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<h1 style="margin: 0;">Economics B</h1> <h2 style="margin: 5px 0 0 0;">Advanced</h2> <h3 style="margin: 0;">Paper 3: The economic environment and business</h3>	
Friday 15 June 2018 – Morning Time: 2 hours	Paper Reference 9EB0/03
You must have: Insert (enclosed)	Total Marks <div style="border: 1px solid black; width: 50px; height: 50px; margin: 0 auto;"></div>

Instructions

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

Information

- The total mark for this paper is 100.
- The marks for **each** question are shown in brackets
– *use this as a guide as to how much time to spend on each question.*
- Calculators may be used.

Advice

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

Turn over ►

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Answer ALL questions.

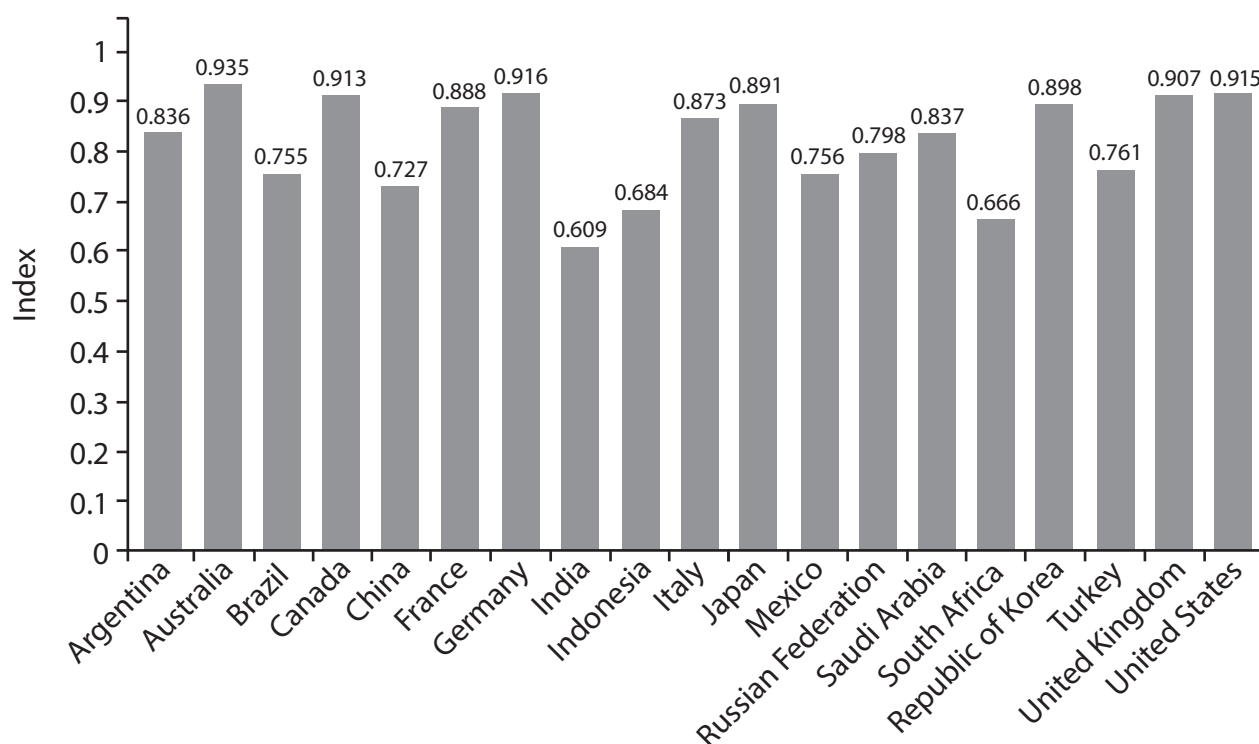
SECTION A

Read the following extracts (A to D) and Figures 1, 2, 3 and 4 before answering Question 1.

Write your answers in the spaces provided.

Extract A

Human Development Index (HDI) of G20 countries



(Source: adapted from © 2012-2015 GOVERNMENT OF INDIA)

Extract B

History of containers

In 1955, Malcom P. McLean, a transport entrepreneur from the USA, bought a steamship company with the idea of transporting entire truck trailers with their cargo still inside. He realised it would be much simpler and quicker to have one container that could be lifted from a vehicle directly on to a ship without first having to unload its contents.

