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Pearson Edexcel
Level 3 GCE

Centre Number

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Economics B

Advanced Subsidiary

Paper 1: Markets, consumers and firms

Monday 15 May 2017 – Morning

Time: 1 hour 30 minutes

Paper Reference

8EB0/01

You do not need any other materials.

Total Marks

Instructions

- Use **black** ink or ball-point pen.
- **Fill in the boxes** at the top of this page with your name, centre number and candidate number.
- Answer **all** questions in Sections A, B and C.
- Answer the questions in the spaces provided – *there may be more space than you need.*

Information

- The total mark for this paper is 80.
- The marks for **each** question are shown in brackets – *use this as a guide as to how much time to spend on each question.*
- Calculators may be used.

Advice

- Read each question carefully before you start to answer it.
- Try to answer every question.
- Check your answers if you have time at the end.

Turn over ►

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Answer ALL questions.

SECTION A

Read the following extract (A) before answering Question 1.

Write your answers in the spaces provided.

Extract A

Mountain Warehouse Profits Climb

Outdoor clothing chain *Mountain Warehouse* is planning to open 40 new stores in 2015 after net and gross profits increased in 2014. The hiking and sports retailer operates from high-street locations rather than retail parks and increased its sales in 2014 by 20% to £110m, boosting profits for the year by 25% to £12m.

Mark Neale, *Mountain Warehouse's* founder and chief executive, said: "We are scaling new heights, in our stores, online, and increasingly overseas. We have continued to thrive in a challenging UK retail environment, demonstrating that high-street retail can succeed so long as you have the right products at the right price." 5

Founded in 1997 with a single store in Swindon, the chain now has more than 200 stores, including 10 in Poland and one in Germany. Neale set up *Mountain Warehouse* with £40 000 from private investments, after previous attempts with a toy chain and a greetings card business met with limited success. 10

Despite only beginning to trade online in the past few years, *Mountain Warehouse* now sells to 130 countries. Online sales rose 50% in 2014 whilst sales at established outlets increased by 9%. In 2015 the business will launch a dedicated German-language website and open more stores in Germany and Poland. More than half of the planned 40 new stores this year will be in the UK. Outlets in garden centres have been a significant area of growth in the UK, with six opening in the past year. 15

Mountain Warehouse has thrived by focusing on the growing popularity of family-friendly discounters, while rivals such as *Millets* have come under pressure. 20

(Source: adapted from Mountain Warehouse profits climb on back of UK cycling craze, Sarah Butler © Guardian News & Media Limited)

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1 (a) What is meant by the term 'gross profit'?

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(b) Calculate, to 2 decimal places, the profit for the year margin for *Mountain Warehouse* in 2014. You are advised to show your working.

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(c) Explain **one** possible reason why *Mountain Warehouse's* profits increased by a higher percentage than the increase in sales.

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(d) Discuss whether *Mountain Warehouse* has a competitive advantage.

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(e) Assess whether profit maximisation is the main objective for *Mountain Warehouse*.

(12)

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(Total for Question 1 = 30 marks)

TOTAL FOR SECTION A = 30 MARKS



SECTION B

Read the following extracts (B and C) before answering Question 2.

Write your answers in the spaces provided.

Extract B

Magmatic Ltd posts £1.5m loss as it battles 'copycats'

The Bristol-based firm, which trades under the name *Trunki*, (a small carry-on or ride-on suitcase for children), has had to contend with versions of its product being produced by Chinese rivals.

"As we have become successful, we've seen an increase in copycats. It's a huge issue for us. We're still figuring out a strategy for China, and how to respond to the copycats," said *Trunki's* founder, Rob Law. 5

He added that *Trunki*, which employs 78 people, has invested heavily in improving its manufacturing facility in Plymouth and developing a new product, which will be launched next month.

"Everything is going to plan," he said. "We're still dedicated to children's travel products, but we've got our biggest product launch at the end of this month, and a very large project coming to fruition by mid next year." 10

Instead of opting to take out a loan, *Magmatic Ltd* received a £3.92m investment from the *Business Growth Fund (BGF)* in April 2013. The *BGF* provides long-term capital and has been investing in fast growing British companies since 2011. 15

More than 2 million *Trunkis* have been sold to date and the firm says that a fifth of all three to six-year-olds in the UK own one. About 67% of sales are in the UK.

(Source: adapted from *Trunki posts £1.4m loss as it battles 'copycats'*, Rebecca Burn-Callander and Elizabeth Anderson © Telegraph Media Group Limited)

Extract C

Magmatic Ltd sales and profit figures 2011–2013

Year	Turnover	Profit for the year
2011	£5 304 000	£839 000
2012	£6 100 000	£720 000
2013	£8 130 000	(£1 500 000)

(Source: adapted from HS2 WORTH 'UP TO £1BN PER YEAR TO WEST YORKS'
© Newsco Insider Limited and *Trunki posts £1.4m loss as it battles 'copycats'*,
Rebecca Burn-Callander and Elizabeth Anderson © Telegraph Media Group Limited)



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2 (a) What is meant by the term 'loan'?

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(b) There are an increasing number of 'copycat' products of *Magmatic Ltd's Trunki* available.

Using a supply and demand diagram, illustrate the likely impact of this on sales of *Trunki*.

(4)



(c) Explain **one** way in which *Magmatic Ltd* may increase demand for its range of *Trunki* products.

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(d) Using Extract C, discuss the difficulties in obtaining the necessary funds for *Magmatic Ltd's* expansion plans.

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(e) Assess the benefits of using break-even analysis to a business such as *Magmatic Ltd.*

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(Total for Question 2 = 30 marks)

TOTAL FOR SECTION B = 30 MARKS



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SECTION C

Read the following extract (D) before answering Question 3.

Write your answer in the space provided.

Extract D

Heathrow third runway decision delayed until summer 2016

A final decision on whether to build a new runway at Heathrow Airport has been delayed from the end of 2015, until at least the summer of 2016, the Government has confirmed.

After discussion of the controversial issue by the Prime Minister and senior Cabinet ministers, Transport Secretary, Patrick McLoughlin said, "There is a clear case for airport expansion, but it's vitally important to get the decision right. Ministers will undertake more work on environmental impacts, including air quality and noise, and continue to work on all the shortlisted locations." (Two at Heathrow and one at Gatwick.) 5

Critics say the delay will harm the economy and go against the support received at a local and national level from politicians, business, trade unions and the aviation industry for a Heathrow expansion. 10

The project to build a third runway at Heathrow is estimated to cost £18.6bn, but the shortlist of proposals being considered by the Government also features a £13.5bn proposal to extend the existing northern runway at Heathrow, to form the equivalent of two runways. Meanwhile Gatwick's proposal to build a second runway at its airport has an estimated cost of £9.3bn. 15

In a statement issued after the meeting of the Cabinet airports sub-committee, the Government said it backed the call for more runway capacity by 2030, but faced a 'complex and challenging decision on delivering this'.

The Government will undertake a package of further work and it is anticipated that it will conclude over the summer. It will include air quality analysis and testing of the latest projections for nitrogen dioxide. 20

(Source: adapted from Heathrow third runway decision delayed until summer 2016
© Belfast Telegraph)

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3 Evaluate the potential costs and benefits of building a new runway at Heathrow Airport.

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(Total for Question 3 = 20 marks)

TOTAL FOR SECTION C = 20 MARKS
TOTAL FOR PAPER = 80 MARKS



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