



A Level Economics B

EXEMPLARS BOOKLET

A level exemplar material

Issue 1

A level Economics B exemplar material

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1. Introduction

1.1 About this booklet

This booklet has been produced to support teachers delivering the new A level Economics B specifications. The booklet looks at questions from the Sample Assessment Materials. As Economics B is a new qualification, it shows student-style responses to these questions and how examiners have applied the mark schemes to demonstrate how student responses would be marked.

The short answer questions in Section A of Paper 1 and Paper 2 have not been included. For examples of student responses to short answer questions, please refer to the AS Economics B Exemplars Booklet.

The responses are part of a small sample only and have not gone through the standardisation process. Therefore, all comments and marks are provided for guidance only.

1.2 How to use this booklet

Following each question you will find:

- Student-style responses to the question (one or two responses for each question)
- Examiner commentary on how the mark scheme has been applied and marks given
- Extracts from the mark scheme for levels based questions
- Comments relating to common errors for this style of question.

1.3 Further support

A range of materials are available to download from the Economics B page of the Pearson website to support you in planning and delivering the new specifications.

We will provide an extra set of sample papers for A level to support with formative assessment. In addition, we will be holding training to support you with marking mocks in your centre and further information will be provided on our website when available.

Our subject advisor team, led by Colin Leith, are also here to help. You can contact Colin with any questions in the following ways:

E-mail: TeachingEconomics@pearson.com

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Twitter: twitter.com/PearsonEconBus

Subject page: [Economics B subject page](#)

2. Paper 1: Markets and how they work

This section includes student responses, marks and commentary for A level Paper 1 9EB0/01, *Markets and how they work*. A summary of the questions and marks for each response is provided in the table below.

| Question | Response 1 | Response 2 |
|------------------|------------|------------|
| Section A | | |
| 1e (8) | 8 | 3 |
| 1f (10) | 9 | 4 |
| 1g (12) | 11 | 5 |
| 1h (12) | 9 | 5 |
| Section B | | |
| 2 (20) | 18 | 9 |
| Section C | | |
| 3 (20) | 20 | 11 |

Section A

Question 1e

Response 1

- (e) Using Extract D, discuss the possible impact of changing UK fruit prices on Innocent's profitability.

(8)

Profitability is how successful a business is in generating profits over time and is the difference between the cost of the inputs and the value of total revenue. It is one of the main aims of a business and businesses such as Innocent will want to increase this over time. Innocent's profitability will be affected by the cost of the fruit it purchases which are used in the production of smoothies and drinks. Extract D clearly shows that all of the different types of fruit featured in the table are subject to fluctuations in price and the wholesale prices of fruit changes over time maybe due to seasonal factors. For example, apples are much cheaper in December at 67.04p per kilo compared to a high of 138.27 in July. The result of this for Innocent it that their profit margins may be less on apple drinks produced and sold in July than in December - assuming the price of the apple drink is kept at a constant selling price to consumers. Innocent may be able to increase the price of apples drinks in months such as July in order to maintain profitability. However, this may result in a fall in sales of apple drinks as consumers switch to other competitors or other fruit drinks because of the increase in price. The impact on profitability will depend upon many other factors and Innocent may stockpile some fruits in order to cope with the increase in fruit prices and it will also depend on how what proportion the fruit costs are compared to the overall cost of producing a smoothie.

Examiner's comment

The student has provided a well-argued and clear response that uses the data well. The response also shows good understanding of the possible impacts, both positive and negative, on Innocent. In addition, the evaluation goes a step further and considers the relative importance of other factors

This response therefore gained Level 3 and 8 marks.

Evaluation is not just about the advantages and disadvantages of a situation, it is also valid to look at other factors such as the relative importance of something, the time scale involved, short-run versus long-run scenarios and so on.

Response 2

- (e) Using Extract D, discuss the possible impact of changing UK fruit prices on Innocent's profitability.

(8)

Profitability is how much profit is made by a business. Innocent will need fruit to make its smoothies so the prices of fruit in Extract D will affect them. Some of the prices of the fruit are going up and some of the prices are going down. Blackberries are the most expensive fruit in Extract D and the cheapest fruit to buy is apples. Innocent may make more money when the prices of fruit are low and their profits may change over the year. Innocent may buy fruit from abroad when it is out of season in the UK.

Examiner's comment

This is not a strong response – at first glance it may look like a Level 1 but there are *elements of knowledge and understanding, using limited relevant evidence* so just reaches Level 2.

This response therefore gained Level 2 and 3 marks.

Question 1f

Response 1

- (f) Assess the benefits to Innocent of insisting that their suppliers 'look after both their workers and the environment'. (Extract B, line 14)

(10)

Suppliers are businesses who provide goods and services to another business in order to make their finished product. Suppliers for Innocent will include the fruit growers who are located both in the UK and overseas. Innocent insist that their fruit farmers abide by various standards and that in order to be a supplier to Innocent they have to show their social and environmental performance year-on-year. This may include standards such as guaranteed minimum wages or how the land is farmed to grow the different types of fruit. One benefit of insisting on this is that the fruit grown by the farmers may be of a higher quality as the workers are looked after and the environment is protected. This means that Innocent's smoothies may taste better than other rival smoothies resulting in brand loyalty and repeat purchase. There may also be less waste if the fruit is grown to a higher standard resulting in lower costs for Innocent. In addition, Innocent prides itself on being ethical and uses this as part of its USP and this is what differentiates Innocent from other drinks manufacturers who do not have the same standards. Consumers may be prepared to pay a higher price for their smoothie if they know that 10% of profits are going to charity and also because of their environmentally friendly supply chain.

However, many of Innocent's fruit growers may not want to look after their workers and the environment as this could add to the cost of growing the fruit in terms of paying higher wages and using environmentally friendly farming techniques. In addition, Innocent will have to carry out checks and monitor thousands of fruit farmers which could result in higher prices of their smoothies. Many consumers are not concerned about the environment and are more concerned about the selling price of the smoothies which may be higher due to these additional standards.

In conclusion, the benefits to Innocent will depend on how much the additional environmental standards affect the overall selling price. In the short term it may involve costs to check that standards are being implemented but in the longer term Innocent may see an increase in sales from consumers who value the environment.

Examiner's comment

This is a very good response that fulfils the descriptor for Level 4. It also has a useful and relevant conclusion.

This response therefore gained Level 4 and 9 marks.

Although a conclusion is not required by the mark scheme, a brief and relevant conclusion adds weight to the answer. A conclusion should not just be a repeat of what has gone before but a useful rounding-off of the answer. (Note that it is still possible to reach the highest level on the mark scheme without a conclusion.)

Response 2

- (f) Assess the benefits to Innocent of insisting that their suppliers 'look after both their workers and the environment'. (Extract B, line 14)

(10)

Suppliers are businesses who supply things such as raw materials to make products and services. They are part of the supply chain. Innocent have a lot of suppliers who they use to make their products. Innocent make their suppliers look after their workers and environment. This is a good thing because it means that the workers will be treated well and the environment is not damaged by Innocent. This may mean that Innocent can charge higher prices for their products because they are being more ethical than other businesses. Also, some consumers do prefer to buy products which are environmentally friendly so this may mean they can get higher sales from looking after their workers. Also Innocent does give 10% of their profits to charity so this may also encourage more sales. Overall, it will benefit Innocent and they may see an increase in sales and therefore profits.

Examiner's comment

There are chains of reasoning and there is some use of evidence towards the end of the response, although the answer is largely generic. There is no evaluation and so it cannot go beyond Level 2. Within Level 2 this is a good answer.

This response therefore gained Level 2 and 4 marks.

Students should note command words such as 'assess' and then make sure that their answer does just that! If this response had said something like '*However, looking after workers and the environment can be expensive which may reduce profitability...*' then it would have reached Level 3 and gained more marks.

Question 1g

Response 1

(g) Assess the importance of profit maximisation to Innocent.

(12)

Profit maximisation is an example of a business objective and is one of the main objectives for running a business enterprise. Innocent is a company with shareholders. The shareholders may have invested in the organisation for a number of reasons. The main reason for shareholders to invest in a company is to make a return on their initial investments either through dividends or in the case of a public limited company, an increase in the value of the share price.

On the one hand, it could be argued that Innocent should aim to make as much profit as possible in order to continue to be successful and encourage further investment into their drinks business. They are currently the number one smoothie brand in Europe with operations in 25 countries and if they profit maximise, they can expand their production of smoothies into more countries across the globe. The more profit made by Innocent, the greater the return on investment is, and the more likely it will be to attract more shareholders to the business with Extract C showing that Innocent grew by 7.4% in one year.

However, Extracts B and C also show that Innocent may also have other business objectives and are very concerned with the environment and the treatment of workers. Innocent gives 10% of profits to the Innocent Foundation which works with funds NGO's and supports good causes such as Send a Cow as part of its 'Chain of Good' campaign. This clearly shows that Innocent's main objective is not to profit maximise.

