



Pearson
Edexcel

Mark Scheme(Results)

Summer 2018

Pearson Edexcel GCE A Level
In Economics B (9EB0)
Paper 01 Markets and how they work

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Summer 2018

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General Marking Guidance

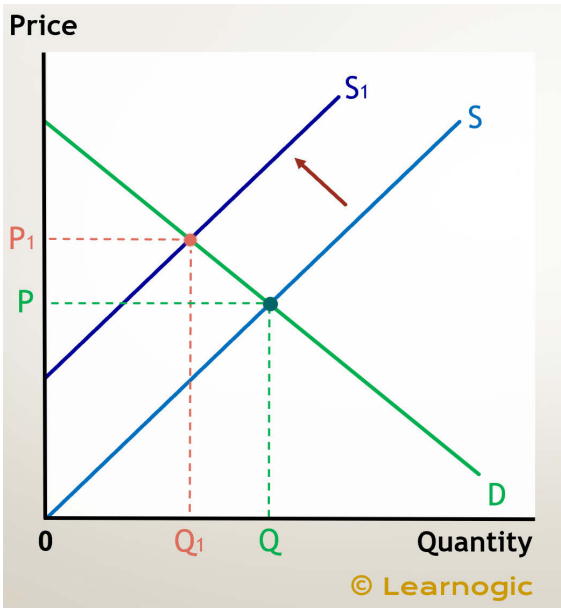
- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should 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.

Section A

| Question Number | Indicative content | Mark |
|-----------------|--|------------|
| 1(a) | <p align="center">Knowledge/Understanding 1, Application 3,</p> <p>Knowledge/Understanding: 1 mark for formula Original revenue + (original revenue x % increase) (1)</p> <p>Application: Up to 3 marks for calculations</p> <p>$\text{£}1.5\text{m} \times 12\% = \text{£}180\,000$ (1) $\text{£}1.5\text{m} + \text{£}180\,000$ (1) $= \text{£}1\,680\,000$ (1)</p> <p>NB if no working is shown award marks as below:</p> <p>If the answer given is $\text{£}1\,680\,000$ or $\text{£}1.68\text{m}$ award 4 marks If the answer given is 1 680 000 or 1.68m award 3 marks</p> | (4) |

| Question Number | Indicative content | Mark |
|-----------------|--|------------|
| 1(b) | <p align="center">Knowledge/understanding 1, Application 2, Analysis 1</p> <p>Knowledge/understanding: up to 1 mark for explaining the cost e.g. the overconsumption of sugar by consumers may create an external cost such as increased expenditure for healthcare (1).</p> <p>Application: up to 2 marks are available for contextualised answers, e.g. sugar is seen as a cause of obesity and related illnesses (1). Too much sugar may lead to tooth decay especially amongst young people (1).</p> <p>Analysis: Up to 1 mark available for developing the connection, these external costs are reflected in higher hospital and dental expenditure for the government (1).</p> | (4) |

| Question Number | Indicative content | Mark |
|-----------------|---|------------|
| 1(c) | <p style="text-align: center;">Knowledge/understanding 1, Application 2, Analysis 1</p> <p>Knowledge/understanding: 1 mark for giving one supply factor which may have caused fluctuations in sugar prices such as poor weather (1).</p> <p>Application: up to 2 marks are available for contextualised answers, e.g. sugar prices increased in 2009 from approximately 11 cents to approximately 25 cents in 2010 (1) poor weather causes lower yields of sugar (1).</p> <p>Analysis: 1 mark available for developing the connection, e.g. this is likely to have caused an inward shift of the supply curve which decreases the quantity and increases the price (1).</p> | (4) |

