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Pearson Edexcel
Level 3 GCE

Economics A
Advanced
Paper 3: Microeconomics and
Macroeconomics

Friday 15 June 2018 – Morning

Data Book

**In the boxes below, write your name,
centre number and candidate number.**

Surname					
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INSTRUCTIONS

There may be spare copies of some data sheets in case you need them.

**THIS DATA BOOK MUST BE
RETURNED WITH THE QUESTION
PAPER AT THE END OF THE
EXAMINATION.**

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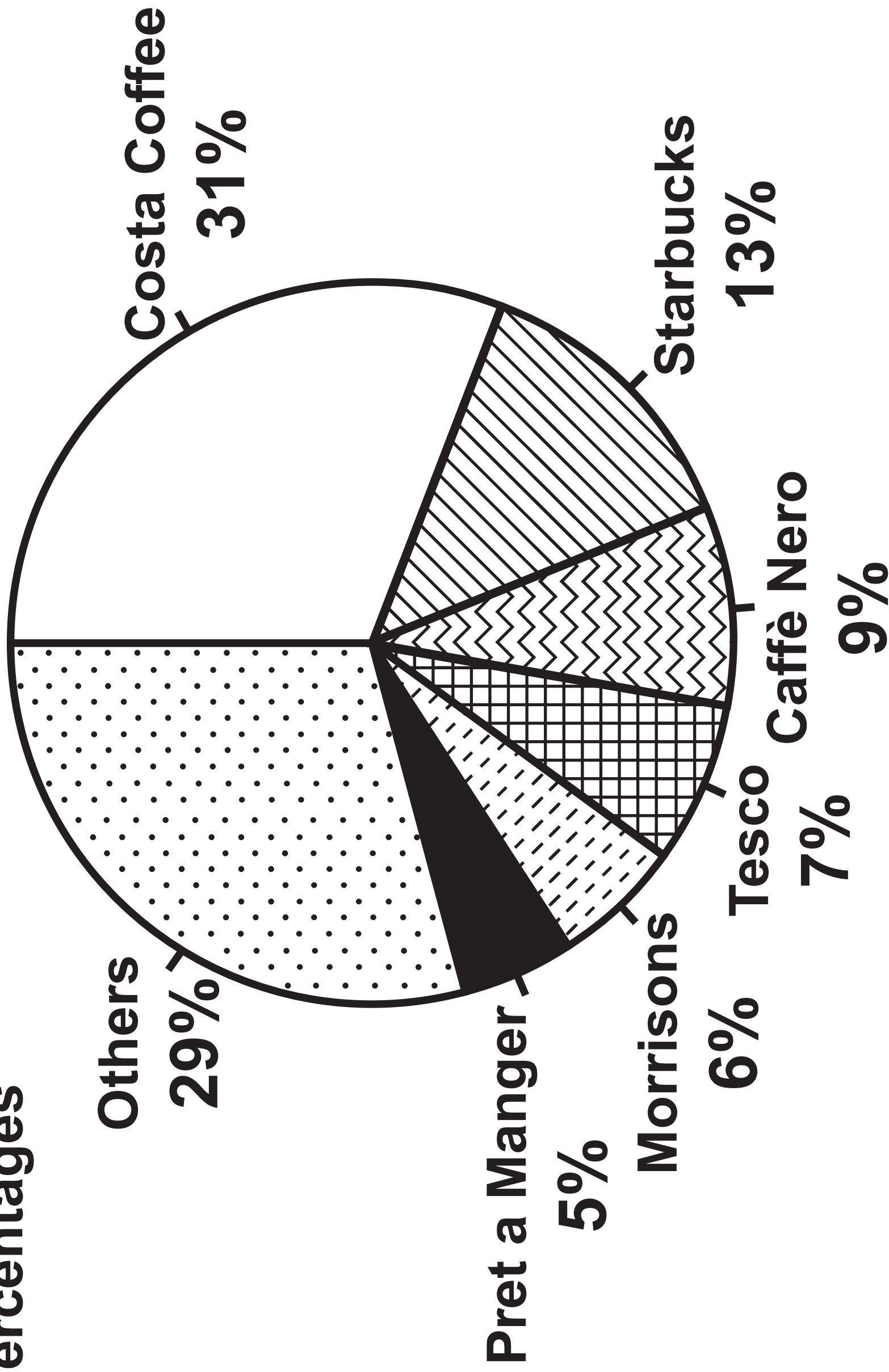
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Question 1