In conclusion, it could be argued that Innocent should aim to maximise profits because the more profits it makes, the more it can give to charity and fund the worthwhile causes in the countries in which it sources its fruit from. In the short term Innocent does have to make a profit in order to survive and to keep shareholders happy with their return on their investment but in the longer term, demonstrating ethical principles may result in higher profits due to having a competitive advantage over rival firms.

Examiner's comments

This is a good answer. The student shows *accurate knowledge and understanding* of business objectives and particularly that of profit maximisation. The evidence is used well to support arguments which are *well developed and evaluated*. There is a thoughtful and useful conclusion which nicely rounds off the discussion.

This response therefore gained Level 4 and 11 marks.

To improve the response further, the student could have developed further their point about shareholder issues raised in the first and final paragraph.

Response 2

(g) Assess the importance of profit maximisation to Innocent.

(12)

Profit maximisation is where a business tries to make as much profit as possible and is the main business objective. Innocent should aim to make as much profit as possible because it is a company and will have shareholders. The shareholders are the owner of the business and they expect a good return on their investment. Shareholders either want the value of their shares to go up or a share of the profits - dividends. This can only happen if Innocent try and make as much profit as possible. If Innocent do not maximise profits, then the shareholders may sell their shares which will result in the share price and the value of the business to decline. Innocent also need to make profit so that they can reinvest in the business such as developing new flavours and different brands of smoothies. Innocent are the market leaders in Europe but they will need finance to be able to expand to other countries therefore it is essential that they make as much profit as possible so that they can launch their smoothies into other countries. In conclusion, Innocent operates in the private sector and should be aiming to make as much profit as possible as a reward to the entrepreneurs who have risked everything to set up the business.

Examiner's comments

This is a reasonable answer. The student clearly understands the importance of the profit motive and there is context in the form of "*developing new flavours...*" and "*market leaders in Europe...*" There are *chains of reasoning* but the answer is one sided and there is no *awareness of the significance of competing arguments*. As such, the response cannot reach Level 3.

This response therefore gained Level 2 and 5 marks.

Question 1h

Response 1

- (h) Assess the likely impact on local communities and consumers of the continued success of Innocent.

(12)

Innocent operates in 15 different countries in Europe and has thousands of fruit farmers across the globe so does have a massive impact on many local communities as well as providing smoothies to a wide range of consumers. Extract C describes Innocent's latest marketing campaign called Chain of Good. This marketing campaign shows the positive impact of buying smoothie and how the more smoothies it sells, the more charitable donations can be made to charities such as Send a Cow. It can be argued that the more successful Innocent is, the greater the impact on local communities. The success of Innocent will help to reduce poverty and help to support fruit farmers in developing countries. It may also result in an increase in consumer choice if Innocent are able to use their success to develop a greater variety of smoothies.

However, the success of Innocent may not benefit or have any impact on local communities and consumers. Although the Chain of Good campaign does show the link between the purchasing of a smoothie and the donation of money to good causes it will also depend upon how much is given in donations from the purchase of a smoothie. If only a small amount of the purchase price is given to good causes, then the impact will be small or limited.

From a consumer's point of view, they will only be happy if the price and quality of the smoothies are maintained and as Innocent expand into new countries, consumers may find that the USP disappears and that standards cannot be maintained due to the size of Innocent.

Examiner's comment

This is a good response that just misses out on Level 4. The evaluation of local communities is a bit simplistic and could go further. Also, the evaluation of the impact on consumers could be developed more. To reach Level 4 it must have a *full and balanced awareness of the validity and significance of competing arguments* and this is not quite there. It does, however, fulfil all of the requirements of Level 3.

This response therefore gained Level 3 and 9 marks.

Response 2

- (h) Assess the likely impact on local communities and consumers of the continued success of Innocent.

(12)

Innocent have grown by 7.4% in one year which demonstrates that they have been successful in their operations. If they are successful then they can offer a wider range of products to their consumers and expand into more countries so even more consumers are able to purchase their smoothies. Extract C shows that if more consumers buy Innocent's products, then more money can be given to good causes and therefore benefit the local community. Joseph benefited from the Send a Cow scheme which involved part of the money from buying a smoothie being donated to good causes. Therefore the more smoothies Innocent sells, the more money given to the Innocent Foundation. The local communities can then use this money to help reduce poverty and improve the conditions of fruit farmers. In conclusion, the continued success of Innocent will benefit both consumers and local communities in which they operate in.

Examiner's comment

There are chains of reasoning and there is some use of evidence towards the end of the response, although the answer is largely generic. There is no evaluation and so it cannot go beyond Level 2. Within Level 2 it is a quite good answer.

This response therefore gained Level 2 and 5 marks.

Section B

Question 2

Response 1

- 2 Evaluate **two** possible economic policies that could be used to address the problems suggested in Extract E.

(20)

Extract E shows the different economic indicators for unemployment in the UK for March 2014. Unemployment occurs when a person who is actively searching for employment is unable to find work. The data seems to suggest that one of the main reasons for unemployment in the UK is caused by structural unemployment and a skills mismatch. The number of job vacancies of 588 000 seems to indicate that there are jobs available but the skills which unemployed workers have do not match these jobs on offer with 7.2% being classed as unemployed and 3.2% claiming Job Seekers Allowance.

In addition, Extract E indicates a very high level of youth unemployment (19.8%) which again supports the view that the problem is structural with many young people not having the appropriate skills to take up a job. Analysis of the data also indicates that there is a problem of long term unemployment with 829 000 being unemployed for over 12 months. One issue with long term unemployment is that people lose their skills and work habit the longer they are out of paid employment and Figure 2 indicates that the number of men aged 50+ makes up a significant proportion of Job Seeker's allowance claimants.

There are several supply side policies which can be used to tackle structural unemployment. One of the key reasons for this type of unemployment is due to a mismatch of skills. If education and training programmes are provided for unemployed workers, then there will be an improvement in human capital and it will give unemployed workers vital skills which may result in paid employment. Training courses can give younger workers skills which they might be lacking and can also improve the quality of the workforce so that they are more productive.

However, education and training may not reduce the number of unemployed workers in the UK. Many training programmes or qualifications take time to have an effect - for example, it can take 10 years to train as a GP and there is significant cost to both the individual and the government to provide the training in terms of opportunity cost. Even with increased education and training, there still could be changes in the skills required by employers and recent years have seen a rise in underemployment. Many suitably qualified employees have to work several jobs or take work part time work as there are simply not enough full time positions available.

Another economic policy which could be used to tackle unemployment is the use of unemployment benefits. If the real value of unemployment benefit was reduced then there might be more of an incentive for an unemployed worker to take a job rather than remain on benefits. This would be particularly effective if the value of unemployment benefits was below the NMW rate. Many people argue that they are simply better off on benefits so do not take paid employment even if they are able to.

However, reducing any benefits may have a negative effect and may lead to an increase in poverty and deprivation because the unemployed person will have less money to live on and still may not be able to find paid employment - it does depend on the reason for each individual's reason for not being able to find a job. Many unemployed people are desperate to work but cannot find a job. Reducing benefits does not always solve the problem of a lack of jobs and may force unemployed workers into part time or zero hours contracts which keep the unemployment figures low.

In conclusion, there are many economic policies available to the UK government to reduce unemployment but these need to be carefully targeted to ensure that the long term unemployed can be retrained and are supported back into paid employment. Fiscal policies may also have to be used in the short term in order to create new jobs especially for younger people who may not have any skills.

Examiner's comment

This is a good response that is a clear Level 4. Evidence is *well-chosen and fully integrated*; there are *well developed and logical coherent chains of reasoning*; and for the most part a *full and balanced awareness of the validity and significance of competing arguments leading to nuanced and balanced comparisons, judgements or conclusions*. The conclusion offered is partly generic and could make more use of the preceding arguments and the information used therefore it does not reach the maximum marks available; nevertheless it is a solid Level 4 answer.

This response therefore gained Level 4 and 18 marks.

Response 2

- 2 Evaluate **two** possible economic policies that could be used to address the problems suggested in Extract E.

(20)

Unemployment occurs when a person who is actively searching for employment is unable to find work and Extract E shows that in. In March 2014 there were 7.2% of people unemployed in the UK with a 3.5% claimant count. There are several different types of unemployment which include geographical, frictional, voluntary, seasonal, cyclical and structural unemployment. From looking at the data in Extract E, it appears that the UK is suffering from structural unemployment because there are over 588,000 job vacancies available. It could be that the people who are unemployed are unable to get a job because they have to wrong type of skills.

Extract E also indicates that there is a problem with how long people have been unemployed for. Figure 1 shows that over half of the unemployed people have been out of work for over 6 months. This could be due to either structural or cyclical unemployment as the UK has just been in a recession. Figure 2 shows that there are more men compared to women unemployed in the UK. The biggest group is men aged 25-49. The table also shows that the UK has a large number of young people (16-24) unemployed. This could be due to lack of training or demand for new workers.

