



Examiners' Report June 2024

GCE Economics B 9EB0 03

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June 2024

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Introduction

The 2024 paper proved to be as accessible as previous series of 9EB03 and generally performed well, with some very good responses showing high levels of knowledge, analysis and evaluation. However, as with previous papers many answers lacked context and supporting evidence. This paper is based on a pre-released topic and centres should have taken full advantage of this and used the topic in classwork, assignments and wider study, including looking at a wide range of case studies and examples. Answers that showed evidence of this were disappointingly rare. Many just treated the exam paper as a comprehension exercise and some responses were wholly generic. It is worth reminding candidates that the higher levels in the mark scheme all require good use of supporting evidence.

The main reasons for some candidates underachieving were not heeding command words and not reading the questions carefully enough. Once again, command words are still being ignored by a sizeable number. Instructions to 'assess' and 'evaluate' were not followed by some candidates. For Q01(a) and Q01(d) some missed out on marks because they did not provide a suitable calculation or diagram. Too many candidates relied on copying the text from the case studies rather than considering the wider implications of the questions. This was particularly noticeable in Q02(d).

Candidates need to apply proper context and to use examples to reinforce their responses. Generic or stock answers are very unlikely to access the higher levels of the mark scheme. It is worth stressing again that the '**use of relevant evidence**' is a key part of the level descriptors in the mark scheme and without this, candidates will struggle to reach the higher levels.

Question 1 (a)

The calculation that should have been used was the capacity utilisation figure of 94.5%, which most candidates did. Some used the spare capacity figure of 5.5% which was also acceptable. Others just repeated the figures from the extract, which was not helpful and a sizeable minority ignored the instruction to use '***an appropriate calculation***' altogether.

Most were able to point out the benefits of increasing capacity utilisation in lowering average costs of production but not many were then able to balance that with the risks of approaching the full capacity level of output. Fewer still used the evidence to look at the long term trend of growth since 2019 and the implications for Tesla if it continued.

This is a level 3 response and gained 7 marks.

- 1 (a) Using Extract A and an appropriate calculation, discuss the implications for Tesla of September's production figures.

(8)

$$\frac{\text{Actual output}}{\text{Max possible output}} \times 100 = \frac{83,135}{88,000} \times 100 = 94.47$$

In September 2022, Tesla produced 83,135 electric vehicles which is the highest monthly output for the factory since production began there in December 2019. This means that Tesla is ~~utilising~~ ^{utilising} 94.47% of its maximum capacity of 88,000. This means that Tesla is able to sell more EV's and earn increased profit. As a result, Tesla has minimal inventory costs regarding vehicles in storage which haven't been purchased which allows the firm to maximise its revenue and potentially re-invest it for further expansion of operations.

However, being only 5% away from reaching its maximum capacity and facing increasing demand for EV's, Tesla could lead to over-utilisation of capacity which could lead to reduced quality in the cars produced due to the production line being unable to allocate its resources effectively and efficiently which could further lead to a damaged reputation and brand image if capacity is not increased or machinery improved.



ResultsPlus
Examiner Comments

A good response with an accurate and appropriate calculation, arguments are developed using logical chains of reasoning.

This is a Level 2 response which gained 4 marks.

- 1 (a) Using Extract A and an appropriate calculation, discuss the implications for Tesla of September's production figures.

Tesla $\frac{88,000 - 83,135}{83,135} \times 100 = -5.85\%$ (8)

Tesla has a maximum ^{output} capacity of 88,000 electric vehicles a month. Tesla's highest productive month since its opening in December 2019, was September 2022 with 83,135 electric vehicles produced ~~in~~ within the month. This figure means that Tesla are allocating the right amount of profit and resources back into the firm in order to promote profit maximisation and productivity. Tesla are producing ~~8~~ around 5.85% less than their full capacity levels. This would allow Tesla to further expand and grow ^{their} factories and machinery, ensuring quality, productivity and economic growth per month.



ResultsPlus
Examiner Comments

The calculation is fine and is used to show that there is room for expansion but has nothing in the way of balance.



ResultsPlus
Examiner Tip

Don't waste time repeating the extract, address the question from the outset and use the extract to support your arguments.

Question 1 (b)

Most candidates were able to describe the positives of investing in the labour force to increase productivity, by both improving the skill levels of employees to boost output and also as a motivating factor in terms of worker satisfaction, loyalty and retention. Balance usually took the form of contrasting investment in the labour force with investment in capital instead and was often just generic with little in the way of example or context.

Weaker responses tended to copy out parts of the extract and made generic assertions with little in the way of development. Similarly, balance usually took the form of unsupported statements such as 'it will be expensive' or 'machines are more efficient'. Stronger responses looked at how the needs and nature of a particular industry might impact on the sort of investment which might be the most effective.

This is a Level 3 response and gained 5 marks.

(b) Assess whether investment in the labour force is the best way for a firm to increase productivity.

(10)

A firm can invest into the labour force by increasing pay, training/education and improving their skills.

