

Mark scheme (Results)

Summer 2016

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

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Publications Code 8EB0\_02\_1606\_MS

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## 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	Answer	Mark
<b>1(a)</b>	<p style="text-align: center;"><b>Knowledge/understanding 2</b></p> <p><b>Knowledge/understanding: 2 marks for</b></p> <ul style="list-style-type: none"> <li>when production requires a relatively high level of capital equipment (1) compared to the amount of labour involved (1)</li> </ul> <p>NB accept any other suitable alternative. Do not award marks for examples</p>	<b>(2)</b>

Question Number	Answer	Mark
<b>1(b)</b>	<p style="text-align: center;"><b>Knowledge/understanding 1, Application 3</b></p> <p><b>Knowledge/understanding:</b> 1 mark for</p> <p>Formula for percentage change:</p> $\frac{\text{New} - \text{Original}}{\text{Original}} \times 100 \quad (1)$ <p><b>Application:</b></p> $\frac{88\,533 - 64\,316}{64\,316} (1) \times 100 = 37.65\% (1)$ <p>OR</p> $\frac{24\,217}{64\,316} (1) \times 100 = 37.65\% (1)$ <p>NB if the answer given is 37.65% award 4 marks. If the answer given is 37.6%/37.7% award 3 marks. If the answer given is 37.65 award 3 marks. If the answer given is 37.6/37.7 award 2 marks.</p>	<b>(4)</b>

Question Number	Answer	Mark
1(c)	<p style="text-align: center;"><b>Knowledge/understanding 1, Application 2, Analysis 1</b></p> <p><b>Knowledge/understanding:</b> 1 mark for giving one impact e.g. more disposable income/improved standard of living</p> <p><b>Application:</b> up to 2 marks are available for contextualised answers, e.g. Figure 1 shows an increase in income per capita (1) use of data e.g. income per capita has increased from 64 316 to 88 533 rupees (1)</p> <p><b>Analysis:</b> 1 mark available for developing the connection, e.g. this is likely to lead to an improvement in the standard of living for Indian households as they can buy more and goods and services (1)</p>	<b>(4)</b>

Question Number	Answer	Mark
<b>1(d)</b>	<p><b>Knowledge 2, Application 2, Analysis 2, Evaluation 2</b></p> <ul style="list-style-type: none"> <li>• India has a large population with a fast growing economy which provides a huge potential market for <i>Ford</i>.</li> <li>• Extract A states that India has a large urban population and can therefore provide a huge customer base for <i>Ford's</i> cars.</li> <li>• English widely spoken which may be important for a western firm such as <i>Ford</i> entering an emerging economy.</li> <li>• There has been a rise in personal incomes which is indicated by Figure 1 which has created a new middle class consumer market for goods such as cars.</li> <li>• Extract A does indicate that the size of the Indian market is set to rise by 6-8% and <i>Ford</i> is expects the auto market to double by 2020 which will increase sales and profit margins.</li> <li>• India provides a gateway to South East Asian markets and <i>Ford</i> are intending to export the majority of cars which are made within India.</li> <li>• Availability of skilled, low cost workforce which will enable <i>Ford</i> to produce their cars more cheaply than in the west resulting in higher profit margins.</li> <li>• Operating in India does have challenges in comparison to operating in western economies.</li> <li>• Already established competitors in India such as Honda/ Suzuki that may limit the benefits to Ford</li> <li>• Although labour is cheap in India, there might be problems in acquiring the right skills in the local workforce.</li> <li>• There may be barriers to trade from regulatory constraints and import tariffs.</li> <li>• Ford sales have been falling despite growth in sales in India.</li> <li>• India has poor infrastructure, including distribution and logistics as much of India remains rural.</li> <li>• India does have issues with bureaucratic delays and Intellectual Property (IP) can also be problematic with a lack of legal protection compared with western countries.</li> </ul>	<b>(8)</b>

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.

