

Mark Scheme (Results)

Summer 2015

Economics and Business 6EB04/01

Unit 4B The Wider Economic
Environment and Business

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General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

Question Number	Question	
1.	What is meant by the term market regulation (see Evidence J, line 4)?	
	Answer	Marks
	<p>Knowledge/understanding up to 2 marks: A valid definition of regulation e.g. The application of rules or laws (1 mark) to promote a desired outcome/to prevent market failure. (1 mark).</p> <p>Note: 1 mark for partial or vague definition (but a valid example such as ensuring fair competition in the gas/electricity/energy market or minimum prices (price floors) in gas/electricity/energy market lifts to 2 marks).</p>	1-2

Question Number	Question	
2.	What is meant by the term climate change (see Evidence J, line 12)?	
	Answer	Mark
	<p>Knowledge up to 2 marks: A valid definition of climate change e.g. theory that changes in the earth's weather, including changes in temperature/wind patterns and/or rainfall (1 mark) are being caused by the increase of greenhouse gases/CO₂/human economic activity (1 mark).</p> <p>Note: 1 mark for partial/vague definition or just an example such as flooding/drought</p>	1-2

Question Number	Question	
3.	Explain one possible reason why energy companies charge higher prices to consumers with prepayment meters.	
	Answer	Marks
	<p>Knowledge 1, Application 1, Analysis 2</p> <p>Knowledge valid reason for higher prices e.g. recovery of additional costs or increase profits/guarantee of revenue Application Prepayment meters are mainly used when a customer fails a credit check or has a history of poor payment (Evidence 1) (1 mark) OR Energy firms have to pay for installation of pre-payment meters and the management of the payment system (1 mark) Analysis: up to 2 marks for giving a reason, cause or consequence EG Prepayment customers are likely to top up frequently meaning a large number of Paypoint transactions (1 mark) which the supplier will be charged for (1 mark). Customers may already be in debt (1 mark) so energy companies reduce risk by demanding pre-payment/in advance at a higher amount (1 mark) Customers tend to be relatively low users (1 mark) and as with all other customers they pay a higher price for the first unit of energy they consume (1 mark)</p>	<p>1</p> <p>1</p> <p>1-2</p> <p>Total (4 marks)</p>

Question Number	Question	
4.	Explain one reason why the Department for Work and Pensions makes cold weather payments to vulnerable people.	
	Answer	Mark
	<p>Knowledge 1, Application 1, Analysis 2</p> <p>Knowledge and understanding: 1 mark Likely reasons e.g. Vulnerable people may have (more) difficulty meeting bills when temperatures are low (1 mark). OR Different to winter fuel payments which are not linked to temperature (1 mark) OR Aimed at people in relative poverty (1 mark)</p> <p>Application: 1 mark (Evidence H) Some reference to the data or to own research: e.g. Cold weather increases the use of heating more income required to pay for the energy(1 mark) OR Eligibility is for pensioners and unemployed (1 mark) OR Cold weather payments are linked to temperature (below zero for 7 consecutive days) (1 mark) OR cold weather payments £25 per week (1 Mark)</p> <p>Analysis: up to 2 marks for giving a reason, cause or consequence EG e.g. Consumers now have the means to pay for the additional gas (1 mark) that may reduce number of low income/vulnerable people getting into further debt (1 mark). The payment may reduce social costs (1 mark) such as the cost to NHS of treating illnesses caused by cold weather (1 mark) The payment may reduce social costs of the “eat or heat” dilemma (1 mark) and the costs to NHS of treating illnesses caused by malnutrition or hunger (1 mark) The payment redistributes income (1 mark) which may help to reduce poverty/inequality (1 mark)</p>	<p>1</p> <p>1</p> <p>1-2</p> <p>Total (4 marks)</p>

Question Number	Question	
5.	Analyse two likely implications of gas rationing for business users.	
	Answer	Mark <i>per implication</i>
	<p>Knowledge 2, Application 2, Analysis 4</p> <p>Knowledge and understanding: 1 mark</p> <p>Gas rationing is the limiting of supply to a pre-determined number of units per business (1 mark)</p> <p>Business activity will stop/interrupted/lower output (1 mark)</p> <p>Increased energy costs (1 mark)</p> <p>Application: 1 mark for application for each implication e.g.</p> <p>Offices/ shops/ factories may have to close temporarily if no power (1 mark)</p> <p>Prices of gas and/or electricity already rising and rationing likely to further increase prices (1 mark)</p> <p>Offices/shops/factories may be forced to work a shorter week (1 mark)</p> <p>Firms may be forced to reduce pay for employees (1 mark)</p> <p>Analysis: up to 2 marks per implication for giving a reason, cause or consequence EG</p> <p>Businesses will lose revenue while unable to operate/produce (1 mark) and therefore may have to lay off workers/ reduce hours (1 mark).</p> <p>Increased costs will impact negatively on profits (1 mark) that may force some businesses to permanently cease trading/ fail to invest (1 mark).</p> <p>The impact will depend upon the energy intensity of the industry (1 mark) glass manufacturers would face the cost of temporary shut-down (1 mark)</p> <p>Reduce international competitiveness of UK firms (1 mark) reducing exports. (1 mark)</p> <p>Reduced incomes for unemployed/underemployed (1 mark) may reduce revenue for businesses. (1 mark)</p>	<p>1</p> <p>1</p> <p>1-2</p> <p>Total 4 marks x 2 = 8 marks</p>