5

His idea was that efficiency could be vastly improved by using the same container, with different forms of transport during its journey. Containers could be moved easily between ships, trucks and trains. This would simplify the whole logistical process. Eventually, this idea led to a revolution in cargo transportation and international trade over the next 50 years.

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(Source: adapted from © 2017 World Shipping Council)

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Extract C

Responding to the challenges of an ageing population

For the first time in human history, an ageing population could mean that the population will stop growing in most of the world. The European Commission expects that by 2060 Germany's population will shrink by one-fifth, and the number of people of working age will fall from 54 million in 2010 to 36 million in 2060. China's labour force peaked in 2012, due to income-driven demographic trends. A smaller workforce will place a greater emphasis on productivity for driving growth and may cause us to rethink the economy's potential.

5

Proportion of elderly is increasing

Global population by age group, % ● 0–14 ● 15–64 ● 65+

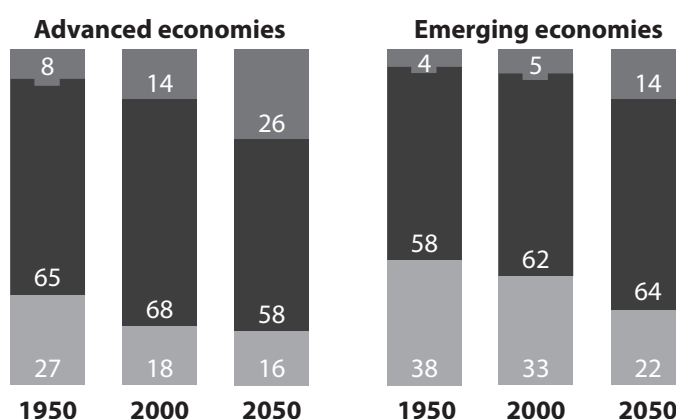


Figure 1

Global life expectancy is increasing



AN AGEING WORKFORCE

The share of **older workers** (age 55+) will increase dramatically

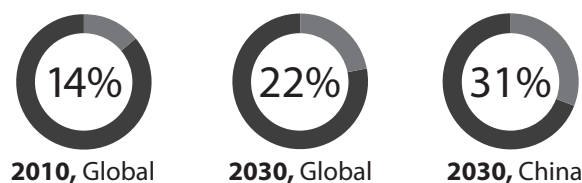


Figure 2

(Source: adapted from © 1996-2017 McKinsey & Company)

Extract D**The age of urbanisation**

There has been a shift of economic activity to emerging markets such as China and to cities within those markets. These emerging markets are going through industrial and urban revolutions at the same time, shifting the centre of the world economy east and south at a speed never before witnessed.

5

As recently as the year 2000, 95% of the Fortune Global 500 – the world's largest international companies including *Airbus*, *IBM*, *Nestlé*, *Shell* and *The Coca-Cola Company* to name but a few – had headquarters in developed economies. By 2025, China will be home to more large companies than either the United States or Europe. We expect nearly half of the world's largest companies – defined as those with revenue of \$1bn or more – to have their headquarters in emerging markets.

10

Perhaps equally important, the focus of economic activity is shifting within these markets. The global urban population has been rising by an average of 65 million people annually during the past three decades, the equivalent of adding seven Chicagos a year, every year. Nearly half of global GDP growth between 2010 and 2025 will come from 440 cities in emerging economies – 95% of them small- and medium-size cities that many Western executives may not even have heard of and could not point to on a map. For example, in 2010, we estimated that the GDP of Tianjin in China was around \$130bn, making it equal to Stockholm, the capital of Sweden. By 2025, we estimate that the GDP of Tianjin will be around \$625bn – equal to the GDP of Sweden.

15

20

Emerging economies are becoming major forces

By 2025, emerging economies will grow **75%** faster than developed nations

Emerging economies are taking a larger share of the world economy



Figure 3

Growth of the urban consumer class

150% increase

in **annual consumption** in emerging markets, 2010 to 2030



620 million

people exited poverty in the last 20 years

Figure 4

(Source: adapted from © 1996-2017 McKinsey & Company)

- 1 (a) Using Extract A, discuss the use of HDI as an indicator of growth.

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(b) Assess the importance of transport and communication to the increase in globalisation over the last 50 years.

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(c) Assess the impact of demographic change on the global labour force.

