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Other names

Pearson Edexcel
Level 3 GCE

Centre Number

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Candidate Number

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Economics B

Advanced Subsidiary

Paper 1: Markets, consumers and firms

Monday 14 May 2018 – Morning

Time: 1 hour 30 minutes

Paper Reference

8EB0/01

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 in Sections A, B and C.
- Answer the questions in the spaces provided
– *there may be more space than you need.*

Information

- The total mark for this paper is 80.
- 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 extract (A) before answering Question 1.

Write your answers in the spaces provided.

Extract A

Student bodybuilders bulked up by selling proteins to gym fans

Elliot Dawes and Adam Rossiter were not typical university students. While most of their peers burnt the midnight oil studying or partying, their passion was to burn calories.

The friends were inspired to start a business after noticing that protein supplements for bodybuilders were significantly cheaper on American websites. The bank refused them a loan so they had to borrow £6 000 from their parents to set up their own website that sold imported products. "The products we were importing were in high demand, but not available in the UK and Europe," said Adam.

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After graduating, Elliot trained to be a solicitor at Guildford College of Law while his future business partner, Adam, completed his degree.

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In December 2005, they started their business *Sports Supplements Ltd (SSL)* selling the imported nutritional supplements under their brand name of Bulk Powders. Their immediate aim was to expand into America and more European countries. "The US is a huge market, but it also has a lot of risk. We have to do it methodically," said Elliot.

In 2015, SSL reported:

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- profit for the year of £470 000
- sales revenue of £15.9m
- cost of sales of £10.28m.

The company earned a place on The Sunday Times Fast Track 100, the league table of private companies with the fastest growing sales over three years. Independent research found that the UK sports supplement and nutrition market is predicted to grow at an annual growth rate of 9% between 2013 and 2018, reaching a value of £471m.

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Elliot and Adam own 98.8% of the shares in the company and their chairman, Robert Easton, owns the other 1.2%. They intend to keep the rest of the shares despite cash offers from other investors.

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Elliot's advice for entrepreneurs is to overcome perfectionism: "You have to accept that your standards will never be replicated exactly by your employees, so recruit good people and lead by example." Adam added: "Don't be afraid to make mistakes; it helps you to build a better business."

(Source: © The Times / News Syndication)

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

(2)

- (b) Calculate, to 2 decimal places, the gross profit margin for *SSL* in 2015. You are advised to show your working.

(4)

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(c) Explain the opportunity cost for Elliot and Adam of setting up *SSL*.

(4)

(d) Discuss the benefits of limited liability to Elliot and Adam when operating *SSL*.

(8)

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- (e) Elliot and Adam were refused a bank loan when they started their business in 2005.

With reference to Extract A, assess if the bank made the right decision.

(12)

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(Total for Question 1 = 30 marks)

TOTAL FOR SECTION A = 30 MARKS

SECTION B

Read the following extracts (B, C and D) before answering Question 2.

Write your answers in the spaces provided.

Extract B**People in the UK who let out their homes on *Airbnb* get a £1 000 tax break**

The Chancellor has announced a tax break for micro-entrepreneurs who use online platforms such as *Airbnb* (a digital marketplace enabling people to list or rent their accommodation for short periods of time). From April 2017, homeowners in the UK who let out their properties on *Airbnb* won't need to declare or pay tax on the first £1 000 they earn per year, creating incentives for new micro-entrepreneurs. 5

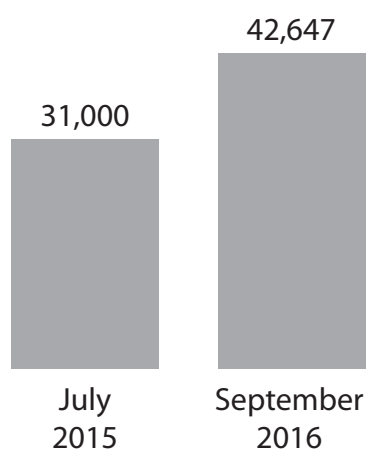
Airbnb offers over 1.5m listings in 190 countries and is set to expand significantly over the coming years. Listings range from just a space on the sofa to a spare room or the entire house, but hosts don't just promote a simple 'place to stay' on the site. Numerous types of unique accommodation are on offer to meet a wide variety of different consumer tastes. Reservations that can be made include boats, windmills, castles, lighthouses and even tree houses. Specialised tastes are met by hosts who share a common interest with their guests, offering use of bicycles, astronomy equipment or a specific range of cooking ingredients, to name only a few. Hosts can be selective in accepting guests so as to meet individuals with shared common interests. 10 15

