become more competitive in the market. However by buying imports they are putting local industries at risk of closing down as they cannot afford to lower their prices to compete against Chinese companies.

A strong Real will ^{also} mean that exports from Brazil will be dearer. This will not be good for businesses who try to sell their products to

foreign countries as they will not want to buy them. As a result the economy will suffer and people may become redundant. This would mean less people will have disposable income to spend on local businesses.

(Total for Question 2 = 8 marks)



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Examiner Comments

A reasonable response, two effects are identified gaining 2 knowledge marks. The results/consequences are then discussed for 2 analysis marks and in both cases there is further development to gain the remaining 2 analysis marks. There is no application, just repeating Brazil and Real which are in the question so does not count as context. This response gained 6 marks in total.



ResultsPlus

Examiner Tip

This candidate could have gained the 2 application marks by referring to the rise in imports of 24% and the increasing demand for its exports - both of which are mentioned in the evidence.

Question 3

Many candidates were able to apply the context of Brazil to the issue of specialisation in commodities, contrasting the short term boost to Brazil's economy with possible long term problems of exploiting non-sustainable resources or price fluctuations. Some failed to evaluate the question and saw it in either a positive light or as all bad news for Brazil. Others had a rather simplistic understanding of specialisation and saw it in terms of workers in a factory rather than the wider context of Brazil and its reliance on commodities.

Question 4

A well answered question with most candidates scoring well. The pros and cons of increasing amounts of Chinese FDI on the Brazilian economy were usually well covered. Some candidates inevitably produced a generic answer without applying the context of the question but more able candidates were able to use either the case evidence or their own knowledge and so reached the higher marks.

*4 Evaluate the impact that increasing Chinese FDI could have on the Brazilian economy.

FDI is the movement of a countries assets into another country. If increasing FDI into the Brazilian economy would help to create jobs for many Brazilians as this would lead to an increase in GDP. This means that the government Chinese companies that are bringing in the investment and employing Brazilians are helping to reduce unemployment and raise the standard of living. It states * in Evidence A that if 2TE manufactured in Brazil it would cost them a third less from importing from China.

However, increasing FDI into Brazil could mean that those ~~large~~ relocating manufacturing companies relocating into Brazil, because of reduced cost, could effect their domestic businesses. Evidence B states car companies and motorbike makers have set up many facturing plants in Brazil. This could put Brazilian ~~car~~ manufacturers to loose business as the Chinese ~~could have~~ companies could have better technologies and strategies that allow them to produce

at a lower cost than Brazil manufacturers. This would mean domestic businesses in relevant manufacturing may be forced to close down.

Although this could also lead to greater competition within the economy and could cause companies to produce more efficiently in order to compete. This could lead to fall in price of goods as costs of Chinese

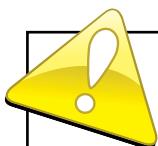
manufacturing falls. This would enable Brazilians to buy more with their disposable income.



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Examiner Comments

A good response with clear arguments that gained 10 marks. It makes good use of the evidence to give context to both the analysis and evaluation.



ResultsPlus

Examiner Tip

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

Question 5

A large number of students were able to come up with basic reasons for PPR expansion and then give an analysis as to how this might benefit the company. A reasonable number of students were able to use the case study in at least one of the reasons to help contextualise their point. However, some students were not able to use the context to answer the question and missed out on these marks through poor application.

me profit.

- 5 Explain two likely reasons why PPR is keen to expand into China.

One reason for PPR would be to enter a new market as there are million millionaires in China. There is a growing middle class in China who are wanting luxury goods, therefore PPR could gain a larger market share by expanding to a new market which will increase their sales revenue and they will be more profitable. PPR could be keen to expand into China to gain first mover advantage for example Alexander McQueen opened a store in Beijing. Chinese new middle class luxury goods as wealth and status so PPR will succeed in its new diversified market which will spread risk.

PPR's home market could be saturated meaning more sales can be made as the product life cycle has reached maturity and will not be decline. By PPR expanding into China this is an extension strategy and the luxury products will be able to start off the product life cycle again in to action. This will compensate for declining sales in the home market and is a way for PPR to keep selling its home products without extensive innovation to a new customer market who are interested in luxury products. The personal wealth is about US \$1.3 million. Since PPR operates on niche, there is a niche of rich new market in China.

(Total for Question 5 = 6 marks)



ResultsPlus
Examiner Comments

A good response that gets all 6 marks and makes good use of the evidence for application.

Question 6

A surprisingly poorly answered question with many responses failing to understand the nature of a niche market let alone a global niche market. Too many candidates offered general benefits that could have applied equally well to a mass market and so failed to gain any credit. Better responses examined the peculiar nature of niche markets, focusing on specialisation and lack of direct competition, premium pricing and the special relationship with consumers and were able to set these in a global context and relate them to PPR.