By investing in the labour force through increasing pay ^{for} employees ~~motives~~, companies are more likely to retain employees. ~~However~~ This is because by receiving higher pay, employees will be ^{come} ~~more~~ motivated. As they will feel as if their expertise and skills are valued by the company due to a pay rise. This means that employees will become happier working for a firm who values them as an asset. As a result, they may become motivated to work harder which will increase their efficiency and productivity.

However, by investing into improving training and skills of employees firms may actually see an increase in labour turnover. This is because if only the skills and training is increased, employees may decide to leave the firm and take their newly trained skills elsewhere to better opportunities. This means that

labour turnover will increase. Therefore due to lower inputs, human labour, productivity may actually decrease. ~~but~~

Overall, despite this if firms invest into the labour force through a variety of different ways such as enhancing skills and offering more paid leave. They are more likely to have happy and motivated employees who will be more efficient and therefore more productive.



ResultsPlus
Examiner Comments

A reasonable understanding of the benefits of investing in the labour force but the balance offered does not address the main point of the question, which is to discuss whether it is the best way. In other words, what else could a firm do to increase productivity?



ResultsPlus
Examiner Tip

When a question asks you to consider the 'best way' or 'the most suitable policy' it implies that other ways or policies are available and you should consider if they are any better or more suitable.

This is a Level 4 response and gained 8 marks.

(b) Assess whether investment in the labour force is the best way for a firm to increase productivity.

(10)

Productivity is measured as output per unit of input. Starbucks has announced that they will spend \$1bn on improving pay, benefits and training of their employees. This is likely to increase labour productivity for a variety of reasons - higher levels of training are good at increasing the human capital of workers, which ~~can~~ ^{might} give them the skills to make coffee faster ~~and~~ which would increase output reducing unit costs. If they can make more coffee, this also means that they can sell more units, which could increase long run profit. Things like increased pay and ~~to~~ benefits will make employees more satisfied, which could reduce turnover and absenteeism? which could also increase labour productivity since they are more likely to come to work and work for more hours. However, investment into the labour

force may also not be the best way to increase productivity; other investments like capital equipment might provide greater output at fraction of the cost. In this case it could be things like automated cashiers and better coffee machines which are one off costs (apart from maintenance) and might be cheaper than workers, meaning that capital goods could also increase productivity, but this depends on the costs to purchase and maintain the machines and whether customers like a less personal experience.

Overall, investment into the labour force is a possible way of increasing productivity for labour, although there are potentially cheaper alternatives like capital goods. It mainly depends on the extent to which things like the "income effect" take place amongst employees and the extent of increase of pay and benefits.



A good answer with developed and logical chains of reasoning with balance and some use of context.

Question 1 (c)

There were some good responses to this question, many started by looking at the difficulties of expanding during a recession. Rising unemployment, falling incomes and lack of confidence were all cited. By way of evaluation, better responses went on to look at different firms such as those producing inferior goods and how they were likely to see an increase in sales and therefore may want to expand, in contrast to those selling luxury goods.

Some pointed out that recessions do not last for that long and those firms that did take the risk and expand would be better placed to take advantage of a recovery. Others looked at how rising unemployment may give expanding firms a wider choice of skilled and possibly less expensive labour. Weaker responses tended to see everything in negative terms.

This is a level 4 response and gained 10 marks.

(c) Assess whether a firm should expand during a recession.

(12)

During a recession, unemployment is high, confidence is low and as a result level of consumption fall.

This results in a contraction in consumer spending.

This would unlikely not be a beneficial time for a

firm to expand due to the unlikely fall in demand

from a recession. If a firm were to expand, but

spending is falling, the expansion would result in

being a great cost to the firm with little or

no return.

Additionally, during a recession, due to low confidence,

and security, banks are unlikely to be more risk averse

as a result. This can make borrowing more difficult

and costly. This would be a large cost for expanding

firms if borrowed funds are required. In 2023 the

world was heading toward recession and banks simultaneously

were raising interest rates. This would result in the cost

of borrowing to fund expansion to increase. Therefore

lending up to a recession could be a bad idea due to

low consumer confidence limiting demand and risk

averse banks causing borrowing cost to increase.

However, the firm can be advised on an individual basis as

to whether expansion in recession is beneficial. If a goods

income inelastic, the fall in confidence as a result of the recession will have little impact on the demand for the product. If demand remains stable, expansion is unlikely and could be beneficial however, borrowing would still be costly. And so, if the expansion is financed through borrowing expansion may be more effective once interest rates lower. However if expansion is financed by retained super normal profits this cost is reduced. remembered.

Furthermore, expansion could be right for a firm producing inferior goods during a recession as demand will rise due to falling incomes. Supermarkets such as Aldi and Lidl ~~set to~~ have ~~to~~ experience increases in sales and are increasing market share. Expansion while demand is high will further grow the firm's market share.

during a recession
In conclusion the expansion of a firm is dependent on the good sold and its income elasticity. Typically firms should wait before investing since for most goods demand will fall and borrowing costs will rise. However this is different from the impact a recession has on inferior goods as money demand rises. And so for these firms expansion is likely beneficial during a recession.



