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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 was a significant increase in the entry. 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 small number are struggling to fully complete both essays and need to work on timing.

In Section A, the multiple-choice section, Q1 tested understanding of the conditions needed to maximise profit. The vast majority could identify that marginal revenue needs to equal marginal cost.

Q2 looked at Sony, an electronics company and Honda, a vehicle manufacturer collaborating and learners needed to identify this as a joint venture. Approximately two-thirds could correctly answer the question.

Q3 tested understanding of the elasticity of demand for workers. Whilst most could identify that the demand for labour would be inelastic when labour costs are a small percentage of total costs. The mean score was the second lowest in Section A as many struggled with the concept of the elasticity of demand for labour.

Q4, gave learners a diagram with ATC, AVC and MC. Learners needed to identify the price that would see them carry on in the short-run and shut-down in the long-run. Most could identify the correct price level but many selected the price that resulted in the long run equilibrium where normal profit is generated.

Q5 needed learners to identify the total revenue curve for a profit maximising firm in a perfectly competitive market.

Q6 was the question that most struggled with. Less than half could identify that the upward sloping curve in B was the correct answer. Many selected C which is the average revenue and marginal revenue curve with others selected D which the total revenue curve for a monopolist.

In Section B the questions related to the fast-food industry.

Q7a required students to calculate the 4-firm concentration ratio of the global fast-food industry. Learners needed to select the market shares for the four largest fast-food companies and sum them. Unfortunately a number included the 61.5% for others in their calculation. This is of course made up of a large number of different companies.

Q7b required students to explain what is meant by organic growth. Two of the marks were allocated to demonstrate understanding of organic growth and the other two marks were for application to Extract C. To achieve the knowledge marks there were three main approaches taken. Firstly to make reference to internal or natural growth. The next approach was to say what it was not, that is not by merger, takeover, acquisition or integration. The final approach was to link to what it is, that is expansion to new markets, increasing sales or selling new products. Regards application most made reference to McDonalds opening a new café CosMcs, many then made reference to the 10 new stores in Texas or 10 000 stores globally.

Q7c required the analysis of two reasons why the global fast-food market is expected to grow. Most commonly learners made reference to more people living in cities to gain the knowledge mark. They typically then linked this to the increase in population from 3.59 billion to 4.59 billion for the application mark. The analysis for this needed to make the point that there were now more potential customers. Another common response was increased marketing expenditures for knowledge, with \$4.5bn spent on advertising for application and the analysis would link to increasing awareness of fast-food.

Q7d needed learners to examine the likely impact on profits of McDonalds switching 'to suppliers that use more ethical and sustainable methods of production'. The diagram was awarded up to 4 marks. Most could draw the original revenue and cost curves and show the original profit maximising output level. Accurately done this gain 2 marks. For the two analysis marks they needed to shift both AC and MC upwards and then to show the new area of supernormal profits. The two application marks needed examples from the Extract. Most referred to deforestation-free supply chains for beef, sustainable fisheries for fish and sustainable palm oil production. The evaluation when offered focused on the magnitude of the change in costs, many looked at how the costs rise could be offset by higher revenues.

Q7e saw students discuss the likely effects of McDonalds opening CosMcs on its competitors. Many misinterpreted the question and focused the response on the impact on McDonalds. Instead it needed to look at the impact on its competitors. Most responses focused on the market size and economies of scale of CosMcs enabling it to offer lower prices or its ability to fund non-price competition methods and brand loyalty. Ultimately most linked to how firms would have lower revenue or profits and higher costs. Many evaluated with reference to the market power of Starbucks and how its brand loyalty would enable it to cope or how McDonalds may have difficulty moving to the coffee market.

Section C was the essay section. A significant number failed to tick the box to select the question they attempted. It was also too common to find two responses in one essay space. It is important that each essay is started on a separate space on the paper. Q10 was most popular, followed by Q9 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 gave a context in the stem related to British Sugar as the only purchaser of sugar beet from 3 000 farmers in the UK. Learners then had to evaluate the benefits of a monopsony to firms and consumers. When looking at firms most looks at the benefits to the monopsonist in terms of being able to pay lower prices to achieve a lower cost. Few looked at benefits to the growers. When looking at consumers most focused on paying a lower price if the lower costs were handed on to consumers. Evaluation focused on the costs of reduced willingness to supply at lower prices and that monopsonist may not hand on lower prices instead keeping it as additional profits. Some considered the impact a bilateral monopolist might have in countering the power of the monopsonist. Some learners confused monopsony with monopolist and others focused on monopsony employers but this needed to focus on how this would effect the firms and consumers.

Q9 had a context related to the Government of Indonesia setting up the Kredit Usaha programme, that offered subsidies and low costs loans. The learners had to evaluate measures that a government could introduce to promote competition and contestability. The most common responses picked up subsidies or low costs loans from the stem. Others looked at the use of FDI, regulation to eliminate barriers, competitive tendering and trade liberalisation. A number looked at a range of different methods but only looked at each superficially. It was better to look at fewer methods in more detail. Evaluation tended to consider possible opportunity costs of subsidies, government failure and how monopolists may emerge following privatisation.