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(d) Evaluate the implications of the growing economic power of emerging markets for individuals and firms.

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(Total for Question 1 = 50 marks)

TOTAL FOR SECTION A = 50 MARKS

SECTION B

Read the following extracts (E to G) and Figure 5 before answering Question 2.

Write your answer in the space provided.

Extract E

Indian cycle brand *Hero* opens Global Design Centre in Manchester

Hero Cycles is an Indian multinational company and one of the world's biggest manufacturers of bicycles, producing over 5.5 million bicycles a year. In the UK, it supplies major retailers such as *Halfords*, *Argos* and *Tesco*.

Despite Brexit, *Hero Cycles* has opened a £2m Global Design Centre in Manchester, near the National Velodrome, the home of British cycling. The decision to choose Manchester, which has the biggest student population of any city in Europe, was taken in 2016. A number of other cities across Europe were considered for the design centre, including London, Amsterdam, Copenhagen and Berlin. 5

Mr Pankaj Munjal, Chairman and Managing Director of *Hero Cycles*, said "with major expansion plans in Europe, this design centre will help us produce technology and design to cater to differentiated products to suit the needs of different European markets. Our strategy is to develop British brands here in the UK, build them and export them across Europe, Africa and India and to increase the value of our Indian-based bicycle brands." 10 15

Hero Cycles was founded in 1956 and is privately owned by the Munjal family. In 2016 the company launched three successful takeover bids.

- The first was for UK bicycle manufacturer *Avocet*. *Avocet* aims to become the market leader in European bicycle distribution. It supplies Viking and Coyote bicycles to the mass-market, and in early 2017, along with *Hero*, released five new bike brands: De-Novo is a children's brand; Riddick is a mountain bike brand; Ryedale produces women's Dutch-style roadsters; Simmonsohn produces tandems and, as the name suggests, Lectro is an e-bike (electric bike) brand. 20
- Next came *Firefox Cycles*, an Indian manufacturer. With *Firefox's* acquisition, *Hero Cycles* now holds the dominant position in the rapidly growing premium segment, while also leading the mass market segment with over 45% market share. 25
- Finally, it acquired a majority stake in Sri Lanka's leading bicycle manufacturer, *BSH Ventures*. The move will strengthen the company's manufacturing presence in the subcontinent and help *Hero Cycles* raise its share in the international sales of Indian bicycle companies to close to 30%. 30

(Sources: adapted from © 2017 IndiaGB News and © 2017 The Hindu Business Line)

Extract F**Boris Johnson promises tariff-free import of Indian bikes after Brexit**

Foreign secretary Boris Johnson has suggested that Indian bicycle manufacturers will be able to export to the UK tariff-free after Brexit. Since June 2006, the regular import duty rate on bicycles entering the European Union (EU) from outside Europe has been 14%.

Speaking to Indian business leaders, Johnson said it is "time to stick up for free trade". The Guardian reports that Johnson believes that Britain and India could do a lot more trade together. He suggested that India starts by relaxing its 150% tariff on imported whisky.

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(Source: adapted from © NewBay Media 2017)

