

# Examiners' Report

## Principal Examiner Feedback

January 2021

Pearson Edexcel International Advanced  
Level

In Economics (WEC13)

Unit 3: Business behaviour

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## Introduction

This is the third paper for assessment of WEC13 Business behaviour for the revised specification. There is some evidence that students are becoming more familiar with the demands of this paper given the changes that have been made to the specification, the assessment criteria and the structure of the examination paper. However, some students struggled to achieve the level of precision and accuracy required both in their written and in their diagrammatic analysis. As Unit 3 is a synoptic unit, the examination may draw on material from Units 1 and 2.

### Section A: Multiple choice questions

These questions provided a good test of a range of topics from the specification. Students encountered more difficulty with question 1 (immobility of labour) and question 4 (elasticity of supply of labour) than on the other questions.

In contrast, question 3 on monopolistic competition proved to be the most accessible question with students showing knowledge that firms in these markets could make only normal profit in the long-run.

Most students showed an understanding of concentration ratios in question 2 but some made an arithmetical error in doing the calculation while in question 5 most students were able to deduce that a decrease in x-inefficiency would be a likely effect of privatisation.

Question 6 demanded an understanding of the relationship between total revenue and marginal revenue and the majority were able to make the correct deduction from the diagram.

### Section B: Data response questions

Questions were based on information relating to Tata Steel and its proposed merger with Thyssenkrupp. As with all data response questions, students do not need specific knowledge of the context but an ability to apply the concepts studied to that context.

Q7(a): required a calculation of costs based on Tata Steel's revenue and profit. This proved to be fairly straightforward since it involved the use of concepts that are at the heart of this unit.

Q7(b): This question required knowledge of monopsony and an ability to apply it to the context. It should be remembered that in 4 mark questions, 2 are awarded for knowledge and 2 for application.

Q7(c): required students to examine the possible impact on the profits of car manufacturers of the proposed merger between two large steelmakers and to include an appropriate diagram. The latter presented problems for some students because it required the shifting of both the average cost and marginal cost curves. It should be remembered that in 8 mark questions, 2 are awarded for knowledge; 2 for application; 2 for analysis and 2 for evaluation.

Q7(d): asked students to analyse two reasons why the proposed merger of the two steel companies was blocked by the European Competition Commission. To ensure that students maximise their performance they should note that, in 6-mark questions, 2 marks are awarded for knowledge; 2 for application and 2 for analysis. Therefore, in this case, there were 2 marks for identifying 2 reasons and 2 marks for a linked explanation of each point. The final 2 marks were awarded for 2 references to the extract.

Q7(e): This question asked students to discuss the benefits of the proposed merger between Tata Steel and Thyssenkrupp. This 14 mark question is assessed using levels with 8 marks for knowledge, application and analysis (KAA) and 6 marks for evaluation. Therefore, it was important for students to explore a few issues in depth rather than identifying several points with limited development. This also applies to the evaluation. While many students scored highly by following this structure, some answers were very superficial and generic.

### Section C: Essays

Students are required to choose two out of three questions. The level of demand was similar to previous papers in this series but the mean mark on each of them remained relatively low. Question 9 was slightly less popular than the other two questions.

In all three essays students were usually able to explain some relevant points. However, a weakness in some answers was that the quality of analysis was often rather superficial. In particular, there was a tendency to include several points with two-stage chains of reasoning rather than fewer points with more detailed explanations. Further, definitions of concepts were not always precise and accurate.

Students were required to illustrate their answers with an appropriate diagram(s). While most students did include accurate diagrams which were labelled correctly, some did not integrate them into their written analysis.

In the best responses for KAA students demonstrated a precise knowledge of concepts, developed chains of reasoning, accurate diagrams that were explained clearly and reference to context.

With regard to evaluation the best answers included chains of reasoning linked to the context and an informed judgement.

An issue that was apparent in some responses was that students had left insufficient time to answer both essays fully.

The following feedback on each question explains some of the strengths and weaknesses in student responses.

