

Examiners' Report January 2008

GCE

GCE Economics & Business Studies (Nuffield)
(8128-9128)

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General Comments

A review of the exam performance of candidates this January leads to certain inescapable truths. These comments apply equally to Papers 6361, 6362 and 6364. It is clear that many candidates were ill-prepared for this series of examinations. The most basic knowledge of economic and business terms was lacking. Many candidates had patchy knowledge of the subject content laid down in the specification. In addition many, but not all, candidates displayed poor exam technique. The meaning of different command words was simply not understood. This failing was most clearly demonstrated in responses to Question 5 on Paper 6364. Candidates had knowledge, could often apply it in context but failed to offer evaluation. The failure to evaluate was the single greatest stumbling block for candidate achievement. It is disappointing that the failure to understand the demands of a paper could leave so many candidates to under perform. The final deficiency which proved commonplace for many candidates was the inability to use stimulus and to contextualise responses so that the answers actually addressed the questions set. There is little point in candidates rehearsing the different motivational theories when the question actually requires candidates to evaluate the benefits for a firm of using motivational strategies. A candidate who rehearses an imperfect understanding of Maslow's hierarchy will not do as well as a candidate who discusses the potential for improved productivity, reduced absenteeism and improved product quality.

There is no panacea for ensuring improved exam performance. There are however certain things which centres can do to ensure that their candidates are prepared for external examinations. Centres who wish to improve their performance need to focus on certain basic elements of exam preparation:

- rote learning and repeated testing of key terms;
- encouraging candidates to read stimulus material having read the questions set;
- encouraging candidates to read and follow the exam rubric;
- applying knowledge to contexts;
- the use of conditional tenses such as 'might' rather than 'will';
- the development of a clear understanding of command words.

It would be extremely pleasing if these skills and knowledge were to be more widely applied in the June examinations. It is clear that if they were to be more widely demonstrated, candidate performance would be markedly improved.

6361 GCE ECONOMICS AND BUSINESS STUDIES (NUFFIELD) EXAMINERS' REPORT - JANUARY 2008

Question 1

Part (a)

- (i) Market segmentation occurs when the market is divided up into sub-groups, each of which represents different customer preferences. Markets can be divided Product specifications and marketing strategies can then be devised to fit the wants of each particular group of customers.

While some good answers were seen to this question a minority of candidate struggled to explain the term. Some thought repetition of 'market' and 'segment' would be sufficient to gain reward. Others suggested that types of product represented market segments. This is a key term which should not cause problems.

- (ii) Turnover is another term for sales revenue and is the receipts earned from the sale of goods and services.

Alternatively, a candidate seeking to offer a minimalist response might conclude that $TR = P \times Q$.

It was disappointing to see so many candidates who were confused by this term. Candidates suggested that total revenue was the profit that a firm might earn from trading activities. Other suggested that total revenue was a firm's capital.

- (iii) A small market segment that exhibits certain special characteristics. Products/services may be specialist, possibly with higher prices and limited competition.

Various assertions were made in preparing a response to this question. Candidates suggested that monopoly profits might be achieved and that no firms would exist prior to a new firms entry into the market. It may also be news to firms such as Rolls Royce (owned by VW) and Aston Martin (until recently owned by Ford) that large firms would never enter niche markets.

Part (b)

Markets can be segmented in a number of ways. Segmentation may be segmented according to age, gender, income, lifestyle and geographic location. Clothing markets may be segmented according to age with specialist stores catering for either young women or the more mature women. Supermarkets seek to segment their market according to income, producing a range of products including value brands aimed at price sensitive consumers and 'finest' product ranges aimed primarily at higher income groups.

A number of sound responses were seen to this question. Appropriate examples were used. Candidates dropped marks by failing to cite two examples.

Part (c)

Added value is the difference between the price which consumers pay and the total cost of the inputs. An online shop can add value in a number of ways. It can be achieved by providing good service and prompt delivery of goods. It can also be achieved by providing additional packaging and a bespoke service. This will enable firms to charge higher prices.

A majority of candidates were able to gain at least one mark for each of their examples. Lack of clarity or a failure to develop appropriate examples caused some candidates to drop a mark. Confusion did arise about the distinction between added value and value added with some candidates talking about providing additional features at a lower or the same price.

