



Pearson

Mark Scheme (Results)

Summer 2017

Pearson Edexcel GCE AS Level
in Economics B (8EB0)
Paper 02 The wider economic environment

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 2017

Publications Code 8EB0_02_1706_MS

All the material in this publication is copyright

© Pearson Education Ltd 2017

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

Question Number		Mark
1(a)	<p style="text-align: center;">Knowledge/understanding 2</p> <p>Knowledge/understanding 2 marks for:</p> <ul style="list-style-type: none"> • A sustained increase (1) in the average/general price level (1) <p>OR</p> <ul style="list-style-type: none"> • A rise in the average/general price level (1) over a period of time (1) <p>NB any other suitable alternative.</p>	(2)

Question Number		Mark
1(b)	<p style="text-align: center;">Knowledge/understanding 1, Application 3</p> <p>Knowledge: 1 mark for:</p> <p style="text-align: center;"><u>Output</u> (1) Number of employees</p> <p>Application:</p> $\frac{425,000}{25,500} \begin{matrix} (1) \\ (1) \end{matrix} = 16.67 \text{ vehicles per employee } (1)$ <p>NB</p> <ul style="list-style-type: none"> • If the answer given is 16.67 vehicles per employee award 4 marks. • If the answer given is 16.67 award 3 marks. 	(4)

Question Number		Mark
1(c)	<p style="text-align: center;">Knowledge/understanding 1, Application 2, Analysis 1</p> <p>Knowledge/understanding: 1 mark for an effect e.g.</p> <ul style="list-style-type: none"> • the US is more productive/the UK is less productive • the US is likely to have lower average cost/the UK is likely to have higher average cost • firms relocate from the UK to the US • US product prices may be lower/UK product prices may be higher <p>Application: up to 2 marks are available for contextualised answers, e.g. Extract A shows a gap of 30 index points in 2014 between UK and US (1) an increase of 3 index points since 2013/growing gap between UK and US (1)</p> <p>Analysis: 1 mark available for developing the connection, e.g. US producers will have lower average costs and this may give them a competitive advantage/greater economic growth/standard of living (1)</p>	(4)

Question Number		Mark
1(d)	<p data-bbox="357 219 1331 291" style="text-align: center;">Knowledge/understanding 2, Application 2, Analysis 2, Evaluation 2</p> <ul data-bbox="367 331 1331 1285" style="list-style-type: none"> • Productivity measures how efficiently production inputs, such as labour and capital, are being used in an economy to produce a given level of output. • Productivity is often linked to the competitiveness of an economy or a firm. • Productivity is important to firms such as <i>JLR</i> because if they are able to use fewer resources to produce more cars, this may result in falling unit costs for <i>JLR</i>. • When production costs fall, it may be possible to cut price of cars and therefore improve the competitiveness in relation to other car manufacturers. • Rising productivity may also result in better quality or more reliable cars which will be particularly important for a firm such as <i>JLR</i> who sell luxury cars which need to be of a higher standard. • This may result in <i>JLR</i> being able to charge a higher price and therefore increase overall profits. • However, there are other factors which are also important for a firm such as <i>JLR</i>. • <i>JLR</i> export 80% of its cars so the value of the pound sterling against other currencies will also affect the competitiveness of <i>JLR</i> when exporting. • The PED of <i>JLR</i>'s cars will also be an important factor in determining how successful <i>JLR</i> is in the car market. • Quality of the cars may fall if employees are forced to produce too many cars per hour resulting in dissatisfied customers. 	(8)

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Isolated elements of knowledge and understanding, using little or no relevant evidence. Arguments and chains of reasoning may be attempted. Limited attempt to address the question.
Level 2	3–5	Elements of knowledge and understanding, using limited relevant evidence. Arguments and chains of reasoning are developed. Judgements may be attempted.
Level 3	6–8	Accurate knowledge and understanding, supported throughout by use of relevant evidence which is well chosen. Arguments are developed, using logical, coherent chains of reasoning. A balanced awareness of competing arguments.

Demonstrating application (AO2) in responses

Where questions specifically stipulate the use of data or information provided in a stimulus, students:

- must directly reference, interpret or analyse the information provided in the stimulus
- in addition, may select examples from their own knowledge but these must be relevant and directly connected to the context/issues set out in the stimulus.