	Lower business revenues/profits may reduce investment (1 mark) and decrease business efficiency/reduce improvements in products(1 mark)	
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Question Number	Question		
6.	Assess the view that the high profits made by energy companies benefit the UK economy.		
Level	Mark	Descriptor	Possible Content
Level 1	1-2	Candidate shows some knowledge and understanding.	Some awareness of profit and the benefit of it to the UK economy. e.g. the difference between total revenue and total costs profits can be used to finance investment. profits can be used for investment/growth/increasing efficiency
Level 2	3-4	Some relevant awareness in context.	e.g. (Evidence C) Npower profits up 25% British Gas profits rise by 11% Npower has paid almost no corporation tax for 3 years Investment is needed for new power stations profits may attract investment (profit signalling mechanism)
Level 3	5-6	Valid development in context Reasons/causes/costs and/or consequences are outlined. Either pros or cons could be addressed. Answer will be one-sided NB Analysis or evaluation not in context. Limited to 5 marks.	e.g. Investment (FDI – Npower are German owned) creates highly skilled/highly paid engineering jobs in UK Investment creates employment building power stations Positive multiplier in UK economy Secure long-term energy supplies for firms and domestic customers Avoid gas rationing in the future Reduce the level of unemployment given the creation of new jobs. new jobs generate income tax revenue and reduce welfare payments.
Level 4	7-10	Evaluation: Expect to see evaluative points based on analysis of the economics/ business situation. Both pros and cons required. 7-8 marks - only one side in context	e.g. Npower is German owned so profits might be repatriated and investment not available in the UK. Npower have admitted they paid almost no UK corporation tax for 3 years therefore there

		<p>9-10 marks - both sides in context</p> <p>Answer is coherent, has some balance, is related to the context and makes good use of concepts, theories and/or methods.</p>	<p>is no benefit to the UK Government.</p> <p>Many jobs are short-term in construction</p> <p>Power stations are capital intensive so long term jobs are limited</p> <p>Non-payment of corporation tax reduces government revenues</p>
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Question Number	Question		
7.(a) QWC i-iii	a) Assess the case for the UK Government subsidising renewable energy. (20)		
Level	Mark	Descriptor	Possible Content
Level 1	1-3	<p>Candidate shows knowledge of subsidy / renewable energy.</p> <p><i>Written communication may be poor with frequent errors in spelling, punctuation and grammar and a weak style and structure of writing. There may be problems with the legibility of the text.</i></p>	<p>e.g. Definition of and/or correct diagram of subsidies (outward shift of supply curve) Subsidies are payments out of general taxation covering some or all of the costs of production Subsidies encourage producers to increase output/ help reduce costs Renewable energy is provided using sources which are not exhausted by consumption in the long term. Renewable energy includes wind/ hydro-electricity/ bio-fuels/ solar Nuclear energy is NOT renewable energy</p>
Level 2	4-8	<p>Some application to renewable energy.</p> <p><i>The candidate may use some Economics and Business terminology but the style of writing could be better/there may be some errors in spelling, punctuation and grammar.</i></p>	<p>e.g. (Evidence D) Subsidies are large, over £6 billion per year on wind power/ £120 billion for 20 year lifespan of offshore windfarm e.g. Wind power is unreliable (back-up for when no wind) e.g. Much of the subsidy will go to overseas companies. e.g. Only a small proportion of UK energy is currently sourced from renewables. e.g. EU voluntary target of 20% electricity from renewables by 2020</p>
Level 3	9-14	<p>Analysis must be present. Valid development in context of the likely economic effects of UK subsidy of renewable energy and/or the mechanisms involved. Reasons/causes/costs and/or consequences. Either pros or cons could be addressed. Reward correct, explained S&D diagrams for level 3. Answer will be one-sided.</p> <p><u>Low level 3: 9 – 10 marks</u> Analysis weak: only one reason/cause/cost or consequence is outlined.</p> <p>Cap at 9 if no context.</p> <p><u>Medium level 3: 11 – 12 marks</u> Analysis is more developed: two of</p>	<p>e.g. Wind power is environmentally friendly and therefore subsidising it should reduce the impact of climate change. e.g. Without subsidy, UK is unlikely to meet EU renewable energy targets because energy companies need an incentive to invest appropriately. e.g. 47,000 new jobs are forecast in the sector by 2020, so government should receive a return on its subsidy by paying less in benefits expenditure and should gain more income tax revenue. e.g. UK is heavily reliant on natural gas and is now a net importer of this. Cold weather could mean energy rationing unless substitute renewable energy is available. e.g. Wind farm costs are forecast to</p>

