



Examiners' Report June 2011

GCE Business 6EB02 01

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Introduction

Overall performance was better than the four previous examination papers with majority of candidates showing a sound grasp of business and economic concepts. Answers suggested that candidates on the whole had been better prepared for this paper than in previous years. 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.

Section A: Supported Multiple Choice Questions

There are a variety of ways to gain marks for part (b) Supported Multiple Choice questions:

1. If responses in part (a) are wrong then the maximum mark available for part (b) is 2 marks.
2. If a candidate does no more than explain distracters in part (b) then a maximum of 2 is awarded.
3. Expect to see at least a definition or explanation for selecting the correct response.
4. Some candidates may only explain why their chosen answer is correct and depending upon the quality/development of this answer, can score 3 marks for part (b).
5. Some candidates briefly explain the correct answer followed by explanations as to why the other options are correct. This method can gain the candidate 3 marks.

Again, it is essential that candidates are taught how to tackle these questions and it is quite evident that some centres do spend time preparing and practicing these types of questions and this will only pay dividends in the examination. It is not sufficient enough to simply state that the other options are incorrect you should explain why the distracters are incorrect.

Question 1

On the whole, this question has been answered correctly for part a (oligopoly) and many candidates managed to gain at least 2 marks for their explanation as to why the Home DIY market is an oligopoly and the features which this type of market structure might have. In order to gain an additional mark, many candidates then explained why the answer monopoly was the incorrect answer either by stating it is one supplier or a legal monopoly (25% market share). It would have been pleasing to see more features of an oligopoly explained – such as high barriers to entry and branding. Very few candidates could give reasons why the answer was not perfectly competitive or monopolistically competitive.

(b) Explain your answer.

(3)

~~Monopoly~~ Oligopoly is a market which is dominated by few big businesses. High barriers to entry are typical for it. A monopoly is a market which is dominated by one company, such as a computer operating system market (Microsoft windows). Perfectly competitive market is an ideal where all products are same, there are no barriers to entry and prices are same.



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Examiner Comments

This response gained 3 marks for part b. We awarded 1 mark for the definition of an oligopoly and additional mark for the reference to 'high barriers to entry'. Another mark was awarded for the description of a monopoly. This candidate does also explain 'perfectly competitive market' as well.



ResultsPlus

Examiner Tip

Try and use the context given in the question to help contextualise your response. Always explain the correct answer first before explaining the distracters.

Question 2

This has been answered well with most candidates selecting the correct answer for part a. Most candidates have managed to gain up to 2 marks by explaining why the distracters are incorrect. There have been some candidates who have thoroughly understood the nature of JIT and TQM and it was pleasing to see use of the context (Nissan) in the part b response.

(b) Explain your answer.

(3)

JIT includes buying in only what is needed to produce a certain quantity of a product at a certain time meaning no stock is held and money is saved in storage space. Products aren't any more likely to be faulty as the strategy includes getting it right first time as there are no spare parts held for repairs. Employee training is just as vital, if not, more so as they will have to produce quickly.

(Total for Question 2 = 4 marks)

When an order comes in to meet the demand as no finished products are held. Holding stock doesn't produce income and storing finished products means money has been spent on production but have not been sold so money may be wasted if they are not sold. JIT reduces this capital tied up as no stock is held.



ResultsPlus

Examiner Comments

This scored 1 mark for part a and 3 marks for part b. This response gained 1 mark for the explanation of JIT and then did go on to explain why there would be a reduction in capital tied up in stock. There is clear understanding of JIT and why the other options are incorrect.

Question 3

This question has also been fairly well tackled. Some candidates have defined Aggregate Demand and then have gone onto explain how an increase in interest rates will encourage saving and therefore lead to a reduction in AD within the economy. There were some very good explanations of why the distracters were incorrect and an awareness of how these would lead to an increase in AD rather than a decrease. There was excellent use of economic and business terminology for this question.

- 3 (a) In 2009, a number of policies were introduced in order to stimulate aggregate demand within the UK economy.

Which **one** of the following policies is **least likely** to increase aggregate demand?

