

Please check the examination details below before entering your candidate information

Candidate surname

Other names

**Pearson Edexcel
Level 3 GCE**

Centre Number

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Candidate Number

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Monday 18 May 2020

Morning (Time: 2 hours)

Paper Reference **9EB0/01**

Economics B

Advanced

Paper 1: Markets and how they work

You do not need any other materials.

Total Marks

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 C) before answering Question 1.

Write your answers in the spaces provided.

Extract A

How *British Airways (BA)* is turning itself into a low-cost airline

BA's efforts to compete with budget airlines such as *EasyJet* and *Ryanair* on short-haul flights has led to a number of changes that have been criticised by loyal customers and created bad publicity for the long-established business. *BA* took the decisions to scrap free meals on all short-haul flights and reconfigure aircraft to add more seats, resulting in reduced legroom on some aircraft. 5

The reinvention of *BA* is continuing with the carrier planning to launch the option of no-frills fares on its long-haul flights. The cheaper tickets, which do not include the cost of luggage or seat selection, will help *BA* compete with the likes of low-cost long-haul rival *Norwegian* on key routes to America. 10

BA faced further bad publicity when news broke it had been fined €104m (£90m) by the European Commission in 2017 for its role in a major price-fixing scandal. Eleven airlines were fined a total of €776m for their role in a cartel to fix fuel and security charges on flights within the European Economic Area.

Despite the bad publicity the business is performing well financially. In 2017 *BA* generated sales revenue of £12.30bn, which was a 7.3% increase on the previous year. In 2017 the profit for the year increased from £1.28bn to £1.4bn. 15

(Sources: adapted from <https://www.telegraph.co.uk/travel/comment/british-airways-is-going-budget-on-long-haul-flights/>,
<https://www.statista.com/statistics/264296/british-airways-worldwide-revenues-since-2006/>.
<http://www.cityam.com/261156/eu-slaps-eur776-million-fine-air-cargo-cartel>)

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Extract B**Government sets out its vision for UK aviation**

In 2017 the UK Government launched its initial plans to develop a new aviation strategy to help shape the future of the aviation industry to 2050 and beyond. It looks at how the government can support future growth in an industry which directly supports 240,000 jobs and contributes around £22bn to the UK economy each year. The plan recognises that larger airports help to attract more investment and visitors and connects UK firms to trading opportunities overseas. 5

The strategy was announced at the launch of a £1bn project to double the size of Manchester Airport's Terminal 2. The project will create 1,500 jobs, allow for more international destinations, and grow passenger numbers from 27 million to 45 million a year. 10

In addition, it was announced that families flying on holiday will no longer have to pay air passenger duty (APD) for children under the age of 16. APD was introduced in 1994 as an indirect tax to pay for the environmental costs of air travel and is levied against each passenger on flights departing from the UK. 15

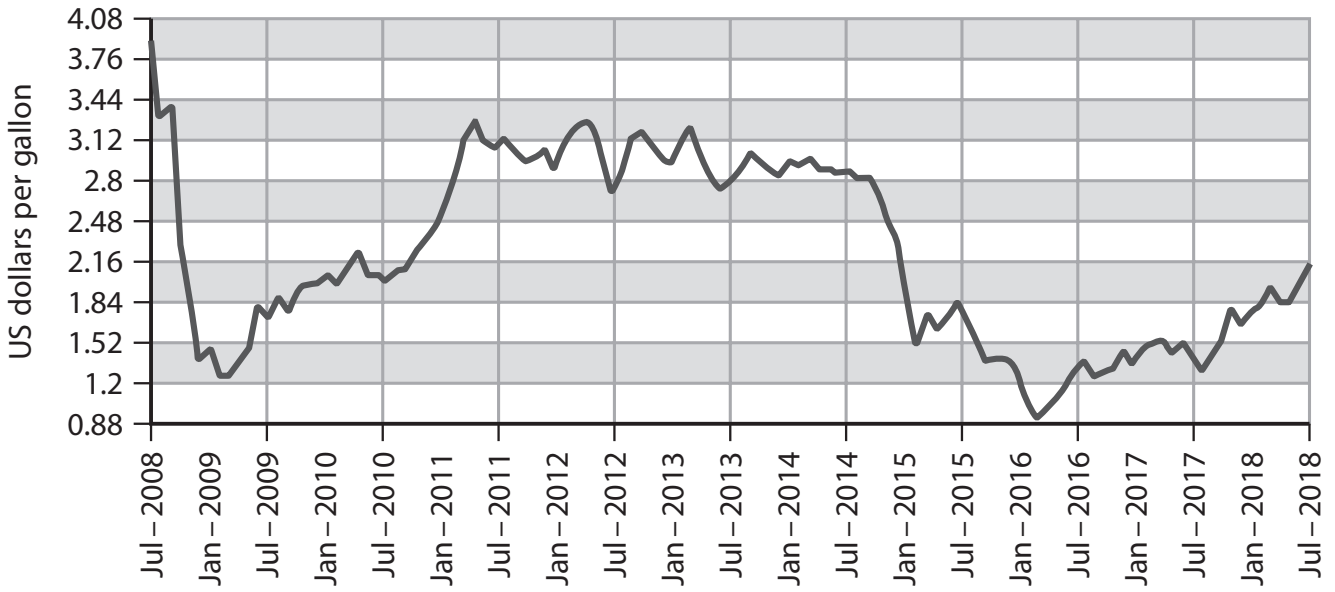
(Sources: adapted from <http://www.thisismoney.co.uk/money/holidays/article-2859186/Flight-taxes-children-abolished-cut-hundreds-pounds-cost-family-holidays.html>,
<https://www.gov.uk/government/news/government-sets-out-vision-for-future-of-uk-aviation>)