		<p>reasons/causes/costs and/or consequences are outlined.</p> <p><u>High Level 3: 13 – 14 marks</u> Analysis is wide-ranging; three or more well explained reasons/causes/costs and/or consequences are at least partially developed.</p> <p>Answer will be one-sided. <i>The candidate uses Economics and Business terminology quite well/style of writing is appropriate for the question/reasonable to good spelling, punctuation and grammar.</i></p>	<p>fall by one third by 2020 and therefore subsidies likely to fall also. e.g. higher prices in the short term to finance investment may mean lower prices in the long term</p>
Level 4	15-20	<p>Evaluation (supported by analysis) must be present. Expect to see evaluative points based on analysis of the economics/ business situation.</p> <p>Both pros and cons required.</p> <p><u>Low Level 4: 15 – 16 marks</u> Some evaluative points are made, based on analysis of the economy and / or case study information without arriving at a conclusion/ judgement. Maybe only one side of the argument in context.</p> <p><u>Medium Level 4: 17-18 marks</u> A judgement is attempted with some balance showing the economic consequences. Both sides must be in context. Expect an attempted conclusion.</p> <p><u>High Level 4: 19 – 20 marks</u> Works to convincing evaluative conclusion. At this level, some economic theory is expected e.g. social costs/ benefits, macro-economic consequences etc.</p> <p><i>Candidate uses Economics and Business terminology fluently with good spelling, punctuation and grammar.</i></p>	<p>e.g. Evidence D opportunity cost for government – money could be spent on other services when these are facing cuts/increased government borrowing e.g. Evidence D 90% of wind farms are owned by foreign companies who may receive £100 billion in subsidies which is twice as much as the income from the sale of electricity produced. e.g. Wind power requires backup by other (often carbon based) energy sources when wind isn't blowing, so over-reliance on this energy source may be inappropriate for UK when it is hot or very cold wind tends to be low e.g. Overseas companies like RWE are less likely to spend revenues in UK economy as their profits are repatriated. e.g. UK has large potential supplies of shale gas and/or coal which would presumably be cheaper, so should these sources be exploited to keep prices lower</p>

Question Number	Question		
7.(b) QWC i-iii	(b) Evaluate the case for further intervention by Ofgem in the UK energy market. (30)		
Level	Mark	Descriptor	Possible Content
Level 1	1-3	<p>Candidate shows knowledge and understanding of regulation.</p> <p><i>Written communication may be poor with frequent errors in spelling, punctuation and grammar and a weak style and structure of writing. There may be problems with the legibility of the text</i></p>	<p>e.g. The UK energy market is made up of many buyers and few sellers.</p> <p>e.g. Oligopoly market – high barriers to entry, non-price competition (stable prices), identical product</p> <p>e.g. intervention is when the regulator takes action to ensure compliance.</p> <p>e.g. penalties may be imposed if regulations are breached.</p> <p>e.g Ofgem is independent of government and reports to parliament</p> <p>e.g Ofgem was created to protect the interests of consumers and investors</p> <p>e.g 3 stages for supply – generation, distribution and supply</p> <p>e.g domestic and business consumers</p> <p>e.g Ofgem regulates gas and electricity markets</p> <p>e.g Ofgem sets prices for distribution every 5 years</p> <p>e.g distribution is private monopoly MNC National Grid/TRANSCO</p>
Level 2	4-8	<p>Candidate applies information in evidence to raise points in context.</p> <p><i>The candidate may use some Economics and Business terminology but the style of writing could be better/there may be some errors in spelling, punctuation and grammar.</i></p>	<p>e.g. Energy bills have risen by £300 since the coalition government took office.</p> <p>e.g. many vulnerable groups have problems paying their energy bills.</p> <p>e.g. Ofgem can only issue nominal fines at present.</p> <p>e.g. Ofgem powers are limited and had to refer suppliers to Competition and Market Authority (CMA) in June 2015 due to report December 2015</p> <p>e.g. Npower profits have risen by 25%.</p> <p>e.g. EDF misled customers over prices.</p> <p>e.g. EDF refunded £4.5m to customers</p> <p>e.g Bix Six 95% market share</p> <p>e.g Investors may be deterred by intervention on side of consumers</p>
Level 3	9-16	<p>Analysis must be present. Valid development in context.</p> <p>Reasons/causes/costs and/or consequences.</p> <p>Either pros or cons could be addressed.</p> <p>Answer will be one-sided.</p> <p><u>Low level 3: 9 – 10 marks</u></p> <p>Candidate will attempt very basic analysis of intervention in</p>	<p>e.g. Without further intervention, unfair practices, such as mis-selling may continue.</p> <p>e.g. Higher energy prices means vulnerable groups are less able to pay bills and may fall into debt.</p> <p>e.g. Lack of adequate penalties means the problem unlikely to go away unless further intervention.</p> <p>e.g. Price increases appear to be outstripping rising costs suggesting a possibility of collusion that will justify further intervention by Ofgem.</p> <p>e.g. Further intervention in the form of</p>