(1)

- A An increase in government spending on public services
- B An increase in interest rates
- C A reduction in income tax ✓
- D A reduction in corporation tax ✓

Answer

B

- (b) Explain your answer.

(3)

Aggregate demand is the total demand in the economy. This increases as people spend more. An increase in interest rates is likely to encourage people to save so ~~will not~~ is less likely to make them spend. Reducing income tax means they take home more of the money they earn as less of it has to be paid as tax, increasing disposable income and spending. Reducing corporation tax is likely to increase aggregate demand as their costs will be cut and could pass this on to the customers through lower prices, a factor that should increase demand.

(Total for Question 3 = 4 marks)



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Examiner Comments

This was an excellent response which gained 1 mark for the definition of AD. The candidate clearly understands and explains why an increase in interest rates would least likely increase AD. They fully explain the distracters rather than just stating that they would lead to an increase in AD.



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Examiner Tip

Make sure you have read the question correctly -whether the question is asking for most likely or least likely. It is very easy to select the incorrect answer if time is not taken at this stage.

Question 4

This question was generally well tackled by most with many candidates able to define what is meant by an exchange rate and/or what is meant by depreciation in the exchange rate gaining 2 marks. Many were able to explain the impact of fluctuations in exchange rates and many candidates gained all 3 marks for explaining the correct answer. Better candidates were able to fully explain exchange rates and why the distracters were incorrect. Lots of SPICED and WPIDEC used to help tackle this question!

- 4 (a) In August 2009, the exchange rate of pound sterling (£) against the US dollar (\$) was £1 = \$1.70. By January 2010, it had depreciated to £1 = \$1.60.

This will result in

(1)

- A US dollars becoming cheaper in terms of pound sterling ✗
- B UK imports from the USA becoming cheaper ✗
- C US dollars becoming dearer in terms of pound sterling ✓
- D UK exports to the USA becoming dearer

Answer



SPICED
WPIDEC

- (b) Explain your answer.

(3)

The exchange rate shows how much currency is worth in another. If the pound has depreciated then it has become weaker which means you will not be able to get as much US dollars for your pound, making it dearer. It also means that UK imports from the USA will become dearer and the Exports to USA would be cheaper.



ResultsPlus Examiner Comments

This gained 1 mark for the definition of exchange rate and 1 mark for the understanding that depreciation means that the currency has become weaker. There is clear understanding of how this impacts upon imports and exports.



ResultsPlus Examiner Tip

If exchange rates give you a headache then use SPICED (strong pound imports cheap exports dear) and WPIDEC (weak pound imports dear exports cheap) to help you remember the impact upon importers and exporters.

Question 5

Many candidates were able to explain what was meant by a centralised structure and the features of this type of organisational structure. Unfortunately there were many candidates who misread the question **for most likely** rather than **least likely**. Again, many candidates used a combination of explaining the correct answer as well as the distracters to gain 3 marks for part b.

5 (a) In 2007, the food retailers in the Co-operative Group (Co-op) became one single business with its headquarters in Manchester.

Having a centralised organisational structure is **least likely** to lead to

(1)

- ☐ senior managers having greater control over the organisation
- ☐ the use of standardised procedures
- ☐ less duplication of functional areas such as purchasing
- ☒ greater empowerment of employees

Answer

D

(b) Explain your answer.

(3)

A centralised organisational structure is one where all the decisions are made at the head office, rather than delegated across the stores. The choice of having a centralised organisation will ~~lead to~~ ^{be most likely} be least likely to lead to greater empowerment of employees as they will make none of the decisions and will ~~make the~~ ^{be at the} bottom of the chain of command.



ResultsPlus Examiner Comments

This response scored 2 marks for part b and was typical of many responses we saw. There was not enough to award 3 marks. We awarded 1 mark for the understanding of what was meant by a centralised structure and 1 mark for the explanation of why there would be less empowerment. There wasn't enough for an additional mark which could have been gained by explaining one of the distracters.



ResultsPlus Examiner Tip

Always explain at least 1 of the distracters in order to gain vital marks for part b. If you are short of time, then just explain 1 rather than 2.

