

Examiners' Report/  
Principal Examiner Feedback

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Pearson Edexcel International  
Advanced Level in Economics (6ECA3)  
Paper 01 Business Economics and  
Economic Efficiency

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# International Advanced Level Economics (6ECA3) January 2014

## General comments

This transitional paper was set in exactly the same format as previous 6EC03 papers, and the marking protocols and standards were maintained as if this were any other paper. There were few entries for the exam, largely from entries in the Far East. The standard of language and understanding were high, and the students had been prepared well for the paper. There were no reported errors on the paper, and the rubric was adhered to.

## Specific comments

### Question 1

This question on a takeover was a good starter question, with most choosing the correct option (A), with an ability to apply understanding of horizontal takeovers as well as to consider the reasons for this. Better answers applied the context in their answers. A significant minority were distracted by option C, ignoring the 'external' nature of the economies of scale. This might be caused by confusion with the concept of foreign firms (UK and France).

### Question 2

For many, on this standard theory perfect competition question, a diagram could earn all the marks required to demonstrate a full understanding. However there were some that ignored the term perfect competition, and others which discounted the *variable* costs and considered that the firm would stay in business with its short term losses.

### Question 3

Although very basic theory, this question threw up many problems for the students. Most could earn an initial mark by giving a definition of marginal cost, although some gave the formula  $TC/Q$ . The majority also gained a mark for knocking out E, arguing that economies of scale are a *long run* phenomenon. The real difficult was explaining the relationship between the dynamic variable, marginal cost, and the AC curve. A diagram was the most efficacious way to do this, but without pinpointing the part of the diagram where AC was falling the diagram in itself did not earn marks. It is important to use diagrams rather than simply reproduce them.

#### Question 4

As with question 3, there was an easy mark to be earned by explaining that profit maximising occurs at  $MC=MR$ . Filling the table, in a variety of ways, could earn marks, and those that had identified the correct output did in general earn all the explanation marks by using the tables. Both the TR TC and the MR MC approaches were used, so it was good that these had been incorporated in the mark scheme.

#### Question 5

This was a most apposite question in a winter series in the year when the government had first made it illegal to take children out of centres in term time! Accordingly most students had realised that prices were higher in centre holiday time, and many could therefore apply their understanding of price inelastic demand to argue that price elasticity of demand is lower in the holidays. However the diagram for price discrimination, which is required in the specification, was a very effective discriminator, and very few students could add MC to the diagram, find  $MC=MR$  and extract a price from the relative demand curves. This was the first time that this diagram application had been required in this specification, and credit is due to those students that applied their skills correctly.

#### Question 6

This question illustrated a problem in the distinction between a cartel and an act of collusion. This problem was not expected, given that the competition authorities clearly regulate both, so C was not correct whether it was a cartel or collusion, but nevertheless many did choose option C. Otherwise most chose A and could give reasons why collusion is against the public interest, and the role of the competition authorities in trying to reduce such activity.

#### Question 7

While to some extent this question on real and nominal price rises involved synoptic knowledge (from Unit 2), there was an expectation that the RPI – X would be understood as a major form of price cap regulation in the UK. However to some alarm of the examiners, most students could not apply their knowledge to the simple data context, and the most common distractor was a 4.2% rise in real terms (B). Again this was a new approach to an old question, and was a good discriminator.

## Question 8

The context of e-books was well understood, and many could argue the benefits to the consumer of large scale production. The role of the regulators was clearly explained, and as consumer interests were not seen to be damaged this was a good case for arguing there were economies of scale, with much helpful application.

## Question 9 (a)

There was some confusion of the nature of a patent – confusing it with copyright, or a licence to produce. But most could explain the theory, and many gave two pieces of data, such as the patented processes such as rubber-banding and tap to zoom.

## Question 9 (b)

Barriers to entry were clearly understood, but the tendency was to list too many rather than focus on a few and evaluate them carefully. Only two factors are needed for an 8 mark question. Most chose fixed costs and sunk costs, but there was a tendency to overlap the analysis and evaluation when the points made were very similar. It is recommended that a wide range is selected when there are many possible valid answers.

## Question 9 (c)

There was a wide variety of possible responses, and the majority saw the victory for Apple as a victory for Apple users, and vice versa for Samsung and similar produces of devices. However this was an area well understood by students, and many could see a strong case on each side.

## Question 9 (d)

As ever with strategies questions, there were lists of answers which related to price and non-price approaches, with little link to market share. The typical approach was to use predatory pricing and limit pricing, and there were some good uses of the price discrimination model. In many cases these were successfully evaluated, for example by discussing the problems with these policies, for example in the context of a legal framework. A few competent answers used a fully explained and evaluated game theory approach. There were many well-structured answers, with a full four points/four evaluation paragraphs, and it appears that students had been well prepared for the longer essay-style questions.

#### Question 10 (a)

There were a surprising number of answers stating that the market structure was perfect competition, using the 8000 outlets as an indicator of many firms in the market. This market, however, being national, is tiny, especially when data was provided in the extract for the dramatic fall in number of independent outlets, and the rise in power of the supermarket petrol-retailing outlets. There were also references to this being a monopoly, with 45% of the market controlled by supermarkets, and fuel being a uniform and price inelastically demanded product. But given that there are several major supermarkets in the UK (and these were listed in the extract) a monopoly cannot be said to exist, without further information. The answer oligopoly was therefore the most sensible answer, but monopolistic competition was allowed as an answer if it was justified by the '8000 retailers' data.

#### Question 10 (b)

The quality of diagrams seen was of a high standard, with most correctly identifying  $MC=MR$  and showing a smaller profit/loss area based on  $AR$  and  $AC$ . There were few variations on this, but the main weakness was lack of evaluation, which formed 50% of this 8-mark question.

#### Question 10 (c)

The concept of a national price for fuel did at first seem somewhat theoretical, and it was not immediately clear to which part of the specification it referred. Careful reading of the passage, however, made it clear that this policy had been recommended as an alternative to other types of regulation. Further, the question was based on business efficiency, which is the core concept on this paper (and is part of its title). Having made the connection with the theory the answers in fact flowed very well – but it is thought that most students avoided Question 10 because of this part of the question. Students could use advantages and disadvantages of such a scheme as a form of evaluation, and this was therefore a question which a well prepared student could access effectively.

### Question 10 (d)

As with the strategies question 9d, there were lists of answers which related to price and non-price approaches, with little link to profitability. The typical approach was to use predatory pricing and limit pricing, but in this case the link to profit had to be explicit. Price discrimination was therefore a far more effective approach. Non-price strategies tend to be the weakest factors, and many can give little more economics in the topic of 'advertising' than the idea of using celebrity endorsements or loyalty cards, neither of which were automatically realistic. They could of course be developed, but it is advised that students use concepts such as price elasticity of demand and the barrier to entry created by loyalty networks such as Nectar cards for example. In many cases these were successfully evaluated, for example by discussing the problems with these policies, for example in the context of a legal framework. A few competent answers used a fully explained and evaluated game theory approach. There were many well-structured answers, with a full four points/four evaluation paragraphs, and it appears that students had been well prepared for the longer essay-style questions.

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