		<p>the energy market and its impacts. One or two reasons/causes/costs and /or consequences are outlined.</p> <p>Cap at 9 for no context.</p> <p><u>Medium level 3: 11 – 13 marks</u> Candidates looks at two reasons/causes/costs and/or consequences of intervention. Answer will be in context.</p> <p><u>High Level 3: 14 – 16 marks</u> Analysis is wide-ranging; three or more well explained reasons/causes/costs and/or consequences are outlined.</p> <p>Answer will be clearly in context.</p> <p>Answer will be one-sided. <i>The candidate uses Economics and Business terminology quite well/style of writing is appropriate for the question/reasonable to good spelling, punctuation and grammar.</i></p>	<p>enhanced regulation on tariffs could help consumers make appropriate choices which would have a positive effect on household budgets enabling spending elsewhere. e.g. Eight current investigations indicates problem may be large, so further intervention may be necessary.</p> <p>e.g reasons for referral to CMA include:</p> <p>Weak customer response / low switching rates</p> <p>Possible tacit coordination</p> <p>Vertical integration and high barriers to entry</p> <p>Increased supplier profits</p>
<p>Level 4</p>	<p>17-30</p>	<p>Evaluation (supported by analysis) must be present. Expect to see evaluative points based on analysis of the economics/ business situation.</p> <p>Both pros and cons required</p> <p><u>Threshold Level 4: 17-18 marks</u> One limited attempt to evaluate arguments made.</p> <p><u>Low Level 4: 19-21</u> More than one limited attempt to evaluate arguments made.</p> <p><u>Mid Level 4: 22-24</u> Detailed evaluation of arguments made, which will be based on a range of sources and/or specification areas. Both sides must be in context. Expect an attempted conclusion.</p> <p><u>High Level 4: 25-30</u> Balanced conclusion and/or recommendations based on</p>	<p>e.g. potential conflict between interests of consumers (low prices) and investors (investment returns).</p> <p>e.g. EDF voluntarily agreed to refund mis-sold customers so further intervention may not be necessary.</p> <p>e.g. UK energy prices are already lower than in many comparable EU states so further intervention may be unnecessary.</p> <p>e.g. Some tariffs, such as prepaid meters cost more to administer and this may justify higher prices.</p> <p>e.g. Energy suppliers need to make large profits in order to fund investment in renewables (EU 20% target by 2020)</p> <p>e.g. Due to the complexity and specialised nature of the energy industry, the regulator may have imperfect knowledge and regulatory capture can occur.</p> <p>e.g. Future government could impose a freeze on energy prices so Ofgem intervention</p>

	<p>sound analysis of the economic situation and case study information.</p> <p>For High Level 4 expect to see an awareness of the possible conflict between Ofgem's protection of consumers and investors and/or de-carbonisation.</p> <p>Candidate will make a clear conclusion as to the extent to which the UK Government should regulate the energy industry and/or the complexity of the market/intervention</p> <p><i>Candidate uses Economics and Business terminology fluently with good spelling, punctuation and grammar.</i></p>	<p>unnecessary.</p> <p>e.g higher prices in the short term may attract investment that may lead to lower prices in the long term</p> <p>e.g minimum prices (price floors) may be required to guarantee investment returns so that new generation facilities can be built by private firms</p> <p>e.g perhaps single state owned monopoly (French model) may be preferable to private (profit maximising). oligopoly</p>
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