Question 6

A nice question which many candidates were able to contextualise with either the context provided (shirts) or their own examples. Many candidates defined what was meant by a niche market and then went on to explain why there is less competition with at least one of the distracters. Lots of candidates gained full marks for this question.

(b) Explain your answer.

(3)

Niche market is a ^{small} market target individual or small groups of consumer with specific needs and want. In a niche market, Charles Tyrwhitt differentiated its product and specific to meet the special need. Due to the fact that the men's shirt has high quality and unique, ~~less direct~~ competition because of the ~~unique~~ ^{high quality and unique}, Charles Tyrwhitt can charge higher price and the demand will still remain high. Also, because niche market is quite small compare to mass market and the number of consumers are not that much and so less businesses entry to market and branding and ~~the~~ product differentiation become barriers to entry and therefore competition will be less.

(Total for Question 6 = 4 marks)

TOTAL FOR SECTION A: 24 MARKS



ResultsPlus Examiner Comments

This response scored 3 marks for part b. There was good use of the context provided and this candidate clearly understands and explains why there would be less competition. Good use of economic and business terminology throughout the response.



ResultsPlus Examiner Tip

Use the context provided to give examples to show your understanding. Good use of economic and business terminology will always be welcomed!

Question 7

This question has been fairly well done by candidates who have read the question correctly as R&D rather than Market Research. Unfortunately, many candidates gave excellent answers as to why *market research* is important rather than **R&D**. These are two separate business concepts. We were looking for candidates who could explain what was meant by R&D and were also able to link this concept to mobile phones in terms of the market being very dynamic and technology constantly changing. Better candidates were able to develop their answer in order to gain the Analysis mark and were able to bring in the concepts of competitive advantage, innovation and reducing uncertainty to so show why R&D is so important. Unfortunately, this question was answered by many candidates from a 'common sense' approach rather than from an economics and business perspective.

Evidence C

Google challenges iPhone

Internet search giant Google launched its hotly anticipated new mobile phone in a direct challenge to Apple's hugely popular iPhone. The Nexus One, which boasts a highly developed touch screen, will be priced at £328.

(Source: Google challenges iPhone with launch of Nexus One mobile, *The Guardian*, 5 January 2010, Bobbie Johnson)

- 7 Explain why research and development (R & D) is so important in the mobile phone market.

The mobile phone market is very dynamic and tastes and preferences can quickly change. It is very competitive and people always want the latest phone. It is important to do research and development because as soon as something new is launched, consumers are down to that and demand for the older, out-of-date product falls rapidly. Innovation is prompted through R & D and new products are the way forward in the forever changing market. If a business like Google develops new technology, it will gain a competitive advantage over its competitors.

(Total for Question 7 = 4 marks)



ResultsPlus
Examiner Comments

This response did not confuse R&D with market research and was written in context. The response clearly explains why R&D is vital in a dynamic market such as mobile phones. This gained full marks (4 marks).

Question 8

This question has also been fairly well done. Many candidates were able to state the formula for PED (2 marks), calculate the correct answer (1 mark) and then state that the PED was inelastic (1 mark). Very few have just defined PED and we did allow 1 mark for the definition of PED. Candidates who have done this have tended to be the ones who do not know the formula and/or have calculated it incorrectly.

- 8 One estimate is that a 10% reduction in the price of Tesco iPhone contracts would increase demand by 4%. Calculate and comment on the price elasticity of demand in this case.

$$\text{PED} = \frac{\% \text{ change in quantity demanded}}{\% \text{ change in price}}$$

$$= \frac{+4\%}{-10\%} = -0.4$$

This figure of -0.4 shows that Tesco's iPhone contracts are price inelastic. A % change in price results in a smaller % change in quantity demanded, so turnover will decrease. It would harm Tesco to reduce the price by 10%.

(Total for Question 8 = 4 marks)



ResultsPlus Examiner Comments

This gained 4 marks. We awarded 2 marks for the correct PED formula, 1 mark for the calculation and 1 mark for the stating that the PED was inelastic.



