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Examiners' Report January 2010

GCE Economics 6EB02

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General Comments

This was the second paper of Unit 2b with candidates re-sitting this paper from June 2009. Overall performance was better than June 2009 with majority of candidates showing a sound grasp of business and economic concepts. Answers suggested that candidates on the whole had been well prepared for this paper. There appeared to be use of precise Economic and Business terminology throughout rather than generalised comments. Again, the best students demonstrated excellent application of their knowledge to the precise question set, while the weakest students attempted questions from a 'common sense' approach rather than demonstrating any economic and business concepts. The examination paper required candidates to apply their understanding; good students did this well with clear development of points.

Examination timing skills appeared to be very good as a whole with the majority of candidates completing all questions fully with very few unanswered questions for 13a and 13b.

Section A

Examiners encountered a full range of approaches, from what appeared to be candidates carefully prepared on how to handle supported multiple choice questions, to others where there still appeared to be little evidence of preparation. At GCE level, the use of supported multiple choice questions enables the testing of more than straightforward recall. The three explanation marks in part (b) of the supported multiple choice questions proved good discriminators which required candidates to explicitly analyse and evaluate.



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Advice on how to improve performance on Section A

Again, it is essential for questions which require judgement or justification, indicated by the command 'least likely'/'most likely', it is advised that, in order to score the full 3 marks in part (b), candidates should not only explain why their answer is correct, but also choose one of the incorrect answers and say why this is incorrect. This technique will allow candidates to score up to 2 marks for discounting why the other options are incorrect. (NB there are only 2 marks available for discounting 2 incorrect answers so do not discount all 3 incorrect options). This does have to be balanced with overall timings for the paper but could lift a candidate's score by 6 marks if done correctly on all supported multiple choice questions. Many candidates simply did not write enough in part (b) to score the full 3 marks even though candidates can score the full 3 marks for development of why their answer is correct. Many answers were not detailed enough or were simply repetition of their chosen answer.

Question 1

Most of the candidates did not fully understand what was meant by a left shift in the supply curve. It is imperative that candidates do understand the different factors which affect the demand and supply curves. Many candidates only gain marks on this question by eliminating the incorrect options and even candidates who identified the correct answer in part (a) could not fully explain why a rise in cost of raw materials would cause the supply curve to shift inwards. It would be advisable to spend more time teaching this area of the specification.

1 (a) The supply curve for biofuels will shift to the left if

(1)

- A there is an improvement in technology.
- B there is a fall in the price of a substitute product.
- C there is a rise in the cost of raw materials.
- D there is an increase in productivity.

Answer

C

(b) Explain why this answer is correct.

(3)

When the Supply Curve shifts to the left, Supply decreases.
When raw materials rise in price, less can be supplied at the current price, so supply decreases. An improvement in technology or an increase in productivity would increase supply, shifting the Supply Curve to the right. A fall in the price of a substitute product, would instead affect demand.



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This candidate has explained (not very precisely!) why the supply curve has shifted left and that an inward shift means a decrease in supply (1 mark). The candidate has then explained why the other options are incorrect (2 marks) therefore 3 marks for part (b).

Question 2

Most candidates made the correct selection and were able to accurately explain appreciation of sterling. The majority identified that the French use the Euro so were unaffected. It is clear that exchange rate questions provide problems for some candidates and many candidates did use the mnemonic SPICED (Strong Pound Imports Cheap Exports Dear) to help them understand the impact on imports and exports. It would be advisable to spend more time teaching this area of the specification.

2 (a) An appreciation of the pound sterling against the US dollar is **most likely** to cause (1)

- A an increase in the number of British tourists visiting the USA. ✓
- B an increase in the number of US tourists visiting Britain. ✗
- C an increase in the number of French tourists visiting Britain. ✗ *worth more*
- D an increase in the sales of British chocolate to the USA. ✗

Answer

A

(b) Explain why this answer is correct.