Where questions do not specifically stipulate the use of data or information provided in a stimulus, students:

- must select relevant examples from their own knowledge, these must be directly connected to the context/issues set out in the question, and
- may directly reference, interpret or analyse the information provided in any relevant stimulus.

Question Number		Mark
1(e)	<p style="text-align: center;">Knowledge/understanding 2, Application 2, Analysis 4, Evaluation 4</p> <ul style="list-style-type: none"> • Labour productivity measures the output per worker in a period of time. • Labour productivity is an important factor in determining the productive potential of an economy. • The UK government can invest in education and training programmes which may help to improve the skills of the labour force. • Skilled employees are likely to be more flexible and able to carry out a wider range of tasks resulting in an improvement in labour productivity. • Improvements in human capital such as <i>JLR's</i> new academy may help to reduce poor quality output and mistakes are reduced resulting in less wastage. • A more flexible labour force may make it easier for firms to implement changes in working practices which lead to a rise in productivity. • Education and training may also allow workers to adapt to new technologies which often lead to greater efficiency/increased productivity. • However, education and training may take a long time to be implemented as well as having an opportunity cost. • Education and training has a direct cost and an indirect cost in lost production which may outweigh any gains. • There are many other supply side policies which can also be used to improve labour productivity in the UK. • Extract B states that investment in the UK's infrastructure, R&D, new technologies and a reduction in government regulation may also result in an improvement in productivity in the UK. • The improvements will depend as much on the quality of the education and training available as well as other government policies which can be used at the same time. 	(12)

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Isolated elements of knowledge and understanding, using little or no relevant evidence. Arguments and chains of reasoning may be attempted. Limited attempt to address the question.
Level 2	3–5	Elements of knowledge and understanding, using limited relevant evidence. Arguments and chains of reasoning are presented but with limited attempt to address the question. Comparisons and judgements may be attempted.
Level 3	6–9	Accurate knowledge and understanding, supported by use of relevant evidence to support the argument, clear chains of reasoning, with well-developed arguments. An awareness of the significance of competing arguments is present although this may lack balance.
Level 4	10–12	Accurate knowledge and understanding, supported throughout by use of relevant evidence which is well chosen, logical, coherent chains of reasoning, showing full understanding of the question. Arguments are developed and evaluated. A full and balanced awareness of the validity and significance of competing arguments.

Demonstrating application (AO2) in responses

Where questions specifically stipulate the use of data or information provided in a stimulus, students:

- must directly reference, interpret or analyse the information provided in the stimulus
- in addition, may select examples from their own knowledge but these must be relevant and directly connected to the context/issues set out in the stimulus.

Where questions do not specifically stipulate the use of data or information provided in a stimulus, students:

- must select relevant examples from their own knowledge, these must be directly connected to the context/issues set out in the question, and
- may directly reference, interpret or analyse the information provided in any relevant stimulus.

Section B

Question Number		Mark
2(a)	<p style="text-align: center;">Knowledge/understanding 2</p> <p>Knowledge/understanding 2 marks for:</p> <ul style="list-style-type: none"> setting prices at such a low level/below cost price (1) and other firms are forced to leave the market (1) <p>NB any other suitable alternative.</p>	(2)

Question Number		Mark
2(b)	<p style="text-align: center;">Knowledge/understanding 2, Application 1, Analysis 1</p> <p>Knowledge/understanding 1 mark for:</p> <p>Formula for percentage change:</p> $\frac{\text{New} - \text{Original}}{\text{Original}} \times 100 \quad (1)$ <p>Application up to 3 marks for:</p> $\frac{62\,754 - 49\,854}{49\,854} \times 100 = 25.88\% \quad (1)$ <p style="text-align: center;">OR</p> $\frac{12\,900}{49\,854} \times 100 = 25.88\% \quad (1)$ <p>NB</p> <ul style="list-style-type: none"> If the answer given is 25.88% award 4 marks. If the answer given is 25.88 award 3 marks. 	(4)

Question Number		Mark
2(c)	<p style="text-align: center;">Knowledge/understanding 1, Application 2, Analysis 1</p> <p>Knowledge / understanding: 1 mark for identifying an impact on prices e.g. lower prices (1)</p> <p>Application: up to 2 marks are available for contextualised answers, e.g. Extract C shows the total number of vehicles increased over the 10 years to 85,254 (1) Extract D states that <i>Uber</i> is up to 40% cheaper than black cabs (1)</p> <p>Analysis: 1 mark available for developing the connection, e.g. an increase in the supply of taxis will result in greater competition and more competitive prices for customers (1)</p>	(4)