The UK government could try and reduce unemployment by using supply side policies. These include measures should as training and education. If workers are unemployed due to having the wrong skills, then a training course or more qualifications may help them back into work. The government could also offer incentives to businesses to take on new workers and in particular young workers through apprenticeships. This will benefit both the business who will get a subsidy for taking on a new worker and provide on the job training for the apprentice.

Another economic policy to help reduce unemployment is to build more houses near to where the jobs are located. Many unemployed workers cannot afford to move to the areas where there are jobs such as London and other large cities due to expensive housing. If the government built affordable housing then this would help to reduce geographical unemployment. In conclusion, there are many different economic policies available to reduce unemployment in the UK but it does depend on the type of unemployment as to which is the best strategy to tackle this.

Examiner's comment

This is a well-written and fluent response. There is demonstration of good knowledge and application with chains of reasoning and there is reasonable use of evidence in this response. However, there is no evaluation and so the response cannot go beyond Level 2.

This response therefore gained Level 2 and 9 marks.

This is a good answer and would otherwise qualify for Level 3 because of its coherent and developed analysis; however, the lack of balance and evaluation prevents this. It is so important for students to present counter arguments or other forms of evaluation.

Section C

Question 3

Response 1

- 3 Using Extracts F and G, evaluate the possible impact of changes in the housing market on the UK economy.

(20)

Extract F clearly shows that there has been an upward trend in house prices with the latest figures showing the average price of a house being £175,826 in early 2014 which is a significant increase from around £70,000 in 1977. At the same time there has been a fall in real incomes since 2008 with incomes just below £24,500 in 2012. The price of housing is also below the peak of 2007 which may have resulted in some home owners having negative equity if they purchased at the peak in 2005. This combination results in many people not being able to afford to buy a house or people with a mortgage, struggling to meet mortgage payments if their real incomes have fallen. Extract G also indicates that there is a shortage of houses and that situation is only going to get worse if new houses are not built and made available. Excess demand has resulted in high rent and purchase prices of houses.

There are many consequences on the UK economy. The data suggests that there has been market failure within the housing market as there are not enough homes to satisfy demand and excess demand has forced up the price of housing. This results in a loss of economic and social welfare with an increase in inequality. The high price of houses will mean that many people, in particular younger workers who are on lower incomes, are unable to get onto the property ladder. This may be worse in areas with a shortage of supply and create geographical immobility as unemployed workers are unable to move to areas which have job vacancies. Businesses may also find it harder to recruit suitably qualified workers in areas such as London which has very high housing costs. Vodafone recently reported that it was struggling to attract middle managers to London because of high housing costs, while the CBI's recent London Business Survey found that businesses perceived high house prices to be one of London's biggest weaknesses. All of this will restrict economic growth and damage economic recovery both on a local and national level.

However, there will be some winners from the increase in house prices. Many house builders such as Wimpey will see an increase in the demand for new houses. In theory, high house prices should act as an incentive for homebuilders to increase supply and meet the rising demand. High house prices make it more profitable to build new houses. In addition, homeowners can remortgage and gain equity withdrawal to spend in other areas of the economy which may result in economic growth for the UK. As people see the value of their home increasing, they may be willing to spend more in the UK economy as they feel that they have become 'richer' and have more consumer confidence.

In the short term, current homeowners may see an increase in their asset wealth. However, from a longer term perspective the continued rise in house price to earnings ratio leaves a great cause for concern. It means that many will seek to take out larger mortgages in order to get on the property ladder. It means the UK economy will be vulnerable and very sensitive to future interest rate movements. It also leaves the possibility of a future house price falls. It also has a large impact on living standards, with many younger people struggling to pay their housing costs and increases inequality as asset prices increase the wealth of people with property. Overall this will see a negative impact on the UK economy as Extract G clearly states this is not sustainable and rising house prices may damage economic growth unless more affordable housing is built for key workers such as nurses and teachers.

Examiner's comment

This is a good response that is a clear Level 4. Evidence is *well-chosen and fully integrated*; it uses the given data effectively; and also brings in examples such as Vodafone and the CBI from wider reading and study. These are then used to effectively reinforce points relevant to the question.

There are *well developed and logical coherent chains of reasoning* and they do show *full understanding of the question*. Some of the analysis is quite sophisticated and links different concepts together to answer the question. *A full and balanced awareness of the validity and significance of competing arguments* does lead to *nuanced and balanced comparisons, judgements or conclusions*.

This response therefore gained Level 4 and the maximum 20 marks.

Response 2

- 3 Using Extracts F and G, evaluate the possible impact of changes in the housing market on the UK economy.

(20)

After a blip in 2007, house prices in many areas of the country are at record levels with Extract F and G indicating an increase in the average price of a house. Real average UK earnings have seen an increase up until 2010 but then have fallen to around £24 500 in 2012. Extract G states that house prices are becoming unsustainable and that there is a shortage of houses in certain parts of the country. Demand is exceeding supply so this will drive up the prices of both houses to buy and houses for rent. More houses need to be built.

The impact of this on the UK economy will mainly be negative. Rising prices and falling real incomes means that less people will be able to purchase a house and may have to rent rather than buy a house. This will restrict the number of people who can afford to own a home. It may also mean that some unemployed people are unable to move to other parts of the country to get a job as the rent or housing is so expensive. In addition, younger people who are on lower incomes may also struggle to afford to buy a house and may have to move to cheaper areas of the country or live with their parents so that they can save up for a deposit on a house. Rising house prices will also have a negative impact on businesses that need to recruit workers in the areas with high house prices. If businesses cannot recruit staff then this may lead to a reduction in economic growth.

The Government's 'Help to Buy' scheme may have a positive impact on the situation and help first time buyers to get onto the property ladder. However, this may just push up the prices again and result in first time buyers taking out very large mortgages to be able to afford to buy their first house. Overall, this is bad for the UK economy.

Examiner's comment

There is demonstration of good knowledge and application with chains of reasoning and there is reasonable use of evidence. There is some limited evaluation and so the response gets into Level 3.

This response therefore gained Level 3 and 11 marks.

There is little difference in terms of quality of understanding and analysis between this answer and Question 2, response 2. However, this response attempts evaluation and so reaches the next level.

3. Paper 2: Competing in the global economy

This section includes student responses, marks and commentary for A level Paper 2 9EB0/02, *Competing in the global economy*. A summary of the questions and marks for each response is provided in the table below.

| Question | Response 1 | Response 2 |
|------------------|------------|------------|
| Section A | | |
| 1e (8) | 4 | 8 |
| 1f (10) | 5 | 9 |
| 1g (12) | 6 | 11 |
| 1h (12) | 5 | 11 |
| Section B | | |
| 2 (20) | 13 | 20 |
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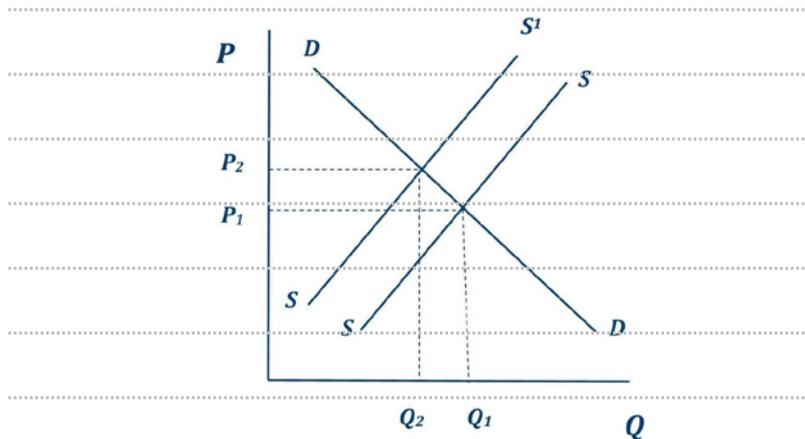
Section A

Question 1e

Response 1

- (e) Using a suitable diagram, discuss the likely impact on India of using 'high import tariffs' (Extract D).

(8)



A tariff is a tax placed on imports. It moves the Supply curve to the left and price goes up. The import becomes more expensive and so sales fall. This is good for India because consumers will now buy the cheaper Indian products instead and make more money for the Indian Government which is good for its economy.

Examiner’s comment

The student does attempt to show the impact on the supply curve of high import tariffs and although very simplistic, the response does demonstrate knowledge and understanding. The first part of the written explanation focuses on describing the diagram but does try to show chains of reasoning. Judgements are attempted as to the likely impact.

This response therefore gained Level 2 and 4 marks.

There are two aspects to this question – the diagram and the written explanation. Students must make sure to attempt both of these even if they are unsure if their diagram is accurately drawn.

