

# ResultsPlus

## Examiners' Report January 2010

### GCE Economics 6EB04

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## **General Comments**

Pre-release material provides a focus to teach to and enables candidates to enter the examination room better prepared. This was indeed borne out by candidate performance on this paper and clearly very good use had been made of the pre-release in the classroom. Teachers and candidates are to be congratulated. The UK and European regulatory framework is indeed a broad field, but candidates made excellent use of the pitch.

The theme this year certainly proved to be one that candidates could readily identify with. A significant amount of media attention was given to the topic over the Christmas period and indeed initiatives were introduced by the Scottish parliament. The majority had some familiarity with this and used it to good effect. Good toolkit was seen. Several synoptic elements were tested where appropriate. Nonetheless, the paper discriminated well with a maximum raw mark of 74 and minimum of 8.

Question 1



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Examiner Tip

On definition questions, always give a brief example if you are less than certain to show the examiner you really do understand it. If the question refers you to a piece of evidence, use it.



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Examiner Comments

Good Answer scoring 2 marks

1 What is meant by the term 'buyer power' (see Additional Evidence J, line 5)?

The term buyer power refers to the ability of a business such as Punch Taverns to decide more freely the terms on which they obtain alcohol from brewers, allowing them to argue or agree on a price that is right for them or they are the main customers of brewers and so need to be kept happy.



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Examiner Comments

Poor answer scoring 0 marks (ignores evidence and out of context)

1 What is meant by the term 'buyer power' (see Additional Evidence J, line 5)?

This will mean in relation to punch tavern what the consumer will want to buy and what they think is more desirable.

## Question 2

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## Examiner Tip

On definition questions, avoid simply twisting the words in the question

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## Examiner Comments

Good Answer scoring 2 marks

2 What is meant by the term 'competitive prices' (see Additional Evidence J, line 9)?

Within a market with high competition, firms use pricing strategies depending on the situation. Competitive pricing is when competitors lower their price of their product to draw in more consumers and gain a higher market share, undercutting their rivals. This type of strategy will mean you may have to lower your profit margin depending on whether you can take advantage of economies of scale.

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## Examiner Comments

Weak answer scoring 0 marks (candidate possibly understands, but fails to explain clearly).

2 What is meant by the term 'competitive prices' (see Additional Evidence J, line 9)?

It is the pricing strategy based on competitors. Thus firms offering competitive prices can compete effectively in terms of price which influences the firm's profitability.

## Question 3

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## Examiner Tip

Examiners never ask the same question twice in the same paper. There were two valid approaches here, the first relating to the significant buyer power the pubcos have over the breweries, the second relating to the lack of buyer power of tenants due to the practice of tying.

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## Examiner Comments

Good Answer scoring 4 marks

**3** Explain the impact of buyer power on pubcos.

~~Buyer Pub~~ Buyer Pubcos have the power over brewers to decide how much they want to buy the supply from the brewers. Therefore the brewers have little choice but to sell at that price because the brewers know that these companies will supply a large amount and they will still get a large profit. The pubcos will have increased profits because they have reduced costs. Therefore they can expand the company or pay shareholders.

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Examiner Comments

Weak answer scoring 0 (candidate confuses "brewer" and "tenant").

**3 Explain the impact of buyer power on pubcos.**

~~Pubcos~~ Buyer power has a substantial impact on the pubcos. The pubcos offer tied-agreements to brewers which increases the pubcos revenue greatly, as brewers are required to purchase the exclusive beer for exorbitant prices (up to three times the market price). The pubcos generated profits ~~to~~ varied from +17% to +28%.

If the pubcos produce isn't selling due to uncompetitive prices, the brewers are still required to pay to the pubcos, so the brewers lose profit & business whereas the pubcos generate increased profit.