(3)

An appreciation of the pound sterling means that its value against the dollar has risen. The same quantity of money in sterling can now be used to purchase more in the USA than before thus increase. The number of British tourists will increase as they now have more purchasing power. US tourists however are likely to decrease as their US dollars are worth less in Britain.



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Examiner Comments

The candidate scores 3 marks for part (b) because they clearly explain why there might be an increase in British tourists visiting the USA. They have also briefly explained why option B is incorrect.

Question 3

Many candidates made the correct selection in part (a) but were unable to explain why this was the correct answer. There was a distinct lack of understanding about the nature of structural change with many candidates focusing upon what was meant by an emerging economy rather than the impact of structural change.

- 3 (a) Structural change in an emerging economy such as China is likely to involve all of the following **except** (1)
- A changing patterns of demand.
 - B a decline in certain industries.
 - C a reduction in uncertainty.
 - D new industries expanding.

Answer

C

- (b) Explain why this answer is correct. (3)

Structural change is ~~an~~ when one sector of an industry eg. coal mining industry, is declining, and resources will have to be allocated elsewhere. New industries, such as biofuel will be increasing causing the structure to change as there will be a ~~dem~~ higher demand for biofuel rather than coal. Uncertainty will be increased as people will be unsure of their future job prospects if there is a structural change.

(Total for Question 3 = 4 marks)



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This candidate scores the full 3 marks for part (b). They clearly understand what is meant by structural change with an example (1 mark). The candidate develops their answer by showing how structural change may lead to greater uncertainty with regards to changing patterns of demand for different products and services.

Question 4

It was very pleasing to see that many candidates understood the nature of an oligopolistic market and could clearly explain the features of an oligopoly in order to discount the incorrect options. Many candidates considered petrol to be homogenous and therefore incorrectly chose option B (extensive branding) but still gained marks for discounting the other options.

4 (a) Which of the following is **least likely** to occur in an oligopolistic market such as petrol?

(1)

- A Several large firms dominating the market
- B Extensive branding
- C Barriers to entry
- D Price competition

Answer

D

(b) Explain why this answer is correct.

(3)

In an oligopoly ~~the~~ market, companies don't compete on price, but on things such as branding, innovation and product development. It would be unwise for petrol stations to compete on price as it is a lose-lose situation. If you lower your price, others will follow, as a result lower sales revenue. If you raise your price, others will not, and as there are alternatives they would lose business. Instead, petrol stations tend to have similar prices, and are usually high.



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Examiner Comments

This response scored 1 mark for part (a) and 3 marks for part (b). This shows that candidates can score the full 3 marks for explaining why their answer is correct without having to discount the other responses. Very few candidates are able to do this consistently and I would still advise that candidates still discount at least one incorrect answer in order to gain 3 marks on part (b). This candidate clearly explains why firms in an oligopolistic market such as petrol would avoid price competition.

Question 5

Some candidates misread the question and interpreted it as what causes are associated with a recession so selected inflation as a cause and unemployment as a result. Very few candidates could gain 3 marks explaining why unemployment rises in a recession. This question did tend to have too many 'common sense' answers rather than use of economic and business terminology to answer the question.

5 (a) In 2008 the UK economy shrunk for the first time in 16 years.

The recessionary phase of the economic cycle is **most likely** to be associated with a rise in

(1)

- A imports.
- B unemployment.
- C inflation.
- D incomes.

Answer

B

(b) Explain why this answer is correct.

(3)

The recessionary phase of the economic cycle sees a fall in GDP and household incomes leading to a decline in consumer confidence, ~~sp~~ disposable income and as a result lesser aggregate demand which means extra employees are no longer needed to cope with the ~~fall~~ demand, and are excess costs to the business and so are relieved of duties to save firms money. Cyclical unemployment. Therefore the recessionary phase would see a fall in incomes (Total for Question 5 = 4 marks) rather than a rise, as this is a main trigger.