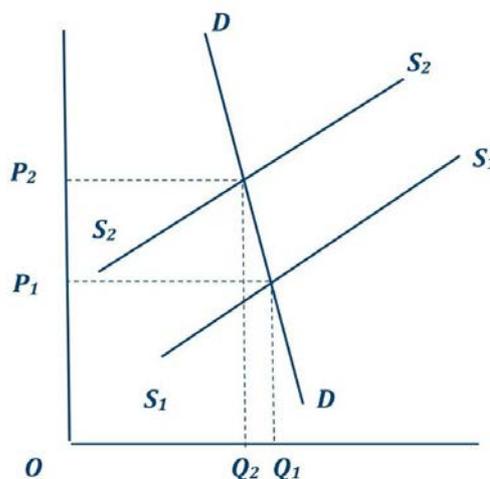
Response 2

- (e) Using a suitable diagram, discuss the likely impact on India of using 'high import tariffs' (Extract D).

(8)

A high import tariff will increase the price of imported goods such as motorbikes. In the diagram the S curve moves vertically upwards by the amount of the tax. The theory is that the higher price will encourage Indian consumers to substitute relatively cheaper domestic products and by doing so protect local jobs and businesses. The success of local businesses maintains and creates employment and wealth which will further benefit the Indian economy.

However the success of this depends upon whether Indian consumers see domestic products as adequate substitutes for the imports. Extract D suggests that Triumph is a 'well known and respected brand' in India and is likely to be preferred to local brands. In this case PED is likely to be price inelastic and the demand curve much steeper as in the diagram below. In which case the resulting fall in Q is relatively small despite the big increase in P.



Examiner's comment

This response provides both a detailed written explanation of the impact on India of high import tariffs and a very accurate diagram to support the explanation. Context is used in terms of Triumph, which ensures that this is not just a generic response to a question on tariffs. Arguments are well supported and there is a *balanced awareness of competing arguments*. This response satisfies all the requirements of a Level 3 response and is very well structured, with excellent use of economic terminology.

This response therefore gained Level 3 and 8 marks.

When drawing a diagram, students should consider the steepness of the curves as this will show the examiner that they understand elasticity and this will improve the overall mark within Level 3.

Question 1f**Response 1**

- (f) Assess the importance of a brand name to a business such as *Triumph* when entering a new market.

(10)

Brand names can help a business such as Triumph because they tell the customer something about the product. (Extract D) says that Triumph is a well known and respected brand in India. So when Triumph launches its new bike customers will already be familiar with the name and more likely to buy it than the competitors' products. Even if consumers have not heard of the brand before it can be a valuable marketing device as promotion and advertising create awareness around a particular name or logo. This will begin to build up awareness and hopefully create brand loyalty and repeat purchases in the future. Once the brand is recognised it may be possible to charge higher prices. However a brand can also create a bad impression which may put people off in the new market as they not want western brands in their country.

Examiner's comment

This response is reasonably accurate and applies the importance of a brand name to the evidence provided. There is an awareness of competing arguments and other considerations in addition to branding are considered regarding how Triumph will succeed when entering a new market. The response does lack balance and no conclusion is provided.

This response therefore achieved a low Level 3 and 5 marks.

Contrasting the importance of one variable with other considerations is always a good way to show competing arguments which must be present to achieve Level 3.

Response 2

- (f) Assess the importance of a brand name to a business such as *Triumph* when entering a new market.

(10)

A brand carries much information about a product or company that can influence a consumer's decision as to whether to purchase a product or not. Triumph is entering a new market with lower cost and less powerful engines. Triumph is hoping that by moving into this new sector they will be successful as consumers will already be familiar with the Triumph brand "a well known and respected brand". So in this case a brand is potentially important. However if the bikes themselves do not appeal to customers the name on the badge is less important. Equally there will be new markets that have yet to hear of Triumph and then the product and price and the way it is promoted become more important than the name. Lack of a brand is no barrier to success, in the UK the Chinese PC manufacturer/brand of Lenova has sold very well, despite little awareness of the brand. Other previously unknown brands such as Kia and Dacia have also done well. Whilst a brand is important and can be a useful marketing tool it is by no means essential.

Examiner's comment

This response gives consideration to the importance of branding in context alongside other factors which may also impact on the success of Triumph in a new market. There is use of the evidence and the analysis is logical and coherent. Competing arguments are presented and are well developed, with links to other examples of where branding is not as important as pricing.

This response therefore gained Level 4 and 9 marks.

Students should not just agree with the statement – the question requires them to argue why branding may be important but also to consider alternative factors which may also impact on the success of a business. In reality, there are many factors affecting the success of a business and much of this depends on the nature of the market or product.

Question 1g**Response 1**

- (g) Using Extracts B and C, assess *Triumph's* decision to set up manufacturing and sales operations in Brazil.

(12)

Setting up operations would be a good move for Triumph. Brazil is one of the BRICs and is growing all the time. It would save Triumph money if it built its motorbikes there rather than sending them all the way from the UK. It is expanding into other countries as well such as the USA where sales have increased by 23%. Although Brazil is different to the USA the company says that it is 'expecting strong performance' over the coming years. In Sao Paulo it sold 75 motorcycles in its first two days so this may be a good prediction. This would be good for Triumph because 'The recent recession has caused many problems and Europe continues to be an area of concern.' So selling more in Brazil will make up for static sales at home and continue to make profits. However, this expansion is expensive (nearly 77m) and there might be problems such as a different culture and society or communication problem with a foreign factory and workers. In my opinion this is a good decision by Triumph.

Examiner's comment

The response starts with a conclusion which is then developed with use of the evidence to support the chain of reasoning. There is an attempt at basic evaluation so there is an awareness of competing arguments. However, these are not fully developed and lack balance.

This response therefore gained low Level 3 and 6 marks.

Students should avoid starting their response with a conclusion! This will result in one-sided responses or responses with limited evaluation. Students are being asked to 'assess' so they should always consider both sides of the argument before coming to a conclusion.

Response 2

- (g) Using Extracts B and C, assess *Triumph's* decision to set up manufacturing and sales operations in Brazil.

(12)

Brazil may well be a good choice for Triumph. Extract C shows a large predicted increase in GDP for 2015 to 155bn Real an increase of 23% on 2013. Motorcycles are likely to be income elastic products which will benefit from this. Extract C also shows that 88% of its income is held by only 20% of the population which again, is good for potential future sales of a luxury product.

Manufacturing in Brazil may also be a good decision. Unit labour costs are forecast to fall by 2015 thus reducing costs, although the full benefit of this depends upon how much of total costs are accounted for by labour. Interest rates are set to rise and seem high which may indicate increasing inflation and also will increase the cost of finance for prospective buyers. The cost of the operation (17m) may seem a lot but Triumph is still working from an operating profit margin of 48%. Short term cost is not a problem if it leads to further long term growth. Brazil is a good location from which to launch further expansion into other South American markets and this may be a shrewd move for Triumph at a time of uncertainty in its traditional markets as the impact of the financial crisis lingers on.

Nevertheless Triumph's success will depend upon the degree of competition it faces and the future prosperity of Brazil, which although looking good in its near future ultimately depends largely on its reliance on commodity products such as soya and iron ore and these may run out.

Examiner's comment

The response starts with reference to the evidence which gives the student a good base for assessing the benefits of locating within Brazil. Logical chains of reasoning are used to develop why this would be beneficial to Triumph. This is contrasted with other arguments and the response considers the short and long term impact on the company by considering the impact of competition within the Brazilian market as well as other external influences such as reliance on commodity products.

This response therefore gained Level 4 and 11 marks.

Students should consider the short and long term effects of a business decision. They do not necessarily have to just look at the advantages and disadvantages but can use a range of evaluative techniques in order to show competing arguments.

Question 1h**Response 1**

(h) Assess the impact of the global recession on *Triumph*.

(12)

A recession is where incomes fall and unemployment rises. This means that people have less money to spend and so sales of luxury goods or non-essentials such as motorcycles will fall. This can mean problems and less profits for Triumph. Across the industry profit margins fell by 6.5% from 12.5% to 6%. Triumph itself saw profits fall from £22.3 million to £15.7 million. As a result Triumph may have had to make people redundant or perhaps cut the prices of its motorcycles to maintain sales. On the other hand Triumph seems to be doing well, extract B talks about its "growing South American operations" and sales in America have increased. It is also launching into "13 new geographical markets" including Argentina, Brazil, Columbia, Czech Republic, Hungary, Russia and Slovakia. So perhaps Triumph has not been too badly affected by the recession.

Examiner's comment

This response appears to have chains of reasoning initially but the reasoning is very basic and the student has lifted large chunks of the evidence and has not developed their answer. There is not enough to achieve Level 3.

This response therefore gained Level 2 and 5 marks.

Students should use the evidence rather than just copying out chunks of it to answer questions. Data should be used in the response and be relevant to the question.

Response 2

(h) Assess the impact of the global recession on *Triumph*.

(12)

The global recession has clearly had an impact on Triumph, extract B quotes the company as saying that problems have been caused and that Europe is an 'area of concern'. As a UK and European manufacturer Triumph may well have seen falling sales as consumers lose confidence in the economy and cut back on purchases of luxury goods such as motorcycles. Yet this may be misleading, the evidence suggests that Triumph's fall in profits is mostly due to recent costs of expansion and R+D. In fact Triumph seems to be doing well, sales in the USA up by 23%, launching into various new markets and an ambitious plan to secure a slice of the huge Indian market. Most of these areas will not have been affected too much by the recession. For example India's economy is still growing around 5% a year, only a small change compared to previous years.

