GradeMax

edexcel

Mark Scheme (Results)

Summer 2016

Pearson Edexcel International Advanced Subsidiary in Economics (WEC03) Paper 01 Business Behaviour

Edexcel and BTEC Qualifications

Edexcel and BTEC qualifications are awarded by Pearson, the UK's largest awarding body. We provide a wide range of qualifications including academic, vocational, occupational and specific programmes for employers. For further information visit our qualifications websites at www.edexcel.com or www.btec.co.uk. Alternatively, you can get in touch with us using the details on our contact us page at www.edexcel.com/contactus.

Pearson: helping people progress, everywhere

Pearson aspires to be the world's leading learning company. Our aim is to help everyone progress in their lives through education. We believe in every kind of learning, for all kinds of people, wherever they are in the world. We've been involved in education for over 150 years, and by working across 70 countries, in 100 languages, we have built an international reputation for our commitment to high standards and raising achievement through innovation in education. Find out more about how we can help you and your students at: www.pearson.com/uk

Summer 2016
Publications Code xxxxxxxx*
All the material in this publication is copyright
© Pearson Education Ltd 2016

General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

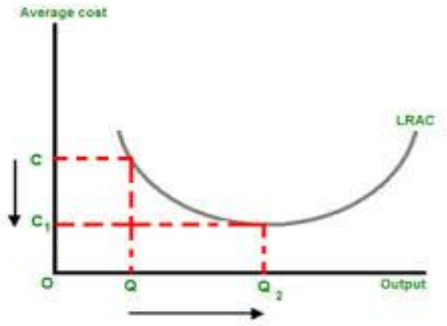
Section A: Essay questions

NB: Use levels based mark scheme (20 marks) to mark this section.

Question Number	Answer	Mark

1	**Indicative content**
	• Meanings of:
	Small businesses – may be based on market share, value of capital, annual revenue, number of employees etc.
	Finance – money used for further investment in the business
	
	Access to finance is limited because of:
	
	• relatively small amount of retained profits
	
	• banking sector may be less willing to lend – small firms perceived as higher risk due to lower value of assets
	
	• small firms will have little or no opportunity to raise share capital on the open market (stock exchange) as not a PLC
	
	• finance markets may be fragmented particularly in developing countries
	
	Other factors which constrain business growth
	
	• The objectives of the owners/managers
	  • Owner(s) may be satisfied with keeping the business small – growth is risky, expensive, time-consuming etc.
	  • Owner(s) may prefer to remain within a market niche, offering personal customer service
	  • Lack of managerial skills
	
	• The size and composition of the market
	  • Lack of scope for growth within the market
	  • Many other firms competing in the market
	  • Localised market, niche etc.	

	• The macroeconomic climate
	  • Slow growth or recession in the economy
	  • Low effective demand, low consumer purchasing power
	  • Future uncertainty in the economy – economic, political etc.
	  • High interest rates
	  • High inflation rates
	  • High unemployment rates
	
	• High legal and administration costs, government bureaucracy, cuts on government spending etc.
	
	• Lack of availability of skilled labour
	
	Evaluation:
	
	• Difficult to assess whether access to finance is the most important constraint.
	
	• Business objectives likely to be a prime factor – depends on whether small business owner *wants* the business to grow or not
	
	• In the short run, macroeconomic factors may be a key factor – economic growth forecasts, predictions for other economic indicators
	
	• Government policy towards small businesses may play a vital role in promoting small businesses – financial benefits, tax concessions, help & advice, pressure on banking sector to encourage small business growth
		(20)

Question Number	Answer	Mark
2	**Indicative content** Definition of TNC - A company that has its facilities and other assets in at least one country other than its home country Possible advantages include: • Access to more markets overseas • Stronger brand recognition leading to increased sales and profits • Insufficient demand in the domestic economy – reached saturation point – scope for greater sales and profits • More scope for economies of scale e.g. cost savings on R&D, transport economies, risk-bearing economies • Greater market power  • Take advantage of low-cost locations – labour costs, rent, land etc. leading to increased profit margins • Gain a better understanding of markets, technology standards and policies in other countries • To avoid trade barriers • Financial support may be available from overseas governments and other agencies to attract FDI • Opportunity to obtain foreign currencies - gain interest, use in future transactions • Major strategic decision – potentially positive impact on sales and profits and long term success • Company may already be exporting, hence risks are lessened.	