A very good answer which shows real understanding. The arguments and counter arguments are well developed and convincing with some supporting evidence.



Try and use examples from your own knowledge and wider reading.

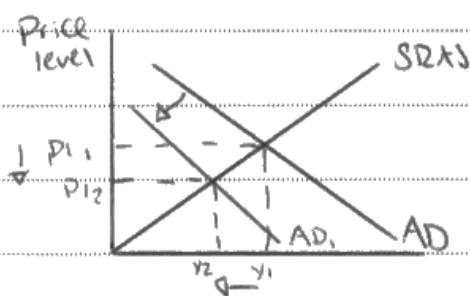
This is a level 2 response and gained 5 marks.

(c) Assess whether a firm should expand during a recession.

(12)

A Recession is when there is negative economic growth, if GDP is low two quarters in a row lead to an official recession.

Firms should expand during a recession as there would be higher unemployment. This is because whilst in a recession firms make individuals redundant due to low sales and very low consumer confidence. During a recession unemployment is high which enables a firm to have more individuals to select from as there is less jobs, not enough for everyone. Firms also have the ability to offer low wages to the individual as they will accept due to the current crisis. Therefore firms expanding in a recession will have better choice of employees and also by giving jobs individuals will be able to consume now, which will help consumer confidence.



Firms should not expand during a recession due to the cost of production will be expensive. As in a recession there is high levels of inflation, prices of goods and services increases continuously making expansion expensive.

central bank increasing interest rates are making it more difficult as firms will be unable to expand their business without taking a loan and would pay higher level of interest. ~~Due to~~ However higher interest rate should incentivise firms to save as they will receive higher levels of interest. Once a recession is lifted firms should expand.



ResultsPlus
Examiner Comments

This response shows some knowledge and understanding and presents the argument for and against expansion. However, the points made lack development and full awareness.

Question 1 (d)

Generally, this question was well answered in the sense that most candidates could explain what a supply-side policy was. The obvious choice of diagram was an AD/AS diagram and while many did include this, a significant number made minor mistakes in the labelling such as using Price and Quantity instead of Price level and Real GDP. Some missed out a diagram altogether, while others offered inaccurate or inappropriate ones such as the micro demand and supply diagram.

As stated in previous reports, there is no penalty for missing a diagram despite being asked to include one. Neither is there capping at a certain level. However, the diagram is seen as 'relevant evidence' which is part of the level descriptors in the mark scheme. Therefore, a response without a diagram is unlikely to reach the higher levels. Candidates should always include a diagram when asked to do so.

This is a level 4 response and gained 16 marks.

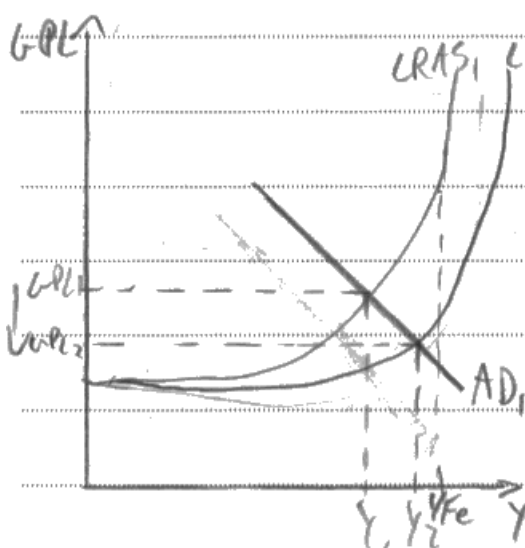
(d) Using a suitable diagram, evaluate the importance of supply-side policies in promoting economic growth.

SSP

(20)

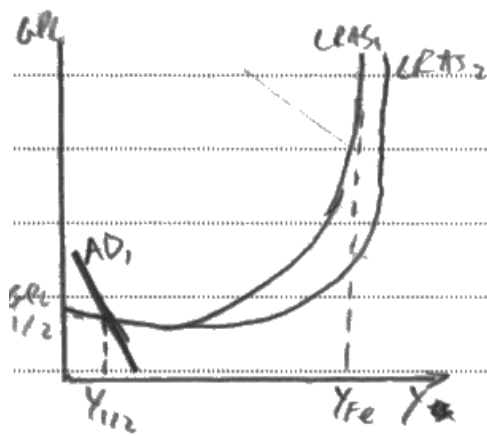
Implementing successful SSP's aims to increase the productive potential of an economy by shifting LRAS to the right. In 2021, Italy aimed to 'close the growth gap between Italy and the Euro Area'. The prime minister's plan was to target SSP + increase investment on education + infrastructure.