Ultimately the recession may prove to have had only a temporary short term adverse effect on Triumph. Given its strong brand image even the European markets may soon recover. Developed markets such as the US are clearly doing well and Triumph appears to have taken care to enter developing markets with its right products and strategies. The long term prospects look good.

Examiner's comment

This response also starts by using the evidence provided which helps to support the reasoning behind the impact of the recession on Triumph. Logical and coherent chains of reasoning and analysis are backed up by this evidence. This is contrasted well by a discussion as to how the recession may be minimised and other considerations as to the short term impact of a recession.

This response therefore gained Level 4 and 11 marks.

Recessions do not always affect businesses in the same way and it is important for students to realise that the impact of an economic downturn may not always be negative for all businesses; it depends on many factors.

Section B

Question 2

Response 1

- 2 Evaluate the importance of labour costs for businesses when deciding where to locate production.

(20)

Labour costs are often the most expensive costs for a business particularly if it is a labour intensive one. If a business moves to a cheaper country in terms of labour it reduces costs and then can reduce the prices of its products in order to gain a competitive advantage. This is why many businesses moved to China from 2001 to 2011. US investment more than quadrupled to \$30 billion, with an estimated 30,000 US companies operating there. It was not just the US and many other companies from all over the world have re-located to China to take advantage of cheaper labour, including many from the UK. Unfortunately the cost of labour is rising in China, wages are now five times higher than a decade ago. As costs rise so businesses have decided to move to other areas such as Mexico where costs might be cheaper. This shows that labour costs are important for businesses when deciding where to locate productions.

Examiner's comment

This response is fairly generic but the student does attempt to use some of the evidence to support their reasoning. More application with references to businesses – either from the evidence or from studying the course – could have been used to greater effect in order to lift the overall mark.

This response therefore gained Level 3 and 13 marks.

Use of own examples will always be credited and can be used to demonstrate competing arguments. This is a 20 mark question so the use of context will always be crucial to enter Level 4.

Response 2

- 2 Evaluate the importance of labour costs for businesses when deciding where to locate production.

(20)

Labour costs are undoubtedly a key factor for many firms when deciding where to locate production and with the increase in trade and globalisation leading to greater competition many chose countries such as China. There, the migration from the land to the expanding cities provided an endless supply of cheap labour, an important consideration as businesses tried to cut costs to remain competitive. For many businesses this was fine if their production process relied on large quantities of unskilled labour such as toy production or electronics assembly. Apple outsources most of its production to Foxcom in China. However for others it is the quality of the labour that is more important. Dyson moved production to Malaysia which had cheaper labour than the UK but was by no means the cheapest alternative. What Malaysia did have was the right kind of skilled labour, even so Dyson kept its R+D side of its business in the UK.

For other businesses there are other factors to consider besides the labour force. For Dell computers it was a substantial financial inducement from the Polish government. For businesses such as Sahil Circuit it is the location within a free trade area that is important. The Japanese car companies such as Nissan, Honda and Toyota wanted to locate within the EU to circumvent the common external tariff that protects the EU from imports. Nissan was also keen to locate in the UK partly due to Government incentives but also because of the skilled labour and engineering expertise in the north east of England and the proximity of deep water ports to make transportation easier.

Pepsico and many others chose Ireland as it had a very low rate of corporation tax. Vodaphone chose Egypt for one of its call centres due to the high number of English speaking graduates.

There are many factors that influence a firm's decision as to where to produce. If cheap labour is of primary importance businesses will move to the cheapest area, as China's wages increase then they will move to the next 'cheapest' location such as Cambodia or Vietnam. For most businesses however, it will be a combination of factors that are important and that will depend upon the nature of the product or service they produce.

Examiner's comment

This response is very well structured and the first part of the answer argues why labour costs are important for a range of businesses such as Apple. It then contrasts this with other considerations such as skilled labour or financial incentives which Dell took advantage of when it relocated to Poland. There is strong use of context throughout and a contextualised conclusion which considers that a combination of factors are often also important, not just the cost of labour.

This response therefore gained Level 4 and 20 marks.

Students must use examples to support their arguments. Using examples often demonstrates to the examiner that they are able to show competing arguments in the real world and that not all businesses are the same.

A good example of the quality of labour is the German bear-making business, Steiff. In around 2008 Steiff moved some of their production to China but left after two years as it could not find the highly skilled labour required to produce their top-end bears.

Section C

Question 3

Response 1

- 3 Using Extracts F and G, evaluate the potential effects of inflation on firms in the UK since 2000.

(20)

Inflation is considered to be bad for businesses for several reasons. It creates uncertainty which makes it harder for businesses to plan for the future as they do not know what will happen to their costs. In addition unless consumers can keep pace with inflation then will see a fall in income and demand may drop. This makes it hard for businesses to estimate future sales.

Extract F shows inflation from 2000 to 2013. It broadly increased up until 2007, dipped slightly and then rose sharply to 5% in 2008. It then dropped sharply in 2009 as the financial crisis and recession took place. It then rose back up to just over 5% again before declining to the low of 1.9% mentioned in evidence G.

It is likely that from 2000 to 2006 firms will have been able to cope with the change in inflation. It has been a gradual increase of around 2% over 7 years. It is likely that firms can allow for this in their planning. The sharp rise in 2008 and the financial crisis will have done much to shatter the confidence of consumers and businesses alike. It is the uncertainty of inflation that is damaging. Extract G also says that wage growth has been lagging behind inflation which means that in real terms they are worse off. This will reduce the demand for goods and services and businesses will see a drop in sales and profits.

If prices are going up it will mean that UK products will be less competitive than our foreign competitors. This will lead to a fall in demand and once again this is bad for businesses. However, this all does seem to be coming to an end so businesses can plan for its future and see sales return to normal.

Examiner's comment

This response provides analytical comments with some application and use of data relating to inflation from the evidence. However, arguments are limited and there is a lack of balance with parts of the response being generic – references to firms and businesses rather than specific examples. An attempt is made at an overall conclusion but this is rather simplistic.

This response therefore gained Level 3 and 11 marks.

Students should avoid using the phrases firms or businesses and instead use specific examples which demonstrate their understanding of how economic indicators may impact differently on a range of markets and products/services.

Response 2

- 3 Using Extracts F and G, evaluate the potential effects of inflation on firms in the UK since 2000.

(20)

In 2000 and up to the beginning of 2005 the inflation rate was below the government target of 2%. For firms in the UK this would have been a good time, low and stable rates of inflation enable them to plan with confidence for the future, consumers are also confident that their incomes are unlikely to fall too much in real terms (if at all) and therefore demand is steady and predictable.

In 2008 the financial crisis struck and inflation peaked at 5%. With the collapse of many banks and global recession, inflation may not have been the UK firms' biggest worry. Trading conditions were exceptionally difficult, even for those firms who did want to expand finding credit became extremely difficult. In the immediate wake of the crisis inflation dropped sharply back to 1% in 2009 then increased again in 2010 and 2011. This brought even more uncertainty making life very difficult for businesses as they tried to plan for the future. Consumer demand was generally lower as unemployment rose and consumer confidence fell. Not all businesses suffered, producers of inferior goods such as Aldi and Domino's Pizza flourished as rising prices and falling incomes due to inflation caused many consumers to switch to cheaper substitutes.

Given that this period of inflation occurred during a recession and long period of recovery, it seems likely that it was caused by imported costs rising quickly. Global events pushed up the price of many foods and other imported commodities including oil. For many UK firms this meant upward pressure on costs and, in turn, prices. At the same time consumers faced with rising energy bills and increased shopping bills cut back on consumption of many goods. All this caused a downturn in sales for many UK firms. Sales of new cars, holidays and some higher end supermarkets decreased.

The traditional 'cure' for inflation is to raise interest rates but this would have made the recession worse and would not have cured imported inflation. However, inflation does appear to be easing and real wage growth is beginning to catch up with it. Expectation for the future from both consumers and firms should become more confident, leading to greater spending and growth in the future. Exports from the UK should become more competitive as inflation falls but the Eurozone is falling even more and foreign firms may become more competitive than the UK firms.

Examiner's comment

This response uses the evidence to great effect and has applied the effects of inflation on businesses such as Aldi and Domino's Pizza, which may have benefitted as consumers switched to inferior goods. This is contrasted with the impact on more luxury items such as new cars and holidays. Competing arguments are presented and this leads to a balanced conclusion.

This response therefore gained Level 4 and 19 marks.

The 20 mark questions are designed to be open-ended and should enable evaluation to take place. Students should consider the positives and negatives, in context in order to achieve Level 4.