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Extract G

European Union (EU) bicycle sales - percentage share by country 2015

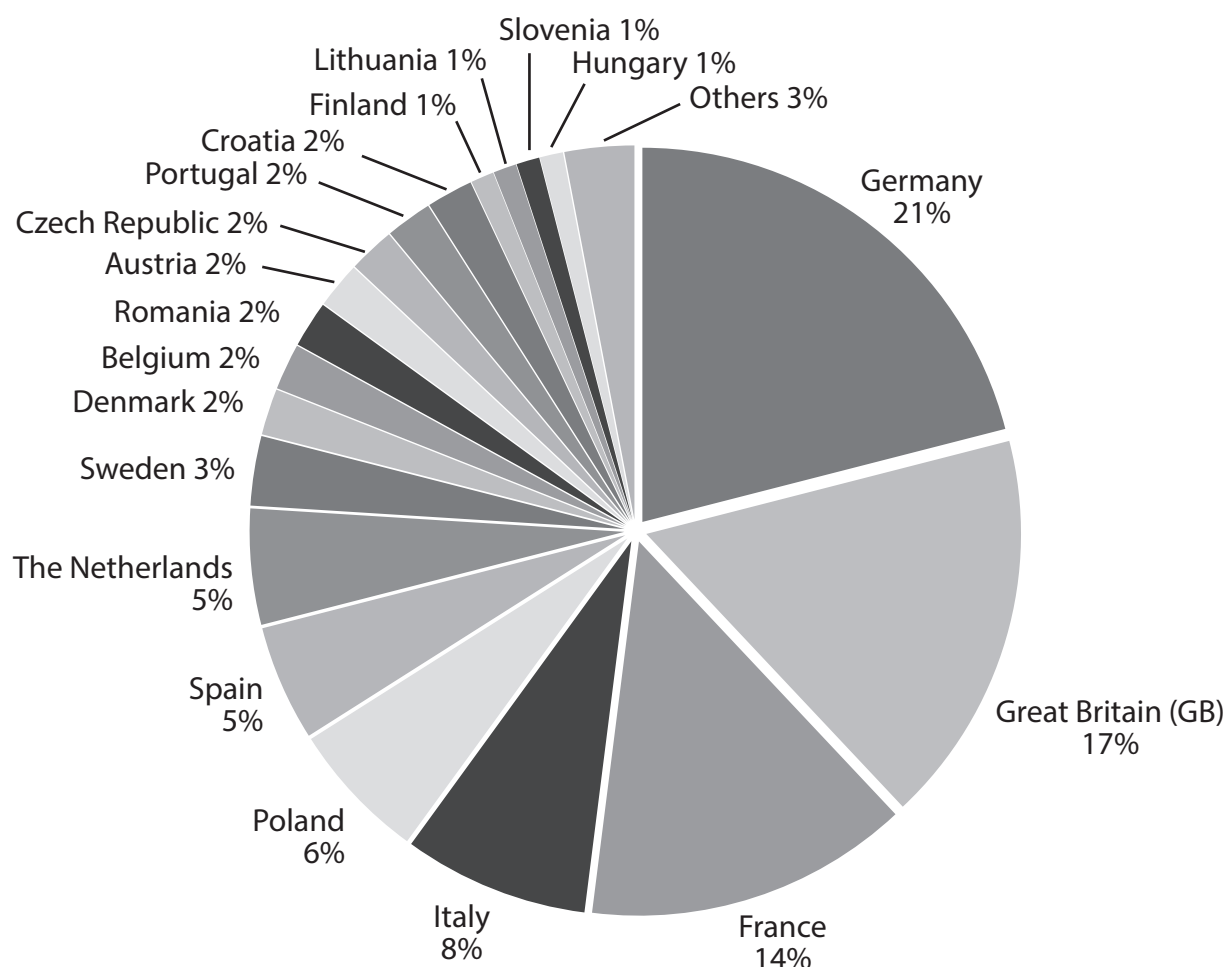


Figure 5

- 20,751,000 bicycles and e-bikes are now sold annually across Europe, with 13,000,000 of these produced from outside EU member states.
- The majority of bicycle and e-bike production comes from Italy (2,344,000 or 18%), Germany (2,186,000 or 17%) and Portugal (1,904,000 or 14%).
- Bicycle and e-bike sales figures for 2015 are as follows; Germany – 4,350,000, GB – 3,514,000, France 2,996,000, Italy – 1,654,000, Poland – 1,190,000.
- GB's parts and accessories production is worth €35m. By comparison, market leader Italy's is worth €474m.
- The Netherlands has the highest average bicycle sale price in Europe at €914, followed by Denmark at €650, Spain at €481, Austria at €450 and Luxembourg at €450. Slovenia, Malta, Latvia and Croatia have the lowest at €110. In the UK it is €300.
- European sales of electric bikes reached 1,357,000, up 19.13% on 2014. Germany remains the largest market by unit sales at 40% of the volume sold, or 535,000 units in 2015.

(Source: adapted from © 2017 Cycling Industry News)

2 The European Union (EU) imposes a tariff of 14% on bicycles entering the EU from outside Europe. (Extract F)

- (a) Using a suitable diagram, discuss the impact of this tariff on sales of Indian bicycles imported into the EU.

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(b) Assess the benefits of market segmentation for the global bicycle manufacturer *Avocet*.

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(c) Assess *Hero Cycles*' decision to open its Global Design Centre in Manchester.

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- (d) Evaluate the extent to which *Hero Cycles* should adapt its marketing strategy for global markets.

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TOTAL FOR SECTION B = 50 MARKS
TOTAL FOR PAPER = 100 MARKS

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