Part (d)

Candidates should identify the benefits of targeting a wider market via the internet. The remote location is a drawback for the company and the net should provide the firm with a wider customer base. Touchstone's target market may be reached more easily through the internet rather than through a traditional store. Firms such as Touchstone may well benefit from increased revenue, reduced costs and increased sales.

The majority of candidates attempting this question were able to access at least some marks. Knowledge was largely relevant and particular consideration was given to Touchstones remote location. Weaker candidates failed to develop a reasoned consideration of the relative importance of the internet.

Part (e)

A good answer typically focused on the growing market potential of ethical and sustainable products. Candidates may develop this point by saying that consumers may be prepared to pay a higher price for this product. Firms producing this type of product may find themselves facing less competition. Committing significant resources to such a venture may carry risks, particularly if this type of product proves to be a short lived fad. Sourcing this type of product may also mean high variable costs.

Many of the answers to this question failed to include the evaluative element needed in order to access the higher mark range. Few examples were used to develop and contextualise answers.

Question 2

Part (a)

- (i) Ideal answers would have indicated that

$$\text{Total revenue} - \text{Total costs} = \text{profit}$$

Candidates largely understood what profit was. There were still however candidates who saw it as capital invested into the business.

- (ii) When preparing the mark scheme it was agreed that it was reasonable to expect candidates to be able to offer an economic definition of demand rather than accept a more imprecise definition. Most candidates struggled to explain that demand was the ability and willingness to buy a product at a given price.

It is reasonable to expect candidates to use terms in their economic and business contexts rather than in their everyday usage. The quality of responses was disappointing.

- (iii) Candidates should have identified that this refers to small businesses who are not part of a larger branded chain. This type of business is often run by the owner. Firms may be typically small scale and localised.

Many candidates found it difficult to offer a coherent explanation of the term and did not support explanations with appropriate examples.

Part (b)

Candidates identified that a falling birth rate would lead to a shift in the demand curve which may be partly offset by an income effect. Candidates also suggested that demand may have been affected by a slowdown in the economy and Mothercare may have had to discount in order to maintain sales.

Most candidates chose to focus on competition from supermarkets and suggested a price war would lead to slower sales growth. The key factor determining candidates mark was whether they identified two factors and whether they developed their response beyond assertion.

Part (c)

Candidates might discuss a number of possible suggestions. A small Indian retailer might focus efforts on developing relationships with its customers. Tailoring products to local tastes and being innovative in the design of products, offering a range of limited edition designs might be appropriate. It should be evident that small independent retailers need to focus on their strengths.

Many candidates chose to ignore the context and came up with strategies which were either unsuitable for small retailers or inappropriate for small retailers in the Indian market. This question highlights the need to focus on the context and tailor answers.

Part (d)

A good answer should place the answer in context. Price cutting to match rivals might be one strategy. More effective market research could prove helpful. Focusing on customer needs and providing a better information service might be beneficial for Mothercare.

Assertions gained limited reward. Similarly, suggesting that Mothercare should do something that they already would not access the higher mark ranges. Proposing that Mothercare should do something indeterminate was not the basis for a good answer to the question. These approaches were typical of many answers seen.

Part (e)

Mothercare might well believe that entering new markets was one way of spreading risk and reducing dependence on the UK market. The Indian market is expanding and incomes are rising. With a growing middle class in India the potential market for Mothercare is growing. By entering these markets at this stage when there are few established rivals might enable Mothercare to gain a strong foothold in the market.

Many candidates looked at this question almost in the abstract. Firms could cut their costs and this would give them a competitive advantage were not an uncommon response. It does not consider the current position for the company. It assumes that any price cut will automatically give Mothercare an advantage. The alternative suggestion that Mothercare should innovate is similarly not convincing. Reference to the textbook might well reveal that some innovations are not successful.

Question 3

Part (a)

A good answer would examine the value of market research and examine the limitations of market research. The problems of collecting accurate data may be discussed.

A typical response to this question focused upon explaining the different types of market research without seeking to reach a judgement as to the importance of market research to firms.

Part (b)

Consumers could benefit from the growth of the internet. The internet improves consumer knowledge and allows them to make price comparisons. Giving consumers access to a wider range of suppliers might well enable consumers to negotiate lower prices. Choice is also enhanced.

