Examiners' Report
Principal Examiner Feedback

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Pearson Edexcel International Advanced Level
In Economics (WEC13)
Unit 3: Business Behaviour

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Introduction

This series there were many examples of better work seen with learners more likely to be able to achieve the top level on level based questions. A number are struggling to fully complete both essays and need to work on timing.

In Section A, the multiple-choice section, Q1 identified that a pineapple producer was operating in a perfectly competitive market and generating supernormal profits. Whilst most could correctly identify that the producers output would decease but industry output would increase this question had the second lowest number identifying the correct answer.

Q2 looked at Cineworld who were charging different prices for the same seats. Pleasingly the vast majority were able to identify this as price discrimination.

Q3 looked at the likely impact of the introduction of a maximum price for rice on producers. The majority did identify that average revenue would decrease.

Q4, gave students a table with total costs at different levels of output. Students needed to calculate the average fixed costs when 20 000 pairs of trainers were produced. Most could calculate $40 000 ÷ 20 000 = $2.

Q5 needed students to identify the factor most likely to influence the elasticity of demand for labour. Most could identify that the cost of capital required for farming relative to the costs of agricultural labour as the correct answer.

Q6 saw students needing to identify which would be the correct total revenue curve. Surprisingly this was the lowest performing question in this section. Of course D which had a total revenue rising before falling again being the correct answer.

In Section B the questions related to the pharmaceutical industry in Ireland.

Q7a required students to calculate the change in Astra Zeneca's total costs between 2021 and 2022. The required the use of total revenue and profit data for each year to calculate the total costs. Whilst many calculated the value for each year some forgot to complete the last stage and to calculate the change in total costs.

Q7b required students to explain the term dynamic efficiency. There were two marks awarded for knowledge of dynamic efficiency. The first mark was awarded for the appreciation that firms developed new or better products, used better of cheaper production methods or invested/innovated in new technology. When linking this to improved productivity, lower average costs and that the efficiency was over time they picked up the second mark. It was typically the second mark that was not achieved. There were two application marks for reference to any two of the following. Astra Zeneca spending $400m building a new factory or their $9.8bn investment in R&D, the development of 3 new medicines and its continued research into medical advancements. Students often failed to offer two application points.

Q7c required the analysis of two ways that pharmaceutical companies may benefit from external economies. The first two marks were for the two ways. Most commonly reference was made to skilled workforce, improved infrastructure and research partnerships. To pick up the two analysis marks each of the knowledge points needed developing. For example, skilled workforce may be linked to lowering training costs, improved infrastructure linked to lowering transport time and costs. Students found it hardest to access the analysis marks. For the application marks students needed to pick out from Extract A details such as over 85 pharmaceutical companies operating in Ireland, approximately 30 000 highly skilled workers, €35 billion investment into the country's transport system businesses and universities share research and development (R&D) costs.

Q7d needed students to examine the impact of the increase in fixed costs on Astra Zeneca's profit. Unfortunately many did not pick up that fixed costs rising would only shift the average costs and not the marginal costs. Many mistakenly shifted both and then could not access the two analysis marks. Most could identify the original profit maximisation equilibrium and the original profit area. For application students needed to pick up that fixed costs existed due to having to comply with regulations increasing, reference to the regulatory environment being complex and all pharmaceuticals having to undergo clinical trials. Examine also requires evaluation. Many attempted this by looking at how revenues might counter balance the rising fixed costs and the proportion of total costs that come from regulation costs.

Q7e saw students discuss the likely barriers that might prevent a new company from entering the pharmaceutical industry. Most defined barriers to entry accurately. Common barriers discussed included high research and development costs, economies of scale of existing firms and patents linked to intellectual property. Most were able to offer a chain of reasoning as to how each acted as a barrier to entry. Better responses linked this specifically to the pharmaceutical industry. Students then needed to offer evaluation. Many made reference to how the firm may have reserves from elsewhere enabling it to enter the market successfully. They made reference to little brand loyalty and that there are many firms operating in this space.

Section C was the essay section. Over 100 learners still failed to tick the box to show which questions they were attempting. Q9 was most popular, followed by Q10 and then Q8. Although all three essays were popular. The mean score on Q8 was slightly lower and the highest mean score was found on Q10.

Q8 required an evaluation of the benefits of organic growth to a business such as Lidl. The stem outlined that Lidl was opening 25 new store in 2023 and plans to open a further 50 by 2025. Most applied the response to Lidl but other examples could be selected. A diagram was required with the majority drawing long-run average cost diagrams to show economies and diseconomies of scale. Most defined organic growth accurately and linked this to how growing would enable them to benefit from economies of scale and his was illustrated with a diagram showing the quantity increasing the LRAC falling. Better responses would then relate to specific economies of scale such as purchasing economies and marketing economies and how these costs would fall as the number of stores rises. Many talked about organic growth avoiding risks associated with inorganic growth such as culture clash and risk of competition authority intervention. Evaluation often argued that this growth was often slower than inorganic growth, that diseconomies of scale might emerge and problems securing finance for expansion.

