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Examiners' Report January 2011

GCE Economics and Business 6EB03 01

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Introduction

This is the third time that this part of the new Specification has been examined. The exam appears to have worked well, producing a wide range of responses across the board. Able candidates did well and showed considerable ability and insight, often with a pleasing awareness of the subtleties of the real world. By contrast there were other candidates that did not appear to have much practical awareness at all and wrote in a generic style with little consideration of the question's requirements.

A number of candidates weakened their responses by failing to apply the terms and theory they had been taught, preferring instead to use generalities and non-specialist language. At this level candidates really ought to be able to use the correct terminology and apply concepts and theories as necessary. As in the preceding exams there were some candidates who ignored the questions set and produced their own preferred responses. Quality of language was often poor, this was not only evident in the specialist vocabulary of the subject, but often in general English usage. Elsewhere the use of hyperbole did little to enhance the answer. The key is to write succinctly, relevantly and without repetition.

The main general areas where centres could do much more to help their students are in picking up on the command words, understanding evaluation and how to use context. So many good candidates throw marks away because of a failure to heed the command words to assess or evaluate, or they fail to use the context to reinforce their answers. Context is all about the candidate relating their answer to the specific settings of the question. Answers that are textbook perfect but could be about any country/business/MNC lack context and will not reach the higher levels of the mark scheme. One way to see context if a student is not sure, is to try substituting another country/business/MNC in the place of the one used and see if the meaning changes at all. For example, in q7, '*When BAT take over another business they gain valuable knowledge and skills*' is not in context because you could use say, Vodafone or Heineken in place of BAT and it would still be valid as a statement. On the other hand if you saw something like '*When BAT take over the Indonesian tobacco firm they will gain knowledge of how Kretek is produced and access to a market where 93% of all cigarettes are kretek*' that is in context because you could not substitute Vodafone or Heineken for India.

Question 1

Good candidates were able to score well here, showing a clear understanding of why new markets were important in order to maintain or increase sales. Good use was made of concepts such as the saturated market and the product life cycle and linked them to the nature of new and emerging markets. A disappointing number chose to answer their own question about outsourcing production to lower cost locations and so failed to gain marks as the question is specifically about selling products and services.

- 1 Briefly analyse why 'new markets in which to expand and sell products and services' may be important to some companies.

Many developed nations markets are or are close to being saturated, therefore growth is needed elsewhere. New markets also create the opportunity to lengthen the product life cycle. As a result of increased wealth in nations such as the BRIC nations there is opportunity to sell to these nations. These reasons can lower costs and/or increase sales revenue to enable companies to better compete on price terms with rivals and increase their profit despite domestic ~~recession~~ recessionary.



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Examiner Comments

This candidate scored 5 out of 6 marks.

Question 2

Two reasons were needed and marks were awarded for knowledge, application and analysis. In this question that meant 4 marks for each reason with 2 marks for the analysis. Whilst many candidates could identify two reasons, application and full analysis often proved difficult. Nearly all candidates used variations on skilled/young/IT graduate/English speaking labour as a reason. One disappointing aspect was the number of responses that resorted to vague assertions such as 'Vodafone will do well' or 'this gives an advantage' without explaining why, with the use of analysis.

2 Analyse **two** possible reasons why companies such as Vodafone and Microsoft may prefer to outsource to Egypt rather than China.

Outsourcing is a way of shifting a part of the business overseas eg. ~~to a different country~~. Microsoft and Vodafone outsourcing to Egypt. Egypt and China both have skilled labour, but Egypt has an advantage of having 'more than 200,000 graduates who are multilingual'. In China, however, it is hard to find English-speaking labour, and ~~also has~~ ^{so is not} as good in communication skills as Egypt or India. The second reason could be that unlike China, Egypt has a young population of '70 million' - under the age of 25 years. This means unlike China, Egypt has a huge proportion of young people with IT skills who are ready to work for less pay, as compared to other competing countries, which may also include China. Paying less would mean lower costs for companies like Microsoft, leading to larger profits. (Total for Question 2 = 8 marks)



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Examiner Comments

This response was awarded 7 out of 8 marks.