3. Paper 3: The economic environment and business

This section includes student responses, marks and commentary for A level Paper 3 9EB0/03, *The economic environment and business*. A summary of the questions and marks for each response is provided in the table below.

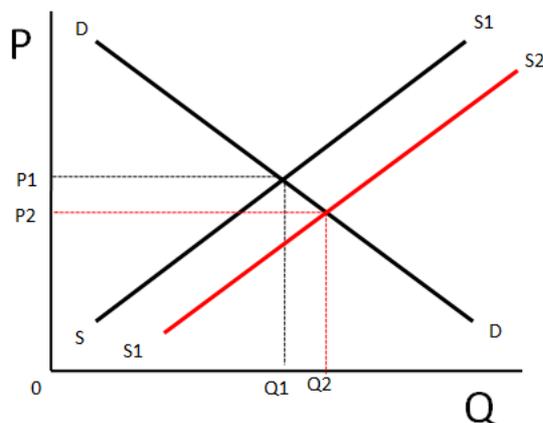
| Question | Response 1 | Response 2 |
|------------------|------------|------------|
| Section A | | |
| 1a (8) | 8 | 3 |
| 1b (10) | 9 | 4 |
| 1c (12) | 11 | 4 |
| 1d (20) | 19 | 9 |
| Section B | | |
| 2a (8) | 5 | 8 |
| 2b (10) | 5 | 10 |
| 2c (12) | 5 | 10 |
| 2d (20) | 11 | 18 |

Question 1a

Response 1

- 1 (a) Using a suitable diagram, discuss why 'food prices are likely to fall in the coming months' (Extract C, lines 7–8).

(8)



The diagram above shows that there has been an outward shift in the supply curve from S1 to S2 resulting in a change in price and quantity. Extract C indicates that the supply of food has been improving so that there will be more food available causing a fall in food prices and an increase in the quantity traded. However, this may not happen as the supply of food is affected by unpredictable factors such as the weather. For example, there may be floods or heavy rain which destroys the crops in the field. Therefore the extent of the fall in price and quantity supplied will depend on other external factors and the fall may not be as great if there is a poor harvest.

Examiner’s comment

The student has fulfilled all the requirements of the question. The diagram is clear, correct and fully labelled. A good explanation for the changes in the diagram follows, along with some evaluation that is both relevant and in context.

It clearly reaches Level 4 on the mark scheme: *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.*

This response gained Level 4 and the maximum of 8 marks.

Response 2

- 1 (a) Using a suitable diagram, discuss why 'food prices are likely to fall in the coming months' (Extract C, lines 7–8).

(8)

Extract C states that the supply of food will improve which indicates that there will be more food available to sell to consumers. If there is more supply, then there will be lower prices as market forces will drive down the price of food. This will increase quantity and with lower food prices. This will depend on a range of factors and also by how much the supply of food increases as to the impact on price.

Examiner's comment

The student has not provided a diagram in their response and this has therefore limited the marks available to Level 2. The answer contains *elements of knowledge and understanding* but is an assertion and not based on evidence. The student does attempt an evaluative comment in the last sentence.

This response therefore gained Level 2 and 3 marks.

It may be obvious, but students must use a diagram when asked to do so in the question. They should make sure it is both accurate and fully labelled. Students must explain *why* something might happen rather than just stating it.

Question 1b

Response 1

- (b) Assess the likely impact on the Indian economy of the change in the Gini coefficient between 1994 and 2011 (Extract B).

(10)

Extract B states that India's Gini coefficient has increased from 0.34 to 0.39 which indicates that the Indian economy has become more unequal. The gap between the rich and the poor has widened with income inequality doubling in India since the early 1990s. This has resulted in the richest 10% of Indians earning approximately 12 times as much income as the poorest 10% compared to approximately 6 times in 1990. There are many negative consequences of the widening between the rich and poor and increasing inequality can result in social unrest and other social problems.

Increasing GDP should raise living standards but with growing income inequality, poorer sections of the Indian society will not benefit and those living in poverty will not see an improvement in healthcare or education. This will reduce social mobility with poorer sections of society having restricted access to the means of lifting themselves out of poverty through education and training. Having large numbers of the Indian population living in poverty may reduce further economic growth as these people are unable to afford basic necessities.

However, the Gini coefficient is only a measure of income inequality and although the increase in the figure does indicate growing inequality, it does not mean that the poorest are getting poorer - it is just the gap between the rich and the poor is getting wider. Indeed, India's recent economic growth has resulted in 52 million people being lifted out of extreme poverty and access to better healthcare and education. The Indian government may need to consider ways in which the benefits from economic growth can be more fairly and equally distributed amongst its population of 1.3 billion in order to make its population more equal.

Examiner's comment

This response demonstrates *accurate knowledge and understanding* which is well supported by relevant evidence. The student has also used evidence that is not used in the extracts. This is to be expected as they have clearly completed the research relating to the pre-released context, including exploring growth and economic indicators.

Arguments are developed and the evaluation shows a *full and balanced awareness of the validity and significance of competing arguments*.

This response therefore gained Level 4 and 9 marks.

Students who complete the pre-released research task will be able to supplement answers with extra and relevant evidence based on wider reading and research. This is not a requirement within the mark scheme but this response demonstrates how students can use the research to ensure a well contextualised and evidenced response.

Response 2

- (b) Assess the likely impact on the Indian economy of the change in the Gini coefficient between 1994 and 2011 (Extract B).

(10)

The Gini coefficient is a measure of inequality. The closer the figure is to 0, the more equal a society is. Extract B states that the Gini coefficient has increased from 0.34 to 0.39 indicating an increase in income inequality in India. Increasing income inequality is both an economic and social problem for the Indian government as the gap between the rich and the poor is widening. There are many problems of growing inequality with the benefits of economic growth not filtering to the whole of the Indian society with 320 million people still living in poverty in India. This large number of poorer people in India will restrict further economic growth for the Indian economy as these people cannot buy goods and services. People who are living in poverty may see no improvement to things such as healthcare and education. The government may have to spend more money helping these people who may not be able to afford medical help or who cannot afford to gain new skills through education or training. Overall, the impact on the Indian economy of an increase in the Gini coefficient will be negative and will not benefit the Indian economy.

Examiner's comment

This answer shows reasonable knowledge and understanding supported by evidence and has chains of reasoning. There are some assertions that are not supported by explanation and the evidence is confined to that provided in the extract.

The response is also one sided and there is no evaluation, which means it fails to demonstrate an *awareness of ... competing arguments*. This means it cannot achieve a Level 3 mark and instead qualifies as Level 2.

This response therefore gained Level 2 and 4 marks.

All of the questions in this paper have marks for evaluation. Students who do not include evaluative comments will limit their marks.

Students should try and use outside evidence from their research when responding to the case study and not just rely on the evidence provided.

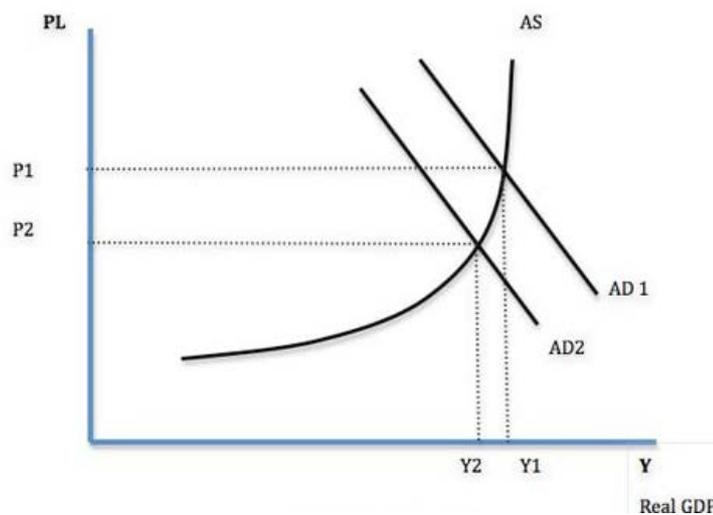
Question 1c

Response 1

(c) Assess the likely impact of further increases in interest rates on the level of inflation in India.

(12)

Interest rates are often used by a government to help control inflationary pressures within an economy and are a component of monetary policy. Extract C states that the Reserve Bank of India has increased interest rates from 7.5% to 7.75% in an effort to control rising inflationary pressures. This increase of 0.25% may help to reduce the growth of Aggregate Demand in the Indian economy. The slower growth will then lead to lower inflation. Higher interest rates reduce consumer spending because increased interest rates increase the cost of borrowing, which discourages consumers from borrowing and spending, therefore reducing AD. In addition, increased interest rates make it more attractive to Indian consumers to save money which further reduces inflationary pressure. Increased interest rates reduce the disposable income of those with mortgages, again reducing AD. (see diagram below)



However the extent to how effective the increase of 0.25% will depend upon a number of factors. The change from 7.5% to 7.75% is a relatively small increase and in the short run changes in interest rates may have little impact as it can take up to 18 months for the effect to take place on the Indian economy. There are many causes of inflation and an increase in interest rates may only result in a reduction of AD which may not be the underlying cause of inflation in India. Extract C states that inflationary pressures have been caused by higher fuel prices of 10.3% and higher domestic food prices of 18.2%. Increasing interest rates will have little impact on cost push inflation.