ResultsPlus Examiner Tip

Many candidates understood the concept of PED but could not calculate it. Candidates must be able to not only understand the concept but be able to calculate it as well.

Question 9

This was quite an open ended question and we did see a wide range of answers for non-price factors affecting demand. The main ones were advertising, competitors' actions, tastes/fashions and innovative features of a phone. There were 3 marks available per factor and the assessment objectives were 1 Knowledge, 1 Application and 1 Analysis so we marked each factor individually and then added the marks together to get an overall mark out of 6. Many candidates were able to state a factor in context in order to gain the Knowledge and Application marks and then we looked for development of these factors in order to gain the Analysis mark. Many candidates scored at least 4 marks for this question.

- 9 Briefly explain **two** possible non-price factors which may affect the demand for a product such as the Apple iPhone.

Tastes and preferences may ~~un~~ with trends. As they become more popular, an increase in demand may occur as people want to have the 'in' gadget, yet this may deter people from buying an iPhone as everyone has one and they are waiting for the next big thing so they can be the first to buy it.

Promotion and celebrity endorsement may increase demand as more people are made aware of the product through advertising. Celebrity endorsement would associate the product with a certain lifestyle that people would pay high prices to be involved in, thus increasing demand.

(Total for Question 9 = 6 marks)



ResultsPlus Examiners' Comments

This response scored 4 marks - broken down into 2 marks per factor. There was not enough development to gain the analysis mark for the first factor and no real context for the second factor.



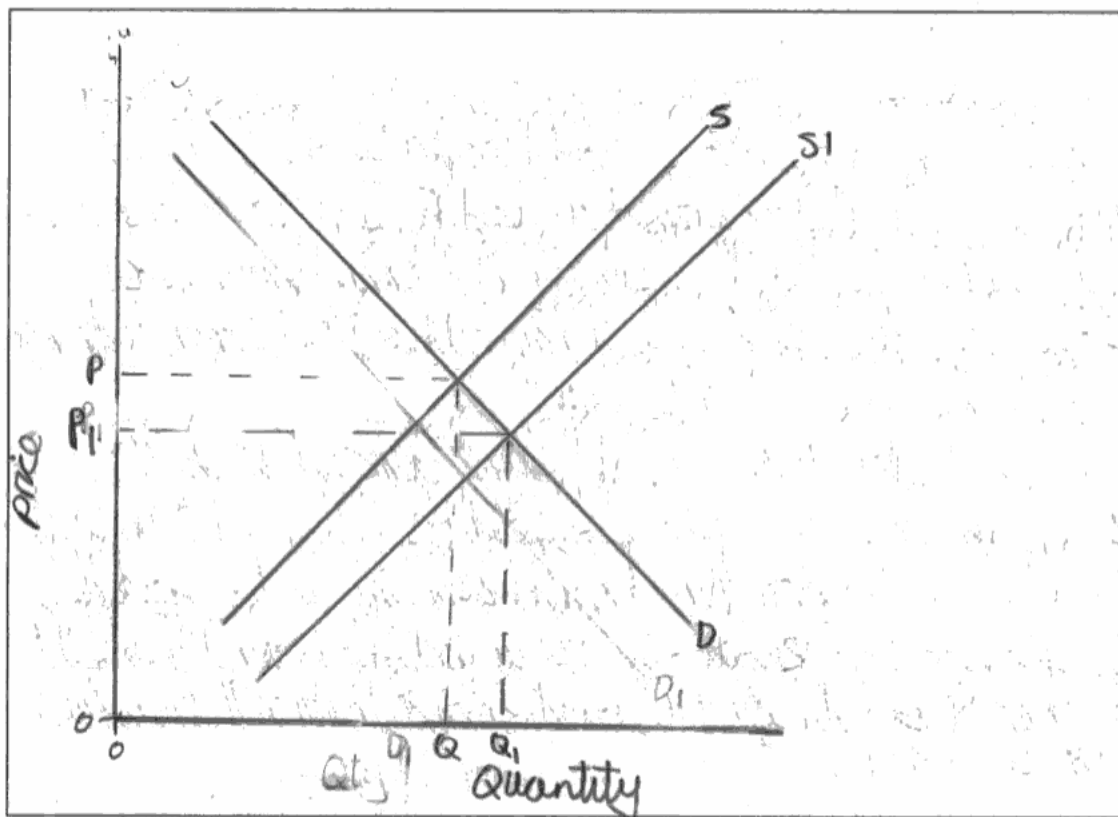
ResultsPlus Examiner Tip

The command words 'Briefly explain' will have Knowledge, Application and Analysis marks so ensure that answers are written in context and fully developed in order to gain the Analysis mark.