Extract C

For the airline industry, jet fuel represents one of the largest expenses.

Jet fuel prices (US dollars per gallon)



(Source: adapted from <https://www.indexmundi.com/commodities/?commodity=jet-fuel&months=120>)

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1 In July 2008 the jet fuel price per gallon was \$3.89. In January 2018 it was \$1.95.

(a) Calculate, to two decimal places, the percentage decrease in the price of jet fuel between July 2008 and January 2018. You are advised to show your working.

(4)

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A company that refits aircraft for airlines was charging a price of £300 000 to refit an aircraft and demand was six refits per year. When the company reduced its price to £298 000 per aircraft the demand increased to seven aircraft per year.

(b) Calculate the marginal revenue gained from the decrease in price for refitting an aircraft.

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(c) Using a supply and demand diagram, illustrate the likely impact on *BA* of further bad publicity for the business.

(4)



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(d) Analyse **two** ways secondary market research may be used by airlines, such as *BA*, to help increase sales.

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(e) Discuss the importance to *BA* of survival as a business objective.

(8)

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(f) Assess the government's decision to reduce air passenger duty (APD) as part of its vision for UK aviation.

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(g) Assess the possible impact of rising fuel prices on an airline business.

(12)

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The European Commission has fined *BA* for its involvement in a cartel.

(h) Assess the extent to which this may negatively impact *BA*.

(12)

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(Total for Question 1 = 60 marks)

TOTAL FOR SECTION A = 60 MARKS



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SECTION B

Read the following extracts (D and E) before answering Question 2.

Write your answer in the space provided.

Extract D

A new high-speed rail network connecting the north and south.



The High Speed Two (HS2) is a new railway aimed to improve Britain's transport network. It involves 345 miles of new high speed track and will connect the city centres of London, Birmingham, Manchester and Leeds. HS2 is expected to carry around 100 million passengers a year when fully operational. Construction has started on phase 1 which will link London and Birmingham by 2026. Land has been cleared and houses demolished to make way for the new railway tracks and stations. Phase 2 will run from the Midlands to Manchester and Leeds and is planned to be completed by 2033. The government's budget for HS2 is £56bn and it estimates that for every £1 invested in HS2 the UK will receive £2.30 in benefits.

5

The project aims to help join up the major urban areas around the country. This connectivity will enable businesses in the North and the Midlands to gain better access to new markets in the UK and Europe. Since HS2 was announced, new records have been set in Birmingham, Manchester and Leeds for building new offices, homes and hotel rooms. The new railway aims to reduce congestion and improve reliability for millions of commuters and tourists using Britain's railways.

15

Those opposing the plans argue that returns for the level of expenditure are debateable and may result in more economic activity created in London at the expense of the rest of the country.

(Sources: adapted from <https://www.hs2.org.uk/why/investing-in-our-economy/>,
<http://www.hs2actionalliance.org/what-is-hs2/timeline/>)