Increasing investment on infrastructure ~~improves~~ ^{improves} an economies productivity ~~due~~ ^{due} to external economies of scale, improved factor + labour mobility, resulting in lower AC promoting growth at a lower cost + faster rate. Spending on public services such as

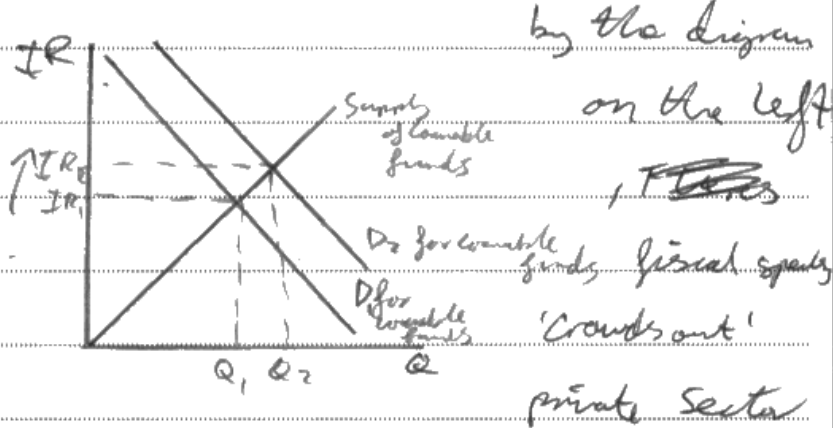
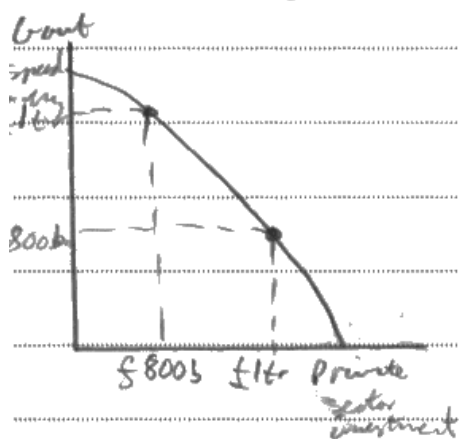


healthcare + transport means people of working age ^{gain} better access to job opportunities across a country + a subsidised / improved healthcare systems mean individuals are less likely to be off work ill due to long waiting times (eg NHS) and low quality / expensive service (US health

private care) reducing the supply of labour. This would boost / uphold the productive potential of an economy, allowing GDP growth output to remain high + even increase if an economy is operating near full capacity (YFE). However, it's important to ~~consider~~ ^{consider} the stage of the economic cycle + output gap when implementing a SSP.



This diagram illustrates a large output gap, from Y_{fe} as shown a SSP has no effect on Real GDP (Y). If AD is chronically low in an economy, it's important to consider demand side policies (eg income tax cuts, monetary policy) to bring up demand levels to promote growth. It's also important to consider the trade off between govt spending + private sector investment when evaluating effectiveness of SSP's (crowding out). As shown



by the diagram on the left, ~~the~~ crowding out private sector investment in the LR, a govt could create unintended consequences as myopia means private sector investment injection growing an economy falls in the LR. This is due to rising IR (diagram 2) derived from govt demanding more loanable funds reducing propensity to borrow in the CR. On the other hand, some Keynesian economists may argue 'crowding in' where govt spending on improved infrastructure makes private investment more effective as general productivity is higher. Therefore, it's important to consider the benefits of an interventionist SSP approach + how the ~~the~~ govt funds fiscal expansion.

It may be more suitable in a scenario to adopt free market

SSP to reduce risks of crowding out + protect the govt budget deficit from widening. Policies such as deregulation could help reduce lag-times + red-tape for production + encourage new enterprise in an economy providing employment + increasing tax revenue for further expansionary policies. Welfare cuts, whilst unpopular, will incentivise people to work (given the NMW is high enough) reducing govt spending + increasing tax revenue (improving deficit). This would also reduce instances of the party trap improving the general skill of the labour pool in the UK (assuming CP).

On one hand, Expansionary SSP are very effective at improving econ growth however, time lags should be considered when investing in large projects. Also the type, free-market vs interventionist should be calculated. As free market policies are typically unpopular with general public due to risks of exploitation + weaker safety nets but also reduce crowding out risks + protect govt budget deficit. If there's a small negative output gap SSP are a great policy in improving econ growth if not DSP's should be considered.