	Evaluation • High capital costs • Unfamiliarity with overseas markets/economies – laws, customs, tastes etc. May be risky • Potential diseconomies of scale – co-ordination and communication issues • Distinction between short and long run (benefits usually gained in the long run in relation to FDI) • May meet with opposition from consumers, pressure groups and governments abroad	**(20)**

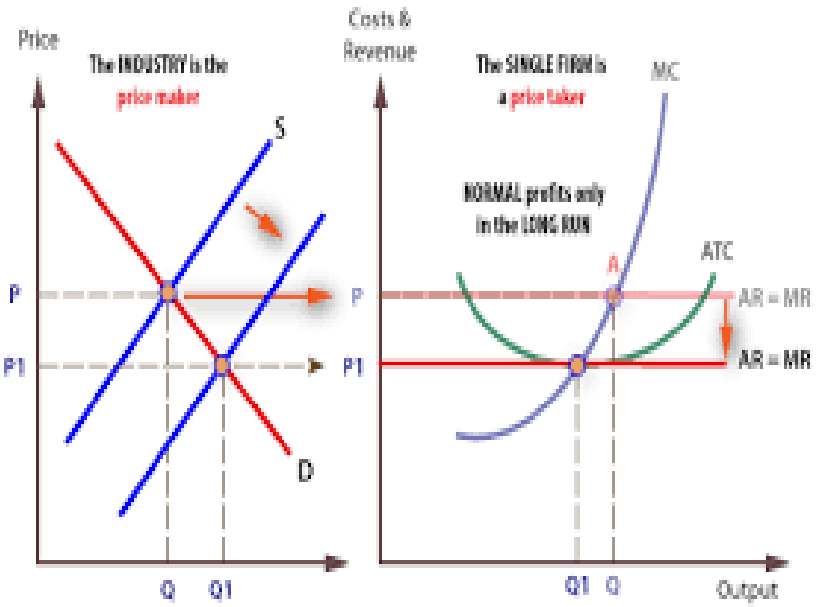
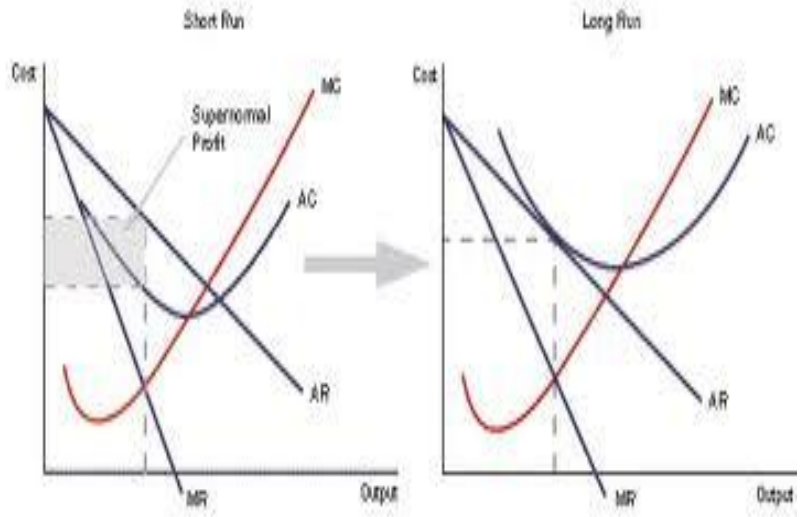
Question Number	Answer	Mark
3	**Indicative content** • Definitions of efficiency – productive (lowest point of AC), allocative (p=MC) and dynamic (technical) • Definition of perfect competition – conditions of model – large number of buyers & sellers, perfect information, identical product, no barriers to entry & exit • As a consequence, firms are price takers – hence perfectly elastic demand • Use of diagrams to show price and output levels for a firm in a perfectly competitive market. • Allocative and productive efficiency in the short run and long run using diagrams as shown below.  • Diagram of firm shows that, in the short run, the supra normal firm achieves allocative but not productive efficiency. In the long run all firms achieve both productive and allocative efficiency and make normal profit **Comparison with monopoly/monopolistic competition (or possibly oligopoly)** • Definition of the selected market structure	

DIAGRAM BELOW (shows short & long run diagrams for monopolistic competition. First diagram applicable to monopoly in both short & long run)

- In each situation firms are neither productively nor allocatively efficient



Evaluation

- Absence of supernormal profit in the long run implies low levels of R&D and hence lack of dynamic efficiency. No barriers to entry (e.g. patents) means that all firms would benefit from any product innovation.