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Extract E

Estimated time-savings from HS2

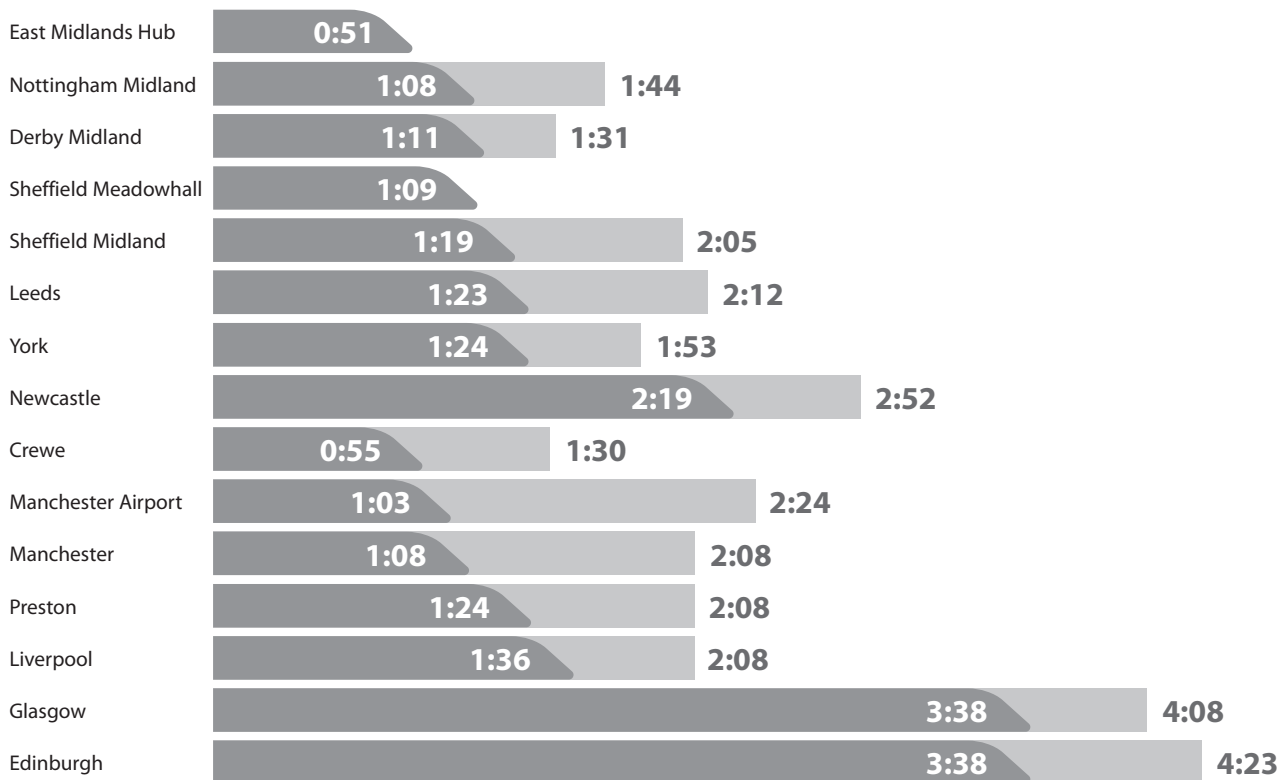
Journey times

HOURS:MINUTES

HS₂ JOURNEY TIMES

CURRENT TIMES

London to



(Source: adapted from http://assets.hs2.org.uk/sites/default/files/consulation_library/pdf/P2C37_Journey%20times%20and%20frequencies%20LOW.pdf)



P 6 1 8 5 1 A 0 1 7 2 8

HS2 is likely to create positive externalities.

2 Evaluate the extent to which these externalities are likely to benefit the UK economy. (20)

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(Total for Question 2 = 20 marks)

TOTAL FOR SECTION B = 20 MARKS



SECTION C

Read the following extracts (F and G) before answering Question 3.

Write your answer in the space provided.

Extract F

Amazon is not a traditional monopoly, but it does monopolise the attention of consumers

Amazon is already a huge part of many people's lives and is the world's largest online retailer. The company was originally a bookseller but has expanded to sell over 200 million different products in the USA and 120 million products in the UK, which include grocery products, clothing, sports equipment, electronics and books. Amazon's size gives it tremendous buying power. Just like Walmart and other big companies, Amazon can use that power to negotiate low prices from suppliers for the products and services that it sells. 5

Amazon is just one of several major tech companies, such as Google and Facebook, facing new scrutiny over their market power, which do not fit neatly in to the usual understanding of monopoly. In a traditional sense, Amazon still faces lots of competition. In the US market, Walmart remains the leading retailer overall, with more than three times Amazon's retail revenue. Although Amazon is the clear leader in e-commerce, much of worldwide retail spending is still in bricks-and-mortar stores. 10 15

Since 2017 Amazon has purchased companies at an unprecedented rate in its quest to expand. These include PillPack a pharmaceutical company for \$1bn, Ring, a start-up that specialises in smart-camera doorbells for \$900m and \$13.7bn for Whole Foods. Billion-dollar transactions are not foreign to Amazon; it acquired Zappos, an online shoe and clothing retailer, for \$1.2bn in 2009 and \$1bn for Twitch, an online gaming company in 2014. But until recently, that kind of big spending was sporadic with Amazon CEO Jeff Bezos preferring to develop projects in-house. 20

