



Mark scheme

Sample assessment materials

Issue 2

Pearson Edexcel GCE A Level  
in Economics B (9EB0)

Paper 2: Competing in the global economy

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## **General Marking Guidance**

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

Question Number	Answer	Mark
<b>1(a)</b>	<p><b>Knowledge/understanding 1, Application 3</b></p> <p><b>Knowledge/understanding:</b> 1 mark for formula  <math display="block">\frac{\text{current output}}{\text{maximum possible output}} \times 100 \quad (1)</math></p> <p><b>Application:</b> up to 3 marks Current  output = 69,300 <b>(1)</b>  Maximum possible output = 82,500 <b>(1)</b></p> <p><math>\frac{69,300}{82,500} \times 100 = 84\% \quad (1)</math></p> <p><b>NB if the answer is just 84 (%) give 4 marks Three marks max for 0.84.</b></p>	<b>(4)</b>

Question Number	Answer	Mark
<b>1(b)</b>	<p><b>Knowledge/understanding 1, Application 2, Analysis 1</b></p> <p><b>Knowledge/understanding:</b> 1 mark for identifying that profitability has fallen or 12.5% profit margin has reduced to 6.0% <b>(1)</b>.</p> <p><b>Application:</b> up to 2 marks are available for contextualised answers, e.g. fixed costs would now be divided by 69 300 rather than 82 500 <b>(1)</b> so average fixed costs go up as would average total costs <b>(1)</b>.</p> <p><b>Analysis:</b> 1 mark available for developing the connection, e.g. unused capacity means that fixed costs are spread over a smaller output meaning profitability per motorcycle would fall <b>(1)</b>.</p>	<b>(4)</b>

Question Number	Answer	Mark
1(c)	<p style="text-align: center;"><b>Knowledge/understanding 1, Application 2, Analysis 1</b></p> <p><b>Knowledge/understanding:</b> 1 mark for identifying a reason, e.g. to develop new and innovative products to remain competitive <b>(1)</b>.</p> <p><b>Application:</b> up to 2 marks are available for a contextualised answer, e.g. Triumph faces competition from other manufacturers such as Ducati and BMW <b>(1)</b>; Triumph is developing a new, small motorcycle specifically for the Indian market as a result of research and design <b>(1)</b>.</p> <p><b>Analysis:</b> 1 mark for developing the reason, e.g. new and more innovative motorcycles would give Triumph a competitive advantage and increase sales and profitability <b>(1)</b>.</p>	<b>(4)</b>

Question Number	Answer	
1(d)	<p style="text-align: center;"><b>Knowledge/understanding 2, Application 2, Analysis 2</b></p> <p><b>Knowledge/understanding:</b> up to 2 marks for identifying an implication for Triumph, e.g. pricing is an important part of Triumph's marketing strategy; without knowledge of likely PED any price change can be risky <b>(1)</b>. Knowing the PED means that the relative risk and impact on revenues can be taken into account when considering pricing strategy <b>(1)</b>.</p> <p><b>Application:</b> up to 2 marks for a contextualised answer, e.g. identifying that a PED of <math>-0.7</math> is inelastic <b>(1)</b> and will lead to a fall in sales which is proportionately less than the change in price <b>(1)</b>.</p> <p><b>Analysis:</b> up to 2 marks available for explaining the implications on Triumph's pricing strategy, e.g. a PED of <math>-0.7</math> means that if Triumph decides to increase prices there will not be a significant reduction in sales <b>(1)</b> it will lead to an increase in total revenue <b>(1)</b> or Triumph would not benefit from discounting as this would reduce total revenue <b>(1)</b>.</p>	<b>(6)</b>