## **Section A**

### **Question 1:**

This question concerned how house price differentials might affect the mobility of labour. This was answered fairly well although some students confused geographical and occupational mobility of labour. The correct answer is A as this leads to a decrease in the geographical mobility of labour.

### **Question 2:**

For this question students needed to understand the *concentration ratio* and how to calculate it. The correct answer is B. Some made an incorrect calculation by summing the market shares of the 3 largest firms and 'others'. However, it was answered correctly by 70% of the students.

### **Question 3:**

This proved to be the most accessible of the multiple choice questions and students who understood monopolistic competition were able to deduce that firms in this market would make only normal profit in the long-run. The correct option is D.

### **Question 4:**

The correct answer is C. Many students were unable to apply the concept of elasticity of supply to the labour market. This was the weakest amongst all the multiple-choice questions.

### **Question 5:**

Students tended to perform well on this question, which asked for the most likely effect of the privatisation of three textile factories in Angola. The correct is A, which is decrease in X-inefficiency. The other options would all be the opposite of the expected outcome from privatisation.

### **Question 6:**

This question required the students to be able to deduce the shape of the marginal revenue curve given the graph showing a total revenue curve. For some this proved to be a challenge and they considered that the marginal revenue curve would also be rising instead of constant. The correct answer is B.

## **Section B**

### **Question 7(a):**

Students could typically access at all of the marks for this question as they were confident calculating total costs from the information on Tata Steel's total revenue and profit. Some students were awarded only 1 mark because they omitted 'billions' in their answer.

### **Question 7(b):**

Many students could define monopsony correctly, but some did not secure both knowledge marks because they did not expand their definition to provide additional information for the second knowledge mark. In these 4 mark questions there are also 2 marks for application and some students did not make sufficient use of Extract C to secure both marks.

### **Question 7(c):**

This question required students to examine the likely effect on the proposed merger between two steel manufactures on the profits of European car manufacturers. The mark scheme allowed students for different approaches to secure the marks. One approach was to explain that the merger would result in lower average costs meaning that car manufacturers would face lower costs and, therefore, that their supernormal profits would increase. Alternatively, students could explain that the merger could result in an increase in the market power of the merged company so causing an increase in the cost of steel to car manufacturers and so resulting in a fall in their supernormal profits.

Nevertheless, this proved to be a challenging question. Many students did not get to the heart of the question by explaining the impact on the supernormal profits of car manufacturers or by including a relevant costs and revenue diagram. Further, not all students offered evaluation which is required by the command word 'examine'. Stronger responses were able to explain why their analysis might not hold true by using the points in the alternative approach to the one they adopted, as described above.

### **Question 7(d):**

In this question students were asked to analyse the reasons why the proposed merger was not allowed by the European Competition Commission. This question proved to be very accessible to most students and they were able to identify two reasons with some linked explanation and included 2 references to Extract C for the application marks.

### **Question 7(e):**

This was a fairly straightforward question in which students were asked to discuss the benefits of the proposed horizontal integration between the two steel companies. Disappointingly, many students did not offer any response to this question but many of those that did scored highly.

Most students offered a good definition of horizontal integration and then considered benefits such as economies of scale supported by a relevant diagram showing a falling long-run average cost curve. They then developed their analysis by discussing the possible implications for productive efficiency, dynamic efficiency and a reduction in X-inefficiency.

The best responses used the context well, for example, by referring to the potential efficiency savings of €400m and to the 4000 reduction in employees.

Evaluation was not always well developed and often generic. Better responses used the context well by, for example, noting that the cost savings might be insufficient to offset the fall in profits following the tariffs imposed by the USA. It is important that evaluation is both developed and in context to be able to access Level 3.

## **Section C**

### **Question 8:**

This question asked students to evaluate the disadvantages of an oligopolistic market for producers and consumers. In addition, a maximum Level 3 mark could be obtained if no diagram was included. Further to obtain a Level 4 for KAA, students are required to refer to an industry of their choice in their answer.