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Examiner Comments

Answer with just some merit for 1 mark, but thinks buyer power is about consumers

3 Explain the impact of buyer power on pubcos.

Buyer power with effectively mean that pubcos will have to provide attractive prices in comparison to ~~at~~ other market-share holders in the alcohol industry. Pubcos <sup>tenants</sup> are restricted however, from choosing the best or cheaper alternative brewer as they are tied to purchasing alcohol supplies from the brewers that own the pub they lease. In the long-term, buyer power will result in less sales for pubcos as consumers will seek ~~out~~ out alternative suppliers. The reason why pubcos will suffer in a negative way, is because the wholesale price available to it's pub tenants is "three times, more than the market wholesale ~~pre~~ price".




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Examiner Comments

Answer with no merit, candidate completely fails to use the evidence.

3 Explain the impact of buyer power on pubcos.

Buyer power could have a negative impact on pubcos. This is because, although their stock may be up for sale, it may not get sold. This means they will have a high level of wastage and their forecasts may fail.

However, it may see an increase in sales of their goods meaning it could have a positive impact.


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Examiner Comments

Excellent answer, despite being brief, using both approaches for 4 marks.

3 Explain the impact of buyer power on pubcos.

They buyer power pubcos generate allows them to obtain alcohol for a cheaper price and sell it onto their various tenants at a solely inflated price since the tenants have no choice but to buy from them due to some restrictive practices put in place. This buyer power on pubcos allows them to generate vast profits whilst the people who are tied to their business running the pubs lose out in the long term.

## Question 4



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Examiner Comments

Good answer for 5 marks

4 Briefly explain **two** externalities of alcoholic drinks consumption.

There are negative and positive externalities of alcoholic consumption. The first positive externality being that, alcohol is a good product for bringing people together to socialise and to relax. However, it can be argued that the negative externalities far out-weigh the positives. These alcohol negative externalities are immediate and often being violence, anti-social behaviour and a large risk factor to the long-term health of consumers. Alcohol is a de-merit good that is often over-consumed. It is bad for us.



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Examiner Comments

Slightly weaker as no real context (fails to use evidence). Still worth 4 marks

4 Briefly explain **two** externalities of alcoholic drinks consumption.

An externality reflects the side of <sup>product</sup> production ~~that~~ <sup>production</sup> which can either be positive or negative.

Positive meaning that the social benefit will be greater than the private benefit, i.e. in the <sup>alcohol</sup> ~~alcohol~~ market people will be allowed to socialise with each other.

Negative externalities would be when the when the social cost would exceed the private cost. i.e. <sup>the public</sup> ~~cost~~ having to pay more tax to deal with people that have alcohol poisoning. The government can control these by passing laws and regulations.

## Question 5



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Examiner Tip

The command word examine usually indicates the need for some element of evaluation. This was rarely seen in responses to this question. The likely consequences were that Punch and Enterprise would use their market power against the consumer interest resulting in higher prices and less choice. Possibility of a cartel or tacit agreement. This could also result in more tenancy failures, but might not be sustainable in a recession. Weaker candidates assumed a merger.



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Examiner Comments

Good one sided answer for 7 marks.

Punch and Enterprise, the two leading pub companies, together own more than a quarter of Britain's 56,000 pubs.

5 Examine the likely consequences of this combined market share for the UK pub industry.

The large share of the market means that these companies would be able to price their products at a lower price, increasing demand. Predatory pricing and other anti-competitive practices may however be used to achieve this price drop. ~~Smaller~~ Pubs would not be able to lower prices to meet the punch or Enterprise prices as they do not share the same economies of scale or have such a large market share, so costs will be too high to lower prices, which can force small pubs out of business. Smaller pubs will find it hard to compete on other aspects, such as the bigger advertising budgets the large companies have at their disposal.

The pub industry may have to use non-price methods of competition such as innovation to reduce market share or to prevent from going out of business. Other pubs will receive less of the possible market revenue which again can lead to closing and high barriers to entry for firms <sup>wishing</sup> to compete in the pub industry.

To summarise, the increased market share will mean that the two large firms may drop prices to beat off competition, leading to less competition and possibly in the long run, higher prices of market share increases.

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Examiner Comments

Some valid points, but fails to connect with UK pub industry for 3 marks.