| Question Number | Indicative content | Mark |
|-----------------|--|------------|
| 1(d) | <p style="text-align: center;">Knowledge/understanding 2, Application 2, Analysis 2</p> <div style="text-align: center;">  <p>© Learnogic</p> </div> <p>Knowledge/understanding: up to 2 marks for correctly constructing supply and demand curves and for correctly labelling the axes with price and quantity (1) showing original equilibrium price and quantity P and Q (1)</p> <p>Application: up to 2 marks for shift in the supply curve to the left (1) A tax such as VAT, at 20% may affect a firms costs (1)</p> <p>Analysis: up to 2 marks for showing new equilibrium and consequences on the quantity and price axes, P1 and Q1 (1) higher costs may lead to fewer sweets being produced (1)</p> <p>NB maximum of 4 marks for diagram only</p> | (6) |

| Question Number | Indicative content | Mark |
|-----------------|--|------------|
| 1(e) | <p style="text-align: center;">Knowledge/understanding 2, Application 2, Analysis 2, Evaluation 2</p> <ul style="list-style-type: none"> • Adding value is the difference between the price of product and the cost of the inputs involved in making it. • <i>Candy Kittens</i> have added value through the product features and benefits, such as real fruit-based, gluten free sweets. • <i>Candy Kittens</i> have also added value by offering convenience as customers can buy the sweets online. • This may differentiate it from competitors, and create high demand for <i>Candy Kittens</i>. • Branding adds value. Jamie Laing is attempting to build a brand of quality sweets and the brand is also linked to a TV personality which may be appealing to some consumers. • These factors may protect them from competition that sell at a lower price and enable them to charge a premium price. • However, building a brand is expensive and will mean high investment from Jamie if he is to compete with well-established brands such as <i>Haribo</i>. • The product features of gluten free and real fruit may appeal to a niche/small segment of the market and restrict high volume of sales. • The premium ingredients used by Jamie may mean high production costs and the premium price charged may limit sales. | (8) |

| Level | Mark | Descriptor |
|---------|------|---|
| | 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:

- must directly reference, interpret or analyse the information provided in the stimulus
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| Question Number | Indicative content | Mark |
|-----------------|--|-------------|
| 1(f) | <p style="text-align: center;">Knowledge/understanding 2, Application 2, Analysis 3, Evaluation 3</p> <ul style="list-style-type: none"> • A loan is a sum of money that is borrowed and has to be repaid usually with interest over a period of time. • Loans come from a variety of sources including banks, family and friends, and other individuals or firms. • Jamie Laing borrowed £500 000 from family and friends to start his firm, rather than a bank loan. • Family members, such as Alexander Grant, may be willing to negotiate favourable repayment terms, while traditional lenders will generally be less flexible. • Jamie’s business is new and loans from banks may have been difficult to access, or interest rates offered to him may have been high • Using a loan from family and friends enables Jamie to maintain control of the firm, unlike some other sources of finance such as venture capital. • However, interest is a cost to the business • Repayments have to be made regardless of cash flow position. • Taking a loan from family and friends may damage close relationships. This may affect the operations and future financing of <i>Candy Kittens</i>. • Loans often have to be secured which may result in a loss of personal assets if the firm fails. • There are other sources of finance available which may be more suitable such as crowdfunding which Jamie successfully used at later date. | (10) |

| Level | Mark | Descriptor |
|---------|------|---|
| | 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 | 3-4 | 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, well developed with 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. |