Candidates generally found this question accessible. Fewer candidates developed responses which used appropriate examples or used economic and business concepts in their answer. It is clearly desirable on a higher mark question to apply business and economic terms in context.

Question 4

Part (a)

Focusing on consumer needs may enable Mothercare to tailor their products to consumer needs and may help to build relationships more quickly. Offering products which consumers wanted may enable the firm to charge higher prices. Such a strategy does not of course mean that rivals might not also try to do the same.

It is obviously better to structure a response using a context, whether it be baby products or a hotel. Answers using a context can explain the significance of customer focus with greater clarity. Unfortunately a large number of responses spoke generically without a clear focus on any company. This failure did tend to limit the opportunity to reward candidates.

Part (b)

Candidates should identify that there are a number of potential benefits for firms such as Mothercare of offering 'generous' staff care programmes. Firms might hope to motivate staff by offering extrinsic benefits. Candidates answering this question might well employ Maslow's hierarchy of needs to support analysis.

The benefits may be manifested in the form of happier, more productive workers committed to the success of the company. Staff absenteeism may be reduced and staff turnover may be reduced. Firms will have to carefully consider whether costs of such a scheme are justified by the benefits.

Most candidates found this question accessible. Differentiation occurred largely with the use of Maslow and the extent to which candidates were able to qualify and develop points. Weaker candidates tended to misrepresent motivational theories or made incorrect assertions on the basis of imperfect understanding of the theory.

Question 1

Part (a)

- (i) Productivity is output per worker.
There were a significant number of imprecise answers offered to this question.
- (ii) This involves using the production methods which keep unit costs to a minimum for a given quantity of output.
Few correct responses were seen to this question.
- (iii) Value added refers to the additional value created at a particular stage of production or through image and marketing.
Many candidates found this question accessible and offered valid insights.

Part (b)

International competitiveness might be improved by a number of strategies. Firms could try to reduce costs by producing goods at a lower cost. Looking at strategies to improve productivity might be one way. Alternatively firms might try to improve product quality and technical features. Immigration might also help to address labour shortages and reduce wage inflation.

Many candidates chose to look at competition domestically. This limited the reward that candidates could gain.

Part (c)

Evidence suggests that higher levels of education may improve employment. Improving the quality of the labour force may also make the UK more competitive internationally. Government may hope to receive higher tax returns in the long term. Vocational education may provide students with the skills they need to enter the workplace. Skills which are relevant to the workplace may improve participation rates.

Candidates produced solid responses to this question, demonstrating solid knowledge of the issues.

Part (d)

The strategies adopted will vary according to the type of firm and the stage of development. Strategies to improve productivity could include training programmes to raise skills levels of workers and training programmes. Efficiency initiatives and motivation strategies might also be considered. Judgement as to the likely effectiveness of the proposed strategies should be considered.

General assertions were offered by many candidates. Suggestions that firms might use JIT to improve productivity were common. It is clear that many candidates know the terms associated with lean production but cannot select information relevant to the question.

Question 2

Part (a)

Incomes are just one variable affecting house prices. A range of factors may therefore influence demand for housing. The effect of a rise in income will depend upon the amount of the pay rise.

Use of supply and demand diagrams was evident. Simple relationships were identified. Unqualified answers were common.

Part (b)

Candidates would identify the trade in data and explain why the figures might have changed. In order to answer the question candidates must identify trends in the financial data and explain why changes in one of the possible variables may affect the ROCE.

The use of financial data caused many candidates to panic and ignore this question. The overall standard of response was weak.

Part (c)

Persimmon may choose to acquire its rival in order to increase the market concentration ratio and reduce competition. Answers may discuss purchasing, marketing and management economies of scale. Synergistic benefits may also be discussed.

The majority of candidates talked about the benefits of reducing costs through economies of scale without an evaluative comment. Bald statements such as this obviously weakened the response.

Answers almost without exception suggested that the decision to purchase would reduce competition and increase market power. This was a valid response although the quality of the development.

Part (d)

The reality is that building new houses takes time. Planning restrictions and the cost of land has led to excess demand. Relaxing planning controls would improve the problem. Building houses takes time and there are few solution.

Xenophobic comments were the norm in responses to this type of question. Candidates saw the issue very much as a demand side problem which could be frozen. Development for many candidates was limited.

