



AS Economics B

EXEMPLARS BOOKLET

AS exemplar material

Issue 1

AS Economics B exemplars

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1. Introduction

1.1 About this booklet

This booklet has been produced to support teachers delivering the new AS Economics B specifications. The booklet looks at questions from the Sample Assessment Materials. It shows real student responses to these questions and how examiners have applied the mark schemes to demonstrate how student responses would be marked.

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

Our examiners have selected student responses to a range of questions from the trialling of the Sample Assessment Materials. Following each question you will find:

- Student 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. 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

Phone: 0844 372 2187

Twitter: twitter.com/PearsonEconBus

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

2. Paper 1: Markets, consumers and firms

This section includes student responses, marks and commentary for AS Paper 1 8EB0/01, *Markets, consumers and firms*. A summary of the questions and marks for each response is provided in the table below.

Question	Response 1	Response 2
Section A		
1a (2)	1	-
1b (4)	4	-
1c (4)	4	3
1d (8)	7	3
1e (12)	12	7
Section B		
2a (2)	1	-
2b (4)	4	-
2c (4)	4	2
2d (8)	3	7
2e (12)	11	5
Section C		
3 (20)	17	7

Section A

Question 1a

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

(2)

Someone who owns and runs their own business.

Examiner's comments

This response is too vague to meet the expected standard, it is an 'everyday' response and not of the A level standard as exemplified in the mark scheme. This response therefore gained 0 marks.

Knowing the right definitions is not just useful for these questions; definitions are also the building blocks for the longer questions. Students who know their definitions are more likely to be able to show *accurate knowledge and understanding* and construct *coherent chains of reasoning* in other answers.

Question 1b

(b) Calculate the percentage change in sales revenue from 2006 to 2013. You are advised to show your working.

(4)

$$\frac{\text{Latest Sales Revenue} - \text{original Sales Revenue}}{\text{Original Sales Revenue}} \times 100$$

$$\frac{6,000,000 - 9,000,000}{9,000,000} \times 100 = 56.7\%$$

Examiner's comments

This student has the correct answer supported by showing their working. This response therefore gained 4 marks.

Although students are not required to show their working, they should be advised to do so. If they make an error with the final calculation students will be awarded some knowledge and application marks for correct workings. Every year some students make a mistake with their calculator and without any workings get 0 marks. If the workings are there, the mark scheme allows the examiner to give up to 3 marks for knowledge and application even if the final answer is wrong.

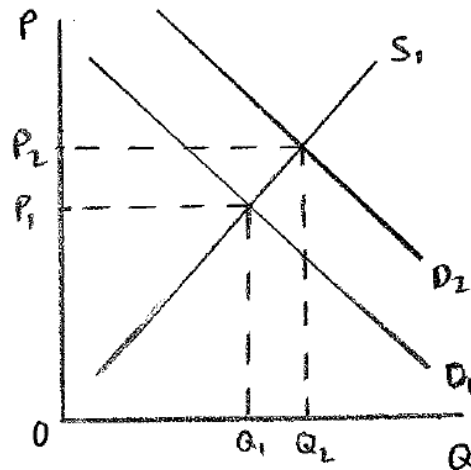
Question 1c**Response 1**

- (c) Mr Naylor is considering spending £100 000 on advertising Peckforton Castle on local television.

Using a demand and supply diagram, illustrate the potential impact on Peckforton Castle's sales.

(4)

The demand curve shifts to the right, causing equilibrium to also shift outwards. This means quantity demanded and price increase.

**Examiner's comments**

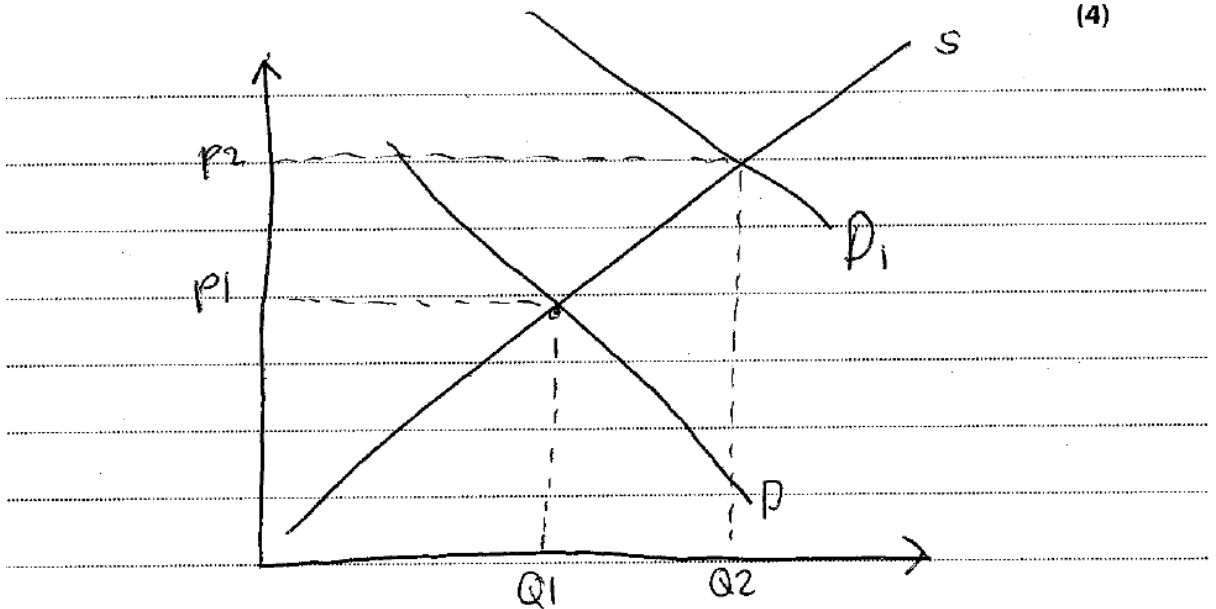
This is a fully labelled and accurate diagram. This response therefore gained 4 marks.