Question Number	Indicative content	Mark
1(e)	<p style="text-align: center;"><b>Knowledge/understanding 2, Application 2, Analysis 2, Evaluation 2</b></p> <div data-bbox="424 322 1136 1102" data-label="Figure"> </div> <ul style="list-style-type: none"> <li>• Import tariffs are designed to protect domestic industries from foreign competition.</li> <li>• A tax is placed on the import to increase its price and reduce consumption.</li> <li>• India is still a developing economy, with infant industries in many areas struggling to be competitive, this is especially so in the case of high-tech, high-value goods such as cars and motorcycles.</li> <li>• By imposing high tariffs domestic substitutes are more appealing, which protects jobs and businesses.</li> <li>• If they are high enough, tariffs may persuade businesses such as Triumph to set up production in India which has several advantages such as job creation, technology/skills transfer, taxes and beneficial effects on balance of payments.</li> <li>• However, only a few businesses might do this. Many may simply accept that India is a difficult market to penetrate and look elsewhere.</li> <li>• Consumers in India get less choice and may have to settle for inferior domestic substitutes.</li> <li>• Indian producers are sheltered from competition and have little incentive to improve and become competitive and so India's development slows.</li> </ul>	(8)

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

### **Demonstrating application (AO2) in responses**

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

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Question Number	Indicative content	Mark
1(f)	<p style="text-align: center;"><b>Knowledge/understanding 2, Application 2, Analysis 3, Evaluation 3</b></p> <p>A brand is the perception that consumers have of a product or service and is usually associated with a name, logo or reputation.</p> <p>As long as the brand has positive connotations then it is likely to be useful when entering a new market.</p> <ul style="list-style-type: none"> <li>• If consumers are familiar with the brand then any new products introduced by the company are likely to carry the same positive qualities in the minds of the consumer.</li> <li>• Branding could be expected to make demand for a product more price inelastic so the entry price does not have to be as low.</li> <li>• Branding may reduce the likely threats from substitutes.</li> <li>• This appears to be the case in Triumph's Indian strategy as Extract B states.</li> <li>• Even if the brand does not already exist in a market it may already be known by some people.</li> <li>• However a brand name alone does not guarantee success no matter how well known. The other elements of the marketing strategy have to be in place.</li> <li>• Triumph is designing new smaller motorcycles for the Indian market to suit the needs of Indian consumers and they will be cheaper than rivals' models, which could be crucial in a developing market such as India.</li> <li>• Suitable promotion appropriate to the culture would be needed as would an effective distribution and back-up service network.</li> <li>• Whilst a brand is important and can form an important element in a marketing strategy, branding is not essential.</li> <li>• Previously unknown Chinese brands such as Huawei and Haier have successfully entered western markets based on their pricing strategies and their products alone.</li> </ul>	(10)



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Level 2	3–4	Elements of knowledge and understanding, using limited relevant evidence. Arguments and chains of reasoning are presented but with limited attempt to address the question. Comparisons and judgements may be attempted.
Level 3	5–7	Accurate knowledge and understanding, supported by use of relevant evidence to support the argument, clear chains of reasoning, with well-developed arguments. An awareness of the significance of competing arguments is present although this may lack balance.
Level 4	8–10	Accurate knowledge and understanding, supported throughout by use of relevant evidence which is well chosen, logical, coherent chains of reasoning, showing full understanding of the question. Arguments are developed and evaluated. A full and balanced awareness of the validity and significance of competing arguments.

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Question Number	Indicative content	Mark
1(g)	<p style="text-align: center;"><b>Knowledge/understanding 2, Application 2, Analysis 4, Evaluation 4</b></p> <ul style="list-style-type: none"> <li>• GDP is expected to be 155bn reals in 2015, an increase of 23% indicating growing levels of disposable income.</li> <li>• However, GDP per capita is increasing only to 14 126 reals, an increase of 4.2%.</li> <li>• This suggests that gains in income are unequal and this is borne out by the Gini coefficient of .55 and that the top 20% have 58.6% of the wealth.</li> <li>• This may be in Triumph's favour as its motorcycles could be considered as luxury goods and therefore likely to be income elastic.</li> <li>• Interest rates are forecast to rise significantly and this may affect demand if motorcycles are bought on credit.</li> <li>• Producing in Brazil may be a good move as unit labour costs look set to decrease from 159 to 130 despite a slight fall in unemployment to 4.1%.</li> <li>• Triumph is investing in South America; a region that has hitherto not been part of the company's market.</li> <li>• To create a manufacturing capacity and distribution network takes time and money and represents a large undertaking on Triumph's behalf.</li> <li>• This has been reported as causing a £7 million drop in profits for the company and in the short term is damaging to the company, particularly given the problems in European markets caused by the recession.</li> <li>• However, South America is a developing region: Brazil is growing rapidly and other markets, such as Argentina and Chile, are recovering from recent problems.</li> <li>• Triumph may want to look at how Brazil compares to other South American countries and consider a wider range of indicators.</li> <li>• The forecast is up to 2015 only and does not give long-term information.</li> <li>• Products such as motorcycles will appeal to consumers with growing incomes and for Triumph the potential long-term gains may be worth short-term costs.</li> </ul>	(12)