Most students could identify some disadvantages of oligopoly for producers and consumers and some explained these well in the context of an industry. In discussing a disadvantage to consumers, some considered the possibility of collusion resulting in higher prices and supporting this with a monopoly diagram. For producers, some students explained that price-cutting wars were a feature of these markets and that these could result in a fall in profits. However, some answers contained several points with only two-stage chains of reasoning and were, therefore, limited to a Level 2 mark for KAA.

For evaluation, students were able to consider some advantages of oligopolistic markets for producers and consumers. However, marks for this were often limited because the evaluation was generic and not supported by chains of reasoning.

### **Question 9:**

This question demanded an understanding of shut-down points and, once again, it required students to make reference to an industry of their choice and to include a diagram in their responses. Of the three essays this was the least popular and performance on it was slightly lower than on the other essays. Perhaps this was because it required more technical expertise especially in relation to diagrammatic analysis.

Better responses showed a clear understanding of the distinction between the short-run and the long-run when considering shut down points. In particular, they showed that price needed to cover average variable cost in the short-run and average total cost in the long-run and illustrate these with accurate diagrams. However, these answers could only secure a Level 4 KAA mark if they referred to an industry in their answers. In weaker responses the concept of the shut down point was poorly understood, and diagrams were often inaccurate.

The best evaluation made use of the context in the question by considering, for example, that airlines might have been able to survive, even if price was below the shut down point, if they received government support or if they had large cash reserves or if they could secure loans through what might be a short downturn in business. However, evaluation was often generic and only supported by partially-developed chains of reasoning so could secure a maximum of a Level 2 mark.

### **Question 10**

Students were asked to evaluate the benefits of the introduction of a national minimum wage for businesses and workers in the tourism industry in South Africa. Most were able to draw the standard minimum wage diagram and discuss some implications for workers and firms although some of the analysis was rather superficial.

The best responses developed their analysis in relation to businesses by, for example, linking the higher wage to greater motivation which, in turn, led to increased productivity and to lower unit labour cost in the long-run. For workers, these responses discussed the effect on living standards and unemployment. If these issues were analysed in the context of the tourist industry they could achieve a Level 3 or 4 for KAA. Unfortunately, some answers were rather generic and, therefore, found it difficult to access high marks.

The best evaluation focused on the context. For example, good students noted that the tourist industry is labour intensive and that many workers in the tourist industry are low paid so the impact of a national minimum wage would be significant. The extent to which the increased costs could be passed on to tourists would depend on the price elasticity of demand which, might, in turn, depend on whether the tourists come from high income or low income countries. As with the other essays, however, much evaluation was not well related to the context and/or the points were not well developed.



## Paper Summary

Based on performance in this examination, students should take account of the following points.

- Section A: Ensure that they have studied all parts of the specification. Performance on two of the multiple-choice questions suggested that students were less secure in their understanding of issues relating to the labour market.
- Section B: These questions have their basis in the data so use of the context is important: in the points-based questions 2, 4, 6 and 8 mark questions there are 2 marks for application. In the 14-mark question (which used level-based marking) application is captured in the 8 marks available for KAA.
- Section B continued: Evaluation is only required for the 8 mark and 14 mark questions.
- Section C: For essays (and the 14 mark data response question) it is important for students to develop chains of reasoning by analysing two or three relevant points in depth and to provide some context for their answers (either that provided in the question or using their own examples). For essays students are sometimes required to include 'reference to an industry of their choice'. Therefore, students should have some knowledge of a few different industries to enable them to provide relevant examples. Diagrams should be included where required or applicable and be integrated into the written analysis.
- Section C continued: Essays should be structured in paragraphs so that each covers discussion of one issue. Evaluation of this point may be included in that paragraph.
- Section C continued: All essays need to include evaluation for which up to 8 marks may be awarded. To achieve Level 3 for evaluation in Section C it is necessary to support points with a logical chain of reasoning, to make reference to the context and to include an informed judgement.
- Time management: Students should plan their time carefully so that they leave at least one hour to answer the two essay questions. This means that no more than one hour should be spent on Sections A and B.

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