Punch and Enterprise, the two leading pub companies, together own more than a quarter of Britain's 56,000 pubs.

- 5 Examine the likely consequences of this combined market share for the UK pub industry.

This combined market share for the UK pub industry can lead to a cartel by the two leading pub companies. This means that they will be able to save money on advertising and instead apply a restricted practice to the alcohol market. By doing so, they will effectively eliminate price competition and therefore other market share holders. Once these two have a monopolistic power over the market, consumers will be left, ~~to~~ with no <sup>other</sup> choice but to buy from Punch and Enterprise. Once this happens, the market would have failed. The buyer power would no longer be available. Evidence J shows that pubs only want to maximise profits no matter what.

## Question 6



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## Examiner Tip

To score well here, it was necessary to identify the relative price inelasticity of alcohol. The evidence gave some figures which meant a calculation was needed to support, rather than a bald statement.



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## Examiner Comments

Good answer for 7 marks.

6 Using this and other evidence, to what extent do you agree with this statement?

Alcohol is quite an in-elastic product. By increasing the level of "taxation and pricing of alcoholic beverages", the government will see a less than proportionated decrease in the demand for alcohol in comparison the the increased prices and taxes. Suppliers of alcohol will always find a way to reduce their costs and there maintain the same level of out-put. Apart from increasing taxation on alcohol, the goverment could also look at improving the legislations and regulation that govern the consumption of alcoholic beverages. 'Evidence E' suggests that, despite high pubcas prices, supermarkets are another supplier that will reduce the effect on consumers consumption, even if taxation is high aswell as price. Line 15 of 'Evidence E' shows how low the price of alcohol supplied bey supermarkets really is. This will reduce the efficiency of any price based changes the government can make as supermarkets are there with cheap ~~an~~ alternative beers. Overall the increase of taxation and price will reduce consumption and raise a considerable tax revenue, as stated in Evidence E, lines 5 to 9. (Total for Question 6 = 8 marks)



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Examiner Comments

Weaker answer for 3 marks

Taxation and pricing of alcoholic beverages are the most effective methods for reducing alcohol misuse and its consequences. (Evidence E)

6 Using this and other evidence, to what extent do you agree with this statement?

This is a valiant effort of the government as it would make the consumer think if they could afford to buy the drink and if they couldn't then it would then prevent them from spending too much on alcohol which could then lead to minimising the affect.

However, consumers independent pubs would argue that they couldn't afford to increase prices like they do in New Zealand or Norway as they could risk losing customers, and that, through economies of scale big pub chains would benefit as they could afford the reducing as they could cover the costs.

On the other hand, they could from from the article understand change the laws on alcohol promotion which could then limit misuse from happy hour promotions.

In conclusion as tax affects the government, the government would have to decide this as they could risk losing jobs which could then be reflected in the country's GDP.

## Question 7a



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Examiner Tip

This question was very well answered. The marks in Section B come from Analysis (using the evidence to support arguments) and Evaluation (pros & cons plus a supported conclusion).



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Examiner Comments

Much irrelevance and inaccurate use of data 5 marks

\*7 (a) Assess the case for taxpayers' money being spent on initiatives such as free flip flops, lollipops and bubble blowers.

(20)

The case for taxpayers' money being spent on initiative such as free flip flops, lollipops and bubble blowers, should not be ~~(carried th)~~ allowed as this is a sign of the Government accepting defeat. Instead of wasting taxpayers' money as expressed in line 13 and 14 of Evidence G, by the "Tax Payers' Alliance". The Government should focus all of their time on enforcing better alcohol consumption legislations and regulations. ~~(It's true)~~ After-all, prevention is better than cure. To me this initiative to prevent harm to drunk alcohol consumers is more of a cure ~~that~~ and last-minute resolution to a system and market that has too much freedom. Evidence E on line 28, suggest that the government's proposal to "restrict happy hours or price base promotions - women' drink for free' promotions" should be ended.

