Mark Scheme (Results)

Summer 2018

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

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)	**Knowledge/understanding 2** **Knowledge/understanding:** 2 marks for - The purchase of a product or service **(1)** from another country **(1)** **NB:** accept any other suitable alternative. Do not award marks for examples	**(2)**

Question Number		Mark
1(b)	**Knowledge/understanding 1, Application 3** **Knowledge/understanding**: 1 mark for Formula for capacity utilisation: $\dfrac{\text{Current output}}{\text{Maximum potential output}} \times 100$ **(1)** **Application:** $\dfrac{84\ 250}{125\ 500} = \textbf{(1)} \times 100 = 67.13\% \textbf{(1)}$ **(1)** **NB: if no working is shown award marks as below** - If the answer given is 67.13% award 4 marks. - If the answer given is 67.1% award 3 marks. - If the answer given is 67.13 award 3 marks. - If the answer given is 67.1 award 2 marks.	**(4)**

Question Number		Mark
1(c)	**Knowledge/understanding 1, Application 2, Analysis 1** **Knowledge/understanding**: 1 mark for giving one way to improve capacity utilisation e.g. • enter new markets • increase the range of products • advertise to increase demand • sell/reduce unused assets **Application:** up to 2 marks are available for contextualised answers, e.g. there have been enquiries from places such as France **(1)** Nimisha intends to introduce and produce new products for export **(1)** **Analysis:** 1 mark available for developing the connection, e.g. sales in new markets will increase the number of fruit crisps manufactured with the current resources and therefore increase capacity utilisation **(1)**	**(4)**

Question Number		Mark
1(d)	**Knowledge 2, Application 2, Analysis 2, Evaluation 2** • Lean production includes strategies designed to reduce waste and improve quality such as TQM, JIT, Kaizen and short lead-times. • Extract A states the use of lean production has enabled *Nim's Fruit Crisps* to speed up production and it is able to change things as and when it needs to which will help it cope with changing demand. • *Nim's Fruit Crisps* has bought a new pineapple peeling machine that helps to cut its production costs which can then be passed on in the form of lower prices. • Lower costs may help *Nim's Fruit Crisps* become more price competitive for its range of crisps compared to other crisp manufacturers resulting in higher sales. • However, just by using lean production it may not be sufficient if the taste of the crisps or the price puts off consumers. • JIT will require frequent deliveries of small quantities of fruit resulting in increased costs for transportation which may add to the overall cost of producing the fruit crisps. • If there is a break in the supply chain of fresh fruit then *Nim's Fruit Crisps* will find it very difficult to make the packets of fruit crisps and maintain revenue.	**(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)	**Knowledge 2, Application 2, Analysis 4, Evaluation 4** • Depreciation means that the value of a currency has fallen over time. • This makes exports more competitive and imports more expensive for a UK manufacturing firms. • Extract B shows that the pound against the euro fell to a low of 1.12 in October 2016 compared to 1.33 in January (15.79%) and the US $ went from a high of 1.45 in May to a low of 1.24 in October (14.48%). • This will make the price of imported fruit more expensive and will add to the cost of production of the fruit crisps reducing overall profitability. • Exporters could benefit from a weaker currency and will be able to sell their goods more cheaply and so increase their total revenue/total exports rise. • Extract A states that *Nim's Fruit Crisps* have received emails regarding new orders from France and Europe which may boost sales. • However, the consequences of a depreciation of the pound will depend on whether the UK firm imports or exports or does both. • Some firms will be unaffected because they have relatively few substitutes and some products with price inelastic demand may not be greatly affected. • Actions of competitors must also be taken into account as to the impact on UK manufacturing business. • Overall, the impact will depend on the extent of the depreciation; the size and whether it is short or long term.	**(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)	**Knowledge/understanding 2** **Knowledge/understanding:** 2 marks for • A weighted index/a measure of inflation **(1)** which measures the price changes on a typical basket of goods **(1)** **NB:** accept any other suitable alternative. Do not award marks for examples	**(2)**

Question Number		Mark
2(b)	**Knowledge/understanding 1, Application 3** **Knowledge/understanding**: 1 mark for formula for calculating change in average real earnings e.g. % change in nominal earnings – % rate of inflation **(1)** **Application:** 2.8% **(1)** - 1.2% **(1)** = 1.6% **(1)** **NB: if no working is shown award marks as below** • If the answer given is 1.6% award 4 marks. • If the answer given is 1.6 award 3 marks.	**(4)**