- Perfectly competitive markets are rare in the real world – more of a theoretical concept

- If the market is contestable, monopolists may choose to lower price and make less profit and it is possible that the firm may be productively efficient and/or allocatively efficient

- Overall judgement as to whether efficiency is more or less likely in a perfectly competitive market

(20)

Question Number	Answer	Mark
4	**Indicative content** Forms of government intervention to protect the interests of employees may include: • Minimum wage legislation • Equal opportunity laws – equal pay, anti-discrimination • Employment rights – part-time employees' rights, maternity & paternity leave, holiday entitlements, redundancy etc. • Health & safety laws and regulations Pressure groups may include: • Trade unions -bargaining over pay and working conditions • Fairtrade Foundation – exposure of low wages & conditions for producers • Charity-based organisations such as Oxfam & Christian Aid – campaigning for equal rights and fair pay. Exposure of child labour Impact on business behaviour: • Business objectives may alter – more emphasis on social responsibility • In relation to legislation, businesses will need to conform with the law – may involve having to make adjustments/changes to current employment practices – e.g. rights for disabled workers, recruitment processes, changes to safety procedures, increase in wage rates • Any of the above, plus pressure group activity, may lead to **increased costs** for businesses • Impact of rising costs may be: - businesses raise prices - substitute capital for labour - reduce profit margins - reduce other costs - relocate to lower cost economies • May be a rise in business corruption, unofficial business activity to avoid tougher laws	

	Evaluation • Reputation of the business may be enhanced for those businesses which conform with the legislation and demand does not fall despite higher prices • Legislation applies to competitors as well, so may be no loss of market share • Depends on the extent of the change required – for some businesses the impact may be slight • Rising costs may be offset by a rise in labour productivity due to improved pay/conditions/employment opportunities. Hence little or no rise in unit labour costs • Depends on the power of trades unions in relation to employer organisations • Depends on the influence of pressure group activities • Depends on the extent to which laws and regulations are being enforced by the government • Short term/long term impact on business behaviour	**(20)**

Section A Questions: Performance Criteria for Mark base 20		
Level 0	0	• No rewardable material
Level 1	1-4	• Displays knowledge presented as facts without awareness of other viewpoints • Demonstrates limited understanding with little or no analysis • Attempts at selecting and applying different economic ideas are unsuccessful • Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
Level 2	5-8	• Displays elementary knowledge of well learnt economic facts showing a generalised understanding together with limited analysis i.e. identification of points or a very limited discussion • Displays a limited ability to select and apply different economic ideas • Material presented has a basic relevance but lacks organisation, but is generally comprehensible. Frequent punctuation and/or grammar errors are likely to be present which affects the clarity and coherence of the writing overall.
Level 3	9-12	• Displays knowledge and understanding of economic principles, concepts and theories as well as some analysis of issues i.e. answer might lack sufficient breadth and depth to be worthy of a higher mark • Shows some ability to apply economic ideas and relate them to economic problems • Employs different approaches to reach conclusions • Material is presented with some relevance but there are likely to be passages which lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect the clarity and coherence.
Level 4	13-16	• Displays a good knowledge of economic principles, concepts and theories together with an analysis of the issues involved • Demonstrates an ability to select and apply economic ideas and to relate them to economic problems • Evidence of some evaluation of alternative approaches leading to conclusions • Material is presented in a generally relevant and logical way, but this may not be sustained throughout. Some punctuation and/or grammar errors may be found which cause some passages to lack clarity or coherence.

Level 5	17-20	• Displays a wide range of knowledge of economic principles, concepts and theories together with a rigorous analysis of issues • Demonstrates an outstanding ability to select and apply economic ideas to economic problems • Evaluation is well balanced and critical leading to valid conclusions • Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing has overall clarity and coherence.