Question 10

This required a supply and demand diagram showing an outward (right) shift of the Supply curve. There were 5 marks for the diagram which are listed in the mark scheme with the correct diagram. The written explanation was worth 3 marks - split 1 mark for Application and 2 marks for Analysis. Many candidates have misread the question and have unfortunately shifted the demand curve inwards (left) which is incorrect. Candidates could still gain up to 3 marks if the axis were correctly labelled, if the supply and demand curves are drawn correctly and if an initial equilibrium was shown. This area of the specification is extremely important and will be one of the 'regular' topics examined either in Section A or Section B.

10 Using a fully labelled diagram, illustrate and explain the likely impact of increased competition on the price of Apple iPhone contracts.



A increase in competition would result in more of the iPhone product being supplied at a lower price as competitors compete on price e.g. Orange lower upfront price of 850 iPhone 3G from £99 to £60. This lowers the market equilibrium.



ResultsPlus

Examiner Comments

We awarded full marks (8 marks) for this response. The candidate had drawn the correct diagram (with correct labelling) and their explanation, although brief, was in context and did explain what would happen to the price of contracts.



ResultsPlus

Examiner Tip

Supply and demand diagrams are essential to the course and time spent drawing these will pay dividends. Correct labelling of axes and curves will gain a candidate marks even if the incorrect curve is shifted.

Question 11

The assessment objectives per strategy were Knowledge 1, Application 1, Analysis 1 and Evaluation 2. Most candidates were able to give 2 marketing strategies which a mobile phone business could adopt to try and break into the market. Most used the 4P's - product innovation, pricing strategies, and promotion/advertising as their chosen responses. Many did use two different pricing strategies as their two chosen methods which meant there was a great deal of repetition between the two methods and therefore restricted marks. In addition, many candidates used Destroyer/Predatory pricing which I am not too keen on as this is illegal in the UK. There were other more suitable pricing strategies which could have been used such as skimming and penetration pricing which would have allowed better evaluation rather than simply stating that Predatory pricing is illegal. There were many candidates who ignored the 'Assess' command word and simply described 2 marketing strategies without any real development therefore scoring a maximum of 4 out of 10 marks. In order to get full marks on each strategy, candidates had to really contextualise their responses to the mobile phone market as well as evaluating their chosen strategies. If candidates did not evaluate their marketing strategies then the maximum they could achieve was Level 3 (3 marks per strategy). For **ANY** evaluation marks, candidate's answers **MUST BE IN CONTEXT** i.e. if they evaluate but not in context they are restricted to top Level 3 which in this question was 3 marks per strategy.

11 Critically assess **two** possible marketing strategies a business might adopt in order to enter the market for mobile phone contracts.

Strategy 1

(5)

Following market research and development, a new business may enter the market by differentiating a product so it is different from all the other phones on offer. Innovation will make them stand out as they have the new product which gives them a competitive advantage. This would enable them to charge high prices yet would come with high risk and high start-up costs in research and development as well as production.

Strategy 2

(5)

A new business could enter the market by using Penetrative pricing. This includes charging the lowest prices, following market research into

competitor's prices, which would attract a large percentage of the consumers who wish to have a luxury smart phone but cannot afford the latest phone. Once established, the business may then raise its prices, although this may be unpopular and lose sales and revenue. It may take a long time ~~at~~ for the business to break even using penetrative pricing strategies.