Question Number		Mark
2(c)	**Knowledge/understanding 1, Application 2, Analysis 1** **Knowledge/understanding:** 1 mark for identifying an impact e.g. savings lose value **(1)** **Application:** up to 2 marks are available for contextualised answers, e.g. in November inflation increased to 1.2% **(1)** whereas the interest (base) rate was 0.25% **(1)** **Analysis:** 1 mark available for developing the connection, e.g. if the rate of inflation is greater than the rate of interest, the real value of savings decreases because it can now buy fewer goods **(1)**	**(4)**

Question Number		Mark
2(d)	**Knowledge 2, Application 2, Analysis 2, Evaluation 2** • Total revenue is calculated by the quantity of a good sold multiplied by its price. • Demand for peak rate season tickets might be considered to be price inelastic and these account for 40% of all train tickets in the UK. • When demand is price inelastic, an increase in price leads to an increase in total revenue. • Therefore if peak rate train tickets increase by 1.9%, this would still result in an increase in revenue for train operators. • This is because passengers have very little substitutes for peak rate season tickets and are less price sensitive they will have to pay the increase in price of train fares. • However, off peak train tickets which account for 60% of all train tickets, have not been capped at 1.9% and prices may increase by more than 2.3% • Passengers who use off-peak tickets may have elastic demand and are likely to switch to cheaper transport methods so revenue for these types of tickets may fall. • Overall, depends on the proportion of peak and off-peak tickets as to the impact on train operators.	**(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
2(e)	**Knowledge 2, Application 2, Analysis 4, Evaluation 4**	
	• Investment is a component of AD: C+I+G+(X-M) • Investment will result in an injection into the circular flow of income and may increase economic growth/output/productive capacity of UK economy. • There could be an increase in employment as more workers such as train drivers and rail staff will be needed to operate the new train services. • There may be an increase in efficiency/productivity for UK businesses as they will be able to transport raw materials and finished goods quickly to other parts of the country making the UK's goods more competitive compared to other countries. • It may give commuters more choice about how to travel and may reduce the overcrowding on trains and reduce congestion on the roads. • Workers may gain better access to jobs in different parts of the country helping to reduce immobility of labour. • However, there may be an opportunity cost of investment such as spending on the NHS and Education. • Many argue that this investment should be solely funded by the train companies. • Investment should be in the digital economy rather than traditional infrastructure. • Large scale infrastructure investment into the rail network will take a long time to benefit the UK economy due to the size and scale of the investment needed as there has been a lack of investment over many years. • The economic benefits of the investment may depend on how much is invested into the rail network. • The UK economy is affected by many other factors such as global trade and investment into infrastructure is just one way to increase output/economic growth.	**(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	Answer	Mark
3	**Knowledge 4, Application 4, Analysis 6, Evaluation 6**	
	• Unemployed workers are those people who are willing and able to work at the going wage but cannot find a job despite an active search for work.	
	• Extract E states that in Spain one in four unemployed has been jobless for more than four years and this results in a loss of potential output.	
	• High levels of unemployment in Spain can lead to an increase in poverty and inequality as workers have less income and are reliant on state benefits.	
	• High unemployment may reduce demand for certain goods and services within the Spanish economy, particularly for firms that sell luxury goods as unemployment reduces consumer spending.	
	• There may be an increase in the budget deficit for the Spanish government due to decreased tax receipts (direct and indirect) and increased government spending.	
	• There may be an increase in social unrest which may lead to the government increasing spending on tackling social problems.	
	• Extract E states that this type of unemployment may result in long term structural unemployment which will require government investment in education and training programmes.	
	• There may be a migration of skilled workers and younger workers with many younger people choosing to leave their country in search of work which decreases potential labour force and output.	
	• However, higher unemployment may reduce inflation thus making the Spanish economy more competitive.	
	• Higher unemployment may reduce wage pressures and therefore costs for Spanish businesses which could improve overall profitability.	
	• There might be a larger pool of workers available for employment.	
	• Lower wage growth could attract FDI to Spain.	
	• The overall economic impact upon AD depends upon how effective government is in tackling unemployment.	**(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 (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.