Question 3

Most candidates did reasonably well here and looked at the impact from both a positive and negative point of view, although context was a rare commodity with too many answers tending to the generic. Some students wrote about the impact on Egypt and forgot the second part of the question completely. Therefore it was difficult to find any marks in the response material other than by 'default' type comments relating to the EU's IT businesses. There were also occasions where the responses discussed outsourcing type impacts rather than addressing the question.

3 Assess the likely impact of Egypt's expanding IT industry on European IT businesses.

Egypt's expanding IT industry threatens the European IT businesses as, Egypt has the opportunity to produce and sell goods cheaper than in Europe this gives them a large competitive advantage over its rivals, as they are less cost effective.

Egypt has a large number of skilled workers coming from so many university graduates, this ~~has~~ is a advantage as they have high amounts of skilled labour which is willing to work for a lower price than the European competitors this means firms rather outsource to Egypt than produce more expensively in Europe. This means many job losses for Europe as major firms will want to save costs. Therefore Egypt is a major threat. Also Egypt will supply European firms with less expensive parts than the ones manufactured in Europe itself. Although problems can arise when it comes to communication not only due to language differences but also cultural differences. (Total for Question 3 = 9 marks)

this could be a benefit for European businesses. Also the large numbers of job losses could cause multiplier effects and could even lead to a down turn in ~~econ~~ the economy.



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Examiner Comments

This candidate scored 8 out of 9 marks.

Question 4

Most students were aware of the importance of cheap labour to a company looking to outsource production and were able to discuss other factors that may be more important by way of evaluation. What let many answers down, was that they were highly theoretical and lacked application and use of context. Given that this topic is a key area of the specification students should be able to come up with some examples of factors that have influenced businesses' decisions. Some used examples from past papers such as Dell and L'Oreal, but for the most part students seemed resolutely determined not to mention a single business or country by name! This inability to use context and example is what is stopping many otherwise able students from reaching the highest levels.

Far too many students seem to think that cheap labour was synonymous with exploited and abused labour working in the most appalling sweatshops. Evaluation then consisted of warning the hapless business that high minded consumers would immediately boycott the business and all sales would cease immediately until the company saw the error of its foul and despicable behaviour.

*4 Evaluate the importance of cheap labour costs to a company's decision as to where to outsource production.

Cheap labour costs are an important factor, but a company must also take into consideration the skills of the workers and what their markets want.

The employees must be skilled in IT to work in call centres and computing, which may not be available in cheap labour.

However it's what the customers of these call centres that matter. Recently, many banks outsourced their call centres to India, and people complained about them not understanding what they were saying, or getting information wrong. It has cost these banks a lot of money to bring the call centres back to the UK.

Therefore cheap labour is very important to maximise profit, however businesses should look at other factors before deciding on a location.



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Examiner Comments

This candidate scored 8 out of a possible 12 marks.

Question 5

Those that understood the product life cycle generally used it well with a clear link to the nature of emerging markets and good use of context. Some students thought that cigarettes didn't need a product life cycle as they will never decline and therefore did not address the question properly and so did not earn the possible marks. A large minority appeared not to have heard of the product life cycle.

5 Explain the relevance of the product life cycle to BAT's decision to enter into emerging markets.

Product life cycle shows the stages a product goes through: introduction, growth, maturity, decline. ~~Therefore~~ BAT, which already has Lucky strike, Dunhill and Pall Mall, has been entering several emerging markets of that of Turkey, for instance. The reason behind this could be that when BAT sees its product has reached the maturity level and may soon have a lower demand, it enters new emerging markets to target a wider ~~its~~ customer range and to increase the demand. It has bought the Turkish state tobacco company, so that if one product loses its demand and reaches the decline level, it has other products to make profits from. (Total for Question 5 = 6 marks)



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Examiner Comments

This candidate scored full marks

Question 6

This was probably the least well answered question on the paper. On the positive side most did understand the meaning of ethical behaviour but not many successfully explained the trade-off, and conflict with, profitability.

- 6 Analyse why there might be a conflict between ethical behaviour and profitability in the cigarette industry.

The cigarette industry is based on selling a product that has been proven to harm health. To do this is judged morally wrong, yet the companies are created to make profits for its investors and not follow a strict corporate social responsibility that would lead to their sales falling. In order to maximise sales they market to young people, getting them addicted for life. This type of advertising maximises sales revenue and so maximises potential profit, allow large dividends that are demanded by its investors. However, many people see encouraging people to start a habit that could kill them as the equivalent to murder and ignoring their ^{social} responsibilities as an MNC. However, a company may feel it is forced by its investors to do it in order to remain profitable. Furthermore, it does not violate laws so they are not forced to face up to their CSR.