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The candidate selects the correct answer for part (a). There is a very detailed response for part (b) with very good use of economic terminology and explanation as to why unemployment rises in a recessionary period, therefore achieving 3 marks for part (b).

Question 6

Very few candidates knew what micro-marketing was and most referred (incorrectly) to the long tail and niche marketing. Those that did know what micro marketing was failed to get full marks as their explanation was too brief and they did not discount other options (which could have gained them 2 more marks). Micro marketing is used by Amazon and Tesco to target customers who have bought previous items by use of individualised emails and discount vouchers. When I shop at Tesco, I regularly receive money off coupons for items such as pet food and baby wipes because I have previously bought these items before as I have 2 cats and 2 messy children! Similarly, I regularly receive personalised emails from Amazon recommending new products based on previous purchases from them (mainly Economics and Business books!). My current recommendations can be seen below from a recent email from Amazon.

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Technique used by large firms
They are able to do this because
they not only sell books but now
other products as well. They are
able to advertise by email with
specific items on each one suited to them by
what they have previously bought

(Total for Question 6 = 4 marks)

This candidate did score 1 mark for the correct answer in part (a) and then did go on to pick up 3 marks by discounting why the other options are incorrect as well as reference to the personalised emails sent to customers based on previous purchases.

Question 7

Most candidates were vague in their definitions and mentioned the economy expanding, less unemployment or were confused with balance of payments. Many scored 1 mark for knowing the measurement was GDP. There were very few candidates who scored 2 marks for this question.

7 What is meant by the term **economic growth**? (Evidence B, line 6).

Economic growth is the rate at which the gross domestic product of a country increases (or decreases) ^{in a fiscal year}. It is measured as a percentage. GDP is the amount a country produces ~~in a~~ per annum.



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This candidate provides a clear and precise definition of economic growth and therefore scores 2 marks. It should be noted that imprecise or vague definitions can be lifted to 2 marks with a valid example.

Section B

This section of the examination paper was based on 2 pieces of evidence. Evidence

A was focused on Japanese quality management in a motorbike factory near Bangalore in Southern India whilst Evidence B was about Indian's current economic outlook. Candidates did not need to know specific information about the TVS motorbike factory or in depth knowledge about India, as a whole as both pieces of evidence gave candidates enough information to apply the economic and business concepts covered in Unit 2b.



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Examiner Comments

Advice on how to improve performance on Section B:

Many examiners commented on the lack of analysis and evaluation on the 8+ marks and felt that time spent on these skills would improve candidates' overall performance. Candidates should be familiar with the command words used in the 2b examination and must provide a balanced response to questions with the command words 'Assess' or 'Evaluate'. Precise use of economic and business terminology will also improve marks as some responses were answered from 'common sense' approach. Well structured responses with good use of terminology will always score highly. The best answers demonstrated that they understood and could use the tool kit. This is the core of the subject and needs to be at the heart of all answers. Too many candidates wrote answers which were vague and did not show any development of knowledge/understanding of the nature of the intricacies of the subject matter. Vital concepts such as demand and supply, elasticity and relevant graphs were a rarity.

Question 8

Many candidates did not read the question properly and simply described aspects of TQM without linking to how TQM can increase productivity. All too often answers were not contextualised to TVS and the ones that did attempt to link to TVS simply copied out parts of the Evidence. Another failing on this question was to clearly identify two ways TQM could increase productivity. Many candidates just explained one way and therefore restricted their mark to 3 out of 6 for this question.

8 Explain **two** ways in which TQM can increase productivity for TVS.

Total quality management ensures that all goods are completed to the highest standard, eradicating the issue of replacing and repairing faulty goods. Two ways in which this can increase productivity for TVS is through involving every person at the company, and not only by giving more chance and reasoning behind spotting faults, but also if workers are involved they will be more motivated and eager to produce the highest results possible. A second way in which TQM will improve productivity for TVS is through the JIT, Just in time stock control method. This means ordering in smaller quantities of stock as and when it is required. This means TVS can utilise special, time and labour assets to their advantage (Total for Question 8 = 6 marks) as well as saving costs on storage space which can be utilised in other areas of the business to greater effect.



