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| <h1 style="margin: 0;">Economics B</h1> <h2 style="margin: 0;">Advanced Subsidiary</h2> <h3 style="margin: 0;">Paper 2: The wider economic environment</h3> | | | |
| Thursday 17 May 2018 – Morning Time: 1 hour 30 minutes | | Paper Reference 8EB0/02 | |
| You do not need any other materials. | | | Total Marks <div style="border: 1px solid black; height: 40px; width: 100%;"></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 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 extracts (A and B) before answering Question 1.

Write your answers in the spaces provided.

Extract A

Crisp maker hit by price rises

Manufacturer Nimisha Raja has been following the foreign exchange markets more closely than usual since the Brexit referendum. She makes dried fruit and vegetable crisps called *Nim's Fruit Crisps* at a factory in Kent. Buying ingredients from abroad has become a lot more expensive since the Brexit vote sent the pound sterling falling against the euro, the dollar and other currencies.

5

Like other manufacturers who buy materials from abroad, Nimisha has had to decide whether to lower profit margins, charge more to retailers or change her products. "On the whole, because we have lean production we can change things as and when we need to," says Nimisha. "We have had to be pragmatic and flexible."

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Nimisha opened her factory a year ago and has been in talks with high street retailers and supermarkets about selling her crisps. She has had to deal with changes in the price she pays for pineapples (from 55p per kilo to 70p per kilo) while watermelons went from 60p to 90p.

Nimisha has just signed a deal with one retailer. Instead of passing on the increased cost of production of pineapple products, she will accept a lower profit margin. The higher costs of imported fruit has made Nimisha look at using more UK-grown local fruit than before. The company has also invested in a new pineapple peeling machine to cut its production costs and help offset higher import prices.

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As for many other manufacturers, the pound's weakness has a silver lining. Export demand has gone up. "It's been quite amazing," she says. "We have had emails in the last couple of weeks from Lithuania, Italy, France, Belgium and Hong Kong. I also intend to introduce and export new products, but I just have to make sure it's not from imports but from local produce."

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(Source: adapted from <https://www.theguardian.com/business/2016/dec/13/we-have-to-be-nimble-and-pragmatic-crisp-maker-hit-by-price-rises>)

Extract B

Value of £1 sterling, expressed in Dollars and Euros, monthly averages for 2016

| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| US \$ | 1.44 | 1.43 | 1.42 | 1.43 | 1.45 | 1.42 | 1.31 | 1.31 | 1.31 | 1.24 | 1.25 | 1.25 |
| Euro € | 1.33 | 1.29 | 1.28 | 1.26 | 1.28 | 1.27 | 1.19 | 1.17 | 1.17 | 1.12 | 1.15 | 1.19 |

(Source: adapted from <http://www.ukforex.co.uk/forex-tools/historical-rate-tools/monthly-average-rates>)

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

(2)

In December 2016, *Nim's Fruit Crisps* produced 84,250 packets of fruit crisps.
The production line can produce 125,500 packets per month.

- (b) Calculate, to 2 decimal places, the capacity utilisation in December 2016. You are advised to show your working.

(4)

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(c) Explain **one** way *Nim's Fruit Crisps* could improve its capacity utilisation.

(4)

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(d) Discuss whether using lean production will help *Nim's Fruit Crisps* achieve a competitive advantage.

(8)

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- (e) Using the data in Extract B, assess the extent to which the depreciation of the pound sterling (£) will have an impact on UK manufacturers such as *Nim's Fruit Crisps*.

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(Total for Question 1 = 30 marks)

TOTAL FOR SECTION A = 30 MARKS

SECTION B

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

Write your answers in the spaces provided.