(Total for Question 11 = 10 marks)



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Examiner Comments

This response scored 7 marks with Strategy 1 gaining 3 marks and Strategy 2 gaining 4 marks. Strategy 1 is a classic example of a candidate who does evaluate but there is little or no real context so cannot get into Level 4. If the candidate had given an example of how a phone could have been differentiated then this would have shown real context. Strategy 2 was better and had more development and context so did get into Level 4.



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Examiner Tip

Context is not just about briefly mentioning the name of the business or a brief reference to the product. Context is more than that. Use the Cadbury Test - if you can substitute the name of the business for Cadbury's and it still makes sense, then this means that your answer is NOT in context (unless the market is for chocolate bars!).

Question 12

The assessment objectives were split: Knowledge 1, Application 2, Analysis 1, and Evaluation 3 per stakeholder. Candidates could select any 2 stakeholders and the most popular were Shareholders, Employees and Customers. Many candidates were able to write in context/use the evidence and could explain how each stakeholder would be affected by the merger.

Still, too many candidates are not writing in context and instead offered generic responses which could be applied to any merger.

In order to get into Level 4 there must be an attempt at evaluation – at least an advantage and a disadvantage of how the merger will affect the stakeholder in question. Again, for **ANY** evaluation marks, candidates answers **MUST BE IN CONTEXT** i.e. if they evaluate but the response is not in context then they are restricted to top Level 3 - in this case this will be 4 marks per stakeholder.

It was very pleasing to see that more candidates are now starting to use the Evidence provided which meant that many candidates did enter Level 4 for their evaluations rather than providing a generic evaluation of the impact of a merger. Limited context and development will achieve only 5 marks per stakeholder.

Candidates who do write in context/use the Evidence and provide a balanced evaluation will always score highly on the last question.

12 Evaluate the likely impact on **two** stakeholder groups of the proposed merger between T-Mobile and Orange.

Stakeholder 1

(7)

Stakeholders are all people who are interested in or affected by a business. One stakeholder group is shareholders, whose main priority will be to ensure that the actions a business takes will be in the interest of them receiving dividends ~~off~~ on their investment, as they personally benefit financially from the success of T-Mobile and Orange. It is likely that shareholders will be in support of the proposed merger, which will allow T-Mobile and Orange to gain a dominating share in the mobile phone market, as reduced average costs and increased power and control over pricing and marketing strategies, influence over other businesses and greater economies of scale will likely result in financial increased profits, meaning an improved return of shareholders' investments.

Another stakeholder group is employees, who may worry that the proposed merger will result in redundancies being made because of job duplication within the two businesses. Employees are likely to feel demotivated and suffer from decreased morale if they fear job security, that their concerns are not being valued, or that their employers are not informing them of developments and how they will be affected. Employees may consider searching for work elsewhere and considering other options in expectation of job losses. They may worry that the organisational structure of the business will change and result in changes of working style, old methods being removed that employees were comfortable with and new ones being introduced. Employees may

**ResultsPlus****Examiner Comments**

Both Stakeholders scored 4 marks (total 8 out of 14). This was a typical response seen and was good in explaining the impact upon 2 different stakeholder groups. There was limited context for stakeholder 1 and no evaluation for either stakeholder.