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This is a detailed answer which clearly states 2 ways. Contextualised throughout the answer and demonstrates how TQM can improve productivity for TVS therefore scores 6 marks.

Question 9

This question was tackled from many different directions by candidates with the majority only describing how TVS management had changed operations within the business. The question asked for the role of management in achieving change not about the appropriateness of different leadership/management styles. This type of response only scored 2 marks as there was little application or development as to the role of management.

- 9 Explain the role of management in successfully achieving change for a business such as TVS.

The role of the ~~manag~~ management is key to achieving success, as they have to be willing to change the structure and effectively communicate with employees to send a clear message of what the new aims and targets ~~as well~~ are. Also the management need to have a strong relation with the workers as all need to pull together, ~~and~~ ^{to} work hard to change, ~~as~~ ^{As} it can be difficult for some to change life-time work habits and culture. So the management have to be willing to lead from the front and only then will a successful change occur.

(Total for Question 9 = 4 marks)



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Examiner Comments

This candidate did answer the question set and gave a very good description of management and its role in achieving change. There is no real application to any business therefore this restricts the mark to 3.

Question 10

This question required analysis which many candidates failed to do. It was pleasing to see that candidates could clearly understand why inflation might be a problem for a firm such as TVS but then they failed to develop their answer fully in order to access Level 4 marks. Most candidates did identify the impact on the cost of production and the impact on demand due to rising inflation. Better candidates were able to consider the elasticity of the product in their responses.

Inflation could also cause ~~the~~ a rise in TVS's costs. This is because motorbike parts will also cost more as suppliers will pass on their increased costs. This increase in total costs could mean TVS has to increase the price of their motorbikes, which to cover their costs, but this could also cause a fall in their demand. On the other hand, the increase in costs could just mean TVS decides to decrease supply - which causes a fall in revenue.

(Total for Question 10 = 8 marks)



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This candidate did score full marks on this question and this extract shows Reason 2. This example shows that the candidate clearly identifies a possible reason why inflation may be a problem for TVS. The answer is in context and the candidate shows development of the reason with possible consequences for TVS.

Question 11

This was tackled very well by the majority of candidates and many did score 3 marks this question. It was clear that candidates could explain the benefits of JIT to TVS and the better candidates did consider the opportunity cost of storage and having no buffer stocks.

11 Analyse how the introduction of JIT might have benefited TVS.

JIT or just-in-time is when raw materials are only ordered in when they are needed. This will reduce the need for storage which will lead to a reduction in costs. This will lead mean that TVS will be spending less on each product so there will be an increased profit margin. Lower costs could also allow TVS to lower its prices because they have less costs to cover. This will give a competitive advantage over competitors and may lead to increased demand.

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This candidate scored 4 marks for this response. They clearly define JIT and then develop their answer by analysing how TVS could benefit from this type of stock control. The answer is in context (could have been more specific than just mentioning TVS) but does explain how these costs saving could be either used to increase profit margins or that TVS could gain a competitive advantage by lowering their prices.

Question 12

This question required the candidate to 'Assess' the usefulness of market research NOT about the different types of market research. Very few candidates did evaluate the usefulness of using market research when considering expansion and instead focused upon the different types. Market research can be used to reduce uncertainty but it will not fully eradicate the risk in any type of expansion. Candidates needed to also consider the opportunity cost involved as well as other considerations which needed to be taken into account before any expansion was undertaken. A few precise sentences about methods were all that were required and then details of how this has USE to a firm would have accessed the higher levels.