Q9 required an evaluation of the economic benefits of government intervention in labour markets. The stem gave two interventions from the Government in Mexico. The increase in the minimum wage and setting of a maximum 48 hour week. Although many explored these any interventions in the labour market could be discussed. A

diagram was requested and many included a minimum wage diagram. Most defined minimum wages and drew the diagram. It was acceptable to show the introduction or increase in the minimum wage despite the stem referring to an increase. Many considered the setting of a maximum working week and how this might help ensure more productive and motivated workers. Some did look at the impact of maximum wages although this was far less common. The question was on benefits so when they talked about problems this was evaluation. For example, problems of unemployment caused by minimum wages was evaluative. Many evaluated by focusing on government failure caused by a lack of information.

Q10 required an evaluation of the benefits of collusion on a market of choice. The example in the stem related to South Korean shipping companies who were found guilty of collusion and fined $63m. The majority included this example in their evaluation. A simple game theory model was requested with most accurately producing a payoff matrix often showing the correct maximum and minimum joint profit but less likely to accurately show the impact of one cheating on a collusive agreement. Many defined collusion accurately and identified that it was typically found in oligopolistic markets. As well as using the maximum joint profit from collusion in the diagram as the core argument many explored how collusion can improve stability and predictability, how costs can be shared and how market barriers can be created. Evaluation tended to look at why it was likely to break down. Many also looked at the fines, the impact of reduced innovation and choice.

Most learners were able to complete the paper in the time available. We did however see several unfinished or very brief essays suggesting that some students had not planned their time well.

The performance on individual questions is considered in the next section of the report. The feedback on each question shows how they were well answered and also how to improve further.

Section B, the Data Response section, saw most students able to access marks on most questions.

Q7a saw most able to take the revenue and subtract the profit to calculate the total costs. This needed to be done for 2021 and 2022. Where marks were dropped was in finishing the calculation to identify the change between the two years. Or where they did this they sometimes failed to add millions to the end. Students are asked on this question to show their workings which pleasingly the vast majority do which is helpful where they fail to get the final answer but it enables the examiner to search for any correct calculations from within the workings.

Q7b asked for an explanation of dynamic efficiency. Very few students could not access any marks for this question. Two marks were essentially allocated to a definition and two marks for application to Extract B. The first mark was for appreciating that dynamic efficiency happened when firms develop new or better products, where they develop/find better/or cheaper methods of producing goods and services, where they achieve productive efficiency or where firms invest/innovate in new technology. To achieve the second mark this was linked to improving productivity, lower long-run average costs or over time or in the long-run. Many were able to give one aspect of the definition and not both elements. The application marks were commonly achieved with most identifying that AstraZeneca has a good reputation for R&D or that they were spending $400 million building a new factory in Dublin or that in 2022 AstraZeneca invested $9.8 billion in R&D. They were also awarded marks for the fact that Astra Zeneca had developed three new medicines, that they continue to research on medical advancements and that 'investment was necessary'.

Q7c required analysis of two ways pharmaceutical companies may benefit from external economies of scale. Most students could access the two knowledge marks for the ways which linked to skilled workforce, improved infrastructure, research partnerships and low corporation tax rates. Where fewer students accessed marks was linking to how these lowered costs for the business. For example, linking a skilled

workforce to lower training costs, improved infrastructure to quicker delivery and lower transport costs. Pleasingly many accessed both application marks. Essentially the students did best when they explicitly used statistics from the data such as approximately 30 000 highly skilled workers Invested €35 billion ... into the … transport system / in improving roads and railways and corporation tax rate of 12.5%.

Q7d asked students to examine the impact of the increase in fixed costs on Astra Zeneca's profit. Most accessed one or two application marks for making reference to having to undergo clinical trials, the regulatory environment being complex and the fixed costs in complying with regulation. Fixed costs increasing will shift the average costs line but not the marginal costs curve which are impacted by changes in variable costs. Whilst most correctly drew the original diagram with AC, MC, AR and MR alongside the original price, quantity and average costs to access the knowledge many struggled to access the analysis marks. Unfortunately many students shifted both AC and MC meaning they could not access the two analysis marks. With fixed costs rising and not variable costs it was only AC that needs to be shifted. When students did this the diagram was more straightforward with the price and quantity not changing and only the area of profit adjusting. Students also needed to evaluate. Many focused on the fact the rising costs could be offset by higher revenues or other lower costs. Others focused on it depending on the regulation costs as a percentage of the total costs.