Extract C

Selected UK data for May–Nov 2016

| | May | Jun | Jul | Aug | Sept | Oct | Nov |
|--|-----|-----|-----|------|------|------|------|
| Annual % change in average nominal earnings | 2.3 | 2.5 | 2.4 | 2.4 | 2.4 | 2.6 | 2.8 |
| Consumer Price Index (% change) | 0.3 | 0.5 | 0.6 | 0.6 | 1.0 | 0.9 | 1.2 |
| Interest (base) rate (%) | 0.5 | 0.5 | 0.5 | 0.25 | 0.25 | 0.25 | 0.25 |

(Source: adapted from <https://www.ons.gov.uk>)

Extract D

Train fares to increase by 2.3% in 2017

From January 2017, train fares across the UK are set to increase by an average of 2.3%. The increase covers both regulated fares, such as peak-rate season tickets which account for 40% of all train journeys, and unregulated fares, such as off-peak leisure tickets which account for 60%. While the rise in regulated fares has been capped at 1.9%, other unregulated fares have no cap and will rise by considerably more than 2.3%. 5

Lianna Etkind, from the Campaign for Better Transport, condemned the increase, warning that some passengers are “finding themselves priced off the railways. Between 1995 and 2016, passengers have seen average fares increase by 23.5% and much more needs to be done by train operators and the government to give them a truly affordable railway.” 10

Paul Plummer, from the Rail Delivery Group, the industry body responsible for the increase, acknowledged that passengers were likely to be disappointed with the decision. He said: “We understand how passengers feel when fares go up, and we know that in some places they haven’t always got the service they pay for. Rail companies are working together to deliver more than £50bn of improvements, including £11.6bn being spent on more than 5,500 new train carriages by the end of 2020.” 15

Transport Secretary Chris Grayling added: “We are delivering the biggest rail modernisation programme for more than a century, providing more seats and services. We have always fairly balanced the cost of this investment between the taxpayer and the rail passenger.” 20

Mick Cash, from the RMT union, called the announcement, “another kick in the teeth for British passengers. Travellers in the UK pay some of the highest fares in Europe to travel on packed out and unreliable trains with rip-off private train companies laughing all the way to the bank.”

(Source: adapted from <https://www.moneyexpert.com/transport/train-fares-increase-2-3-next-year/>)

2 (a) What is meant by the term 'Consumer Price Index'?

(2)

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(b) Using Extract C, calculate the change in average real earnings for November 2016.
You are advised to show your working.

(4)

(c) Using Extract C, explain **one** impact of rising inflation on individuals with savings.

(4)

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- (d) Discuss how price elasticity of demand might affect train operators' revenues following an increase in the price of rail tickets.

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(e) Assess the economic benefits of increased investment in the UK rail network.

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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

Spain wakes up to risk posed by long-term joblessness

Spain's economic recovery remains on track and the unemployment rate continues its long retreat from a peak of 27% in 2013 and decreased to 18.9% in October 2016. However, the long-term unemployed, the category which includes all job seekers who have been out of work for more than a year, has struggled to benefit from the recovery. In Spain, one in four unemployed people have been jobless for more than four years.

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"Long-term unemployment is starting to emerge as a policy priority in Europe. It imposes not just huge economic and emotional stress on those affected but is also likely to have a big impact on the recovery," said Marcel Jansen, an economics professor at Madrid's Autónoma University. The problem, he adds, is that "high long-term unemployment will transform into high structural unemployment."

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In other words, even if the Spanish economy continues to improve in the years ahead, Spain will struggle to reduce jobless numbers beyond a certain point, unless it finds ways to make the long-term unemployed employable again.

Official data shows Spanish workers who have been out of a job for more than two years are much less likely to find new employment than others. Over the past three years their number has declined just 16% while the overall number of jobless people fell 27% over the same period. After years of neglect, the government is finally paying attention. Last week, it announced a €515m action plan that aims to provide individualised support for the long-term unemployed aged 30-54.

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"There are people who are long-term unemployed and they are only in their 20s. They will be around, looking for work for another 40 years, so it would pay hugely if we managed to reconnect them with the labour market," said Mr Jansen. "Spain cannot afford to turn its back on them."

(Source: adapted from <https://www.ft.com/content/e582f902-bbac-11e6-8b45-b8b81dd5d080>)

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- 3** Using Extract E, evaluate the likely impact of unemployment on the Spanish economy.

(20)

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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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