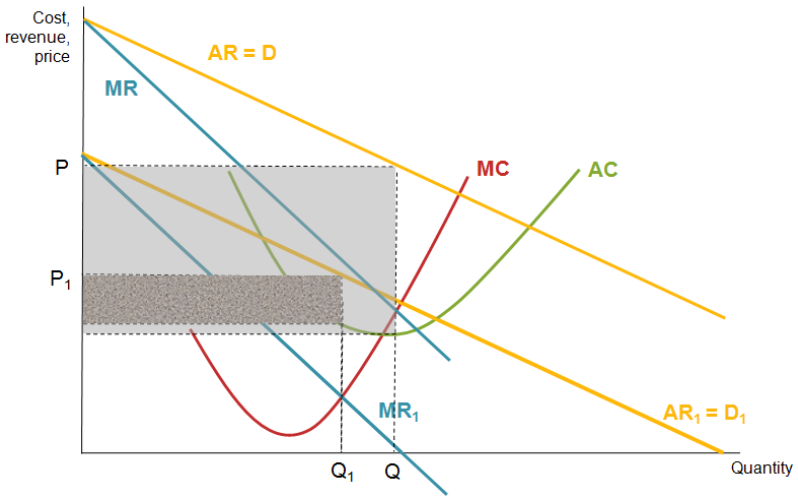
Section B: Data response

Question Number	Answer	Mark
5 (a)	**Knowledge and Application (up to 4 marks)** **Knowledge** – up to 2 marks Define loss – TC greater than TR (2) Where sales revenue is insufficient to cover both fixed and variable costs (2) Any other valid definition (2) **Application –** up to 2 marks. Reason (1) + development (1) Lack of demand (1) due to competition (1) Rising variable costs (1) – if no compensating rise in revenue, loss has occurred (1) Rising wages based on years of service (1) Sony may have experienced rising fixed costs (1) – due to over-expansion for example (1) Sales target for smartphones cut by 14% (1) If similar sales cut across the company, then loss is likely (1) Any other valid response – up to 2 marks	**(4)**

Question Number		Mark
5 (b)		**(12)**
Knowledge, application and analysis – indicative content		

- Expected reduction in smartphone sales of approx. 14%
- Overall loss expected of approx. US$486 million
- Drop in smartphone sales will cover variable, but not fixed cost – makes a contribution towards fixed costs

An accurate diagram will include shift in revenue curves and show potential change in profit (loss) for Sony



- Sony's profit maximising output initially at OQ and a price of OP
- AR and MR curves shift to the left following drop in smartphone sales
- Price and output fall to OP1 & OQ1 respectively. (Diagram shows a lower profit but a loss or normal profit may be shown)

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of the impact of a fall in sales on profits. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
2	4-6	Understanding of the impact of a fall in sales on profits with some application to context. Material is presented with some relevance but there are likely to be passages which lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect the clarity and coherence.
3	7-8	Clear understanding of the impact of a fall in sales on profits or with effective application to context. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing has overall clarity and coherence.

Evaluation – indicative content		
	• The impact may be serious if smartphones are a significant part of Sony's overall sales and/or the downward trend is replicated in other parts of the business • Can be withstood in the short run (covering VC), but not in the long run – unless Sony responds positively or there are changes in the market (higher demand, loss of competitors) • Changes in variable costs such as reducing wage costs may restore profitability • The 14% sales fall is in one division of the company – may not be replicated across other divisions • As a large TNC, Sony may be in a position to withstand losses for some considerable time • Sony's product innovation and its R & D may cause demand for its products to rise and restore profitability • Workers/Trade unions may resist proposals and may lead to disruption, demotivation, loss of productivity and lead to further decline in profit	

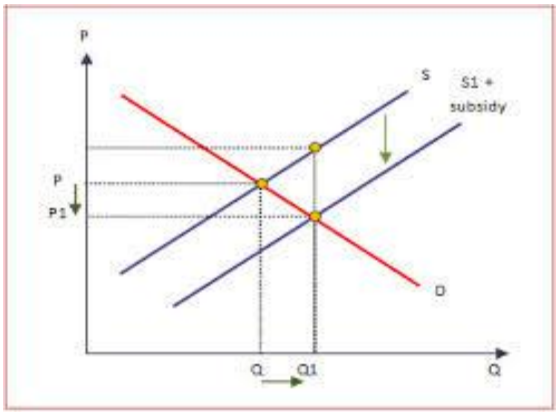
Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation.
2	3-4	For evaluative comments supported by relevant reasoning.