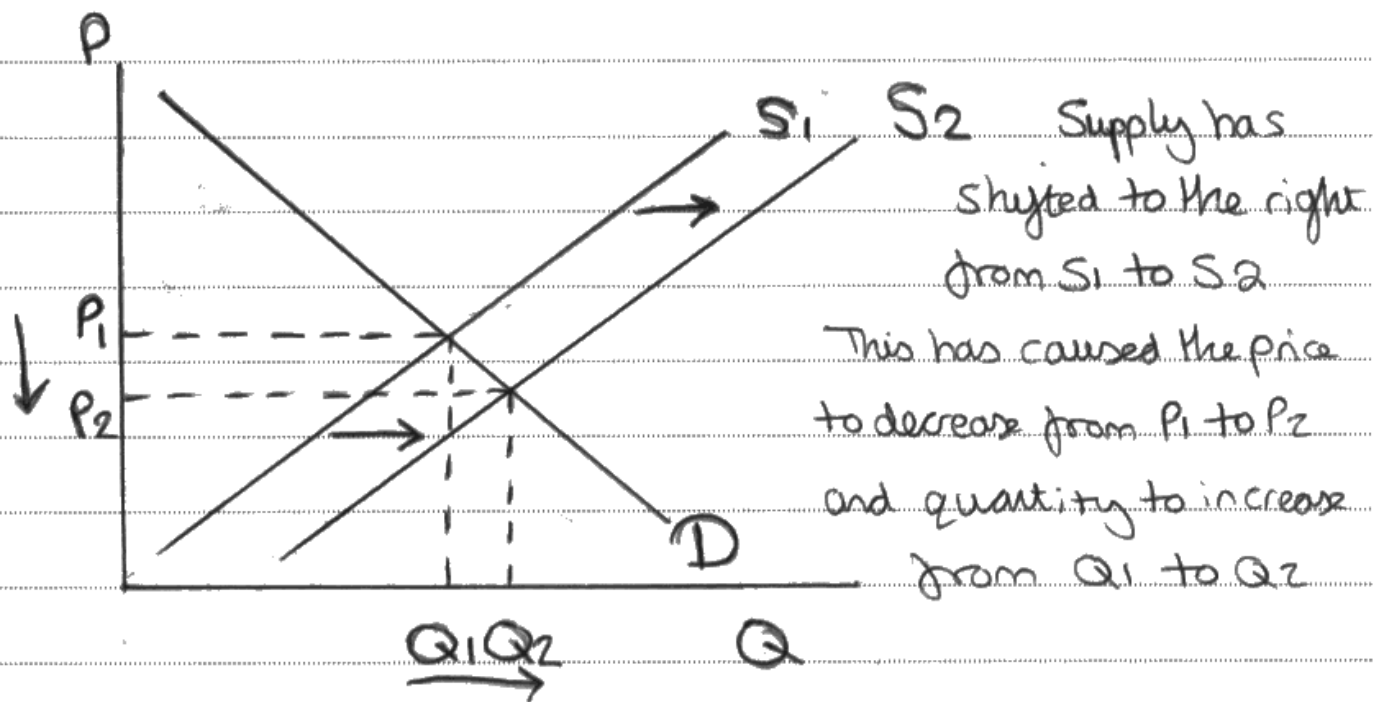
ResultsPlus
Examiner Comments

A wide-ranging and well supported answer.

This is a level 2 response and gained 7 marks.

(d) Using a suitable diagram, evaluate the importance of supply-side policies in promoting economic growth. *market based Interventionalist*

(20)



Supply side policies are important to a large extent in ensuring that there is increased supply of workers in the economy. Mario Draghi had a broad public investment plan focused on education. Investing into education is an example of an interventionalist supply side policy. By investing more into education, this allows the public to gain increased human capital. This means that children can gain higher paid jobs when they have left education. An example of UK investments into education include

the new T-Levels introduced in 2022, as well as making education compulsory until you're 18. For people to have higher human capital, this means that they will have more skills and qualifications which will allow them to specialise. This boosts economic growth as the productivity of the economy will increase as ~~more people~~ the higher-paid jobs provide increased tax revenue for the government to spend on more investments into the economy. However, investments into education are expensive and this could be spent elsewhere, such as healthcare, which could result in a misallocation of resources.

*from Q1 to Q2

Supply Side policies are also important in reducing unemployment. As shown by the diagram, the supply curve has shifted to the right*, meaning that there is an increased supply of labour.

An example of a supply side policy used is a reduction in welfare benefits. This incentivises more people to work ~~in~~ in order to have enough income to support their families. In

The UK, Rishi Sunak stated in the Spring Statement 2024 that there will be a reduction in welfare benefits as well as more thorough checks to determine who actually needs these benefits. As this decreases unemployment, this boosts economic growth as with increased labour force, there is more productivity in the economy. However, as many people rely on welfare benefits, a reduction may mean they struggle to cope and absolute poverty could increase.

In Conclusion supply side policies are important to improving economic growth to a large extent. This is because, if there was high unemployment, the economy would not be able to grow as basic needs in the economy would not be met. It depends upon the economic climate. During a recession, there will likely be many redundancies meaning that there is a lack of jobs available. Therefore I recommend the government provide subsidies to firms to allow them to employ more staff. (Total for Question 1 = 50 marks)



A diagram is offered but it is not a relevant one. There is some knowledge of supply side policies and how they can help economic growth, but the analysis is hampered by lack of an appropriate diagram and the use of AS and AD.

Question 2 (a)

This should have been a very straightforward question but seemed to catch many students by surprise. A significant number had no idea what venture capital was and many who did attempt to explain it became confused by talking about aspects of limited companies or interest payments. Better responses showed clear understanding and were able to show it would be of benefit to Moko using the information in the extract to support their argument. Balance was inevitably centred around the need to cede some degree of control to the venture capitalist.