The use of the command word 'illustrate' means that a written explanation is not required so this response would still have gained 4 marks.

Response 2

- (c) Mr Naylor is considering spending £100 000 on advertising Peckforton Castle on local television.

Using a demand and supply diagram, illustrate the potential impact on Peckforton Castle's sales.



Examiner's comments

This student has the right idea but does not label the axes. This response therefore gained 3 marks.

The new specification has more emphasis on quantitative skills which includes the use and interpretation of diagrams. Students should practice these skills.

Question 1d

Response 1

- (d) Discuss the possible benefits to Peckforton Castle of spending £100 000 on its advertising campaign.

(8)

Advertising is used by firms to raise awareness of their product/service and increase demand. By spending more on its advertising campaign, Peckforton Castle could benefit and gain higher sales revenue and therefore higher ^{profits} sales revenue which could be spent on building the spa and yurt village. By advertising more, it would spread awareness and may increase demand for rooms and weddings. However, on the other hand in Chris Naylor's case it may be better to spend the £100 000 on other areas of the castle. For example in the article it says 'been frustrating for the sales team to run business away.' This suggests that the money would be better spent on making new rooms as they already have people waiting to occupy them. Spending the money on advertising or renovating rooms would be an opportunity cost for Chris Naylor.

Examiner's comment

The advantages and disadvantages of advertising are discussed clearly, showing *accurate knowledge and understanding*. This response is *supported throughout by use of relevant evidence* and is applied to both sides of the argument. The answer has a *balanced awareness of competing arguments* and is a good Level 3 response.

This response therefore gained Level 3 and 7 marks.

Although the final comment is worthwhile it is not sufficiently developed to lift the rest of the response to the maximum 8 marks available.

Response 2

- (d) Discuss the possible benefits to Peckforton Castle of spending £100 000 on its advertising campaign.

(8)

Advertising is used to spread the word about a product/service and raise consumer interest in it. This should raise awareness of Peckforton Castle in the nearby area and increase demand for bookings, leading to higher sales revenue + profits for Mr Naylor. It also means we may be able to buy new ~~things~~ ^{facilities} for the castle such as a wave machine or hire Morris dancers to attract more customers. It depends on how many other castles and wedding venues there are in the area.

Examiner's comment

This response has simplistic reasoning with very limited use of the evidence. There is an attempt to make a judgement but it is mainly assertion and lacks development. This response just makes Level 2.

This response therefore gained Level 2 and 3 marks.

Question 1e

Response 1

- (e) Santander is going to increase all of its interest rates on commercial loans and savings by 2%.

Assess the potential effects on Peckforton Castle of this increase in interest rates.

(12)

Interest rates are the prices charged by the lender to a borrower for taking out a loan. On the one hand, increased interest rates would ~~benefit~~ ^{not affect} Peckforton Castle ~~as~~ because many consumers ~~may be~~ ~~weddings~~ ~~as~~ ~~price~~ ~~elastic~~, ~~and~~ ~~therefore~~ who borrow money to pay for their wedding and eg wedding dresses will have to pay more money back in interest. This may lead to a reduction in demand for wedding bookings due to the increase in the cost of borrowing for the customers. Therefore P. Castle may see a fall in sales revenue and profits. Also Peckforton Castle has taken a loan and used external sources of finance to build new facilities such as the wedding suite, ~~and~~. An increase in interest rates would mean Mr Naylor must pay back more money than before to Santander, leading to lower profits. However if Mr Naylor has savings of his previous profits in Santander ~~as~~, he would benefit from this increase and may use this extra money to re-invest into improving the castle. Likewise, customers of his ~~and~~ ^{people using savings account} Santander, would have more disposable income and may be prepared to spend a little more on their wedding ceremony bookings, leading to increased profits. Furthermore extract A says that parents pay for a large number of weddings from savings, and would therefore not have to pay increased interest rates ~~on~~ borrowing.

money to finance the wedding therefore this rise would not greatly affect reduce their demand for weddings. In conclusion due to the nature of weddings being a lifetime special event, many people would see them as price inelastic and therefore would not be greatly deterred from spending their money even if they have less disposable income. Therefore demand would not fall too much, and the wedding cake may not see any great impact on its wedding ~~or~~ package sales.