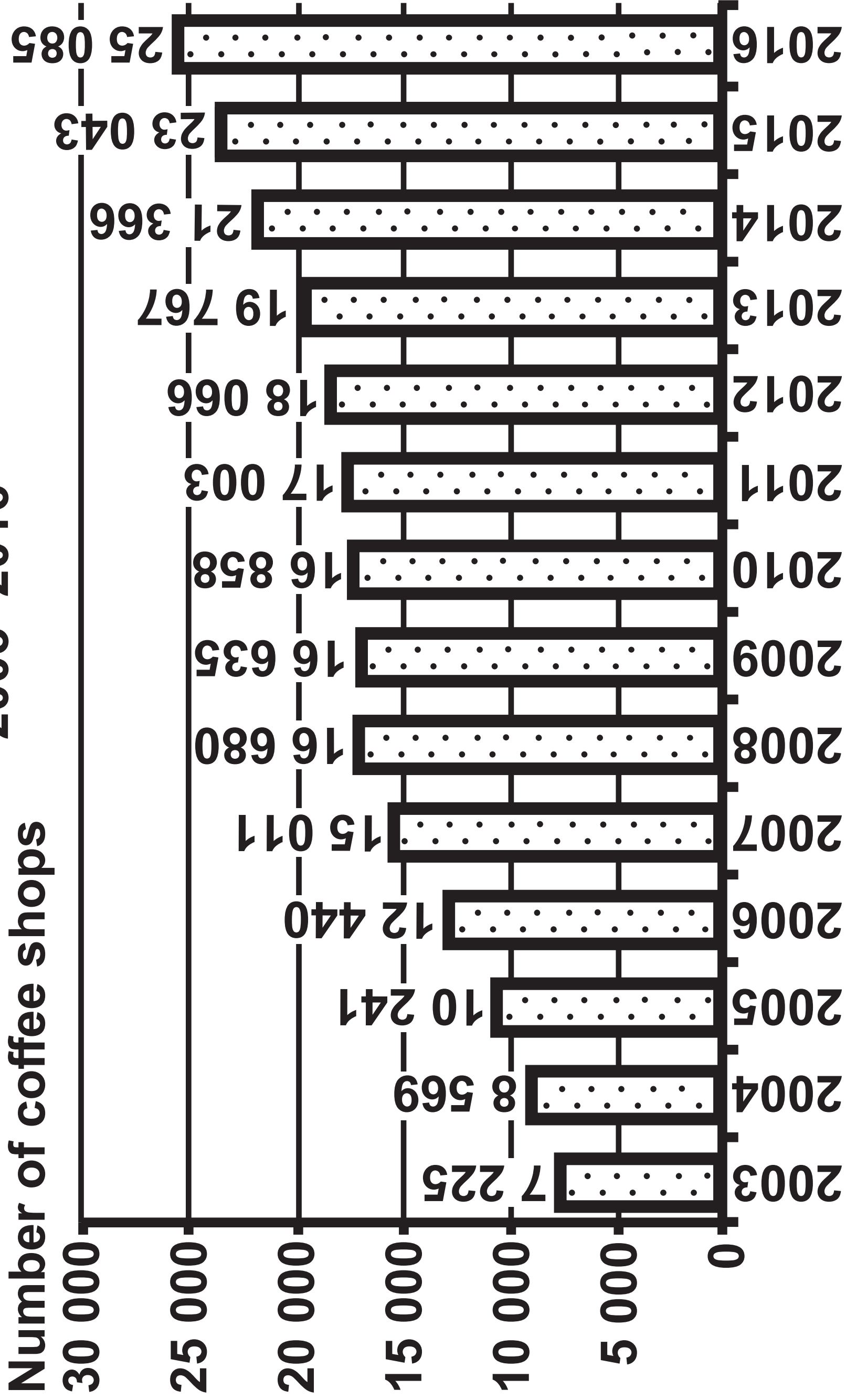
Figure 1: Market share of UK branded coffee shops, 2015, percentages



(Source: <http://metro.co.uk/2015/12/14/the-uks-most-popular-coffee-shop-has-been-revealed-5564569/>)

Question 1

Figure 2: Number of Starbucks coffee shops worldwide, 2003–2016



(Source: <https://www.statista.com/statistics/266465/number-of-starbucks-stores-worldwide/>)

Question 1

Figure 3: Price comparison in selected London coffee retailers, February 2017

Coffee style	Starbucks	Costa Coffee	Caffè Nero	Greggs	McDonald's
Espresso Double	£2.00	£2.00	£1.70	£1.65	£0.99
Latte Medium	£2.60	£2.50	£2.50	£1.80	£1.79
Latte Large	£2.80	£2.70	£2.80	£2.10	£2.09

(Source: data collected from coffee shops in Holborn, London on 25 February 2017)