This is a Level 3 response and gained 7 marks.

2 (a) Discuss the use of venture capital as a source of finance for a firm such as Moko.

(8)

Venture ~~capitalist~~ capital is when a specialist invests in a firm and provides specialist advice in return for shares of the company. Venture capital may be a useful source of finance as the firm can expand without having to repay a loan and interest from a bank. One of the venture capital in Moko will be invested in new machines and in expanding its product range. New machines will allow Moko to become more productive and reduce costs in the long run which increases their profit margin. Expanding their product range would allow them to diversify and innovate finding consumers with a wide variety of choice, increasing demand and reducing risk. This means that venture capital helps Moko expand and increase profits without the worry of repaying a loan.

However, a venture capital means that Moko loses shares and ~~has~~ therefore a share of their revenue. The demand for furniture is expected to grow which means that Moko is likely to expand and become a large firm with brand recognition but they will not be able to keep all their benefits as the venture capital means that someone else also has control of the firm and revenue.



This response shows clear and accurate knowledge and understanding supported by use of the evidence.

This is a level 2 response and gained 3 marks.

! (a) Discuss the use of venture capital as a source of finance for a firm such as Moko.

(8)

Venture capital occurs when ^a other firms buy shares agree to invest in another in order for some return of their profits. They and give advice in order for return for some of their profit. The extract states 'Moko... has raised KES 786.6m in venture capital to expand'. Venture capital is good as it allows a firm to start up and expand, allowing them to quickly gain revenue.

However, a draw back of share capital is that ^{some of} the firms profits will be given to the company that gave them the venture capital. This is ~~an~~ will have a negative impact on a firms profitability.



There is some understanding of venture capital here but it is not really developed and the balance is unconvincing.

Question 2 (b)

Although the question clearly asked for the economic impact of specialisation on a country, a number of responses took that to mean the division of labour and then launched into a prepared answer which did not gain many marks. Good candidates often made good use of the information in the extract to support their answer, concentrating on the overall economy rather than a firm. Balance was usually about the potential risks of relying on just one area to such a degree, with many discussing climate change and its potential impacts on agriculture. Others looked at the volatile nature of commodity products. Some very good answers also looked at the need for an economy such as Kenya to move away from its reliance on primary products and increase the size of the secondary and tertiary sectors.

This is a level 4 response which gained 8 marks.

(b) Assess the possible economic impact of specialisation in agriculture for a country such as Kenya.

(10)

Specialisation is when a country focuses solely on producing their comparative advantage which is at a lower opportunity cost. Specialisation in agriculture would improve Kenya's balance of payments and promote economic growth due to increased trade. In 2020, Kenya's total exports were \$6.52 bn with exports of things like tea, refined petroleum and coffee which are essential to developed countries. Kenya's specialisation means that they are more productive and can produce large output at a lower opportunity cost therefore lower prices. This promotes trade due to primary product dependency as many countries depend on these goods in agriculture. This increases exports therefore Kenya receives more export revenue, improving their balance of payments, increasing aggregate demand, leading to economic growth.

~~However~~

However, products in agriculture are very price volatile due to people having no control over weather therefore they cannot control the supply of their primary products. This means that as they specialise in these primary goods, they are vulnerable to external shocks and could lose all their revenue if there is an external shock leading to mass unemployment, lower living standards, having

a negative impact on the economy of Kenya due to the lack of injections and income earned leading to a decline in economic growth.

In conclusion, it depends on the level of specialisation. If there is diversification, the Kenya is less vulnerable to external shocks as they have other services that they can earn revenue from and they can still benefit from the revenue made from specialisation when the global economy is stable and Kenya exports their agricultural goods.



ResultsPlus
Examiner Comments

A strong answer that uses relevant evidence throughout with well-developed chains of reasoning and balance.

This is a Level 2 response and gained 4 marks.

(b) Assess the possible economic impact of specialisation in agriculture for a country such as Kenya.

(10)

Specialisation will have a positive economic impact in Agriculture on countries like Kenya because they will become one of the top countries to trade with since they specialise in one industry so the quality of goods will be high as well, which leads to high income countries like USA, England etc may import goods from Kenya as they exported \$1.2bn of tea and \$308m in refined petroleum, therefore will slowly become more popular and will export agriculture across the world, improving their economy and higher GDP.

However, Kenya may have a problem with specialisation if there is no interest in that current market because it will only end up with little to no sales and graduate higher costs, which leads to them as an economy to educate themselves and gain the skills to be able to enter new markets and create sales, therefore will struggle to stay afloat.

Overall, I believe that specialisation in an industry would be positively impactful towards

there economy, however overspecialisation will not help anyone when an market becomes ~~obsetete~~ obsolete. it depends on what industry you specialise in and how long it will it be popular / in date for.