(Total for Question 1 = 30 marks)

TOTAL FOR SECTION A = 30 MARKS

Examiner's comment

This response demonstrates throughout *accurate knowledge and understanding*. The student is careful to always support their arguments by examples either from the case study or relating to it, there is no drifting into generic and rehearsed discussion of interest rates. There is a *full and balanced awareness of the validity and significance of competing arguments*. The conclusion at the end is thoughtful and adds to the argument.

This response therefore gained Level 4 and the maximum 12 marks.

Response 2

- (e) Santander is going to increase all of its interest rates on commercial loans and savings by 2%.

Assess the potential effects on Peckforton Castle of this increase in interest rates.

(12)

Interest rate is the amount a borrower has to pay in order to get a loan, it is charged yearly as a percentage of the total amount loaned.

The rise in interest rates may affect Peckforton Castle negatively as they might have borrowed from Santander to fund the renovation and extensions like the bridal suites. This causes an increase in interest rates for Naylor to be repaid to Santander, hence less profit for Naylor.

However, the impact may also be minimal. For instance some customers may regard a wedding in Peckforton Castle as essential and would borrow money from Santander regardless to fund the wedding. Therefore, the increase in interest rates may not affect Naylor as weddings may be considered as price inelastic.

To conclude, there may be a negative impact after all because the price of a wedding is very high and normally couples do borrow money to help fund it. Consumers may choose for a more simple wedding instead to avoid a large sum of loan with high interest rates.

Examiner's comment

This response is relatively brief but does contain both sides of the argument. However, not all impacts are explored or fully developed. It does use *relevant evidence to support the argument* and is applied to the question. The response does include evaluation, with *an awareness of significance of competing arguments*, and there is a conclusion, although unfortunately this is not developed to show the effect on Peckforton Castle as asked in the question.

This response therefore gained Level 3 and 7 marks.

Section B

Question 2a

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

(2)

A medium through which buyers and sellers can interact
and exchange goods and services.

Examiner's comment

This is a good definition as per the mark scheme. This response therefore gained 2 marks.

Question 2b

- (b) Calculate the Operating Profit Margin for Just Eat in 2012 (Extract B). You are advised to show your working.

(4)

$$\frac{\text{Operating Profit}}{\text{Revenue}} \times 100$$

$$\frac{9}{41.4} \times 100 = 21.7\%$$

Examiner's comment

The student has the right answer so must get the marks. This response therefore gained 4 marks.

Although students are not required to show their working, they should be advised to do so. If they make an error with the final calculation students will be awarded some knowledge and application marks for correct workings. Every year some students make a mistake with their calculator and without any workings get 0 marks. If the workings are there, the mark scheme allows the examiner to give up to 3 marks for knowledge and application even if the final answer is wrong.

Question 2c

Response 1

(c) Explain **one** way product differentiation may have contributed to Just Eat's success.

(4)

Product differentiation is when you distinguish your product / service using non-price factors such as performance of the app in this case. Just Eat's app is free and has been downloaded over 2 million times. This may be due to the convenience the app has brought, as now you don't need to ring take away stores individually. Due to this differentiation, it allows Just Eat to charge a high commission of 11% and increase their sales revenue.

Examiner's comment

"Product differentiation is when you distinguish your product or service using non-price factors such as performance of the app in this case (1 knowledge mark). Just Eat's app is free and has been downloaded over 2 million times (1 application mark). This may be due to the convenience the app has brought, as now you don't need to ring take away stores individually (1 application mark). Due to this difference it allows Just Eat to charge a high commission of 11% and increase their sales revenue (1 analysis mark)."

This response therefore gained all 4 marks.

Response 2

(c) Explain **one** way product differentiation may have contributed to Just Eat's success.

(4)

Product differentiation is ^{where} non-price factors distinguish your products or services. One way it may have contributed through the free app and the quality of the services available.

Examiner's comment

"Product differentiation is where non-price factors distinguish your products or services (1 knowledge mark). One way it may have contributed through the free app and the quality of the service available (1 application mark)."

This response therefore gained 2 marks.

To get all 4 marks more application is needed and a consequence needs to be developed for the analysis mark.

Question 2d

Response 1

- (d) Discuss the importance to Just Eat of using market research to understand consumer demand.

(8)

market research is when you find out what consumers want from a product so you can tailor it to general consumer needs. This could help Just Eat to find out what people like and dislike about their app so they can improve it and gain more customer satisfaction. e.g. ~~pro~~ develop more features like filtering by food type, price, area etc.

Examiner's comment

The reasoning here is brief, fairly basic and lacks development. There is a hint of context at the end but this response is mainly generic and assertion based. There is no evaluation or judgement.

This response therefore gained Level 2 and 3 marks.