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Level 2	3–5	Elements of knowledge and understanding, using limited relevant evidence. Arguments and chains of reasoning are presented but with limited attempt to address the question. Comparisons and judgements may be attempted.
Level 3	6–9	Accurate knowledge and understanding, supported by use of relevant evidence to support the argument, clear chains of reasoning, with well-developed arguments. An awareness of the significance of competing arguments is present although this may lack balance.
Level 4	10–12	Accurate knowledge and understanding, supported throughout by use of relevant evidence which is well chosen, logical, coherent chains of reasoning, showing full understanding of the question. Arguments are developed and evaluated. A full and balanced awareness of the validity and significance of competing arguments.

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Question Number	Indicative content	Mark
1(h)	<p style="text-align: center;"><b>Knowledge/understanding 2, Application 2, Analysis 4, Evaluation 4</b></p> <ul style="list-style-type: none"> <li>• The recent recession and the financial crisis of 2008, affected many businesses, including Triumph.</li> <li>• A recession means that there has been at least two consecutive quarters of negative GDP growth. For many consumers this means falling incomes and/or lack of confidence, leading to a reduction in spending, particularly on income elastic products.</li> <li>• Extract A suggests that motorcycles in general have had a tough time with profit margins falling from 12.5% to 6.0%.</li> <li>• Extract A suggests there is spare capacity in the UK motorcycle industry which may impact on the size of the workforce, unit costs and on the ability to maintain prices.</li> <li>• Triumph may not have been affected as much as other brands because it is from the UK and has a loyal customer base.</li> <li>• Although in Extract B it is clear that the recession has caused problems for Triumph, the degree of problems will depend on the YED for Triumph motorcycles.</li> <li>• However, the recession mainly affected Europe. Other markets may not have been so badly affected, if at all. The USA, which was affected by the recession, saw sales increase by 23% from 2011.</li> <li>• Other areas such as India show huge potential for growth and may be the key to Triumph's future. Brazil is described as 'promising'.</li> <li>• If Triumph had relied just on Europe then the recession may have had a serious damaging impact, but because Triumph is expanding and spreading risk by entering new markets and developing new products the impact may have been only a short-term minor problem.</li> </ul>	(12)

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Level 3	6-9	Accurate knowledge and understanding, supported by use of relevant evidence to support the argument, clear chains of reasoning, with well-developed arguments. An awareness of the significance of competing arguments is present although this may lack balance.
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2	<p style="text-align: center;"><b>Knowledge/understanding 4, Application 4, Analysis 6, Evaluation 6</b></p> <ul style="list-style-type: none"> <li>• ‘Labour costs’ refer to the costs of wages and salaries as well as other benefits. In addition, a firm can incur labour costs if training is needed.</li> <li>• For many businesses the labour costs can be the biggest item of expenditure and reducing these costs by moving to a cheaper location can be an important factor.</li> <li>• Even if labour costs are not the largest production cost, there may be parts of the production process that are very labour intensive.</li> <li>• Many businesses offshored production to China in the 90s to take advantage of the large and cheap labour force.</li> <li>• However, wages in China have increased fivefold and this may well discourage firms from locating there.</li> <li>• It is not just the cost of the labour that matters, and it may be that the skills of the workforce are more important.</li> <li>• Businesses such as Dyson acted on this reasoning; it wanted cheaper labour and so left the UK but went to Malaysia for its skills, rather than the cheapest source of labour.</li> <li>• Many IT companies outsource to India because of the technical skills of the workforce there.</li> <li>• For other businesses, other factors override the issue of labour costs.</li> <li>• Rising fuel and transportation costs are becoming increasingly important.</li> <li>• For Zegna, the Italian designer label, actually making the clothes in Italy is important to its customers and one of the key elements of its marketing mix.</li> <li>• In the extract, Mecco and Jabil Circuit have both moved to Mexico.</li> <li>• Many car manufacturers such as Honda and Volkswagen are increasing production in Mexico because it is a member of NAFTA and so has free trade with, and proximity to, the large markets of North America.</li> <li>• The degree to which labour costs are important is determined by a range of factors and will depend heavily on the nature of the product or service. These factors may include how labour-intensive production actually is, or how skill intensive; changes in other costs, such as energy and transportation, and whether there is value in proximity to markets. Where markets require speedy responses to market change, offshoring may be less profitable.</li> </ul>	(20)