Question 3

Part (a)

Devaluation of the dollar would mean that each dollar of profit would buy less of a pound. As a UK based company Wimpey would wish to repatriate profits made in the US to the UK. In order to do this profits would have to be converted into sterling. As the value of the dollar falls the profit when converted into sterling would also fall.

Many candidates suggested that George Wimpey was a jobbing builder who would tender for work in the US. Sterling depreciation would make his bids relatively more expensive (because he priced in pounds) and this would mean less work. George Wimpey would also find the materials he shipped from the UK to the US for building projects relatively more expensive than US sourced materials.

Such answers have a logic to them which was given credit. The real problem is that the candidates have struggled to apply knowledge to the context.

Part (b)

Candidates should recognise the link between the success of a firm and its impact upon overall economic activity in a country. A company such as Persimmon which is growing and trading profitably can have a positive impact upon the economy. Some candidates used the Circular Flow of Income to explain the relationship. Obviously one company may have only a nominal impact upon overall economic performance in the UK.

Many candidates preferred to turn the question around examining the impact that a growing economy may have upon the success of a company. The insights offered were rewarded. The reward given to both approaches to the question depended largely on the quality of argument and the development of points.

Part (c)

Strong answer picked up on the fact that the growing inequality of incomes could lead to a widening disparity in demand and price for certain products and services. Growing income inequality might also lead to population migration which might serve to exacerbate the problem still further. Comments also suggested that such movements might over time lead to a readjustment of the price of some products and that this might reduce the differential in incomes between the North and South.

Some candidates did not seem to appreciate that the structure of exam questions for this specification tends to start with a narrow focus on the stimulus and then broaden the focus of the question as the marks increase. These candidates chose only to consider the housing market. It was possible to gain marks with this interpretation but the scope for development of answers was inevitably limited.

Part (d)

The fact that this question was not tied to a specific context seemed to make the question easier for some candidates. They rehearsed class notes effectively as to the effect that rising employment might have upon the demand for a firm's products. The discussion of whether demand for a firm's product would be elastic or inelastic depending on the nature of the good was less widely seen. Few candidates chose to explore the impact of rising employment on labour costs and skills shortages.

This question highlighted the importance of reading and answering the question set. Many candidates chose to explain the impact that rising unemployment would have upon a business.

Question 4

Part (a)

The best answers placed the question in context. They recognised that KPR was in India and that the firm was not employing craft manufacture without machinery. Answers were couched in terms of, 'If KPR have yet to introduce Jidoka, then this may help to reduce waste and lower manufacturing costs. Intelligent machines would enable staff to supervise more machines and cloth would not be produced with imperfections. Cost of introduction may determine whether this method is used'.

Some candidates thought appropriate that KPR based in India would be well served by moving to a country with lower labour costs. Suggestion that KPR should use machines and should exploit economies of scale fail to consider the current state of development of the firm. Answers need to be conditional and need to be placed in context rather than being framed for some abstract firm.

Part (b)

Answers primarily focused on lean production rather than training and improving the quality of labour. The distinction between stronger answers and weaker answers was the quality of evaluation. Strong answers were able to identify constraints and limitations.

Too many answers focused on regurgitating motivational theory rather than focusing on what the benefits of employing motivational strategy might be. The usual confusion over what constitutes a motivational theory persists. Candidates at times appeared bewildered and re-attributed theories. McGregor was given credit for theories postulated by Maslow and Herzberg. Herzberg also had his very own triangle.

Question 5

Part (a)

This was a very well answered question. Candidates appreciated the breadth. There was no single characteristic answer. Some candidates talked of the need to control anti-competitive practices. Other responses talked of controlling negative externalities such as pollution and addressing other instances of market failure. Some extremely good answers were seen. There was a pleasing awareness of the difference between public and merit goods.

Good answers outweighed the disappointing ones. Mark differentiation depended largely on the quality of evaluation.

Part (b)

Strong answers identified both positive and negative externalities and sought to weigh them up. Understanding of what externalities were was widespread.

Identification of externalities was strong. The weakness in responses could be found in the quality of development and the demonstration of higher order skills. Weaker candidates tended to talk about negative externalities such as loss of parks without recognising the benefits of new house building.