Question Number		Mark
5 (c)		**(12)**
Knowledge, application and analysis – indicative content		
	• Companies and co-operatives are all part of the private sector - non-government owned businesses organisation. • Companies are owned by shareholders whereas co-operatives are owned by producers (workers), consumers or members. • Shareholders more likely to desire high profit/maximisation of profit. Shareholders tend to want good returns in the form of dividend payments and a rising share price. • Co-operatives are likely to place a greater emphasis on meeting the needs of its members, e.g. improving living conditions for cocoa growers • Co-operatives may give a higher priority to social responsibility, e.g. environmental concerns, community needs, providing employment opportunities • Large companies, like Sony, may have a stronger drive for growth compared with co-operatives which tend to be smaller • Co-operatives may be more collaborative with others within its market (group together; Extract 2) • Divorce of ownership from control in large private sector companies. This may not apply to cooperatives.	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of business objectives. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
2	4-6	Understanding of different business objectives for large companies and co-operatives with some application. Material is presented with some relevance but there are likely to be passages which lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect the clarity and coherence.
3	7-8	Clear understanding of different business objectives for large companies and co-operatives with effective application to context. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing has overall clarity and coherence.

Evaluation – indicative content		
	• Making a profit is a key objective for <u>all</u> private sector organisations, (except not for profit organisations). This may be: - profit maximisation -profit satisficing But essentially it is no different for companies like Sony & co-operatives • Unless co-operatives receive government support, they can only survive if they make profits • Large companies, such as Sony, also have social responsibilities • Differences in objectives may be in relation to priority of importance **Candidates may take either perspective for KAA and the reverse perspective for evaluation.**	

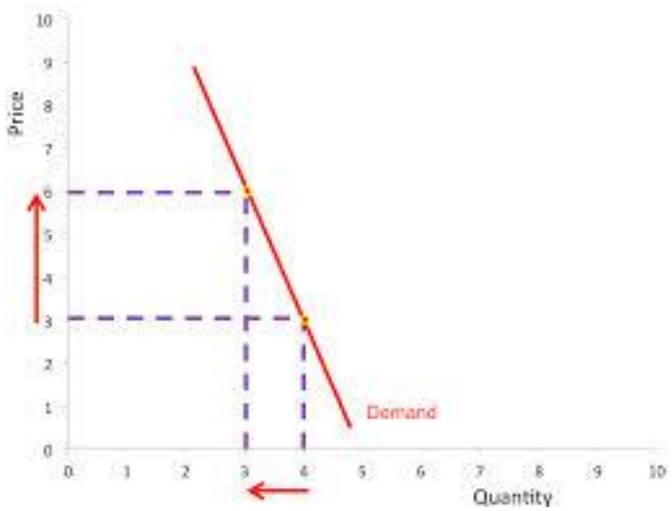
Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation.
2	3-4	For evaluative comments supported by relevant reasoning.

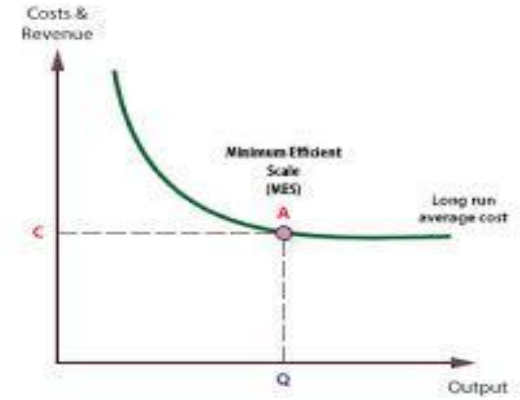
Question Number		Mark
5(d)		**(12)**
Knowledge, application and analysis – indicative content		
	Methods of intervention: • Financial support – e.g. grants, subsidies, tax breaks, low-cost loans • Less regulation of co-operatives • Local sourcing of raw materials • Legislation to support growth of co-operatives • Promotion/support of Fair Trade campaign • Barriers to entry of foreign firms Impact of government support • Enables co-operatives to be in a better position to compete in the market. e.g. the impact of a subsidy will be to lower price and raise quantity bought and sold  • Price falls from OP to Op1, Quantity rises from OQ to OQ1 • Provides a source of employment – already over 5 million people employed in co-operatives in EU • Increased incomes – multiplier effect, growth in GNP, possible route out of poverty for developing economies • Rise in export income and a more internationally competitive economy	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of the impact of government support for co-operatives. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
2	4-6	Understanding of the impact of government support for co-operatives, with some application to context. Material is presented with some relevance but there are likely to be passages which lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect the clarity and coherence.
3	7-8	Clear understanding of the impact of government support for co-operatives, with effective application to context. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing has overall clarity and coherence.

