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Examiners' Report

Principal Examiner Feedback

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Pearson Edexcel International IAL in
Economics (WEC03)
Unit 3 Business Behaviour

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INTRODUCTION

This was the sixth series for a January examination of WEC03 Business Behaviour. The examination seeks to test the candidates' abilities to select and apply appropriate economic concepts, theories and techniques in a variety of contexts. As Unit 3 is a synoptic unit, the examination may draw on material from Units 1 and 2.

Students attempt two out of four essay titles in Section A. Each essay is marked out of a total of 20 marks using a 5 level of response performance criteria.

Students also choose one out of two data response questions in Section B. Each question has four parts to it. Part a) is worth 4 marks and parts b) to d) are each worth 12 marks. For parts b) to d) it is vital that students make effective use of the information provided in order to access Levels 2 and 3 for knowledge, application and analysis marks. A further 4 marks are available for evaluation.

It was most encouraging to note a significant improvement in the quality of responses for this series.

Successful students were able to:

- Clearly identify what they were being asked to do. For example;
 - : for Q2 assess whether or not a monopolistically competitive market is more beneficial to *consumers* than a monopoly market
 - : for Q6c make effective use of the relevant extract to consider the relevant factors which may enable a small energy firm to compete against much larger firms.
- Draw and label appropriate diagrams accurately. For example, diagrams for the shut-down point in the short-run and in the long-run for Q4
- Select and apply appropriate information from the extracts to enhance their answers in Section B.

Less successful students:

- Do not read the question carefully. For example, failing to realise that the focus of Q1 is on why the divorce of ownership from control may impact upon business objectives and that Q5b is about the possible benefits of growth by *takeover* and not about the benefits of business growth per se.

- Continue to copy out sections of the extracts in Section B in the mistaken belief that this will score application marks.
- Draw inaccurate and badly drawn diagrams. For example, not correctly identifying the area of supernormal profit in Q2.

Section A

This was the first October series where an example of the relevant concept was provided at the beginning of the question. *The candidate **may** choose to use this example in the course of attempting the question but this is **not** a requirement.* The example is there primarily for illustrative purposes.

Q1

Students who performed well clearly understood the concept of divorce of ownership from control and its possible implications for business objectives. A well-balanced answer analysed at least three possible impacts and tended to use diagrams to illustrate various objectives. Evaluation went on to consider why the objectives of owners and managers may not conflict. Such an answer would achieve a high Level 4 or a Level 5 mark depending upon its quality and depth. Typically, a Level 2 mark was achieved where a student provided a descriptive answer, outlining various objectives but not explaining why a divorce of ownership from control was relevant.

Q 2

Sound answers made clear links between the features of a market model and how those features might benefit consumers. For example, in a monopolistically competitive market, product differentiation would provide consumers with more choice and variety. Accurate diagrams were applied effectively. For example, explaining that the short-run supernormal profit might be used for product development so that consumers would benefit. Evaluation marks were awarded where a student discussed why a monopoly firm may be more beneficial to consumers. (The reverse perspective was equally valid). Those students who performed less well produced the relevant market model diagrams and then proceeded to analyse various types of efficiency without ever relating to how consumers might benefit.

Q 3

Most students displayed a good understanding of the concept of monopsony. High scoring responses were able to apply their economic theory effectively with the analysis focusing on the impact of monopsony (either negative or positive) on both businesses **and** consumers.

Evaluation considered why monopsony power may have the opposite effects to those point previously analysed. Where analysis was rigorous and evaluation was well balanced, such a response scored a Level 5 mark.

Those students who performed less well tended to move into an analysis of monopoly power rather than focusing on monopsony.

Q 4

Sound answers clearly showed an understanding of the significance of the short-run and long-run distinction when analysing the shut-down point. Students who analysed the fact that price (AR) needed to at least cover the average variable costs (AVC) in the short-run and ATC in the long-run attained a sound Level 3 mark. Accurate and appropriate diagrams enhanced the quality of the answer, typically into Level 4.

Evaluation needed to consider issues such as not-for-profit organisations and the possibility of government financial support, perhaps for a small business.

Those students who performed less well struggled to fully understand the concept of the shut-down point and diagrams were poorly drawn.

Section B

Q 5(b)

Students who selected 2 or 3 appropriate points from Extract 1 and explained why these would bring benefits through takeover rather than by the method of organic growth achieved Level 3 or high Level 2 KAA marks. Evaluation comments included points such as the high cost of such takeovers and the possible higher risks involved. The reverse argument was equally valid.

Weaker answers tended to provide a more generic response which was primarily about the benefits of growth of the firm. For example, a discussion of economies and diseconomies of scale which could arise from either method of growth.

Q5(c)

Sound answers were able to use relevant information from Extract 2 and their own knowledge to explain why China may be a good location for TNCs for investment purposes. Evaluation comments were based around why China may not be a favoured destination for FDI.

The reverse argument was equally valid.

Less successful responses simply copied out, or listed, parts of the extract and provided little in the way of development.

Q5(d)

Students needed to select 2 or 3 appropriate government measures linked to the control of transfer pricing whilst also discussing the impact of pressure groups. *Providing this addressed the impact on TNC behaviour* the response achieved high Level 2 or Level 3 KAA marks.

Evaluation marks were awarded for considering why such measures and pressure groups may be ineffective in altering TNC behaviour. Factors such as opportunity cost and magnitude were not relevant as evaluation comments.

Q6(b)

Students who scored well on this question were able to select 2 or 3 salient points from the relevant extract and explained how *consumers* might benefit from non-price competition in the UK energy market. Analysis of price competition was not rewarded.

Evaluation marks were obtained for commenting on why consumers may be disadvantaged as a result of non-price competition. Factors such as adding to confusion and higher costs leading to higher prices were relevant points.

(The reverse perspective was equally valid).

Q6(c)

Sound responses identified 2 or 3 factors which might enable a small energy firm to compete in the oligopoly market. Application and analysis required using the information from the extract as a springboard to consider how small firms compete.

Evaluation marks were awarded for developed comments relating to how it may be difficult for small firms to compete in such a market.

Weaker responses tended to write generic answers about the disadvantages of small firms or copied out sections from the extract.

The main implications for future teaching, learning and examination preparation are:

- To ensure that **all** parts of the specification are taught and internally assessed. For example, knowledge of the divorce of ownership from control, the shut-down point and the concept of transfer pricing was weak in several cases.
- To encourage students to draw accurate, appropriate, legible and labelled diagrams.
- To ensure that students refer to the relevant extracts but do not copy from them. Brief quotes are acceptable but, in themselves, will not achieve any marks.
- To encourage students to make full use of previous examination papers, mark schemes and principal examiner reports.