General Comments

As in previous years able candidates did well and showed considerable ability and insight. Unfortunately, once more there were whole centres that did not appear to have been adequately prepared or briefed for the exam and seemed to have little awareness of the case study. Conversely there were other centres that had clearly been well prepared and reaped the benefit accordingly.

Many candidates weakened their responses by failing to apply the toolkit, preferring instead to use generalities and non-specialist language. After two years of studying this subject candidates really ought to be able to use the correct terminology and apply concepts and theories as appropriate. This year in particular, the standards of economic literacy and literacy in general, seemed low. A common mistake was to confuse monopolistic with monopoly. Elsewhere changes were 'huge', 'massive, or 'fantastic', firms might 'go dramatically bust' and price rises were 'extortionate'. Spelling mistakes and grammatical errors were commonplace. Such responses do little to persuade examiners of the validity of a candidate's arguments. Once again there were some candidates who ignored the questions set and produced their own preferred responses.

Overall the questions appeared to work well, although many potentially strong candidates often lost marks by ignoring commands such as 'Assess' and 'Evaluate'. This was particularly so on Question 4 where many candidates failed to evaluate the importance of market segmentation. Too many answers relied on assertions rather than argument backed up by evidence. There were few signs of pupils being unable to complete the tasks in the allotted time.

Question 1

The question was specifically about Toyota and Chinese car firms. Too many candidates simply discussed collaboration in general, offering prepared answers in generic terms. Many simply repeated the case study and discussed common subframes. A significant number had unrealistic ideas such as suggesting that Toyota would benefit as the Chinese firms would teach them all about lean production and efficiency. Stronger candidates understood the need to engage in such ventures to access a heavily protected market with a large potential for growth.

Question 2

This should have been a straightforward question but a surprisingly large number of candidates seemed to have little awareness of why a Japanese car firm such as Honda had chosen to locate in the UK. Misconceptions abounded, far too many assumed that the main reason was to sell cars to the British. Others focused on the motorsport element in the case study. Stronger candidates understood the attraction of circumventing the EU common external tariff and the incentives offered by the UK to attract employment to the UK.

Question 3

Many recognised correctly that Ford were making losses and needed to re-focus on key markets with greater potential, though these were seldom identified (Ford currently view Russia as a key area). Others suggested that brands such as Jaguar and Land Rover did not fit with the rest of Ford's portfolio and they should concentrate on their core competences. The issue of exchange rates saw many candidates come to grief. A number seemed to think that \$2 to £1 meant that Jaguars cost twice as much in the USA. The key command word here was 'Assess', sadly many candidates chose to ignore this and penalised themselves accordingly.

Question 4

By far the most poorly answered question on the paper. A surprisingly large number of candidates appeared to have no, or little, understanding of market segmentation. Even if they did, they failed to develop it in the context of the car industry. Too often discussion was confined to niche vs mass markets. Once again the command word to 'Evaluate' was ignored by the majority. With six marks available for evaluation, many candidates significantly underachieved on this question.

Question 5

As ever, the dreaded '40 marker' proved to be the crux of the paper for many candidates. The questions that we set here are designed to be as open and accessible as possible, to allow candidates to show their understanding and abilities in a variety of ways. Ideally we are looking for argument, in context, backed up with evidence that shows sustained evaluation. Instead we often see assertions of a generic nature with little if any, evaluation. Whilst there were many good answers this year the majority failed to take full advantage of the mark scheme. Common mistakes were to rely on assertion, to repeat the case study evidence (notably the material on warranties), to provide generic answers that could have been about any industry and, as ever, a failure to evaluate. Stronger responses looked at protectionism in countries such as China, the encouragement of FDI as in the UK and the work of the regulatory authorities at national and supranational levels. Many responses looked at environmental concerns; the danger here was that many only looked at the effects on the consumer rather than the car industry.

GCE Economics and Business Grade Boundaries

6361	Max Mark	A	B	C	D	E
Raw	50	32	29	26	23	20
UMS	90	72	63	54	45	36
6362	Max Mark	A	B	C	D	E
Raw	90	51	46	41	36	31
UMS	120	96	84	72	60	48
6364	Max Mark	A	B	C	D	E
Raw	80	49	44	39	34	30
UMS	90	72	63	54	45	36

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