Question Number		Mark
2(d)	<p style="text-align: center;">Knowledge/understanding 2, Application 2, Analysis 2, Evaluation 2</p> <ul style="list-style-type: none"> • Advertising is a means of communication with the users of a product or service. • The purpose of advertising is to make customers aware of <i>Uber's</i> taxi service and encourage brand loyalty. • In <i>Uber's</i> case, customers would be more likely to use <i>Uber's</i> taxi service rather than rival Apps or traditional black cabs. • This may result in the demand curve shifting to the right and are more likely to use <i>Uber</i> even if the price is higher than rivals. • Successful advertising can result in an increase in demand and reduce PED. • However, this will only be the case if the advertising is successful enough to differentiate <i>Uber's</i> services from other competitors who use taxi Apps. • Convenience and speed of the taxi service may also be just as important as advertising. • Many customers may use the next available taxi and are unaffected by advertising campaigns. 	(8)

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Isolated elements of knowledge and understanding, using little or no relevant evidence. Arguments and chains of reasoning may be attempted. Limited attempt to address the question.
Level 2	3–5	Elements of knowledge and understanding, using limited relevant evidence. Arguments and chains of reasoning are developed. Judgements may be attempted.
Level 3	6–8	Accurate knowledge and understanding, supported throughout by use of relevant evidence which is well chosen. Arguments are developed, using logical, coherent chains of reasoning. A balanced awareness of competing arguments.

Demonstrating application (A02) in responses

Where questions specifically stipulate the use of data or information provided in a stimulus, students:

- must directly reference, interpret or analyse the information provided in the stimulus
- in addition, may select examples from their own knowledge but these must be relevant and directly connected to the context/issues set out in the stimulus.

Where questions do not specifically stipulate the use of data or information provided in a stimulus, students:

- must select relevant examples from their own knowledge, these must be directly connected to the context/issues set out in the question, and
- may directly reference, interpret or analyse the information provided in any relevant stimulus.

Question Number		Mark
2(e)	<p style="text-align: center;">Knowledge/understanding 2, Application 2, Analysis 4, Evaluation 4</p> <ul style="list-style-type: none"> • Extracts C and D show that the market is much more competitive therefore it may be difficult for a small firm to compete on price so it could look to adopting non-price methods. • A small private hire firm may be able to offer better customer service rather than try to compete on price which may result in repeat bookings from regular customers. • The small firm could target specific niche markets such as focusing on shopping centres where many customers without a car need transport home with shopping or provide taxis for local restaurants/nightclubs which will bring in regular sales revenue. • Flexibility to respond to customer needs in terms of offering a range of services and being able to offer additional services such as wheelchair access, covering a wider geographical area. • Product differentiation/USP such as offering luxury taxis or covering regular trips such to airports. • Competitive advantage with stakeholders such as having a strong brand name or reputation for being reliable or offering good customer service. • Using the digital economy – use of Apps so that customers are able to book easily and pay online rather than by using cash. • Use of social media to advertise and promote the firm which can help to gain brand loyalty and awareness of the business. • However, with all of these non-price methods there are disadvantages/drawbacks. • Niche markets may be limited by size and scope preventing expansion. • Costs may be higher as small taxi firms cannot exploit economies of scale. • For many users of taxi services, the price is often the most important factor in deciding which taxi firm to use so it may be difficult to compete with the likes of <i>Uber</i> who are using predatory pricing to undercut other taxi firms. • Unless the small taxi service can justify their higher prices, then they may struggle to remain competitive in the current market. 	(12)

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Isolated elements of knowledge and understanding, using little or no relevant evidence. Arguments and chains of reasoning may be attempted. Limited attempt to address the question.
Level 2	3–5	Elements of knowledge and understanding, using limited relevant evidence. Arguments and chains of reasoning are presented but with limited attempt to address the question. Comparisons and judgements may be attempted.
Level 3	6–9	Accurate knowledge and understanding, supported by use of relevant evidence to support the argument, clear chains of reasoning, with well-developed arguments. An awareness of the significance of competing arguments is present although this may lack balance.
Level 4	10–12	Accurate knowledge and understanding, supported throughout by use of relevant evidence which is well chosen, logical, coherent chains of reasoning, showing full understanding of the question. Arguments are developed and evaluated. A full and balanced awareness of the validity and significance of competing arguments.