Response 2

(d) Discuss the importance to Just Eat of using market research to understand consumer demand.

(8)

Market research is when a firm finds out about the consumer's needs and wants to cater the product/service to them eg primary market research. Market research is important to just eat as it can help them identify ~~the~~ the competition within the industry for food apps. By identifying this competition, just eat could then analyse whether there are any gaps in the market for food ordering and target their objectives service to meet this specific consumer need eg ~~more~~ greater range of restaurants available. However market research is expensive and time consuming for Just Eat to do, especially as the opportunity cost may be high eg of not improving the app to make it easier to use and if the research may not be accurate due to the dynamic nature of the market for phone apps. In conclusion I think market research is important to JE, as they can more accurately gauge their market position in comparison to other firms who offer apps with which food can be ordered, and identify customer needs which are not being met, ^{thus} increasing demand for the app and making greater commission.

Examiner's comment

This response demonstrates good knowledge and understanding with context on both sides of the discussion. Analysis is developed using logical, coherent chains of reasoning. There is balance and an awareness of competing arguments.

A conclusion is present but this simply repeats previous arguments and does not add anything to the answer. This response is in Level 3 but not at the highest level.

This response therefore gained Level 3 and 7 marks.

A conclusion is a good way of strengthening a response but simply repeating previous points will not be effective. A good conclusion might sum up the preceding arguments and come to a judgement that rounds the discussion off and adds to its merits.

Question 2e

Response 1

- (e) Assess the benefits of government intervention to restrict the location of takeaway outlets.

(12)

Extract C shows how takeaway restaurants near schools may be leading to obesity in children as their food is over produced and over consumed. On the one hand, government intervention to restrict the location of takeaway outlets may improve social costs such as litter and pollution in the area around the takeaways and schools. Government intervention would reduce the production and consumption of takeaway food in order to reduce these associated social costs. By restricting the location of takeaway outlets, it could reduce obesity in children as they then may be encouraged to eat healthier food from the school canteens for example. There are also external ~~costs~~ costs of obesity such as the cost to the NHS through preventing diseases associated with obesity. External costs would also include absences from school and work due to these diseases. On the other hand, by restricting the location this could cause reduced sales and profit for the takeaway restaurant owner as the school children and parents could have been their main business. The government intervention is an example of the government trying to reduce the problem of children becoming obese. However, there are certain consequences such as derelict properties around schools and increasing unemployment as ~~schools~~ takeaways close down. In conclusion, children may shift ~~more~~ further to use the

restaurants or even use technology such as the Just Eat app to get takeaway food delivered to the school.

Examiner's comment

This is a very good answer and the student clearly understands the issues and uses the context extremely well. The evaluation is also in context and makes some interesting and relevant points. This fulfils all of the requirements of the Level 4 descriptor: *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.*

This response therefore gained Level 4 and 11 marks.

Response 2

- (e) Assess the benefits of government intervention to restrict the location of takeaway outlets.

(12)

takeaways can be over-sumed by children leading to obesity especially near schools which is an example of market failure where the free market misallocates resources. Government intervention is intended to correct market failure. ~~where~~ external costs of obesity creates costs to the NHS through preventable diseases associated with obesity as well as absences from school eg. gastric band and heart disease. Also obesity in children could lead to depression in younger people and less self confidence ~~that~~ ~~could~~ lead to mental health issues. However it could lead to children travelling longer distances to get to takeaways (leading to more petrol being used).

Examiner's comment

This response shows some elements of *knowledge and understanding*. It does attempt to use the context and directs the points made to a school and young people. However, there is little or no attempt to extend this beyond a series of points into a *chain of reasoning*. There is an attempt at the end to evaluate but it is fairly basic and this response does not go beyond Level 2.

This response therefore gained Level 2 and 5 marks.

Section C

Question 3

Response 1

- 3 Evaluate the importance of credit for an entrepreneur such as Julie Deane of the Cambridge Satchel Company.

(20)

Credit enables an entrepreneur like Julie to start to sell a product/service in the market by paying the initial capital before generating revenues and profits. On one hand credit is important because if the CSC wants to expand from internet business into the ^{physical} retail market, it will require a large amount of money and will therefore need credit from ~~the~~ a venture capital firm like Index Ventures or a bank as such large amounts (£12.7m) ~~can~~ ^{can} not be readily generated from internal sources of finance. Furthermore, given the current low interest rates CSC ~~to~~ would benefit from obtaining a bank loan as the cost of borrowing for expansion would not be so high, and CSC would then pay back the money over a large period of time. Also, obtaining credit from a venture capitalist would mean that CSC can benefit from the knowledge and expertise of the venture capitalists as well as gaining finance. ~~However~~ However if sales revenue is £12m depending on the costs of developing the new retail stores, credit may not be that important if most of the costs can be covered by the retained profits from the sales revenue. Also obtaining credit from the venture capitalist would mean that the venture capitalist would want a share of the profits of the lucrative business, and CSC may therefore lose some autonomy over the business as more power may

be taken by index ventures. Furthermore, if the interest rates are set to rise in the future, this may be disadvantageous to CSE, as they would have to pay ~~his~~ more money back in interest and this therefore increases the cost of taking this credit to improve their website and build the retail stores. In conclusion I think CSE should use a combination of credit and retained profits to finance its expansion. This would minimise both risks of, ^{perhaps} not being able to pay back a large bank loan in the future if the retail expansion is ~~business~~ unsuccessful and it would more sure that all the retained profits are not used up on the management team and the expansion, so it could be used on things like advertising instead, making sure demand remains high.