In conclusion, increasing interest rates may help to reduce some inflationary pressure within the Indian economy because the rupee is currently weak so an increase in interest rate may result in an appreciation of the rupee leading to lower exports and more imports.

Examiner's comment

This response demonstrates the Level 4 descriptors: *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.* The diagram is relevant and adds to the overall response.

This response gained Level 4 and 11 marks.

Relevant diagrams can be very useful in adding weight to an answer. Students should not be afraid to use them.

Response 2

- (c) Assess the likely impact of further increases in interest rates on the level of inflation in India.

(12)

Inflation is the sustained increase in the average price level in an economy. Extract C states that India's inflation rate was 7% in October 2013 and that the central bank increased the rates of interest from 7.5% to 7.75%. Two of the main reasons why there has been an increase in inflation are higher fuel and food prices.

One advantage of increasing interest rates is that AD will reduce as it becomes more expensive to borrow money. This can affect people with mortgages and credit cards who will have to pay back more interest on their borrowing so they will cut back on purchasing goods and services. In addition, it will encourage more people to save their money rather than spend it in the economy. This overall will reduce inflation in the Indian economy.

Overall, I think that increasing interest rates is a good way to cool inflationary pressures and help to reduce demand pull inflation.

Examiner's comment

Although technically correct this response is rather brief and generic – it could apply to any economy that uses monetary policy in this manner. The link between reducing AD and reducing inflation is not explained fully. The response is also one sided and there is no evaluation meaning there is no *awareness of ... competing arguments*. This means it cannot achieve a Level 3 mark and instead qualifies as Level 2.

This response therefore gained Level 2 and 4 marks.

Remember that these questions are all based on the pre-released context of India, so some attempt to link the response to India should be made.

Question 1d**Response 1**

- (d) Evaluate the benefits for the Indian economy of allowing increased levels of foreign direct investment (FDI).

(20)

Increasing FDI in the Indian economy would help to create jobs for many unemployed Indians and this may lead to an increase in GDP. Wal-Mart and other foreign firms such as IKEA are looking for new markets to expand into which are unsaturated and have rising incomes. Foreign companies such as Wal-Mart may bring investment and employ local workers in their supermarkets which may help to reduce unemployment and raise the standards of living within India. By moving to places such as India, jobs may be created both directly in the retail outlet as well as indirectly due to the multiplier effect. Checkout operators who work in Walmart will be able to spend their wages in other local businesses such as restaurants, further boosting the local economy. In addition, the foreign firms such as Wal-Mart will need Indian construction workers to build the new supermarkets and improve the infrastructure such as roads around the retail development. Further economic growth could come if Wal-Mart sourced its food products from within India and revenue from taxation could benefit the Indian economy and reinvested back into the country.

However, increasing FDI in India could mean that local and traditional Indian businesses could be forced out of business as customers switch to the more modern and up to date retailers such as Wal-Mart who offer a wider range of western brands. Smaller independent fast food restaurants could see sales fall as foreign firms such as McDonalds attract the younger generation of Indian consumers. This could result in an increase in unemployment rather than a decrease, especially if Indian workers only get the menial or poorly paid jobs in the foreign firm. Many foreign firms are only interested in the cheap labour found in places such as India and exploit Indian workers who may have less employment protection. Apple has recently been criticised for its poor treatment of workers in assembly plants in China where low wages and poor working conditions have been found. Indeed, many Indians are against more FDI being allowed into India with riots occurring when Wal-Mart worked with Bharti Enterprises in a joint venture.

Overall the extent of allowing more FDI into India will depend upon the type and nature of the investment. If joint ventures are encouraged between Indian and western MNCs then many of the drawbacks of exploitation could be avoided or reduced and the benefits of FDI remain within India. Many MNCs are not looking to exploit India and have a long term commitment to the country.

Examiner's comment

This response builds on the well-chosen example of Wal-Mart and uses it to show how FDI spreads through the economy bringing benefits to stakeholders beyond the immediate confines of Wal-Mart. This is then developed to show some possible disadvantages of FDI, again using Wal-Mart but also bringing in other examples. This ensures the response has *well developed and logical, coherent chains of reasoning, showing full understanding of the question. Arguments are fully developed and evaluated.* A useful conclusion finishes off the response and places it in Level 4.

This response therefore gained Level 4 and 19 marks.

Response 2

- (d) Evaluate the benefits for the Indian economy of allowing increased levels of foreign direct investment (FDI).

(20)

FDI occurs when a firm from one country invests into another country. One reason for allowing more FDI into India is to increase employment. To reduce unemployment the Indian government could allow more foreign firms to locate within the country who will then create more jobs for the workers. Another reason to allow more foreign firms into India is to improve the infrastructure. India suffers from a poor infrastructure and it is not uncommon for large multinationals to improve the infrastructure around where they are based. By encouraging more FDI, the Indian government may see an increase in tax revenues from the foreign MNCs operating within India. If profits are made within India, then corporation taxes will have to be paid as well as income tax from the workers who are now working for the foreign firm. Some foreign firms may also train their new workers in the production techniques therefore allowing skills and technology transfer to occur.

However, these benefits of increased FDI must be balanced against some of the problems of allowing foreign MNCs into a country. Many MNCs exploit cheap labour and the lack of regulation in developing countries. Some MNCs repatriate any profits made within the developing economy back to their own country therefore the host country does not benefit from increased things such as corporation tax. Some MNCs may cause unemployment as they force out local businesses due to their power and financial resources and only recruit unskilled workers rather than provide managerial jobs within the company.

Overall, if India does allow more FDI into the country then it must balance the benefits against the potential drawbacks. It could result in an increase in GDP due to the creation of jobs and improve the living standards of the Indian population as they will have access to a greater range of goods and services.

Examiner's comment

This response shows reasonable knowledge and understanding and has chains of reasoning. It does have *awareness of the significance of competing arguments* so may be a Level 3 answer.

However, the problem is that this response is largely generic, it could apply to many countries and not just India. To be in Level 3 it needs to be *supported by use of relevant evidence to support the argument*. This response has one vague reference that applies to the context, *'India suffers from a poor infrastructure'*.

This is not enough to stay in Level 3 which requires *relevant examples... connected to the context/issues...* The demonstration of knowledge and understanding means it is high Level 2.

This response therefore gained Level 2 and 9 marks.

The mark scheme contains guidance on how to incorporate application 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 2a

Response 1

- 2 (a) Using an appropriate calculation, discuss the implications for JCB of the change in their operating profit margins for 2011 and 2012 (Extract E).

(8)

$$2011 = \frac{355}{2,750} \times 100 = 12.9\%$$

$$2012 = \frac{365}{2,700} \times 100 = 13.5\%$$

There has been an increase between 2011 and 2012 in the operating profit margin of 0.6%. This is only a small increase but means that JCB is improving its performance and that its marketing strategies are working.

Examiner's comment

The student uses the correct formula to calculate the operating profit margin. The response demonstrates *elements of knowledge and understanding* with an attempt at judgement in terms of interpreting the figures between 2011 and 2012. However, the evaluative comment is not developed or detailed enough.

This response therefore gained Level 2 and 5 marks.

If students are asked to calculate or use a formula, it is advisable to write out the formula before attempting the calculation. This will demonstrate knowledge and understanding even if the student makes a mistake during the calculation.

A 'discuss' question will always require evaluation and a balance must be provided in order to achieve Level 3.

Response 2

- 2 (a) Using an appropriate calculation, discuss the implications for JCB of the change in their operating profit margins for 2011 and 2012 (Extract E).

(8)

Operating profit margin has increased between 2011 + 2012

$$\frac{355}{2750} \times 100 = 12.9\% \text{ (2011)}$$

$$\frac{365}{2700} \times 100 = 13.5\% \text{ (2012)}$$

Although this may indicate improved performance it cannot be seen as that helpful to JCB. It is only a small increase and it is only over the course of 2 years. JCB would need to see if it is part of a longer term trend or a small 'blip'. It would also be useful to compare with other similar businesses. Nevertheless it has been achieved against a backdrop of global recession and difficult trading conditions. It is also worth noting that the margin has increased despite a lower turnover. These are therefore encouraging signs for JCB.

Examiner's comment

The student uses the correct formula to calculate the operating profit margin for both years. This question is not just about calculating operating profit margins, but also to 'discuss the implications...' therefore requiring an evaluative response. The student makes judgements as to the change in the operating profit figures in terms of the small increase in operating profit between 2011 and 2012. They have also discussed the results for JCB so the answer is in context.

This response therefore gained Level 3 and 8 marks.

Students should always look for the command word in the question. Paper 3 will not just require students to perform a calculation, but to also evaluate the implications of the result.