Demonstrating application (AO2) in responses

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| Question Number | Indicative content | Mark |
|-----------------|--|-------------|
| 1(g) | <p data-bbox="544 309 1182 376">Knowledge/understanding 2, Application 2, Analysis 4, Evaluation 4</p> <ul data-bbox="501 416 1315 1883" style="list-style-type: none"> <li data-bbox="501 416 1315 528">• Barriers to entry are the existence of high start-up costs or other obstacles that prevent new firms from easily entering or growing in an industry. <li data-bbox="501 539 1315 689">• Barriers make a market less contestable and may include high set up costs, high sunk costs, economies of scale, pricing strategies and strong brand names. <li data-bbox="501 701 1315 851">• The largest confectionery firm <i>Mondelez</i>, with sales revenue of £1 043.1m is likely to benefit from economies of scale/lower average costs which <i>Candy Kittens</i> may be unable to match. <li data-bbox="501 862 1315 1012">• Firms such as <i>Nestle</i> are well established brand names with high brand loyalty. Established brands often have larger budgets for advertising than new arrivals in a market. <li data-bbox="501 1023 1315 1135">• The five leading confectionery firms may use pricing strategies to undercut new entrants to the market. <li data-bbox="501 1146 1315 1296">• However, the barriers to entry may not be significant. <i>Candy Kittens</i> have increased sales revenue from £700 000 to £1.5m between 2015 and 2016. <li data-bbox="501 1308 1315 1458">• <i>Candy Kittens</i> have succeeded in establishing their brand in the sweet market with their products stocked in <i>Tesco</i>, <i>Waitrose</i> and other major retailers. <li data-bbox="501 1469 1315 1581">• <i>Candy Kittens</i> have overcome barriers through innovation/targeting a niche segment of the market with their real fruit, gluten free sweets. <li data-bbox="501 1592 1315 1704">• There is no evidence of sunk costs such as high start-up costs or high R&D in the confectionery market. <li data-bbox="501 1715 1315 1865">• The major players may have sufficient market power in the way of brand loyalty and economies of scale to protect themselves from new competitors like <i>Candy Kittens</i> in the long term. | (12) |

| Level | Mark | Descriptor |
|---------|-------|---|
| | 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 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, well developed with 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. |

Demonstrating application (AO2) in responses

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| Question Number | Indicative content | Mark |
|-----------------|--|-------------|
| 1(h) | <p style="text-align: center;">Knowledge/understanding 2, Application 2, Analysis 4, Evaluation 4</p> <ul style="list-style-type: none"> • A cash flow forecast is an estimate of the amount of money expected to flow in and out of the firm. • Positive cash flow is essential to the survival of the firm. • It is particularly important to new start-ups who may struggle to obtain new sources of finance when cash flow is a problem. • In the report cash flow scored highly as one of the main reasons for business failure. • It is important to start-ups like <i>Candy Kittens</i> to ensure it spots shortfalls/deficiencies in cash. • Sugar prices are volatile (extract B) which may cause difficulties in predicting cash flow and affect the liquidity of the firm. • Suppliers in the confectionery trade who don't get paid on time may stop supplying the business. • <i>Tesco</i> and <i>Waitrose</i> have monopsony power and may delay payments to small suppliers such as <i>Candy Kittens</i>. • If a firm runs out of cash and is not able to obtain new finance, it may become insolvent. • However, no forecast is ever 100% accurate, and may be particularly difficult for new firms lacking experience in financial management. • Cash flow forecast can be affected by external factors e.g. government regulation, such as sugar tax. • Other factors may be more important to the survival of start-ups. • The report suggests that the biggest growth barrier is the UK tax system followed by a lack of bank lending. • Although cash flow forecasting is an integral part of any successful firm's management it must be used in conjunction with other management tools. | (12) |

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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 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, well developed with 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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|-----------------|--|-------------|
| 2 | <p style="text-align: center;">Knowledge/understanding 4, Application 4, Analysis 6, Evaluation 6</p> <ul style="list-style-type: none"> • Negative externalities impose costs on society that are not paid for either by the producer or by the consumer. • Consumers who take advantage of the bicycle scheme can benefit from financial support (tax benefits). • This encourages people to use bicycles which may reduce congestion in the UK. • This may reduce the predicted economic costs of £21b per annum by 2030. • Cycling can improve health and a healthier population puts less stress on the health service in the UK. • Healthier citizens should improve a firm's productivity, through reduced absenteeism, more people available to work, less sick days/benefits paid. • More bicycles provided through the cycling scheme may positively affect the UK cycle industry, creating more employment. • Businesses may be unwilling to be based in an area where traffic congestion is a problem. • However, the impact of the scheme may be minimal. The number of people currently cycling is still very low with 65% of people riding a bicycle only once a year or never. • Whilst the number of people joining the bicycle scheme is rising this may be insufficient to have a positive effect on congestion. • Indeed many of these people may not use the bicycles to cycle to work but for leisure use. • There is an opportunity cost of spending on the walking and cycling scheme - could the Government better invest in other schemes / projects? • Other local projects may be more successful - the findings from the study anticipate a significant increase in the demand for road travel across the country over the next 16 years and advises that cities need to be more innovative in their approach to tackling the gridlock. • Although the strategy is commendable it depends on sufficient funding and awareness of the strategy. It may also need additional measures such as increased public awareness and additional ways to combat congestion. | (20) |