Examiner's comment

This response matches the requirements needed for a Level 4 response. There is certainly *accurate knowledge and understanding* and *well developed and logical, coherent chains of reasoning*. The answer is balanced with integrated evaluation right from the start. Context is carefully used to lift this answer beyond the generic response. The only thing lacking is a '*...nuanced...judgement or conclusion*'.

This response therefore gained Level 4 and 17 marks.

Response 2

- 3 Evaluate the importance of credit for an entrepreneur such as Julie Deane of the Cambridge Satchel Company.

(20)

Credit allows an entrepreneur to bring an idea to market by paying for the initial capital investment before the enterprise is able to generate revenues.

An advantage is that the credit will be needed if there are no internal sources of funds. Using retained profit from the £12m of sales would mean that the CSC would not need credit such as bank loans/mortgages and would therefore save on interest. Credit is raised from outside the business such as bank loans, mortgage, venture capital, crowd funding. CSC will need ~~to~~ credit to expanding from online to the high-street.

A disadvantage of credit as it is unclear how much retained profit CSC has or if this will, in fact, be sufficient to fund a large-scale retail expansion. CSC could ~~instead~~ use a ~~combination of retained profits and external sources such as a bank loan to fund~~

In conclusion, CSC has used venture capital rather than credit to inject more finance and this has had advantages of not only giving finance but the expertise of the venture capitalist. However, the use of venture capital will dilute ownership.

Examiner's comment

This response demonstrates some knowledge of credit and has some reference to the evidence. The arguments are basic but *connections between causes and consequences are incomplete* and they lack development. There is an attempt at evaluation but it is rather vague and assertion based without development. The conclusion is similar and is generic.

This response therefore gained Level 2 and 7 marks.

3. Paper 2: The wider economic environment

This section includes student responses, marks and commentary for AS Paper 2 8EB0/02, *The wider economic environment*. A summary of the questions and marks for each response is provided in the table below.

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

Section A

Question 1a

- 1 (a) What is meant by the term 'monetary policy'?

(2)

This is a process which is centered round the decision to change the value of interest rates, carried out by the Bank of England.

Examiner's comment

This response demonstrates understanding of the use of interest rates to control inflation. This response therefore gained 1 mark.

There are 2 marks available for this type of question so it is important for students to give a detailed and accurate definition which is worth 2 marks. Simplistic references, such as this, will only gain 1 mark at the most.

Question 1b

- (b) Calculate the percentage change in real wages for October (Extract A). You are advised to show your working.

(4)

$$0.9\% - 2.2\% = -1.3\%$$

pay rise - inflation = real wages

Examiner's comment

This response shows the correct workings and the correct answer. This response therefore gained 4 marks.

If the correct answer is given (i.e. -1.3%) without any workings, then full marks will be awarded. However, it is advisable for students to show their workings just in case errors are made during the calculation. Every year some students make a mistake with their calculator and without any workings get 0 marks. If the workings are there, the mark scheme allows the examiner to give up to 3 marks for knowledge and application even if the final answer is wrong.

Question 1c

Response 1

(c) Using Extract A, explain how the change in real wages may affect an individual.

(4)

If the value of real wages decreases, people will no longer be able to buy what they could in the past, or at least the same amount of goods that they bought in the past. This means they will have to buy the cheaper, inferior goods and so ~~the~~ their standard of living will fall, affecting people who will now feel less satisfied with their wage.

Examiner's comment

This response shows some knowledge and understanding of what is meant by real wages and there is an attempt at analysis in terms of standards of living falling.

This response therefore gained 2 marks.

Response 2

(c) Using Extract A, explain how the change in real wages may affect an individual.

(4)

A negative change in real wages means that an individual is likely to ~~get~~ be able to ~~buy~~ purchase less products with their income so are consequently, in real terms less well off. Furthermore the individual will be able to buy less luxury goods as a larger percent of income will be spent on necessities. A positive change in real wages would have the opposite effect.

Examiner's comment

This response demonstrates a better understanding of the consequences of a drop in real wages and attempts to apply to luxury goods and necessities.

This response therefore gained 3 marks.

There are two marks for application available in this question. It is therefore essential for students to include context or examples in their response in order to gain these marks. Knowledge is not just about providing a definition of the key terms, but can also be awarded for showing an understanding of a concept or economic term.

Question 1d

(d) With reference to Extract A, discuss the significance of changes in unemployment for UK firms.