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Question Number	Answer	Mark
1(e)	<p><b>Knowledge 2, Application 2, Analysis 4, Evaluation 4</b></p> <ul style="list-style-type: none"> <li>• Globalisation involves the increasing integration of national economies.</li> <li>• Globalisation allows countries to specialise in producing the goods and services where they have a comparative advantage. This enables a net gain in economic welfare.</li> <li>• Extract A indicates that the Indian Government has reduced red tape in order to encourage more firms to locate in India.</li> <li>• Inward investment from multinational firms such as <i>Ford</i> can lead to an increase in employment/jobs which increases income and so contributes to economic growth for India.</li> <li>• Training and technology transfer may happen between an MNC such as <i>Ford</i> and Indian workers which will lead to an increase in the productive capacity of the country.</li> <li>• The Indian government may gain from tax revenues from any profits made within India or from increased income tax revenue from workers employed by an MNC such as <i>Ford</i>.</li> <li>• Increased globalisation can lead to a wider range of goods/services available to Indian consumers such as McDonald's restaurants.</li> <li>• However, increased globalization means Indian firms will face greater competition from abroad.</li> <li>• Increased globalisation often leads to a shift in the balance of an economy. Some Indian industries may grow but some traditional industries may decline from increased competition from foreign firms. Therefore, there may often be structural unemployment from certain industries closing.</li> <li>• Increased globalisation could lead to greater exploitation of the environment, e.g. greater production of raw materials, trading toxic waste to countries with lower environmental laws.</li> <li>• Some argue that increased globalisation often benefits developed countries more than developing countries.</li> <li>• Increased globalisation can give substantial economic benefits. However, these benefits may not be distributed equally amongst the Indian population.</li> </ul>	<b>(12)</b>



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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.

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## Section B

Question Number		Mark
<b>2(a)</b>	<p style="text-align: center;"><b>Knowledge/understanding 2</b></p> <p><b>Knowledge/understanding:</b> 2 marks for</p> <ul style="list-style-type: none"> <li>Where a business sells to a large section of the market (1) with no specialist or defining characteristics/not targeted at a specific market segment (1)</li> </ul> <p>NB accept any other suitable alternative. Do not award marks for examples</p>	<b>(2)</b>

Question Number	Answer	Mark
<b>2(b)</b>	<p style="text-align: center;"><b>Knowledge/understanding 1, Application 3</b></p> <p><b>Knowledge/understanding:</b> 1 mark for PED formula</p> $\frac{\% \text{ change in quantity demanded}}{\% \text{ change in price}} \quad (1)$ <p><b>Application:</b></p> <p>% Change in Price =</p> $\frac{\text{New Price} - \text{Old Price}}{\text{Old Price}} \times 100$ $\frac{15 - 10}{10} \times 100 = \frac{5}{10} \times 100 = 50\% (1)$ <p>% Change in QD = <math>-0.8 \times 50\% (1) = -40\% (1)</math></p> <p>NB if the answer given is -40% award 4 marks. If the answer given is -40 award 3 marks.</p>	<b>(4)</b>

Question Number	Answer	Mark
<b>2(c)</b>	<p style="text-align: center;"><b>Knowledge/understanding 1, Application 2, Analysis 1</b></p> <p><b>Knowledge/understanding:</b> 1 mark for identifying a factor e.g. the availability of close substitutes/degree of necessity/advertising (1)</p> <p><b>Application:</b> up to 2 marks are available for contextualised answers, e.g. Graphene lightbulbs are made out of innovative material (1) and current lightbulbs do not last as long as the new lightbulbs (1)</p> <p><b>Analysis:</b> 1 mark available for developing the connection, e.g. the lack of substitutes on the market may result in the graphene lightbulbs having more inelastic demand (1)</p>	<b>(4)</b>

Question Number	Answer	Mark
2(d)	<p style="text-align: center;"><b>Knowledge 2, Application 2, Analysis 2, Evaluation 2</b></p> <ul style="list-style-type: none"> <li>• Online retailing is when products/services are sold on the internet rather than through a physical retail outlet.</li> <li>• Online retailing can be run from any location and does not have to be located in the countries in which <i>Graphene Lighting</i> is selling to.</li> <li>• There are opportunities for growth and exporting around the world which would take much longer if traditional retail outlets are used.</li> <li>• The impact on costs can be positive as there can be lower fixed costs and overheads compared to a physical retail outlet.</li> <li>• Easy to set up and can reach a wider online distribution.</li> <li>• Online retailing requires some IT skills in order to set-up and monitor the online business.</li> <li>• Many consumers still shop in traditional outlets rather than online for items such as lightbulbs and prefer to see the actual product before purchasing it.</li> <li>• The nature of the product may lead to problems with the distribution as lightbulbs are easy to break.</li> <li>• Technical problems may occur such as fraud and viruses which could be avoided if sold in traditional retail outlets.</li> <li>• Easier for rival firms to monitor products and prices.</li> </ul>	<b>(8)</b>

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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.