12 Assess the usefulness of market research to a firm such as TVS, when considering further expansion.

Secondary research involves TVS using data that already exists, such as data from their competition, economic data from the government etc. This will be useful to them as it is easy to collect and fairly cheap. If they are looking to expanding overseas, they will need to look at economic data from those countries to decide whether economic conditions there are favourable. They could also carry out primary data using surveys etc, to find out about consumer tastes and to forecast potential demand.

However market research is time consuming and is sometimes expensive, this money could be used elsewhere to improve the current business. The market research may not be useful as it is not always accurate.

In conclusion, market research is important and will be useful for TVS especially as their products are market orientated.



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The first paragraph clearly reaches level 2 by explaining how TVS can use market research when expanding. In the second paragraph the candidate clearly demonstrates the limits to the usefulness of market research therefore gets into level 4 (just!).

Question 13 – Overview

This question demanded detailed evaluation of the likely impact of a rising rupee and rising unemployment upon Indian businesses. In order to access the higher marks, candidates must be prepared to evaluate and they must understand what the command word is asking them to do. This was an evaluative question yet many candidates failed to comprehend this and wrote very good answers without any attempt at evaluation or judgement. This therefore limited the vast majority of candidates to Level 2. Centres do need to ensure that their candidates are fully aware of the command words and what is required for an evaluation question.

Question 13a

Many candidates do not fully understand what is meant by an appreciation of a currency and therefore could not answer this question well. Some were able to consider the impact upon exports and imports which enabled them to score 3+ marks depending upon the quality of the response. Better candidates were able to contextualise their responses and consider the concept of elasticity as to how Indian businesses would be affected by the appreciation of the rupee.

13 Evaluate the likely impact on Indian businesses of:

(a) an appreciation of the rupee.

An appreciation of the rupee will mean that the ⁽⁷⁾ currency is strong against foreign currencies. For Indian businesses that import, this will be beneficial as they are able to buy more for their money from foreign markets; and therefore their costs of production will be lower and they will either be able to charge lower prices, making demand more inelastic, or enjoy higher profits.

However, this will have a negative impact for Indian businesses that are exporting, as Indian products will seem more expensive to foreign markets. A strong rupee will also decrease tourism in India, as it will be more expensive for foreigners to stay there. This will have a negative impact on Indian businesses in the tourism industry e.g. hotels.

In conclusion, it depends if the business is exporting or importing. If they are doing neither then the appreciation of the rupee will ~~only have~~ have no major effect.



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This candidate does start off well with a basic explanation of what is meant by an appreciation of the rupee. The answer is well structured with the candidate showing how both importers and exporters may be affected by the rising rupee. There is good use of tool kit with a contextualised answer to Indian tourism (which many candidates failed to do). The candidate does reach high level 4 because they also appreciate that the exchange rate may not have any impact on some Indian businesses. This candidate did score 7 marks for this response.

Question 13b

This was tackled better than 13a with many candidates able to consider at least two consequences of rising unemployment. Most considered the Indian business would benefit from a wider pool of labour without really considering the wider impact of falling demand due to rising unemployment. Better candidates did consider the positives and negatives of rising unemployment with some also referring to elasticity. More application is needed with the majority of candidates failing to refer to any Indian business and some more concerned with poverty in Indian than answering the question set.

(b) rising unemployment.

(7)
 Rising unemployment will have a negative impact on Indian businesses as less people will have the income to spend on goods and services. The degree to which the ~~business~~ demand will be affected depends on the income elasticity. Inelastic goods, such as strong brand names or habit products are less likely to be affected. This reduced demand will affect ~~demand~~ the business negatively and may force them to close. However, Indian businesses could take advantage of this as there is a large pool of labour available and willing to work for less, they will be able to reduce their costs and make their products cheaper to try to attract consumers. In conclusion, it depends on the nature of the business, and the products they sell.



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This response did achieve high level 4 because it was a balanced answer with good use of tool kit. There was some limited application and this aspect of the response could have been stronger with more direct references to specific types of Indian businesses. The candidate did consider the positives and negatives of

Grade Boundaries

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