Question 1

Extract A**Starbucks in Britain –
a loss-making business?**

Coffee shops are among the most profitable parts of the food and drink industry, and few are doing quite as well as Starbucks, a US-based transnational company. Starbucks may be complaining of adverse global market conditions but that did not stop the world's biggest coffee chain from reporting record annual profits in 2016. It made a profit of almost US\$4.2 billion for the year, up 16% on 2015. That was mainly the result of a strong performance in its biggest market, America, where

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Extract A continued.

revenue rose 11%. The fastest growth was in the China and Asia Pacific region, with revenue up 23%

- 20 Howard Schultz, the CEO of Starbucks, said its Chinese coffee shops were the most efficient and profitable. While Starbucks still makes most of its profit in the US, Mr Schultz has said**
- 25 expansion in China will secure its future for “decades to come” and announced plans to more than double the number of shops in China to 5 000 by 2021**

- 30 However its British subsidiary, at first glance, appears to be doing less well. It has announced its first ever profit in Britain in 2015 – of just £1 million –**

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Extract A continued.

despite opening its first coffee shop in
35 the UK in 1998. It now has 849 UK
outlets. The main reason why
Starbucks has reported persistent
losses in the UK is not due to a lack of
demand for its coffee, but to minimise
40 its tax bill. It is claimed that some of
Starbucks' revenue earned in the UK is
transferred to its Dutch subsidiary,
which is charged lower rates of tax.

Starbucks is not finding life as easy in
45 Britain as in the USA. It faces
competition from home-grown chains
such as Costa and Caffè Nero.

Accusations of tax avoidance have
also damaged Starbucks' sales to the
50 benefit of its competitors. A survey
found that a third less people rated
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Extract A continued.

**Starbucks as their preferred coffee shop than they did before the tax–avoidance allegations were first
55 published.**

**These issues have forced Starbucks to change its strategy. It has slowed down its expansion plans in the UK and has closed 67 underperforming
60 coffee shops over the past year. It has also tried to repair its reputation by transferring its European headquarters from Amsterdam to London.**

(Sources: adapted from The Economist 14 February 2015 <http://www.economist.com/news/business-and-finance/21643271-tax> and Starbucks company report 2016 and http://s21.q4cdn.com/369030626/files/doc_financials/2015/Starbucks-Fiscal-2015_Financial-Highlights.pdf)

Extract B

Tax on disposable coffee cups?

Two and a half billion disposable cups are thrown away every year in the UK, that is, seven million every day. Only

5 one in 400 is recycled. The UK Environment Minister has suggested that a coffee cup tax could work in a similar manner to the plastic bag charge. The 5 pence a bag charge has

10 led to an 85% reduction in the number of bags being given out since October 2015. It is estimated that introducing a tax on disposable coffee cups would cut usage by two billion every year.

15 One environment spokesperson, Kate Parminter, said: “We’ve seen how

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Extract B continued.

dramatically a small charge has affected public behaviour when it comes to the plastic bags and it is
20 clearly time to extend it to coffee cups. Most people purchase a tea or coffee and throw away the cup without even thinking about it, but a charge would increase our awareness of the
25 environmental impact.”

In response, another MP welcomed her comments but said he did not believe a tax was the solution. He said: “My initial reaction is charging
30 5 pence or 10 pence for the cup will not work. It will not encourage people to take their own cups in if a coffee goes up from £2·60 to £2·65. I

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Extract B continued.

- 35 suspect a more technological answer
is what we need – either the
composition of the disposable cups
being changed so they're more easily
recyclable, or changing the technology
in the recycling.”**
- 40 Disposable coffee cups contain a
plastic coating inside the cups which
prevent them from becoming soggy,
making them difficult to recycle. There
are just two specialist facilities in the
45 UK that have the required equipment to
separate plastic from paper for
recycling. Almost no recycled paper is
used in the production of disposable
cups, meaning that some 43 000 trees
50 must be cut down annually to keep up
(continued on the next page)**

Extract B continued.

with the demand. CO₂ emissions of around 83 000 tonnes are generated every year for their production.

(Sources: adapted from <http://www.independent.co.uk/news/uk/politics/disposable-coffee-cups-could-be-taxed-like-plastic-bags-environment-minister-says-a6938126.html> 05/09/16 and <https://www.cchdaily.co.uk/lib-dems-call-5p-plastic-bag-tax-coffee-cups>)

Extract C

German city of Freiburg takes action on cutting the use of disposable coffee cups

The ‘Freiburg cup’, made from
5 dishwasher–proof plastic, can be reused hundreds of times. Cups are issued with a one–euro deposit, and can be returned to any of the participating coffee shops in the
10 German city. The cups, which are provided to coffee shops by local councils, are washed in the cafés and bakeries that have signed up to the scheme before being reused.
15 56 coffee retailers have signed up, and
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Extract C continued.