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Examiner Comments

This candidate scored full marks

Question 7

Students made two basic errors here, they either forgot to evaluate and only saw the positive side of mergers and takeovers, or they failed to give any context in spite of all the available information on offer in the evidence. Sometimes they managed both - a one sided generic answer! Better candidates gratefully gained good marks on what was really a very straightforward question.

7 Assess the likely benefits for BAT of expanding by mergers and takeovers.

likely benefits for BAT of expanding by merger and takeovers are quite high. First of all BAT has advantage in terms of economies of scale, as they operate in larger scale, so prices can be lower and demand higher. As well BAT has new experts and skilled labour who can increase quality of the product. Due to that company can use quality of the product as comparative advantage and increase prices as cigarettes are price-inelastic product. As well mergers and takeovers spread of the risk of failure, if one product fails, another can help to business stay healthy. However there are No of down-turn like decision of profit rather than re-investing to business, misunderstanding in terms of objectives and managers styles of work and usual question "who is main". All these factors can collapse business and lead to demerging and lack of economies of scale. So in short term it can be quite complicated to operate quickly and easily but in long term it can bring ^{high} rewards. (Total for Question 7 = 8 marks)



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Examiner Comments

This candidate scored full marks.

Question 8

As in the previous two papers this question was the stumbling block for many students. As before, it was not from lack of knowledge but due to a failure to evaluate. As 5 out of the 10 marks were awarded for evaluation, this limited many students to half marks at best. By contrast, those that did make use of the examples in the evidence, or more pleasingly, gave evidence of wider reading and knowledge gained good marks, often showing a keen awareness of the arguments backed up by relevant example.

8 Evaluate the extent to which the activities of multinationals such as BAT or Freport can be controlled.

There are only limited controls and legislative power such companies depending on which country they are operating in some more developed countries could place sanctions or such corporations yet other poorer nations who maybe in need of the possible income these firms could bring, will let them multinationals like these have more freedom within their countries.

A recent example would be that of the response of the United States Government to the BP oil spill in the Gulf of Mexico. The U.S. sued the company for damages to state wildlife and residential areas all around the affected area. To make a point also in the U.S. was BP was always referred to as British Petroleum as to in a way make a point and lay blame on the whole less than was.

BP was forced to stop drilling immediately and pay billions in damages to residents and to the government itself. This is an example of the control that can be placed on such corporations.

(Total for Question 8 = 10 marks)



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Examiner Comments

This response scored 8 out of 10 marks.

Question 9

Again as in previous papers this final question is deliberately designed to be as open as possible and to give students the chance to show their skills and understanding and bring in a wide range of ideas and examples. Unfortunately many treated this as a textbook exercise and ignored the context completely, under the mark scheme this limited them to 7 marks maximum. Their answers, although technically correct, could just as easily have referred to France, Italy or Brazil, they could have been about any economy that receives FDI. Those that did discuss Indonesia or used examples from similar countries/economies and evaluated their ideas were duly rewarded.

*9 Evaluate the impact of multinationals on the economic development of countries such as Indonesia.

(15)

Multinationals are firms which have are based in more than one country.

For developing countries it is often the best thing if multinationals are willing to invest. FDI means that unemployment will become less and people will get out of poverty by earning their own money. It is also related to economic development and improves the infrastructure which includes not only transportation but also ~~set~~ schools which educate the young and future workforce. Indonesia will therefore benefit from an investment of BAT of £302 million.

However, it is also often discussed that countries are stripped off their assets and goods and whilst giving away the raw materials and resources they have they are losing out. Although they might benefit from these investments in the short term, as soon as the economic growth has reached a point at which they can support themselves they will have hardly any possibilities of trade trading with other countries. This is the result of giving away the resources they had and selling valuable land and businesses.

As a conclusion, countries like Indonesia clearly benefit in the short-term as the living standards

increase due to employment of multinationals.
However, in the long-term they will lose out and
it will be very difficult for them to earn back what
they have lost on goods, resources and time working
for hardly any pay.

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Examiner Comments

This candidate scored ten out of a possible 15 marks

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