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Question Number	Answer	Mark
2(e)	<p><b>Knowledge 2, Application 2, Analysis 4, Evaluation 4</b></p> <ul style="list-style-type: none"> <li>• R&amp;D is the technical or scientific research that is undertaken with a view to introducing new or improved products and services.</li> <li>• A competitive advantage is an advantage over competitors gained by offering consumers greater value, either by means of lower prices or by providing greater benefits and service that justifies higher prices.</li> <li>• R&amp;D can give a USP and this will allow <i>Graphene Lighting</i> to charge a higher price than other LED lightbulbs on the market because the lightbulbs are 10% more efficient and last longer.</li> <li>• <i>Graphene Lighting</i> will be able to acquire a patent which prevents other companies from copying them, again increasing its competitive advantage over other lightbulb manufacturers.</li> <li>• R&amp;D can be important in fast changing markets and can lead to a competitive advantage through innovation.</li> <li>• However, R&amp;D can be very expensive and the chances of success can be slim, with a relatively low rate of commercial success.</li> <li>• It has taken over 10 years to develop the lightbulb and may take longer to adapt the graphene to new uses.</li> <li>• Major pharmaceutical companies typically spend 10-15% of annual sales turnover on R&amp;D and yet might expect only around 1 in 500 new drug formulations to become a commercially successful idea.</li> <li>• Market research can be as/more important than R&amp;D because if people do not like it or want the new lightbulb, then it is a waste of time.</li> <li>• Price can also crucial. If the price of new product is too high people may not buy the new lightbulb.</li> <li>• There are other considerations which will affect the competitive advantage of a business not just R&amp;D. Many firms such as <i>Aldi</i> are able to gain a competitive advantage by offering the lowest prices compared to other supermarkets.</li> <li>• The new lightbulb will need good marketing to extol virtues of graphene otherwise no-one may buy it.</li> </ul>	<b>(12)</b>

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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.

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## Section C

Question Number	Answer	Mark
<b>3</b>	<p data-bbox="395 309 1355 349"><b>Knowledge 4, Application 4, Analysis 6, Evaluation 6</b></p> <ul data-bbox="443 389 1297 2018" style="list-style-type: none"><li data-bbox="443 389 1297 618">• The main macroeconomic objectives of the UK government include economic growth, low unemployment, low and stable rate of inflation and balance of payments equilibrium on the current account. An increase in interest rates will impact on all macroeconomic objectives.</li><li data-bbox="443 618 1297 734">• An increase in interest rates will make borrowing more expensive and could therefore deter both firms and consumers from borrowing money.</li><li data-bbox="443 734 1297 965">• Consumers with mortgages will see their mortgage repayments increase if they are on a variable or tracker rate mortgage. This will result in lower disposable/discretionary income and therefore less consumer demand which may have a negative impact on economic growth.</li><li data-bbox="443 965 1297 1160">• The combination of higher borrowing costs. Increased saving and lower disposable/discretionary income may lead to a fall or slower growth in consumer spending and investment.</li><li data-bbox="443 1160 1297 1276">• Therefore the UK may see a fall in AD and therefore lead to lower economic growth and lower inflation.</li><li data-bbox="443 1276 1297 1435">• Lower economic growth may result in an increase in unemployment within the UK economy as firms cut back on labour due to lack of demand caused by the higher interest rate.</li><li data-bbox="443 1435 1297 1630">• An increase in the interest rate may also lead to an appreciation in the exchange rate. It becomes more attractive to save money in the UK and can attract 'hot money' which increases the demand for sterling.</li><li data-bbox="443 1630 1297 1747">• The appreciation of the exchange rate would make UK exports relatively more expensive which could further reduce AD and inflation.</li><li data-bbox="443 1747 1297 2018">• The impact of lower consumer spending would depend upon the state of the economy. If the UK was in a boom phase of the economic cycle there may be little impact on consumer spending as there is high consumer confidence and higher rates of interest may help to reduce inflation but not cause lower growth.</li></ul>	



- However if the economy was in recession then higher interest rates would lead to a large rise in unemployment as firms cut back on labour.
- Evidence C does indicate that consumer confidence is at its highest since 2007 and that this will feed through into higher demand so economic growth and unemployment may not be negatively affected by an increase in interest rates.
- Some people do better from higher interest rates. Savers would get more from their savings and therefore they could see a rise in their disposable income, leading to higher consumption.
- The impact would depend upon the savings ratio and in the UK, borrowers tend to outnumber savers.
- There may be a trade-off between some of the macroeconomic objectives such as low inflation and low unemployment.
- Overall, the impact on the main macroeconomic objectives will depend upon the extent of the base rate rise and the current state of the economy at the time of the increase in the base rate.

**(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.

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