Question 2b

Response 1

- (b) Assess **one** strategy JCB might adopt to increase market share in emerging markets.

(10)

JCB could launch a big promotional campaign to make potential new customers in emerging markets aware or more aware of their range of products. JCB is in competition with other international manufacturers such as Caterpillar, Case New Holland and Sony (Extract D) and needs to promote its products more. It says in Extract E that its bright yellow diggers have become one of Britain's most recognisable global brands. By emphasising this it could gain a competitive advantage over its rivals.

However advertising and promotion can be expensive particularly to start with and it may not work. In addition JCB will also face competing adverts from its rivals.

Examiner's comment

This response demonstrates accurate knowledge of a suitable strategy, in this case a promotional campaign using the context from the evidence. There are chains of reasoning with links to how this strategy may lead to a competitive advantage for JCB. The response briefly attempts evaluation in the final paragraph although this comprises mainly assertions and these are not developed or supported to the same extent as the first part of the response. These evaluative comments are also fairly generic and not specifically applied to JCB.

This response therefore gained low Level 3 and 5 marks.

The higher levels require not only evaluative comments, but comments which are contextualised either to the case study or to examples which students have studied during the course. Students should avoid assertions that are not supported and are not fully developed.

Response 2

- (b) Assess **one** strategy JCB might adopt to increase market share in emerging markets.

(10)

The nature of emerging markets is such that a pricing strategy might be the most appropriate one to use. Price may well be a key factor for less wealthy economies. By using a penetration pricing strategy and deliberately keeping its prices lower than normal, JCB may be able to create sales, enter the market and establish its brand. Once it has reached the desired level of sales it can then raise its prices and hopefully brand loyalty will maintain market share. JCB may not have to reduce its prices by that much as the rupee has depreciated against most other currencies such as the Brazilian real -12.86%

However one of its main rivals is Sany a Chinese producer who is also able to lower prices due to their comparative advantage in manufacturing and lower costs. China also has an artificially maintained low exchange rate making its exports relatively cheap. Finally there is no guarantee that when JCB resumes normal prices its sales will stay the same, they may well fall.

Examiner's comment

This response demonstrates accurate knowledge of a suitable strategy, in this case a pricing strategy using the context from the evidence. There is use of relevant evidence with coherent chains of reasoning and links to how this strategy may lead to a competitive advantage for JCB. This response gives a balanced awareness of other competing arguments with support from both the evidence and from wider knowledge of other well-known MNCs such as Sany. There is a contextualised conclusion which considers a range of factors that might impact on the suitability of the chosen strategy.

This response achieved Level 4 and 10 marks.

Students should always contextualise responses throughout the whole of the response. To reach the higher levels of marks, a conclusion should not see an answer in terms of 'black or white' but should consider a range of factors that may also be important to the question, such as the nature of the market in which the MNC operates.

Question 2c

Response 1

(c) Assess JCB's decision to grow organically.

(12)

Organic growth means that a business such as JCB uses its own resources to grow. If it's successful it will invest in extra production and new markets and export like that. The opposite of this is inorganic growth which is when a business expands by merging or taking over another business. This is usually regarded as being a more rapid means of expansion as one business immediately gains the market share of the business it is taking over. This can be important in a dynamic and fast moving market. Organic growth by contrast is slower but perhaps less risky, there is less danger of growing too quickly or of having problems with communication or a clash of cultures. On the other hand inorganic growth can quickly lead to economies of scale, it can gain assets and brand names, it reduces the amount of competition in the market at the same time as increasing their own market power. Nevertheless organic expansion has suited JCB and they are now among the worlds' largest construction equipment makers with operations in 150 countries.

Examiner's comment

The first part of this response focuses mainly on knowledge and understanding of organic and inorganic growth. Although correct, context is missing and these are generic comments. The response does evaluate the use of inorganic growth as a way to increase market share and reduce risk, but the response is completely generic and could apply to any firm. In order to get into Level 3, there needs to be evaluation in context.

This response therefore gained Level 2 and 5 marks.

Context (AO2 - application) is vital if a response is to achieve Level 3 or Level 4. Generic responses which do evaluate will be restricted to the top of Level 2 as to achieve higher responses must be *supported throughout by use of relevant evidence which is well chosen*. Just using the name of the business from the case study is not considered to be application or a good use of context.

Response 2

(c) Assess JCB's decision to grow organically.

(12)

Organic growth does not involve takeovers or mergers, JCB has grown by its own efforts. This appears to have been a good decision, it has developed into a distinctive brand recognised on a global basis and has 18 factories across the world. This type of expansion would mean outside influence would enter JCB and dilute control. JCB has concentrated on its core competences centred around engineering and expanded slowly but steadily to a turnover of £2.7bn. By contrast inorganic growth can be risky with some 50% of mergers and takeovers failing to deliver the anticipated benefits.

However JCB is moving into emerging markets such as Brazil. It faces considerable competition from American rivals such as Caterpillar and new arrivals such as Sany from China. In this fast moving market organic growth may be slow and JCB might miss out, it may be better to grow inorganically to establish a presence quickly. Nevertheless, organic growth has served JCB well and its plans for future expansion seem solid.

Examiner's comment

The start of the response shows the distinction between inorganic and organic growth and immediately starts to analyse in context with logical chains of reasoning. Use of data to support the analysis also adds to the reasoning of why this might be a good way to grow. This is then contrasted with the counter arguments (in context) of the disadvantages of this form of growth. Arguments are developed in context.

This response therefore gained low Level 4 and 10 marks.

Good evaluative responses can always be improved with a contextualised conclusion rather than ending without any clear conclusion. Students should consider the nature of the market and the type of business in the questions as to the extent of an impact in the conclusion.

Question 2d

Response 1

- (d) With reference to Extract D and Extract F, evaluate the likely impact on JCB of the change in the value of the Indian rupee.

(20)

Extract F shows that the rupee has depreciated against a range of currencies and in particular the US dollar. When a currency depreciates it makes exports cheaper and imports more expensive. The rupee has lost 20% of its value since January 2013. This means that the price of imports and imported raw materials have gone up by the same amount. This will increase the costs of JCB if it imports raw materials and components from abroad. It depends on how many of these actually come from a country like America. Extract F shows that the rupee is λ not the only currency falling against the dollar. So the actual amount the imports rise by will vary if other countries have the same problems. However the good news for JCB is that its exports will appear to be cheaper in many markets, as foreign buyers will have to give up less of their currency to buy the same number of rupees. JCB may even be able to increase the price of their machines to cover the increased cost of imported components and so maintain profits.

Examiner's comment

The response starts off well and uses the evidence from the case study to form chains of reasoning and attempts judgements as to how the exchange rate might affect firms such as JCB. This therefore puts the response into Level 3 as it fulfils the requirements of Level 3. There is an awareness of competing arguments but the response starts to become rather generic towards the end of the answer.

This response therefore gained Level 3 and 11 marks.

Students should maintain context throughout the whole response and conclusions help to show an awareness of competing arguments which may lift a response higher up within a band of marks.

Response 2

- (d) With reference to Extract D and Extract F, evaluate the likely impact on JCB of the change in the value of the Indian rupee.

(20)

A range of currencies have depreciated against the US dollar but India has experienced the largest in percentage terms. One impact of this may be to increase the costs of production for JCB. It manufactures machinery and so will need large quantities of metals and oil based materials. Commodities like these are priced in dollars and so if these are imported costs will rise. The effect on AC will depend upon what proportion of TC they make up, and the increase may be absorbed without too many problems.

JCB could always raise its prices to compensate although given the competition which means there are several substitutes for JCB this may not be a good idea. Demand may turn out to be price elastic as a result. However, it does also mean that exports from India should now be cheaper, so JCB may be able to cover costs and increase prices and still remain competitive as foreign buyers give up less of their own currency.

Much will also depend upon the rupee's movement in relation to other currencies besides the dollar. It is likely that the rupee will also have depreciated against other currencies as well. This may have a beneficial impact on JCB. They are keen to enter Brazil and the Brazilian real has not fallen by as much as the rupee. It may be that for JCB products made in India, they are now more price competitive.

Extract F also shows little movement of the Chinese yuan against the dollar. If the rupee has depreciated by more than the yuan against other currencies this could give JCB a real advantage when competing against Chinese companies such as Sany. It will certainly help JCB compete against Caterpillar an American corporation.

Given JCB, drive to export into other markets this depreciation may be helpful to them, but much will depend on how the exchange rate varies in the future. Currencies are volatile and this may all have changed by the same time next year.

Examiner's comment

This response shows great use of the evidence provided, with accurate knowledge and understanding of the impact of a depreciation of the exchange rate. This student has interpreted the charts and data provided to show the impact on JCB. Throughout the response, there are considerations as to the likely extent of the change in the value of the rupee with references back to the evidence. Again, a conclusion is provided to weigh up the overall impact.

This response therefore gained Level 4 and 18 marks.

Use of the evidence provided will always be well rewarded as this will take a generic evaluative response into a much more detailed level of analysis and judgement.