- 6 Explain two benefits for PPR of owning brands that operate in global niche markets. ~~high prices
high levels of global~~

Niche marketing involves devising products that are a more specific segment of a larger market. ~~the~~ Niche markets generally involve low sales volume but high prices ^{there are} so that ~~a~~ large profit margins. Global niche markets sell products for high prices which gives large profit margins which is one benefit of a global niche market. Another benefit is that global niche markets reach a large amount of consumers rather than a small amount in the domestic country. Therefore, sales volumes are high as well as prices which can potentially lead to high profits, which is why PPR are a successful business. The global niche markets allow sales to reach the same levels as a mass market product in a domestic market and so global niche marketing can provide large rewards.



ResultsPlus

Examiner Comments

Clear understanding of a niche market which is developed into an awareness of a global niche market. It does lack any application to give it context and therefore only gained 4 marks.

Question 7

Most students were able to respond to this question and explain why brand names were important to PPR when trading internationally. Most managed to use some specific examples taken from the text and emphasised the nature of the products that PPR sold and why brand names mattered. They were less successful in evaluating the importance; fewer candidates were able to look at other factors such as the marketing mix or consider other businesses besides PPR.

- 7 Assess the likely importance of brand names to a business such as PPR when trading internationally.

Brand names are very important to PPR because when they expand to China they want people to know who they are and increase their brand awareness. This will help to boost sales in their international markets, such as China, which generates more profit.

On top of this it is extremely important for PPR because in China the millionaires are looking for Social Success and want to be defined by their wealth and status. So if PPR has a good Brand name and Brand image and is seen as a good quality 'luxury designer brand' then they will generate huge sales as the ~~new~~ Chinese millionaires ~~would~~ hugely increase the demand for their product. So it is very important to PPR when trading internationally.

 **ResultsPlus**
Examiner Comments

This is a reasonable explanation of the importance of brand names to PPR and uses the evidence to give it context. It only reaches Level 3 and 5 marks because it has no evaluation. Without evaluation Level 4 cannot be reached.



ResultsPlus Examiner Tip

The most common reason for otherwise able candidates failing to reach their full potential is ignoring command words. In this unit 'Assess' and 'Evaluate' are a signal to make a judgement and evaluate. It may consist of looking at the pros and cons of a situation, or commenting on the likelihood or extent of something, or recommending one course of action over another. In this paper evaluation is found in questions 3, 4, 7, 8, and 9.

Question 8

Perhaps the poorest answered levels of response question, with a small but significant number of students failing to relate contextual issues on ethical trading to a real business context. Many students just saw the word 'ethical' and produced a generic answer without considering the remainder of the question which requires an evaluation of its importance in achieving international success.

- 8 Assess the extent to which a positive ethical image might determine a company's international success.

A positive ethical image could have a big impact on a company's international success. Many consumers want to feel like they are helping the environment. Therefore by having a positive ethical image then consumers are likely to purchase their products. A positive ethical image can be achieved by adopting consumer social responsibility. This however can come at a cost. In order to improve ethical image the cost to do so will increase and reduce the company's profit. However, the long term benefits of a core policy are likely to greatly benefit a company as it means they can establish a good brand image and earn customer loyalty for long-term. This means that they are more likely to succeed internationally.



ResultsPlus Examiner Comments

A response that lacks context and only evaluates an ethical policy rather than answering the question fully and only gets 5 marks.



ResultsPlus Examiner Tip

Context is particularly important in this paper and indeed all the papers linked to this one. Context means using the setting of the question in your answer, in this case it means talking about an ethical image (or lack of one). This candidate would have improved their answer by, for example, saying something about a business such as Green & Black's or The Body Shop and relating their products to consumer's concerns for fair trade and the environment and showing how that has been successful.

A good way of thinking about context is to try using another company's name (eg Shell) instead of Green & Black's in the answer. If it still makes sense then there is no context, if it changes then there is context.

- 8 Assess the extent to which a positive ethical image might determine a company's international success.

A good ethical image is important in some aspects of a company's international success, due to the fact that if a company has bad publicity internationally, such as Nike and their exposure to exploitation & child labour and sweatshops, demand could potentially drop, due to moral views within society. If demand drops, revenue and sales will evidently fall also, even in the long-term leading to loss of profits for the business.

Additionally, it is important to success, because demand is likely to decrease if other competitors of the same product have highly ~~more~~ strong focus on CSR objectives. Consumers such as chocolate consumers, are more likely to purchase a product with fairtrade and organic ingredients, rather than a brand notorious for bad working conditions for the workforce and poorly managed ingredients. This will further decrease competitive advantage to the company and will lead to a decrease in sales and overall profits.

On the other hand, it is illustrated that many consumers are unaware of the ethical implications of MNCs, thus it doesn't affect a business much. It denotes that Nestle is the most profitable company, however IBM is the most ethical. Therefore, as most consumers are unaware of multinational parent companies and the socio-economic effects they hold to the host nation and local people, demand is unaffected by this, thus profit and revenue

are maintained regardless. 44% associated green & black with social responsibility compared with only 15% for its plant company Kraft foods.