These are the cause of the initiative to "hand-out free flip-flops". This scheme would ~~B~~ prove to be a waste of money, police time and resources. I think that the government should reduce the freedom suppliers... .. and consumers have instead of using tax-payer money for such (initiate) initiatives. In the long run, this use of money and (go) government intervention might lead to a ~~no~~ Government failure. The Government should not contribute so much in a free market like that of the alcohol industry.

Evidence B, shows that the Government can put in place effective policies that will help reduce alcohol abuse and alcohol related fatalities. Line one of Evidence B shows that "British drinkers have consumed less alcohol since the Licensing Act was updated in 2005", this being a good initiative as compared to that of offering "free flip-flops" and the like. On the other hand, the "flip-flops" initiative is effective in the case of a failing market. It helps reduce the otherwise nuisance behaviour and health risk of alcohol consumers adding to negative externalities. Another way in which the Government could raise money, instead of waste tax-payers' money is by increasing the excise duty rates in the UK alcohol market. Evidence H, shows that, there is a direct correlation between the excise duty rate and the revenue generated from alcoholic drink in UK. This would then <sup>help</sup> reduce the level of demand as the price would have gone up. Solving the issue of health ~~risk~~ towards consumers.




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Examiner Comments

Thinner answer for 15

\*7 (a) Assess the case for taxpayers' money being spent on initiatives such as free flip flops, lollipops and bubble blowers.

(20)

The case for the pro-side of initiatives such as free flip flops and bubble blowers, could be that the taxpayers are able to have a quiet nights sleep, without large numbers of women staggering home at early hours of the morning disrupting the local community. You could say that the reward for introducing these ideas and paying for them through taxes, results in those who live near the clubs, being able to sleep peacefully. This also reduces the likely-hood of these women appearing vulnerable to sexual-assault, as they won't appear as drunk, thus not targeted, which in turn most taxpayers won't mind if it means their wives, sisters or mothers return home safely.

Another good thing about the initiatives, such as the bubble blowers, are that it reduces a negative externality of the club-scene, which is violence, and if it increases the reduction of vandalism or wasting police time over settling domestic disturbances, etc, then I think the initiatives would have appeared to work.

On the against side of the ~~initiatives~~ initiatives the taxpayers could argue that they do not live around these affected areas such

as Bolton and Trogan, and do not see why their money is being spent on something that will not benefit from.

Another element that the taxpayers may be angry about is the amount of police time that could potentially be wasted on such things as handing out flip flops. They may look at it and think it's their fault they got themselves into that state and why should we pay to get them out of it.

This point is backed up by Matthew Elliot, Chief Executive of the Taxpayers Alliance. 'This is an idiotic waste of ~~the~~ money. They want police to fight crime.'

When weighing up the points it all depends on your personal opinion of drunk behaviour, which will split the taxpayers views on whether they are willing to pay for the initiatives or not, but it does have long term promise, as it is an opportunity to make a real difference in relation to alcohol related harm and disorder, which I'm sure anybody will agree is a good thing for the country and economy on a whole.

## Question 7b


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 Examiner Comments

An excellent answer, well evaluated. 28 marks

(b) Evaluate the case for government regulation of promotions as a means of reducing the social costs of alcohol consumption.

(30)

The social costs of alcohol consumption are the negative externalities plus the private costs to businesses. Government regulation of promotion is one way of dealing with these costs.

Promotions on alcoholic drink provide a means to initially entice potential consumers out of their homes if they spot a good deal and then subsequently allow them to over consume the product and buy more whilst they are at the pub, or stock up for the future if they are buying from a supermarket. Regulation of these by the government will have some impact on how much and how often people buy drinks and will therefore decrease the social costs we face from alcohol misuse. Evidence E suggests restricting the way alcohol is sold, restricting happy hours and restraining from displaying alcohol by the checkout, if the government were to take the step of making this mandatory then we would see consumption and therefore social costs fall.