Q10 offered a stem looking at Mars completing the takeover of Hotel Chocolat. The benefits of a takeover needed evaluating related to businesses and consumers. Most focused on economies of scale with better responses giving specific examples relevant to Mars. Others focused on market power and how they might be able to achieve higher prices. Many focused on the possibility of more choice for consumers and lower prices if costs reductions are handed on in terms of lower prices. Evaluation tended to look at disadvantages such as x-inefficiency, the attention of competition authorities, diseconomies of scale and also how consumers may experience higher prices and reduced 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 accurately calculate 34.5% and gained both marks. Omitting the % sign means they only achieved 1 mark. Another common mistake was to include other as a business which meant they failed to access any marks.

Q7b saw most able to define at least partially organic growth. It was more common for the idea of internal or natural growth and not involving merger, takeover or integration. It is important to note that the question had two marks for knowledge for the definition and two marks for application to organic growth from Extract C. Many only offered one point of application but needed two.

Q7c required analysis of two reasons why the global fast-food market is expected to grow. It was pleasing that every learner scored at least 2 for this question and the most common score achieved was 6/6. There were two knowledge marks for the reasons, two marks for development of how this leads to growth and two marks for application to Extract A. It was pleasing the number that explicitly used data from the extract for the application marks. It was also pleasing that so many were able to explain how the reasons results in more people ordering fast food.

Q7d needs learners to examine the likely impact on McDonalds profit on it switching to suppliers that use more ethical and sustainable methods of production. The vast majority offered a diagram and shows correctly the original area of supernormal profit. When students only shifted AC and not MC they could not gain the analysis mark. When they shifted both AC and MC and correctly drew the new area of profit they gained two analysis marks. Nearly all were able to take from the extract relevant information. Most picked up marks for deforestation-free supply chains for beef, sustainable fisheries for fish and sustainable palm oil production. The evaluation tended to focus on how the use of the ethical and sustainable methods of production may increase the demand and price they can charge. Others focused on the proportion of costs associated with these supplies.

Q7e required a discussion of the likely effects of McDonalds opening CoMcs on its competitors. The biggest errors was to not fully read the question and to not focus on how it affected the competition. Many picked up on McDonalds larger size and how this may result in economies of scale and an ability to charge lower prices. Also how it can have funds for non-price coemption, innovation and how it can use pricing strategies to undercut competitors. Many used diagram to show the impact on average revenue or costs to show reduced profits for the competitors. Evaluation was typically focused on the market power, brand loyalty and innovation offered by Starbucks.

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 and most people attempting it.

Q8 Most effectively defined monopsony and focused on its ability to negotiate and achieve lower costs. Many drew a diagram to show the impact on profit. Others focused on how this can be passed on to consumers in terms of lower prices. Where students struggled they focused on monopoly. The best responses contextualised this with British Sugar with few looking at other monopsonists. Many offered evaluation that the monopsonist may not hand on the lower prices and that the item may become harder to obtain if growers exit the market. A diagram was requested and a response could not achieve level 4 without one.

Q9 The best responses focused on a couple of measures and looked in detail on how it would promote competition and contestability. Too many tried to talk about a wide range of measures but failed to offer enough detail or analysis. Learners tended to perform better when looking at subsidies and low costs loans. Evaluation tended to focus on opportunity costs and government failure.

Q10 Most people focused on Mars and its takeover of Hotel Chocolat. They tended to focus on economies of scale. Better responses tended to identify relevant examples of economies of scale specific to a chocolate manufacturer. Others focused on its increased market power and the ability to raise its prices. Responses needed to focus on both the benefit to the business and to consumers. When focused on consumers most focused on the ideas of having more innovative products available and that lower prices may result from costs reductions. Evaluation focused on disadvantages of takeovers such as diseconomies of scale and x-inefficiency. In both instances stronger responses contextualised this and explained how the problems might merge. A diagram was requested and a response could not achieve level 4 without one.

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 can recognise the total revenue curves for both perfectly competitive and monopoly firms.
- Influences on the elasticity of demand for labour was challenging for many.

Section C: Data Response

- On Q7(d) students need to understand that an increase in ingredient costs would affect both AC and MC. Thus both needed shifted on the diagram.
- On Q7(e) it is important to read the question closely so that the focus on the response was correct, that is they needed to focus on the impact on the competition.

Section D: Essay

- When an essays requests a diagram so it is important to include at least one relevant diagram in the answer.
- Q9 learners tended to perform better when focusing in more detail on fewer measures
- Q10 when considering economies of scale it is helpful to focus on specific examples such as being able to purchase larger quantities of cocoa to achieve larger discounts.