Demonstrating application (AO2) in responses

Where questions specifically stipulate the use of data or information provided in a stimulus, students:

- must directly reference, interpret or analyse the information provided in the stimulus
- in addition, may select examples from their own knowledge but these must be relevant and directly connected to the context/issues set out in the stimulus.

Where questions do not specifically stipulate the use of data or information provided in a stimulus, students:

- must select relevant examples from their own knowledge, these must be directly connected to the context/issues set out in the question, and
- may directly reference, interpret or analyse the information provided in any relevant stimulus.

Section C

Question Number		Mark
3	<p style="text-align: center;">Knowledge/understanding 4, Application 4, Analysis 6, Evaluation 6</p> <ul style="list-style-type: none"> • Inorganic growth is when a firm expands by mergers or takeovers. • Inorganic growth can be horizontal, vertical or conglomerate integration. • The new firm of <i>Muller Milk & Ingredients</i> is an example of horizontal integration as <i>Muller Wiseman Dairies</i> and <i>Dairy Crest</i> were both in the same stage of production – processing milk and will now process 25% of Britain’s milk production. • Inorganic growth is rapid in comparison with organic growth which can take much longer to achieve the same level of market share. • <i>Muller Milk & Ingredients</i> will also benefit from the established supply chain of dairy farmers which should help to maintain the supply of milk for processing. • Economies of scale may be gained from operating as a larger firm through purchasing economies from now having 2,000 dairy farmers as suppliers. • The newly created firm will employ over 8,000 employees and this may help to maintain jobs by being a larger and more powerful organisation. • There will also be a reduction in competition as <i>Dairy Crest</i> were once rivals in the processing of milk and are now part of the larger organisation. • <i>Muller Milk & Ingredients</i> may also have increased market power over its own consumers as it will be able to use the processed milk in its other operations of <i>Muller Yogurt & Desserts</i> to increase profitability overall. • There are however problems arising from growth and in particular arising from inorganic growth as 50% of mergers and takeovers fail to achieved the anticipated benefits. • Diseconomies of scale may occur due to the size of the newly created business. • There can be culture clashes between the employees as once these firms were in competition with each other and will have had different ways of running each firm. • Communication may be more difficult with a larger firm by having to manage 8,000 employees and 2,000 dairy farmers. • The acquisition cost of £80m is substantial and may have an impact on the financial position of the firm. 	(20)

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Isolated elements of knowledge and understanding, using little or no relevant evidence. Arguments and chains of reasoning may be attempted, but fail to connect causes and consequences. Limited attempt to address the question.
Level 2	5–9	Elements of knowledge and understanding, using limited relevant evidence. Arguments and chains of reasoning are presented, but connections between causes and consequences are incomplete. Limited attempt to address the question. Comparisons, judgements or conclusions may be attempted, but are unsupported or generic.
Level 3	10–15	Accurate knowledge and understanding, supported by use of relevant evidence to support the argument, developed chains of reasoning, showing understanding of connections between causes and consequences. Arguments are well developed and partially evaluated. An awareness of the significance of competing arguments is present although this may lack balance. A conclusion may be attempted but may not show awareness of the significance of competing arguments.
Level 4	16–20	Accurate knowledge and understanding, supported throughout by use of relevant evidence which is well chosen and fully integrated to support the argument, well developed and logical, coherent chains of reasoning, showing full understanding of the question. Arguments are fully developed and evaluated. A full awareness of the validity and significance of competing arguments, leading to nuanced and balanced comparisons, judgements or conclusions.

Demonstrating application (A02) in responses

Where questions specifically stipulate the use of data or information provided in a stimulus, students:

- must directly reference, interpret or analyse the information provided in the stimulus
- in addition, may select examples from their own knowledge but these must be relevant and directly connected to the context/issues set out in the stimulus.

Where questions do not specifically stipulate the use of data or information provided in a stimulus, students:

- must select relevant examples from their own knowledge, these must be directly connected to the context/issues set out in the question, and
- may directly reference, interpret or analyse the information provided in any relevant stimulus.