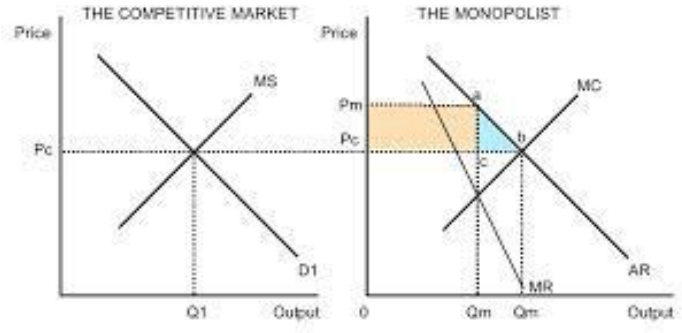
Evaluation – indicative content		
	• Costs of government support • Short term/long term impact – is support sustainable? • Opportunity costs – what may need to be foregone? • Co-operative businesses tend to be small – how effectively can they compete against TNC's? - how efficient might they be? • Support may need to be across national boundaries (e.g. European scale – extract 2) • The focus on social objectives may make co-operatives less internationally competitive • Depends on the nature and level of government support • Depends on the macroeconomic climate and growth opportunities for co-operatives	

Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation.
2	3-4	For evaluative comments supported by relevant reasoning.

Question Number	Answer	Mark
6 (a)	**Knowledge and Application (up to 4 marks)** **Knowledge** – up to 2 marks: Define price elasticity of demand – the response of QD to a change in price (1) Formula for PED % change in QD/% change in P (1) Define inelastic demand - where the % change in QD is less than the % change in P (2) **OR** Define elastic demand - where the % change in QD is more than the % change in P (2) Incomplete definition (1) **Application** – up to 2 marks: Demand likely to be price inelastic (1) - following a rise in price, revenue was expected to increase for THSRC (1) Reward diagram - inelastic demand - rise in revenue  	**(4)**

Question Number		Mark
6 (b)		**(12)**
Knowledge, application and analysis – indicative content		
	• Define monopoly – sole supplier or a firm with a very high market share • THSRC – possibly a monopolist in relation to rail transport • A monopolist may gain from economies of scale and pass those benefits on to consumers in the form of lower prices - For example -technical economies of scale – high speed trains (increased dimensions); financial economies of scale – lower interest rates • Minimum efficient size may be large with falling LRAC – productive efficiency (see diagram)  • THSRC may have a competitive advantage over smaller rail companies • THSRC may be adopting a form of limit pricing or keeping its prices down to reduce the likelihood of new entrants, hit & run etc. • Taiwan Government's competition policies and regulators may exert pressure on monopolies to provide value for money and keep prices down. The Government may even be subsidising the firm.	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of the potential financial benefits of monopoly to consumers. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
2	4-6	Understanding of the potential financial benefits of monopoly to consumers with some application to context. Material is presented with some relevance but there are likely to be passages which lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect the clarity and coherence.
3	7-8	Clear understanding of the potential financial benefits of monopoly to consumers with effective application to context. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing has overall clarity and coherence.

Evaluation – indicative content		
	• Monopolist may abuse its market power and charge higher prices • THSRC'S price rose between 7.1% to 9.7% • More competition tends to drive down prices – compare pc with pm as shown in diagram  • Lack of competition can lead to complacency and x-inefficiency • Judgement as to whether rail travel is an example of natural monopoly or not • Conclusion – balance of factors **Candidates may take either perspective for KAA and the reverse perspective for evaluation.**	

Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation.
2	3-4	For evaluative comments supported by relevant reasoning.