(8)

When unemployment increases, such as Q1 2013 in extract A, it can be beneficial to some businesses. It will allow them to hire workers who are willing to work for the lowest wage possible, as there are so many people battling for the few open positions. This means that the businesses can lower their costs as they are paying less wages, and therefore maximise their profits.

When unemployment decreases, such as Q4 2012, it can have a bad effect impact on businesses as they are forced to pay out higher wages due to the increase of real wages across the country. This means their costs increase and so profits decrease.

Examiner's comment

This response shows elements of knowledge and understanding of the changes in unemployment for UK firms. It also considers the advantages and disadvantages of this. However, the response is not *supported throughout by relevant evidence which is well chosen* and therefore cannot access Level 3.

This response gained Level 2 and 3 marks.

A 'discuss' question always requires judgements and an awareness of competing arguments in order to access Level 3. Examples or use of context must also be present to access this level.

Question 1e

Response 1

(e) Assess the impact on UK firms of the appreciation of the pound (£).

(12)

When the pound appreciates, it means that you can now buy more of a foreign currency than you could before.

An appreciation in the pound is good for businesses that operate by importing goods and services into the U.K. As the pound is now stronger, they can buy ~~good~~^{more} foreign imports for cheaper than they could of before, as they can buy more of their currency that means that importers in the UK will prosper as ~~there~~ their costs have been reduced as they can buy more for \$ less, improving profits.

However, the appreciation ~~is~~ of the pound is not good for exporters of the UK. The pound is now stronger than most foreign currencies, meaning that imports outside of the UK ~~and~~ will ~~no~~ now have to pay more in order to import the same amount of goods as they were before. This is not good for UK firms as it is likely to make ~~pe~~ potential buyers purchase from another country as it will be cheaper for them to buy it from there, rather than the UK.

Overall the appreciation of the pound has

a positive effect on UK ~~on~~ importers as they can buy more than they could before, but has a negative impact on UK exporters, whose goods have become more expensive to those looking to import them into their country.

Examiner's comment

This response demonstrates that the student clearly understands the impact of the exchange rate on both importers and exporters within the UK. There are many chains of reasoning and comparisons and judgements are made. However, this is a generic evaluation with no context or examples used to support this reasoning.

This response therefore gained Level 2 and 5 marks.

To reach Level 3 the response must have *use of relevant evidence to support the argument* and this response does not have that, just vague references to the UK. It is worth comparing this to Response 2 on page 30 which does use relevant evidence with Cadbury and cocoa beans and therefore gained a higher level.

Context can be from the evidence provided or from the student's own examples. When discussing the impact of changing exchange rates, students should try and use specific examples rather than referring to importers or exporters. For example, JLR may import their car engines into the UK and therefore an appreciation may lower their cost of manufacturing a car.

Response 2

(e) Assess the impact on UK firms of the appreciation of the pound (£).

(12)

A stronger pound will decrease the price of imports that the UK buys. This will reduce costs for firms who import raw materials such as Cadbury and cocoa beans, resulting in a larger profit margin, or an increase in demand if a lower price was set.

Conversely a stronger pound would make our exports more expensive for businesses abroad to buy. This will affect many UK firms, especially in the tertiary sector where we export many services, for example insurance. With more expensive exports a drop in demand is experienced, reducing sales revenue ~~and~~ ^{thus} profit for the businesses.

Overall I believe that the positive impact of a stronger pound would outweigh the negative implications. I think this as many of our exports are high quality superior goods so are less price elastic meaning demand won't fluctuate much with price, whilst we gain the advantages of cheaper imports.

Examiner's comment

This response clearly demonstrates an accurate understanding of the impact of an appreciation of the pound on different UK firms. There is a good use of examples with Cadbury and cocoa beans to show the impact on importers. There is a thoughtful evaluation involving PED and a conclusion based on the context of the UK.

This response therefore achieved a low Level 4 and 10 marks.

A contextualised conclusion which refers back to the original question will always be rewarded. To access Level 4 knowledge, context, reasoning and judgements all have to be present.

Section B

Question 2a

- 2 (a) What is meant by the term 'market share'?

(2)

This is how much income from a market a business is earning. So if a company has a 30% market share, it is receiving 30% of the market's total revenue.

Examiner's comment

This response shows understanding of market share and includes an example to support this definition. This response therefore gained 2 marks.

Question 2b

- (b) Calculate the Income Elasticity of Demand (YED) for cinema tickets between 2000–2001 and 2010–2011 (Extract B). You are advised to show your working.

(4)

$$\frac{\% \text{ change in quantity}}{\% \text{ change in income}} \quad (150 \text{ to } 180)$$

$$\% \text{ change in } Q = \frac{180 - 150}{150} = +0.2$$

$$\% \text{ change in } Y = \frac{33444 - 29968}{29968} = 0.12$$

$$YED = \frac{0.2}{0.12} = +1.6$$

Examiner's comment

This response achieves 1 knowledge mark for the correct formula for YED. Application marks are rewarded for the calculation of the percentage change in Q and Y. However, these were not multiplied by 100 and so the student gave an incorrect answer of +1.6 rather than +1.7 (or +1.72).