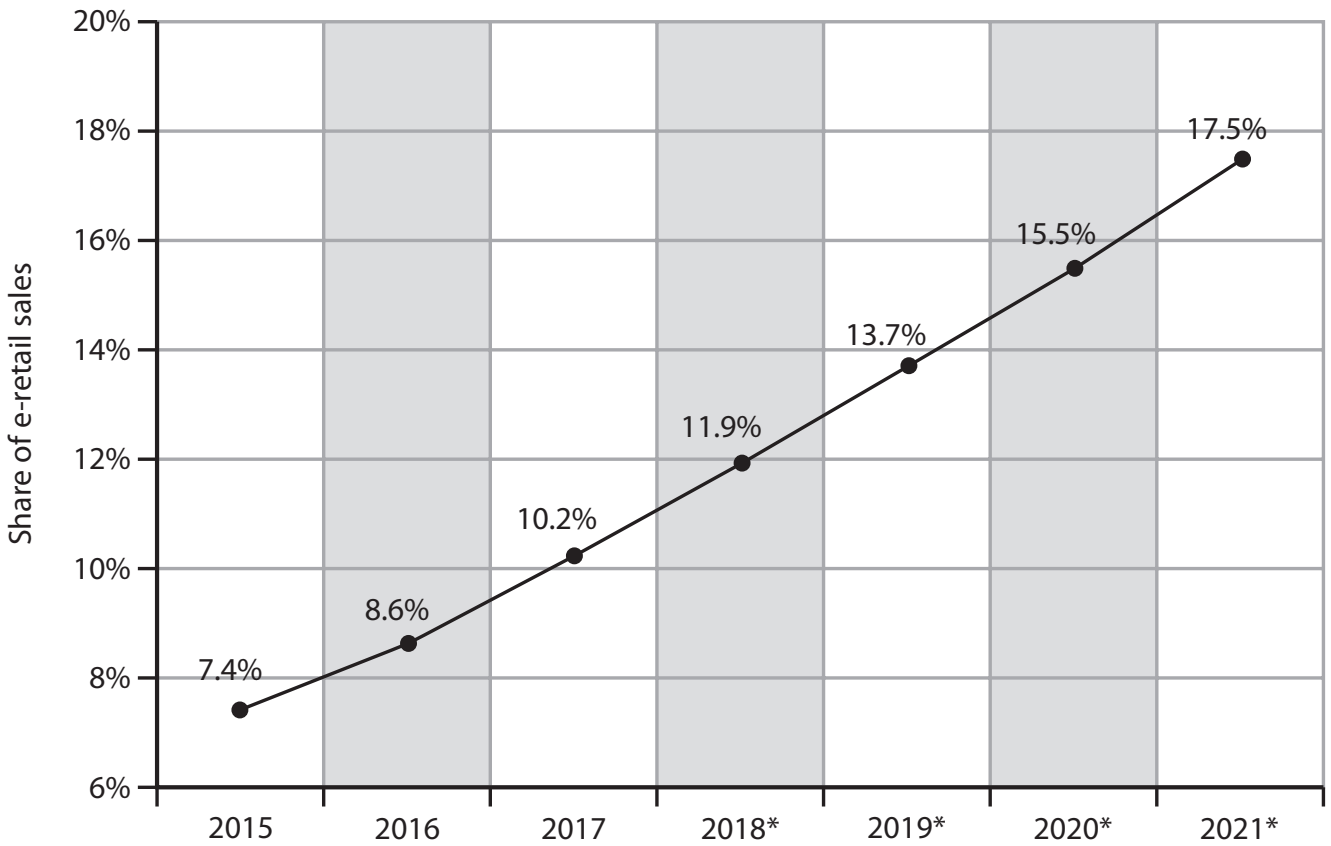
(Sources: adapted from <https://www.inc.com/associated-press/amazon-whole-foods-commerce-antitrust.html>,
<https://www.cnn.com/2018/06/28/amazon-is-buying-companies-at-an-unprecedented-rate-and-why-matters.html>)

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Extract G

E-commerce share of total global retail sales from 2015 to 2021. (* denotes forecasted E-commerce share)



(Source: adapted from <https://www.statista.com/statistics/534123/e-commerce-share-of-retail-sales-worldwide/>)

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3 Evaluate the potential impact of *Amazon's* market power on its stakeholders.

(20)

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(Total for Question 3 = 20 marks)

TOTAL FOR SECTION C = 20 MARKS
TOTAL FOR PAPER = 100 MARKS



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