<table>
<tr><td>Question Number</td><td colspan="2"></td><td>Mark</td></tr>
<tr><td>6(c)</td><td colspan="2"></td><td>(12)</td></tr>
<tr><td colspan="4">Knowledge, application and analysis – indicative content</td></tr>
<tr><td></td><td colspan="2">Identification and explanation of monopsony – where a buyer has significant market power over its suppliers
Benefits to a supplier
• Suppliers may benefit in the form of longer term contracts leading to potentially higher revenue and profits e.g. those businesses in the Vietnam Electricity Group
• Removal/reduction of uncertainty for suppliers
• Provides suppliers with more stable incomes
• Enables suppliers to plan ahead
• Suppliers may face less competition from other potential suppliers if they are part of exclusive deals e.g. those firms in the Vietnam Electricity Group
• Suppliers can gain from government protection against abuses of monopsony power
• Suppliers may also have significant market power to counteract the power of the monopsony</td><td></td></tr>
<tr><td>Level</td><td>Marks</td><td colspan="2">Descriptor</td></tr>
<tr><td>0</td><td>0</td><td colspan="2">A completely inaccurate response.</td></tr>
<tr><td>1</td><td>1-3</td><td colspan="2">Shows some awareness of the benefits of monopsony to suppliers.
Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.</td></tr>
<tr><td>2</td><td>4-6</td><td colspan="2">Understanding of the benefits of monopsony to suppliers with some application to context.
Material is presented with some relevance but there are likely to be passages which lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect the clarity and coherence.</td></tr>
<tr><td>3</td><td>7-8</td><td colspan="2">Clear understanding of the benefits of monopsony to suppliers with effective application to context.
Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing has overall clarity and coherence.</td></tr>
</table>

Evaluation – indicative content		
	Costs to suppliers may include: • Denied access to markets due to exclusive deals – reference to impact on suppliers in the Vietnamese electricity market • Forced to sell at very low prices – leading to lower profits margins/lower incomes/losses (Extract 3) • Market power applied by monopsonist e.g. - charging without permission - names on website - payments for eye-level shelf positioning (Extract 3) - strict terms and conditions on deliveries and fines if deadlines not met etc. • Some suppliers may leave the market - unable to make a profit or insufficient profit margin • Depends on the terms and conditions of the buyer and seller relationship • Short term/long term impact • Depends on how governments respond – (references to competition laws/authorities in both extracts) • Do the costs outweigh the benefits for suppliers? • Which specific benefits and costs are likely to exert more influence? Prioritisation **Candidates may take either perspective for KAA and the reverse perspective for evaluation.**	

Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation.
2	3-4	For evaluative comments supported by relevant reasoning.

Question Number		Mark
6(d)		**(12)**
Knowledge, application and analysis – indicative content		
	Types of government intervention may include: • fines and prosecution of directors through the courts • increasing the powers of the competition authorities e.g. tightening up competition laws • setting minimum prices for suppliers e.g. to the suppliers of large supermarkets such as Morrisons • lowering barriers to entry to encourage an increase in competition in the market e.g. through deregulation. **The impact of government intervention on behaviour of monopsonists:** • May raise costs for monopsonists. This can lead to various situations including: - lower profit margins - higher prices to consumers - cut costs in other areas – e.g. employment, advertising • Monopsonists choose alternative suppliers – possibly from other economies where government protection does not apply If the buyers' market becomes more contestable firms like Morrisons, for example, may need to become more efficient – quality of products/service, range of products etc.	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of the impact of government policies on the behaviour of monopsony firms. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
2	4-6	Understanding of the impact of government policies on the behaviour of monopsony firms with some application to context. Material is presented with some relevance but there are likely to be passages which lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect the clarity and coherence.
3	7-8	Clear understanding of the impact of government policies on the behaviour of monopsony firms with effective application to context. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing has overall clarity and coherence.

Evaluation – indicative content		
	• Limits to the powers of national governments – if monopsonists are very powerful in the market. In this case there may be little impact on business behaviour • Short run/long run distinction – removing market power from monopsonists may take time to have any significant impact – e.g. time lag before new firms are established • Possibility of regulatory capture & government failure, so monopsonists are not adversely affected	
Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation.
2	3-4	For evaluative comments supported by relevant reasoning.

Pearson Education Limited. Registered company number 872828
with its registered office at 80 Strand, London WC2R 0RL