This response therefore gained 3 marks.

Showing workings can still gain students marks even if the final answer is incorrect as examiners can award knowledge and application marks.

Question 2c**Response 1**

(c) Explain how a recession might impact on a cinema chain such as *Cineworld*.

(4)

A recession might have a negative ~~and~~ impact on Cineworld. This is because during the recession people are earning less as wages drop, and therefore have less expendable income to spend on things like cinema visits. This will mean that fewer people can visit chains such as Cineworld, and so their profits are ~~less~~ decreased.

Examiner's comment

This response shows how a recession will impact on Cineworld in terms of less income to spend on visiting cinemas with the result that profits may decrease. However, the response is simplistic and not developed enough to gain more than 2 marks. This response therefore gained 2 marks.

Students should try and give a definition or show a clear understanding of the economic term in the question in order to gain a mark for knowledge. Students often miss knowledge marks and give too many analytical points which cannot be awarded.

Response 2

(c) Explain how a recession might impact on a cinema chain such as Cineworld.

(4)

Recession may mean that people have less disposable income, or no income if people are unemployed, so will not spend money on luxuries such as cinema tickets. If large cinema chains are only reachable by car, then less people may come as people cannot afford to run a car due to ^{having} less money. There could be positives though. Staff are less likely to ask for a pay rise, and new staff may not be paid much as these people are desperate for a job and know there are plenty of people out there to take their job. The cinema may also be seen as a cheap destination for birthday outings and parties too, as it will be cheaper than hiring somewhere else for a party.

Examiner's comment

There is no technical definition of a recession in this response, but there is an understanding of recession so a knowledge mark can be rewarded. There is clear application to cinemas in terms of being a luxury item, with developed analytical points.

This response gained 4 marks.

Students should always consider the type of product or service in the question as this often will affect the likely impact of economic events such as a recession.

Question 2d

Response 1

- (d) Discuss the benefits for small, independent cinemas of operating in a niche market.

(8)

One of the benefits of being a cinema owner in this position is that you face a lot less competition than the bigger chain cinemas do. ~~This~~ This is because they all are all screening the same films and so it is harder for them to differentiate between one another and appeal to customers. Whereas the niche cinemas are not very common and so are not fighting each other for customers. Secondly it is much easier to determine what your customers want to see, as they all fit into one small niche in the market, meaning that the cinema knows who its ~~base~~ selling to. Lastly they can charge higher prices than the chain cinemas, as ~~there~~ their customers are willing to pay higher prices to see the films as they have no-where else to see them.

Examiner's comment

The response does show elements of knowledge and understanding of a niche market and is written in context with references to films. However, there is no evaluation and the response focuses only on the benefits of operating in a niche market.

This response therefore gained Level 2 and 4 marks.

Response 2

(d) Discuss the benefits for small, independent cinemas of operating in a niche market.

(8)

Operating in a niche market allows smaller cinemas to stay in business despite the presence of three massive chains operating mainstream. Whereas large cinemas will show all the latest blockbusters, a smaller cinema may do this as well as other types of films, such as local film makers, art inspired films/documentaries or foreign films with English translation. None of the chains offer this, so if people want to see them they must see the small independent cinemas. This means that they are not in direct competition as they can appeal to consumers in niche markets too. Smaller, independent cinemas will also be more personal and be a major part of near barren high streets across the country. These independent cinemas may also be able to charge slightly higher prices for their films, which people will accept because they are in a niche market, with few or no other places competing and showing this sort of niche film.

Examiner's comment

This answer demonstrates good knowledge and understanding of a niche market and context is used throughout the response. Again, the response focuses only on the benefits of operating in a niche market and so cannot access Level 3 which requires a *balanced awareness of competing arguments*.

This response therefore gained Level 3 and 5 marks.

'Discuss' questions require evaluation and a consideration of both the benefits and drawbacks to ensure there is balance.

Question 2e

Response 1

(e) Assess the advantages of inorganic growth for a firm such as Cineworld.

(12)

Inorganic growth is where a company's actual growth is much greater than their expected growth, meaning that they have become a bigger player in the market than people expected. This means that they will have gained more capital than expected, as so can expand more. This is good for firms like Cineworld as it allows them to open more cinemas under their name and so gain a greater market share.

However, if they expand too much and too quickly, and their growth then ~~shrink~~ shrinks, it can have a bad effect on Cineworld as they are no longer in the position to keep all of their ~~ex~~ cinemas open as they cannot afford it.

Examiner's comment

This response demonstrates only simple knowledge and understanding of inorganic growth. The rest of the response shows little of merit and does not answer the question set.

This response therefore gained Level 1 and 2 marks.

'Assess' questions require more detailed evaluation than 'discuss' questions and therefore will require more than just simplistic evaluation.

Response 2

(e) Assess the advantages of inorganic growth for a firm such as Cineworld.