ResultsPlus
Examiner Comments

There are elements of knowledge and understanding but the arguments rely on assertion without development, for example why might 'the quality of goods will be high' and why might 'there be no interest in the current market'?



ResultsPlus
Examiner Tip

When you make a point you must explain why or how this is relevant.

Question 2 (c)

In the past, exchange rates have proved to be a bit of a minefield for many candidates and while some confused responses were seen, most appeared to have a reasonable understanding of how a depreciating currency might affect Kenyan firms. The majority of responses were able to say that it was likely that exporting firms would benefit and importers would not. Less well done was the subsequent development of the factors that would determine the degree to which exporters and importers might be affected.

Good answers looked at how importing raw materials might affect the costs of production for exporters like Moko and the importance of PED if prices had to be changed. Some discussed the impact of rising import prices of essential goods, such as petrol and food, on the discretionary incomes of Kenyans and how that might in turn affect the demand for other consumer/luxury goods such as Moko's furniture. A few picked up on the evidence from extract E about increasing purchasing power across the African continent and how this might help Kenyan firms like Moko.

This is a level 4 response and gained 10 marks.

(c) Assess how the depreciation of the shilling may affect Kenyan firms such as Moko.

(12)

Depreciation refers to the decrease in the value of one currency against the value of another.

The depreciation of the Kenyan shilling can lead to imports becoming more expensive. Moko may experience high cost of imported raw materials, such as cotton, leather (sofas) and springs (for mattresses). This could negatively impact cash flow for Moko as they may not be able to internalise the higher costs and may need to pass on as higher prices. This can limit their expansion across Kenya, as it is still a developing economy - suggesting income may not be as high - making their products price elastic - reducing sales as price increases. As a result, depreciation can reduce Moko's cost efficiency and lower its competitiveness.

However, Moko may not buy materials from abroad. For example, Moko may use ~~imported~~ local supplier for raw materials. This limits the impact of the depreciation as costs may stay the same or go up less than if they imported. Additionally, they may face higher sales as imported goods become expensive. More Kenyans may purchase from Moko instead of abroad. As a result, depreciation deters sales of import and can increase

Moko's market presence in Kenya for furniture through
wholesale sales.

Exporting becomes cheaper as it costs less to buy from
Kenya. This can help Moko to enter new markets of
other African countries quicker than 2025. The
depreciation increases exporting sales of Moko,
increasing their market share and revenue. Moko
may be able to benefit from first mover's advantage
as it could sell to developing economies and set up
more stores. As a result, depreciation can lead to
a higher sales margin and help Moko to expand
outside of Kenya quicker. However it would be
costly to set up as more shillings are required
for currency exchange - increasing Moko's cost.

Overall, it depends on the size of depreciation in the long
term. As Kenya is still developing, the depreciation
may not be for long and could improve in the long term.
It also depends on the economic state as in
an economic boom, appreciation could occur unlike
a downturn. As a result, depreciation is short-
term and may not affect Moko as both unlike firms
internationally trading.



A good and clear response with developed and supported arguments with clear balance.

This is a level 2 response and gained 5 marks.

(c) Assess how the depreciation of the shilling may affect Kenyan firms such as Moko.

(12)

Extract G states that the shilling has fallen to an all time low of 119.85 against the dollar. One affect this may have on a kenyan firm such as Moko would be an increase in the price of imports. If the firm relies heavily on importing raw materials, they will likely see a huge increase in their costs.

Alternatively, the shilling being so weak would result in firms such as Moko, being able to export their products for cheaper. Cheap exports could lead to other countries buying alot more of these products and therefore increasing the amount of money going into the kenyan economy.

If the shilling remains weak, kenyan firms may be unable to cope with the rising costs of importing goods and may look for cheaper, raw materials from kenya. By switching to cheaper goods, the overall quality of the finished product may also begin to fall ~~and this is a~~. As quality falls individuals are less likely to buy the product

and therefore income generated will fall for Kenyan firms.

The depreciation is likely to have more negative effects than positive but it depends on how long the Shilling remains weak for and how reliant firms are on imports.



This response understands the likely impact of depreciation but the chains of reasoning are not developed or supported well enough. There is some balance but again it lacks development and support.

Question 2 (d)

This question produced a wide range of responses as to how the membership of AfCFTA might affect African countries. Detailed knowledge of the actual nature of this particular trade bloc was not required. The examining team accepted anything as long as it might apply to a trade bloc as per the specification. For example, free movement of labour does not fully exist yet in AfCFTA but answers that assumed this was the case were fully credited.

Most responses looked at the potential benefits of gaining access to new markets with the reduction and/or removal of tariffs and how this would affect an African economy such as Kenya, both from the potential increase in exports and the possible availability of cheaper inputs. Balance was often shown by looking at the threat to domestic industries as protectionism was reduced or eradicated. Good answers used the figures for intra-African trade to good effect by evaluating the extent to which potential gains might be limited in the short run. Others considered the extent to which trade diversion might occur and the reaction of other trading blocs or global economies.

