



Mark scheme

Sample assessment materials

Issue 2

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

Paper 3: The economic environment and  
business

## **Edexcel and BTEC Qualifications**

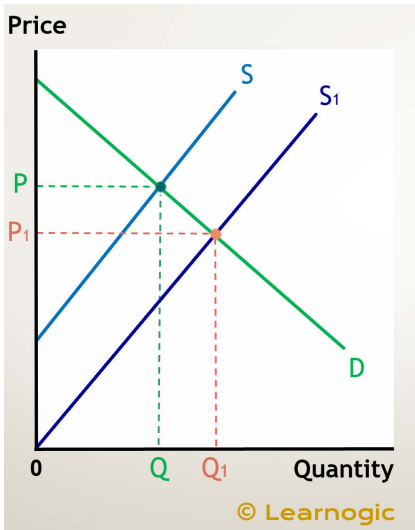
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## **General Marking Guidance**

- 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	Indicative content		Mark
1(a)	<p align="center"><b>Knowledge/understanding 2, Application 2, Analysis 2, Evaluation 2</b></p>  <ul style="list-style-type: none"> <li>Constructs a labelled demand and supply diagram with correct axes, D and S curves, equilibrium price and quantity shown.</li> <li>Shows a shift of the supply curve to the right, causing a movement along the demand curve, causing a change in equilibrium price and quantity.</li> <li>Explains that the supply of food is improving and that this means more is available causing a fall in food prices and an increase in Q traded.</li> <li>Food supply is unpredictable and affected by factors such as the weather which can drastically affect supply and therefore the extent of the price change.</li> <li>Demand factors may also influence food prices.</li> </ul>		<b>(8)</b>
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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

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<b>1(b)</b>	<p align="center"><b>Knowledge/understanding 2, Application 2, Analysis 3, Evaluation 3</b></p> <ul style="list-style-type: none"> <li>The change in the Gini coefficient indicates increasing income inequality because it has increased from 0.34 to 0.39.</li> <li>Increasing inequality means that the gap between the richest members and the poorest members is widening; the Gini coefficient is now 0.39 in India – by comparison the Gini coefficient in UK is 0.32.</li> <li>Income inequality refers to the unequal distribution of wealth and income amongst the population.</li> <li>Income inequality has doubled in India since the early 1990s. The richest 10% of Indians earn approximately 12 times as much money as the poorest 10%, compared to roughly six times in 1990. Increasing inequality of income can be seen as both a social and economic problem and can result in social unrest.</li> <li>Problems for India include that the wealth created by economic growth is not finding its way down to all of the less well-off, some of whom remain close to living in poverty with poor health and poor or no education.</li> <li>This holds back India's future growth and hinders the development of an internal market.</li> <li>However, it does not necessarily mean that the poorest are getting poorer, just the gap getting wider.</li> <li>Growth may well be a necessary condition for reducing poverty and in India it has indeed brought millions out of poverty.</li> </ul>		<b>(10)</b>
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<b>1(c)</b>	<p align="center"><b>Knowledge/understanding 2, Application 2, Analysis 4, Evaluation 4</b></p> <ul style="list-style-type: none"> <li>Interest rates are a component of monetary policy and are used to control inflation by affecting AD.</li> <li>Increasing interest rates may cause consumers to borrow and spend less and businesses to borrow and invest less, which in turn may reduce AD and cool inflationary pressures.</li> <li>The change from 7.5% to 7.75% is only a small one and may have little impact.</li> <li>In the short run, changes in interest rates may have little impact; it takes time for the cumulative effect to be felt.</li> <li>Changes in interest rates affect the level of aggregate demand which may not be the cause of the current inflation.</li> <li>This is because the inflation is imported in the form of higher fuel prices of 10.3% and higher domestic food prices of 18.2%. Higher interest rates are likely to have little or no impact on reducing these prices.</li> <li>However, not all the inflation may be caused by imported factors and increased interest rates may help somewhat.</li> <li>Although the currency is weak at the moment increased interest rates may cause an appreciation of the rupee and lessen the inflationary pressures.</li> </ul>		<b>(12)</b>
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1(d)	<p style="text-align: center;"><b>Knowledge/understanding 4, Application 4, Analysis 6, Evaluation 6</b></p> <ul style="list-style-type: none"> <li>• The level of FDI is a controversial area for India.</li> <li>• Increased levels of FDI may bring foreign businesses such as Wal-Mart in to India in search of new markets or looking to base production there.</li> <li>• This may have a range of impacts on India.</li> <li>• Jobs may be created both directly and indirectly which sets in motion a positive multiplier effect. The FDI that comes with the new businesses is likely to boost incomes that, in turn, will be spent in other local businesses to their benefit.</li> <li>• Some of the many traditional small shops that currently sell to local people may disappear as customers use modern retailers such as Wal-Mart.</li> <li>• However, local businesses may face increased competition and a fall in sales, unemployment may rise.</li> <li>• Indian construction firms may well receive a boost as the new stores are built. Local businesses such as transport, banks or maintenance may receive contracts.</li> <li>• Local suppliers may see an increase in orders if the incoming businesses source within India.</li> <li>• Skills and technology transfer may take place.</li> <li>• Tax revenues may increase, giving a boost to India's government run services.</li> <li>• Profits may be repatriated and taxes avoided. Workers may get only menial or poorly-paid jobs, externalities may be created.</li> </ul>	(20)