Q7e required students to discuss the likely barriers that might prevent a new company from entering the pharmaceutical industry. Most accurately defined barriers to entry. It was common for learners to look at Research and Development and to relate this to the amounts spent by the range of pharmaceutical companies that operate in Ireland. It was important to link to how this made it difficult for a new business trying to enter the market. Many looked at the protection of property right and ideas through patents and how this would make it difficult for a new business to compete with. Many looked at economies of scale and how they can produce medicines at lower costs making it hard for new businesses to achieve such efficiencies. Evaluation was required and many spoke about how a new entrant might be able to collaborate with existing pharmaceutical companies. Many looked at how in Ireland there are over 85 companies existing in the market indicating a high level of contestability meaning new firms can enter the market. Some commented that there is limited brand loyalty in the market making it easier for new companies to compete. A further approach was to explain

how an existing multinational company might diversify into the pharmaceutical industry enabling them to use reserves to fund entry.

Section C, the essay section saw Q8 with fewer students attempting the question and a slightly lower average score. Question 10 had the highest means score. Question 9 was the most poplar question.

Q8 required an evaluation of the benefits of organic growth to a business such as Lidl. The stem outlined how Lidl opened 25 new stores in 2023 and by 2025 planned to open 50 more. Most responses focused their response on Lidl. Many focused on how growing organically helped Lidl benefit from economies of scale, including the relevant diagram to show this. Better responses applied the response to Lidl. For example, they talked about needing to order more from its suppliers to stock more stores. This was linked to purchasing economies and showed a deep understanding of the benefit of growing organically for Lidl. Many also talked about how they would maintain control and avoid culture clashes which can happen with inorganic growth. Many also focused on avoiding attention from competition authorities, which might occur following inorganic growth. It was also common for students to talk about how the expansion would create more opportunities for staff to move to management positions within the business. The evaluation typically focused on the problems associated with organic growth. Many linked back to the diagram to illustrate diseconomies of scale. Better students talked about the causes of the diseconomies focusing on communication and coordination problems. Other problems include issues accessing finance to fund the expansion. Many talked about how inorganic growth could result in rapid growth.

Q9 required an evaluation of the economic benefits of government intervention in the labour market. The stem outlined that the Mexico Government had increased the minimum wage and imposed a maximum working week. Students were free to talk about these or any other labour market policy. However, nearly all focused on these two policies. A number did look at others such a maximum wages. A diagram was a requirement and most drew the minimum wage diagram. Although the stem referred to the increase in a minimum wage they could draw a diagram to show the introduction of a minimum wage. Many analysed the diagram by identifying the unemployment that increases or emerges but this was evaluation as it is not a benefit. Many people talked about how the higher wages means the living standards of consumers increased

as the higher wage means they could purchase more goods and services. Many also related higher pay to higher productivity and motivation helping the business.

When looking at maximum of 48 hours per week, students tended to focus on the workers feeling happier, more motivated and helping to improve productivity.

Any negative from the labour market intervention was awarded as evaluation. Many focused on the higher costs impacting profitability. Many focused on government failure and how setting the correct rate is difficult.

Q10 required an evaluation of the benefits of collusion. This needed relating to a market of choice. The stem talked about businesses in South Korea in the shipping industry which were fined for colluding. Whilst many used this in evaluation it was common for them to use different markets in their essay. Most could define collusion and identify that it tended to occur in oligopoly markets. Th majority were able to draw a pay-off matrix/ simple game theory model. Nearly all could show the high price-high price equilibrium showing he joint profit were maximised when colluding. They could also typically show that the low price-low price equilibrium resulting in the lowest profit. Where the students tended to struggle was for where a business lowers it price when the competitor maintains the high price. In this situation the business lowering its price needed a higher profit and the business with a high price would have a lower profit. The sum of the profits for the two businesses need to be less than the high price-high price equilibrium. Many used this to explain why collusion would break down as the firm cheating by lowering price will see profit increase.

Other benefits include the predictability and stability created by collusion. Others focus on how it can cut costs as the businesses share information. In evaluation most focused on relation and legal consequences in terms of the risks of fines to finances and reputations. Many talked about how I might result in less incentive to be efficient or need to be more innovative. It was frequent for students to focus on why collusion often breaks down.

Paper Summary

Based on their performance on this paper, students are offered the following advice:

Section A: Multiple Choice Questions

• It is important that students understand that supernormal profit being made by a perfectly competitive firm will result in new firms entering the market and that the individual firm will sell less.
• Influences on the elasticity of demand for labour was challenging for many.
• Many failed to identify that the total revenue curve for a firm facing a downward slowing demand curve would rise and fall.

Section C: Data Response

• On Q7(b) dynamic efficiency was often not fully defined. Many missed off that it is over time and results in lower average costs or better productivity.
• On Q7(d) students need to understand that an increase in fixed costs will not shift MC but only AC.

Section D: Essay

• When an essays requests a diagram so it is important to include at least one relevant diagram in the answer.
• On Q8 it was important to relate the economies of scale or diseconomies of scale specific to the selected business. Looking at what causes the economies of scale is what is most important.
• On Q10 the payoff matrix was often imperfect as many struggled to accurately show the payoff when one business cheats on the collusion. Students need practice at creating these and ensuring that the profit level increase but that the total for the two firms is not more than for the high price-high price outcome.