From a business perspective it is a counter-productive idea in a time when making sure that people are spending money is imperative. With no promotions and deals there would be no way that pubs could compete with supermarket forces, this would lead to a decline in the pub industry and would have a negative impact on society as many jobs as well as a traditional industry would be lost. The only solution would be for the government to make some very minor regulations or to impose them only on supermarkets such as Asda (Evidence F) who have the ability to sell beer cheaper than water.

Taxation, licensing laws and excise duties have to be seen by the government as further ways to reduce the demand for alcohol consumption and therefore the social costs by increasing the price the consumer has to pay for their drinks. Evidence has shown that British people have consumed less since the licensing act of 2003, there is also the added benefit of staggered closing times, leading to less suicides and abuse and easier to control streets, wasting less police and hospital time and therefore reducing social costs.

Again, businesses will be affected by a price rise, their drinks will be in less demand and we will see profit margins reduced. When the alcohol industry is such a vital and traditional part of the UK economy it makes little sense for the government, who has a responsibility to look after businesses as well as consumers, to be using policies to reduce the amount of revenue they generate. It would be more appropriate for the government to stress the responsibility the businesses have to keep the public safe and sound rather than abusing their position.

Overall regulation of promotions is a suitable method for reducing the social costs of alcohol consumption, however to be fully effective it needs to be used in unison with tax and licensing laws which will aim to reduce demand and help promote moderate drinking. It is time the government intervened to show businesses like Asda that they have the utmost responsibility of protecting the British consumer both financially and physically and that they cannot continue to sell alcohol in this irresponsible and unthinking manner.


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Examiner Comments

Largely unsupported argument and misses point. 7 marks

(b) Evaluate the case for government regulation of promotions as a means of reducing the social costs of alcohol consumption.

(30)

Social costs can be defined as the private costs added together with the external costs. The government would ~~wants~~ want to reduce the social costs of alcohol as it limited the amount of money taken out of society. The government wouldn't want to stop promotions of alcohol as they ~~also~~ realise that the alcohol industry employs a lot of people.

Government should regulate promotion as it would show the overconsumption of alcohol being socially acceptable which could then lead to negative externalities occurring, which is the negative sides of production ~~costs~~ calculated by the social costs exceeding the private costs.

The government already has guidelines, which are outlined in evidence under 'Alcohol misuse and supermarkets' sale promotions'. These help to restrict the promotion on alcohol and how and when it is sold. Although what the government ~~was~~ could fail to see that most people will be attracted to the offers such as happy

hours as consumers will more likely see as being beneficial to them as they can buy more for less. Which would seem better off for them as a normal drink ~~could~~ alcoholic drink could seem to be too expensive.

However, smaller more independent pubs and bars would see the regulation of promotions outlined by the government would be a disadvantage to them. As they may rely on promotions such as 'happy hours' to bring in more consumers to dispose of their disposable income. Also with this point I think that the regulation on promotions would be at a benefit to large pubco's for example like the sports as their economies of scale they would be able to deal with the costs.

From the evidence ~~on~~ new government proposals would mean to 'train staff to recognise underage or drunk customers and refuse to sell them alcohol' this can be said to be a good measure by the government as they can be said to be internalising the ~~cost~~ negative externality. Also refusing to sell alcohol to drunk customers would help to minimise the social cost. The social cost in this would mainly be towards the NHS which as stated in evidence D is at 25.1 billion per year. ~~Costs~~ By ~~doing~~ By doing this the government is ~~able~~ helping to cut the tax bill to society which could then be described as a social benefit.

Overall, I think that by controlling promotions would be good as it would help to control the social costs. However, on the other hand the government could also use education to control this, but would have to be done at an early age. Also the correspondent's argument would be that it could increase tax but surely it would a good price to pay to stop the habit and keep doctors + nurses to treat people who need help rather than people who have an addicting habit.

Overall I think that the government is doing the best thing but it will only be rewarded if the rules on promotions are properly enforced, and they overall affect the minority not the majority of consumers

### Grade Boundaries

Paper No.	A	B	C	D	E
6EB04	54	48	43	38	33





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