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Level 2	5–9	Elements of knowledge and understanding, using limited relevant evidence. Arguments and chains of reasoning are presented, but connections between causes and consequences are incomplete. Limited attempt to address the question. Comparisons, judgements or conclusions may be attempted, but are unsupported or generic.
Level 3	10–15	Accurate knowledge and understanding, supported by use of relevant evidence to support the argument, developed chains of reasoning, showing understanding of connections between causes and consequences. Arguments are well developed and partially evaluated. An awareness of the significance of competing arguments is present although this may lack balance. A conclusion may be attempted but may not show awareness of the significance of competing arguments.
Level 4	16–20	Accurate knowledge and understanding, supported throughout by use of relevant evidence which is well chosen and fully integrated to support the argument, well developed and logical, coherent chains of reasoning, showing full understanding of the question. Arguments are fully developed and evaluated. A full awareness of the validity and significance of competing arguments, leading to nuanced and balanced comparisons, judgements or conclusions.

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Question Number	Indicative content	Mark
3	<p style="text-align: center;"><b>Knowledge/understanding 4, Application 4, Analysis 6, Evaluation 6</b></p> <ul style="list-style-type: none"> <li>• Inflation is a sustained rise in the general price level of an economy, or a fall in the value of money. The UK government uses a range of policies to try and control the rate of inflation. In terms of its monetary policy it aims for a target rate of 2%.</li> <li>• Firms have faced a low inflation environment for most of this period. From 2000 to 2004 it was below the target of 2%.</li> <li>• Any national average figure hides regional differences, e.g. wage cost inflation will differ by region in the UK.</li> <li>• There was a spike in 2008, when inflation reached 5% and then a sudden fall in 2009 as the recession took hold.</li> <li>• This was followed in the same year by a sharp rise back to 5% and then it was not until 2012, that it fell below target rate again.</li> <li>• The impact of inflation depends on the changes in the price of their inputs, e.g. commodity price increases have been higher than average.</li> <li>• If Aggregate Demand (AD) is too high then it begins to exceed Aggregate Supply (AS) the overall level of supply in the economy. Production cannot keep up with demand and costs rise as resources become scarcer and attract a higher price.</li> <li>• Long-term stability has reduced uncertainty for business, making it easier to plan the hiring of resources.</li> <li>• Short-term price volatility could have increased costs that were passed on in the form of higher prices or reduced profit margins depending on the competitiveness of the market they operate in and the number of substitutes for their product/service.</li> <li>• If the inflation was imported (2009 onwards) this may imply rising raw material or input costs which firms could not avoid. The UK in recent years has suffered from imported inflation which means that the price of key imports, such as food and oil, has gone up due to global factors.</li> <li>• As consumers have to pay increased prices for essentials such as energy and food, spending on other firms' products/services is likely to have dropped.</li> <li>• This is a more likely cause of the price rises 2008–2012, because demand pull inflation would be unlikely in a recession if there is spare capacity in the economy.</li> <li>• Monetary policy can be used to control inflation but Extract F suggests that the bank rate hasn't changed which means that borrowing costs for firms would be relatively low and consumer credit would also be low. This will have no impact if the availability of credit is more important than the cost of credit.</li> <li>• Neither policy will be effective if the inflation is caused by anything other than rising AD.</li> <li>• Business investment will depend on expectations of future inflation as well as future demand. If inflation were to continue to fall this might signal that demand is weak and deter investment.</li> <li>• Expectations about inflation are also important because if people expect inflation to get worse, they may demand even higher wages and therefore increase costs for firms.</li> <li>• Export competitiveness should be helped by low inflation although what happens to the exchange rate.</li> </ul>	(20)



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