(Source: © Wrights Media)

Extract C

The *Airbnb* boom in numbers

Number of *Airbnb* listings in London



City listings

London now has more *Airbnb* listings than New York.



(Source: adapted from Inside Airbnb/The Sunday Times/Airbnb/PricewaterhouseCoopers)

Extract D

Brighton boom

In 2015, Brighton-based Amanda Sagar was looking for short-term, flexible work but had no idea it would rapidly escalate into running her own business employing eight people.

Amanda answered an advert on the *Gumtree* website for someone to manage and clean a property nearby that was listed on *Airbnb*. As she accepted the job, she had a light-bulb moment: others must need this service. She placed her own advert offering *Airbnb* management and was flooded with inquiries.

"Quite by accident, I filled a gap in the market I didn't know existed. Within a week, I had to employ someone else. This summer, we tripled our turnover and now I employ eight people," she says.

The success of Amanda's business, *Airhead*, is a sign of the *Airbnb* boom in Brighton. While London has been the UK's *Airbnb* capital, the seaside town of Brighton is England's second most popular destination for short-term lets. London restricts *Airbnb* to a maximum 90-day short-term rental period. So far Brighton has less regulation than London and Amanda has found an under-served market.

(Source: adapted from <https://www.ft.com/content/f500e932-baff-11e6-8b45-b8b81dd5d080>)

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

(2)

(b) Tax breaks have been introduced to micro-entrepreneurs who offer accommodation.

Using a supply and demand diagram, illustrate the likely impact of this on the market for accommodation offered by micro-entrepreneurs.

(4)

- (c) Calculate, to 2 decimal places, the percentage change in the number of *Airbnb* listings in London between July 2015 and September 2016 (Extract C). You are advised to show your working.

(4)

(d) Extract B gives examples of standard and unusual *Airbnb* accommodation.

Discuss the extent to which the type of accommodation might determine the price set by *Airbnb* hosts.

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(e) With reference to Extract D, assess *Airhead's* potential for growth.

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(Total for Question 2 = 30 marks)

TOTAL FOR SECTION B = 30 MARKS

SECTION C

Read the following extract (E) before answering Question 3.

Write your answer in the space provided.

Extract E

Green and clean

Following market research, Paul Wilson started *Will's Wheelie Wash* in Macclesfield in 2009. He is currently expanding the business of cleaning all types of wheelie bins in Cheshire. It costs £4.00 for one wash every month or customers can pay in advance and get 12 washes for the price of 11. One-off cleans are £10.00.

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Will's Wheelie Wash only uses bio-degradable detergents, deodorisers and disinfectants and coordinates their cleaning to coincide with the bin collection day. Customers simply leave their bins out as normal. *Will's Wheelie Wash* will follow the waste collection vehicle on its round, cleaning, deodorising and disinfecting the bins.

Unlike some other wheelie bin washers, *Will's Wheelie Wash* takes care not to waste water, using state-of-the-art equipment to minimise the impact on the environment. A specially built machine has been designed to cope with two domestic bins or one commercial bin at a time. All bin washing is done at the rear of the van and all the water used is recycled via an onboard filtration system, to minimise the use of water. *Will's Wheelie Wash* is an environmentally aware company.

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(Source: © 2009-16 Will's Wheelie Wash)

- 3** Evaluate the importance of market research to the success of a business such as *Will's Wheelie Wash*.

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(Total for Question 3 = 20 marks)

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

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