This is a level 4 response and gained 16 marks.

✓ - trade creation ^{→ global market} X - trade diversion
(d) Evaluate how membership of the AfCFTA might benefit African countries such as Kenya.

(20)

~~The AfCFTA~~ AfCFTA is a free trade agreement meaning that members have removed ^{some or most} barriers to trade with one another. This is evident in extract H where it says "they have pledged to eliminate import tariffs on 97% of goods traded" among members. One benefit of this is trade creation. This is where trade shifts from a high cost producer to a low cost producer; ~~as a result of joining~~ ^{This means that African} countries such as Kenya can now import from African countries for cheaper, which may help to cut costs of production for firms who import and export abroad within Africa. It also increases the potential for job creation in trade related industries such as ports. This is beneficial for African countries as it can lead to higher wages and ~~also~~ ^{disposable} increased ^{incomes} and, leading to higher consumption, shifting AD outwards. In the long term, this can lead to the positive multiplier effect, where an initial injection into the circular flow of money results in a larger final increase in GDP. Furthermore, ~~the AfCFTA~~ ^{the} AfCFTA, has the potential to become a world leader in trade similar to the EU who currently controls 15% of global trade, ^{even the rapid acceleration of African economies}

within the past decade.

⊛ Evidence for this can be found in extract H where it says the increase in trade will "boost economic growth and bring more prosperity."

However, there is the potential for trade diversion to occur. This is where ^{trade} shift shift from a low cost producer to a high cost producer, and it is a consequence of joining trading blocs and free trade agreements. In the case of African economies, firms who trade with countries outside of Africa may suffer as a result of this. This is significant considering ~~83%~~ 83% of Kenya's current trade occurs outside of Africa. Furthermore, the issue of a depreciating shilling puts further pressure on these ~~globally~~ cross continental trading firms as a weak currency makes their imports more expensive too. Therefore, this can be seen as a drawback.

To finish joining a trading bloc can also help to decrease poverty and social inequality. As mentioned earlier new jobs can be created contributing to rising incomes. This means people have more wealth and assets, improving living standards and therefore decreasing poverty.

In conclusion, ~~join~~ joining AfCFTA will benefit African countries such as Kenya in many different ways, however there are also some drawbacks. This depends however on a country's reliance on trade outside of Africa. This is because ~~as~~ this will influence how much a country is impacted ~~by~~ ^{benefits} from or is impacted by trade creation and diversion. It also depends on how many jobs are created, as this will impact the extent at which the multiplier effect occurs. However overall, membership of AfCFTA will mainly benefit ~~of~~ African countries.



ResultsPlus
Examiner Comments

A thoughtful and well written answer with balance and well-developed chains of reasoning which makes good use of supporting evidence.

This is a level 2 response and gained 7 marks.

(d) Evaluate how membership of the AfCFTA might benefit African countries such as Kenya.

(20)

A trade bloc refers to a group of countries who agree to reduce trade barriers between them ~~at~~ or completely liberalise trade.

On one hand, it could lead to trade creation. Kenya may be able to find a producer of certain goods cheaper than if they produced it themselves. This can lead to lower prices for consumers as businesses can produce goods cheaper due to raw materials costing less. The removal of tariffs of 97% of goods can help Kenyan consumers as it leads to lower prices and more disposable income. This can be used to improve the living standards of Kenyans and help with economic development. Firms can set lower prices and trade more freely, earning more profit. Workers can be paid higher wage - increasing discretionary income - and the Kenyan government can have higher tax revenue from both firms and workers. Unemployment can drop as firms have access to new markets like Zambia. This positively adds to economic growth through higher consumption and aggregate demand. As a result, the AfCFTA allows Kenya to have access to new markets and lower prices.

leading to a multiplier effect.

⊗ On the other hand, trade diversion could occur. Member countries may have higher prices, which could lead to higher prices of goods in Kenya. This can negatively impact the economy as it causes more lowering consumer utility.

The removal of tariffs can lead to lower revenue for government as it makes them less competitive.

Overall, very good in long term for Kenya. helps with larger access to markets for firms. Short-term loss for profit due to slow growth in continent. Depends on economic state = downturn \Rightarrow leads to low growth. Very good for Kenya due to lower prices for trade.



ResultsPlus
Examiner Comments

A rather brief response that does have some understanding but lacks development and rather runs out of steam, perhaps due to time constraints.

Paper Summary

Based on their performance on this paper, candidates are offered the following advice:

- Do read the question carefully and answer the question that is set
- Do watch out for command words such as 'Assess' or 'Evaluate'
- Do use examples to illustrate your argument
- Do use the language of the subject, avoid generalities and exaggerated language such as 'huge' and 'massive'
- Do watch your timing and do not spend too long on one question
- Do write concisely and neatly
- Do add a relevant conclusion to the longer questions

Grade boundaries

Grade boundaries for this, and all other papers, can be found on the website on this link:

<https://qualifications.pearson.com/en/support/support-topics/results-certification/grade-boundaries.html>