Additionally, ethical images is not important, due to the fact that most companies aim to buy products at the cheapest available price, thus disregard ethical implications for convenience. Thus, demand is still the (Total for Question 8 = 10 marks)

same, and MNCs hold the same profit and overall wealth.

In conclusion, a positive image is important, however it varies with demographic location of the companies, as in MEA's most consumer will wish to buy products of higher quality of ingredients and reputation; whereas LDC's will be less likely to look for the cheapest available price. The figure supports the notion that international success is not ~~due to~~ due to positive image, but high sales and revenue.



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Examiner Comments

A much better answer that uses the evidence and own knowledge to provide context to both analysis and evaluation to reach Level 4 and 9 marks.



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Examiner Tip

It is always a good idea to include a conclusion in your longer responses, particularly for questions 4 and 9. A conclusion can lift your answer to the higher levels. Try to reach an overall judgement on your arguments rather than just repeating what you have already said.

Question 9

Most students managed to analyse some aspect of the effects of China's growing wealth on UK businesses. However, many students did not appear to read the question carefully and saw it as a chance to write a pre-prepared essay on how UK businesses could take advantage of cheap labour costs. The question should have led them to understand that this was no longer a given. In fact, growing wealth tends to go hand in hand with increasing wage rates and higher costs of production and the more perceptive students pointed this out as an impact on UK businesses off-shoring production to China. Better responses also used the context provided to identify that with wealth comes the want for niche market goods.

Most students also managed to gain credit for an evaluation of the problems. Some students didn't read the question carefully enough with regards to the context and used business examples that clearly were not UK such as McDonalds and Coca-Cola. Other students misread the question and emphasised the benefits of wealth for China rather than for UK businesses. Only a small proportion of students were able to access the top range of marks to look at the potential benefits and risks on UK businesses. Some of these students perceptively evaluated that China's wealth may also set in motion a switch from manufacturing to the services sector and the potential problems this might cause UK businesses.

*9 Evaluate the likely impact of China's growing wealth on UK businesses.

Economic growth refers to ~~to~~ an increase in a country's GDP.

China's growing wealth may see an increase in success for UK businesses because the goods and services produced by UK businesses are of good, high ~~go~~ quality which means that they are not very cheap. Since China keeps growing and they keep getting more and more newly rich, young millionaires, they may desire goods of higher quality as they can afford them. Therefore UK businesses may be able to capitalise on ~~the~~ China's growing wealth as it will raise demand for UK businesses' goods hence leading to UK businesses making more profit as a result of higher sales.

then they are ~~more~~ able to create goods for cheaper hence making UK businesses less competitive therefore this may cause them to go out of business.

In conclusion, China's increasing growth in the short term may be good and beneficial for UK businesses as demand for UK businesses' goods and services may improve, however in the long term it may be bad for UK businesses as there may be increased competition for them.



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Examiner Comments

A largely generic and general answer with very limited context that just gets in to Level 4 and gained 8 marks.

*9 Evaluate the likely impact of China's growing wealth on UK businesses.

China's growing wealth can be seen as an opportunity for UK businesses, as goods can now be sold in China. A new market can now be tapped in China. With saturated home markets, ~~there~~ the wealthy Chinese population may provide an easy market for British firms to expand into. Businesses like PPR have already taken advantage, setting up in Beijing, China with plans to expand and open further stores in China. This would allow UK firms to have greater overall sales and make more profits. Growing in size may also allow them to achieve economies of scale, pushing down costs. However, this may not work in all industries, especially in the manufacturing industry where China holds a comparative advantage, and competing against such firms would be difficult. Also ~~to~~ to consider is that a large portion of the Chinese populace do not speak English — language and cultural barriers may provide ^{firms} them with several difficult challenges to overcome.

Another thing to consider is that growth of China has increased its demand for commodities by a great extent, causing a sharp rise in global commodity prices — this could lead

to problems for British firms, as they now face higher cost of inputs — however, almost all firms in the industry are likely to face these increased costs, and it is unlikely to be and thus it is unlikely to leave British firms in too much of a disadvantage.

As such, the growing wealth of China can be said to be a mixed blessing, as it provides a new market for UK firms to tap — a wealthy market with high potential profits. On the other hand, it also increases the cost of inputs for the said firms, pushing up their costs and reducing profit margins.

Increased wealth can also lead to greater competition for UK firms, as the more wealthy Chinese may seek to invest into UK — however, UK firms have a comparative advantage in chemicals, ~~and~~ and the services sector; while China has the comparative advantage in manufactured ~~goods~~ goods/electronics — they are unlikely to be in direct competition.

(Total for Question 9 = 15 marks)

TOTAL FOR SECTION B = 45 MARKS
TOTAL FOR PAPER = 80 MARKS



ResultsPlus

Examiner Comments

Right from the start this answer uses context effectively. The arguments are clear and concise with several perceptive points being made. A high level 4 response this gained 14 marks.

Paper Summary

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

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

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