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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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<b>2(a)</b>	<p align="center"><b>Knowledge/understanding 2, Application 2, Analysis 2, Evaluation 2</b></p> <ul style="list-style-type: none"> <li>operating profit margin = <math>\frac{\text{operating profit}}{\text{total revenue}} \times 100</math></li> <li>2011 <math>\frac{355\text{m}}{2\,750\text{m}} \times 100 = 12.9\%</math></li> <li>2012 <math>\frac{365\text{m}}{2\,700\text{m}} \times 100 = 13.5\%</math></li> </ul> <p>The operating profit margin has increased between 2011 and 2012.</p> <ul style="list-style-type: none"> <li>More profit is made from a lower turnover, this may mean better use of resources/reduction in costs and indicates JCB is increasing in efficiency.</li> <li>However, this is only a small change over a small period of time and may not be significant in the long run.</li> </ul>		<b>(8)</b>
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<b>2(b)</b>	<p align="center"><b>Knowledge/understanding 2, Application 2, Analysis 3, Evaluation 3</b></p> <p><b>NB A range of strategies may be suggested here, reward any plausible line of argument.</b></p> <ul style="list-style-type: none"> <li>• Ideas might include pricing, promotion or adaptation of the product, e.g. it could use penetration pricing as in markets such as Brazil it faces intense competition from Sany.</li> <li>• Low prices may attract new customers and JCB will hope to build market share and a reputation to ensure future sales.</li> <li>• The outcome will depend on the PED in individual markets.</li> <li>• This will affect profitability.</li> <li>• In the event that sales revenue falls, JCB will have to rely in the short term on sales in more established markets to generate profits.</li> <li>• It may not be easy because Sany is from China and is also likely to benefit from low assembly/manufacturing costs.</li> <li>• If PED is high, this could be a successful strategy.</li> </ul>		<b>(10)</b>
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<b>2(c)</b>	<p align="center"><b>Knowledge/understanding 2, Application 2, Analysis 4, Evaluation 4</b></p> <ul style="list-style-type: none"> <li>Organic growth means using your own resources to grow and does not involve takeovers or mergers. JCB is a family firm and privately owned.</li> <li>Growing inorganically may mean losing some degree of control and would go against the company ethos.</li> <li>Organic growth implies a possibly slow but steady expansion without overextending and taking risks. Over 50% of all mergers and takeovers fail to yield anticipated benefits and can be risky.</li> <li>JCB has concentrated on its engineering and focuses on a few key areas, again organic growth maintains this approach.</li> <li>However, the global construction market is a dynamic and rapidly expanding market.</li> <li>Organic growth can be slow and JCB may miss out on key opportunities.</li> <li>Entering new markets means having to compete against other firms to get established which can be difficult and costly.</li> <li>Inorganic growth can be rapid and taking over competitors is a good way of not only gaining entry to a market and an established customer base but reduces the competition at the same time.</li> </ul>		<b>(12)</b>
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<b>2(d)</b>	<p align="center"><b>Knowledge/understanding 4, Application 4, Analysis 6, Evaluation 6</b></p> <ul style="list-style-type: none"> <li>• If the rupee depreciates then imports into India will be more expensive and exports from India will be cheaper in terms of foreign currencies. This can have a range of impacts on JCB.</li> <li>• If it imports components and raw materials into India, it may well face an increase in costs of production.</li> <li>• Much will depend on what proportion of its imports is sourced abroad. A small increase in costs may be absorbed without problem and even if prices are raised the impact on demand will depend on the PED for its products.</li> <li>• It has a strong brand and is the market leader in India and so it may not be too damaging.</li> <li>• Exports of JCB equipment from India may become more competitive as foreign countries give up less of their own currency to buy, and so sales may increase.</li> <li>• By comparison to the US dollar, the Indian rupee has depreciated by slightly more than the Brazilian real (-12.86% compared to -9.51%).</li> <li>• This should make JCB slightly cheaper in Brazil. However, Sany, which is Chinese, will increase in price to the Brazilians because the yuan has hardly changed against the US dollar (+0.30) and other currencies.</li> <li>• Much depends on the size of the depreciation and how long it lasts, currencies are volatile and in a year the position could be reversed.</li> <li>• JCB may have minimised the impact by using forward markets to reduce risk.</li> </ul>		<b>(20)</b>
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