| Level | Mark | Descriptor |
|---------|-------|--|
| | 0 | A completely inaccurate response. |
| Level 1 | 1-4 | Isolated elements of knowledge and understanding, using little or no relevant evidence. Arguments and chains of reasoning may be attempted, but fail to connect causes and consequences. Limited attempt to address the question. |
| 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 competing arguments are 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. |

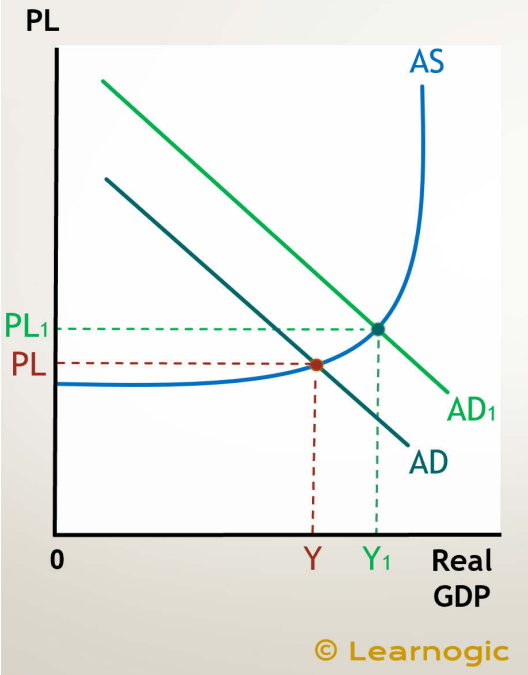
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| 3 | <p style="text-align: center;">Knowledge/understanding 4, Application 4, Analysis 6, Evaluation 6</p> <div style="text-align: center;">  </div> <ul style="list-style-type: none"> • Demand side policies include monetary and fiscal policy. • To stimulate growth, expansionary monetary and fiscal policy are used to increase aggregate demand (shift the AD curve to the right). • Fiscal policy, through the use of government spending, is used to try and increase expenditure in the economy to stimulate growth, create jobs, and create a multiplier effect. • The rise in Government spending to £92bn in 2016 may have supported this aim. • Fiscal policy also involves the use of changing taxation rates. Lower income tax will increase disposable income, encouraging consumer spending. • Monetary policy can influence economic growth, lower interest rates reduce the cost of borrowing and investing which could increase AD. • The interest (base) rate has reduced from 5% to 0.25% between 2006 and 2016 which in theory should have increased consumer spending and increased growth in the UK. • These policies are important during a recession or economic stagnation and may have been important after Brexit when there were concerns of economic downturn and declining output in some industries. • However, Extract H suggests little impact on the long term growth of the UK economy. • Extract J shows a continued increase in government spending but again, shows little impact on growth rates as shown in Extract H. | |

| | | |
|--|---|-------------|
| | <ul style="list-style-type: none">• There can be a trade-off in trying to promote growth through increasing AD as it can cause inflation if the economy is close to full capacity.• Some economists argue that higher government spending will not increase AD, because the higher government spending will crowd out the private sector.• An alternative strategy for improving economic growth is to use supply-side policies which may improve productivity and efficiency in key sectors such as construction, agriculture and manufacturing.• In conclusion, a combination of policies may be needed to stimulating growth.• Other factors may also affect growth of the UK economy such as the reactions of other countries/remaining EU members as the UK leaves the EU. | (20) |
|--|---|-------------|

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|---------|-------|--|
| | 0 | A completely inaccurate response. |
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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 competing arguments are 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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