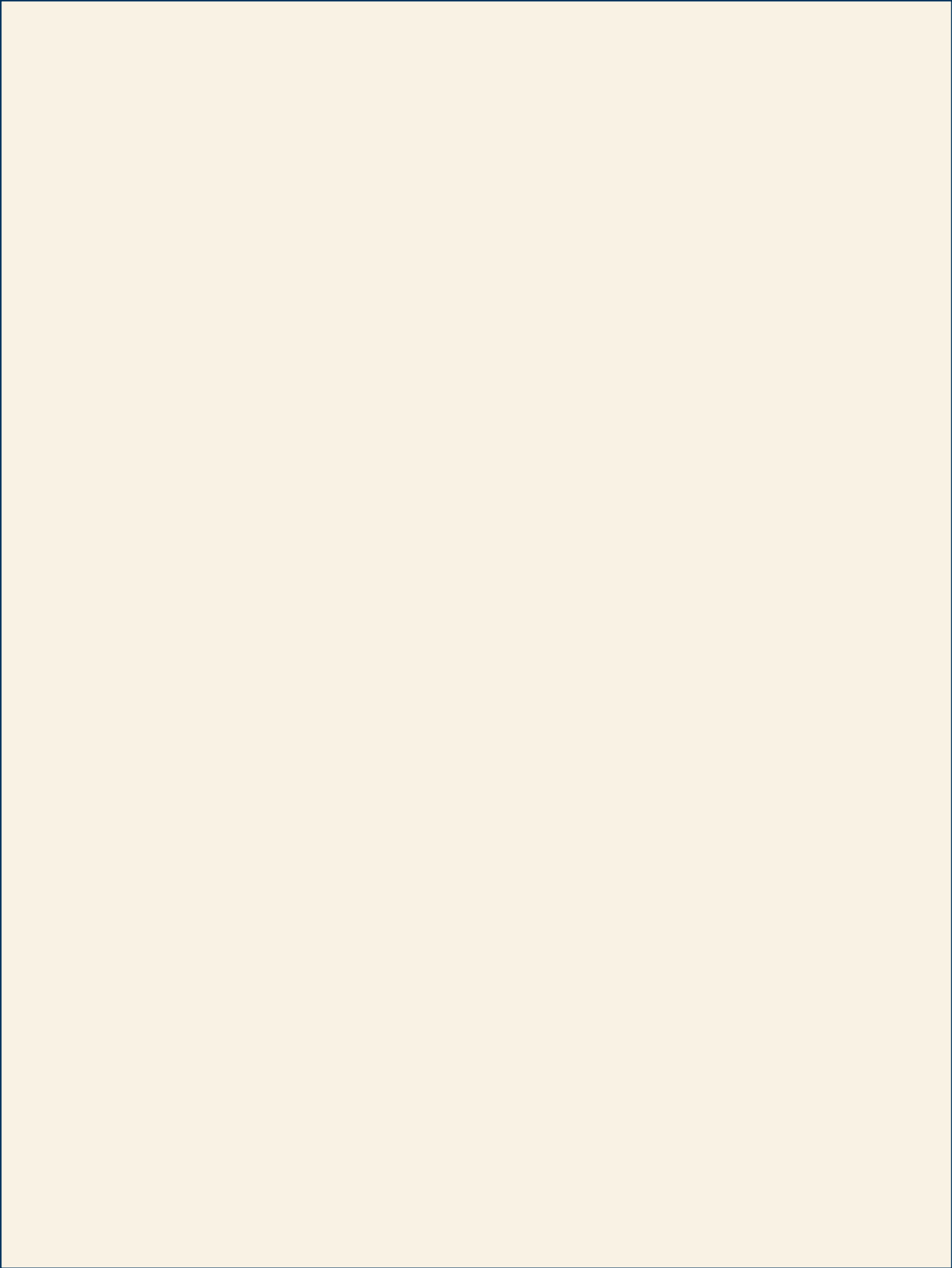
**ResultsPlus****Examiner Tip**

The command word 'Evaluate' will require the candidate to give at least 1 advantage and 1 disadvantage (in context) to enter Level 4. If there is no context then the mark will be restricted to the top of Level 3.

Summary

There has been a huge improvement in the overall standard of the responses seen this summer and examiners are seeing much better responses for both Section A and Section B. In order to continue to improve performance candidates should:

1. Read the SMC carefully in terms of most likely, least likely and except. Many did not spend enough time doing this and consequently misread 'least likely' for 'most likely'.
2. Contextualise responses both in Section A and Section B. This is particularly important for Section B where Level 4 can only be accessed if the response is in context.
3. Pay attention to the command words - Assess and Evaluate are largely ignored and this will restrict marks to Level 3.
4. Use economic and business concepts rather than generic 'common sense' answers.
5. Be able to accurately draw and label a supply and demand diagram. It is still very worrying that many candidates do not know how to correctly label axes and curves.
6. Read and use the Evidence provided - it is there for a reason!
7. Be able to calculate PED and YED.



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