(12)

The first advantage is increase of market share. By taking over other cinemas, Cineworld can increase market share, allowing for possibly greater sales if the demand for cinema tickets increases or remains the same. This move also simultaneously removes some competition from the market for Cineworld, and they will hope to simply inherit the customers of the previous cinema, Picturehouse in this case. Both of these are huge advantages, although both rely on the increasing demand for cinema tickets continuing. If this trend does not continue, having bought out cinemas then trying to fill them with newer consumers will be difficult but mainly costly.

Inorganic growth is beneficial as companies like Cineworld don't have to build new cinemas, they simply buy the smaller companies and get theirs. This may seem an advantage but it may have drawbacks. It is unlikely that many smaller companies like Picturehouse have cinema multiplexes, so expansion and extension may be required. This could be costly in older cinemas, or not available if the cinema has nowhere to expand into. After all of this, it may have been cheaper to simply build a new multiplex themselves to their standards.

Examiner's comment

This response has good context throughout and clearly demonstrates understanding of the benefits of inorganic growth for Cineworld. There are chains of reasoning and an attempt at evaluation is made. The response does lack balance and there are far more benefits than drawbacks demonstrated.

This response therefore gained top Level 3 and 9 marks.

Balance is one of the key discriminators in a Level 4 response. It is not just about evaluating in context, but a balance between the advantages and disadvantages should be provided.

Section C

Question 3

Response 1

3 Evaluate the impact of the digital economy on UK firms.

(20)

The digital economy can have a positive impact on UK firms, as it allows for a new area of expansion that many businesses may have needed to continue to grow.

For example, a shop selling DVDs and CDs may be having issues as no one is willing to buy ~~there~~ their goods from a physical shop anymore. By selling their goods online, they are now more accessible to people and so sales should increase. A good example of this is Zavvi, who shut down all of the stores after getting into financial issues. They now sell all of their products online and continue to operate as a business.

By moving into the digital economy, UK firms will hope to cut costs as they will no longer have to pay as much in ~~the~~ wages to workers, as most of the online processes can be automated, a saving both time and money.

The digital economy may also be good for business as it is a healthy market that can continue to grow and be rewarding for firms that operate in it, as long as it gets the correct amount of support and

workers.

However, it can have negative impacts. If businesses do not have the means to access the digital growth opportunities, then they may lose business and profits as they are unable to compete with other businesses that can sell the same products online for less. Most high street retailers cannot compete with online retailers like Amazon, and so are having to shut down as they cannot afford to sell their goods for as cheap.

Overall I would say that the digital economy is much more likely to have a positive impact on UK firms, as long as they are willing to take the risk and step away from selling in physical stores. The market is worth at least £12 bn, which is too much of a good opportunity to pass on. (Total for Question 3 = 20 marks)

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

Examiner's comment

This response provides balance in the competing arguments used. There are clear chains of reasoning and the response has not used assertions – arguments are developed and contextualised. However, there is not enough to enter Level 4 as relevant evidence is limited and the conclusion is just repeating earlier points made and does not add anything new. The response lacks the detail needed to enter Level 4.

This response therefore gained Level 3 and 11 marks.

Level 4 requires *use of relevant evidence which is well chosen and fully integrated to support the argument* so students must ensure that a response is fully contextualised and the examples used are not just names of businesses – the examples must be used fully to demonstrate a chain of thought.

Response 2

3 Evaluate the impact of the digital economy on UK firms.

(20)

The digital economy could be hugely beneficial to some UK firms. Companies offering computer installations, IT services and the like would see huge increases in demand for their services, which could see them make large profits. A £12bn increase to the UK economy would benefit most firms. Money may be invested back into education allowing for a possible further £4bn to be generated by the next generation. Infrastructure may be vastly improved from roads to broadband, better connecting UK businesses to both local and global consumers. Healthcare may be invested in, making workers and everyone else better when they are ill, allowing them to work more and for longer, creating income for their business. The decrease in youth unemployment would also give the government more money to spend as benefits would have dropped with more people employed. All of these people's earnings may be taxed for the government to use, and these earnings will probably be spent in UK businesses. Firms providing luxury or price elastic goods may benefit most.

There may be negatives though, as failure to find new jobs in the digital economy could cost the UK £2bn per year. This could lead to recession and debt, increased unemployment and therefore less money spent in UK businesses due to less or no disposable income. Firms specialising

in labour intensive industries such as agriculture may lose out. Less may be invested in them because the digital economy is the way forward. With schools also putting more emphasise on IT skills, less children are likely to want to or have skills to go into these labour intensive industries. If the pound appreciated from the UK economy doing well, exporters of goods would lose out as their products become more expensive.

Examiner's comment

This response does have several points which are based on evidence and tries to use examples to demonstrate the impact of the digital economy. However, these are not really linked into a coherent argument and are more like a series of points.

This response therefore gained low Level 3 and 10 marks.

Just because a response includes advantages and disadvantages in context, this does not mean it will automatically get into Level 4. The quality and awareness of the significance of competing arguments is one of the main factors which will differentiate between a Level 3 and Level 4 response.