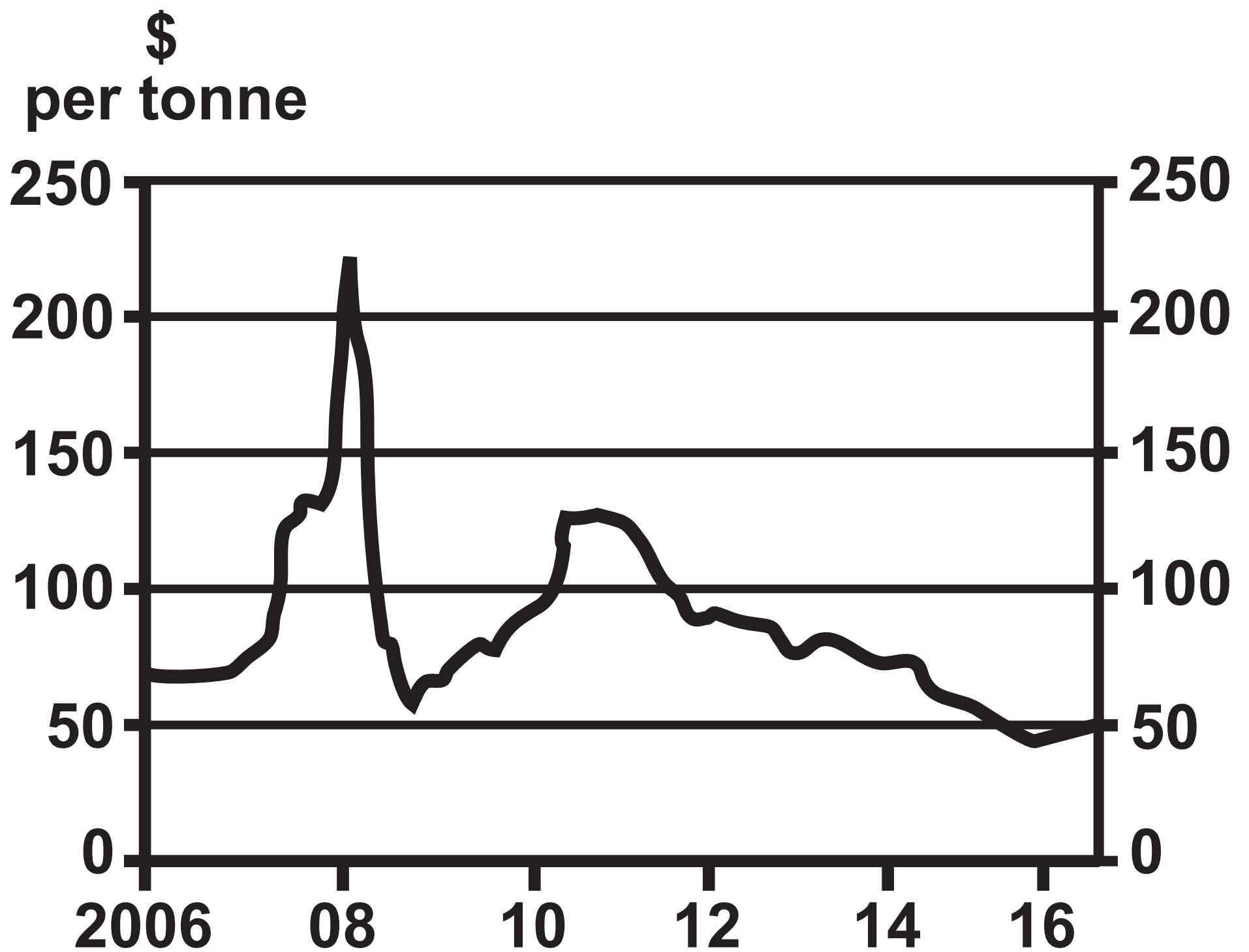
10 000 cups are being used.

One of the main obstacles facing a wider-reaching scheme, however, is the number of café chains in Germany that are unwilling to use unbranded multi-use cups, particularly Starbucks and McDonald's. Starbucks already offers a discounted coffee for customers with a multi-use cup, but only if it is bearing the unmistakable Starbucks logo.

(Source: adapted from <http://www.dw.com/en/germanys-love-for-coffee-to-go-leaves-environmental-groups-demanding-action/a-36689719>)

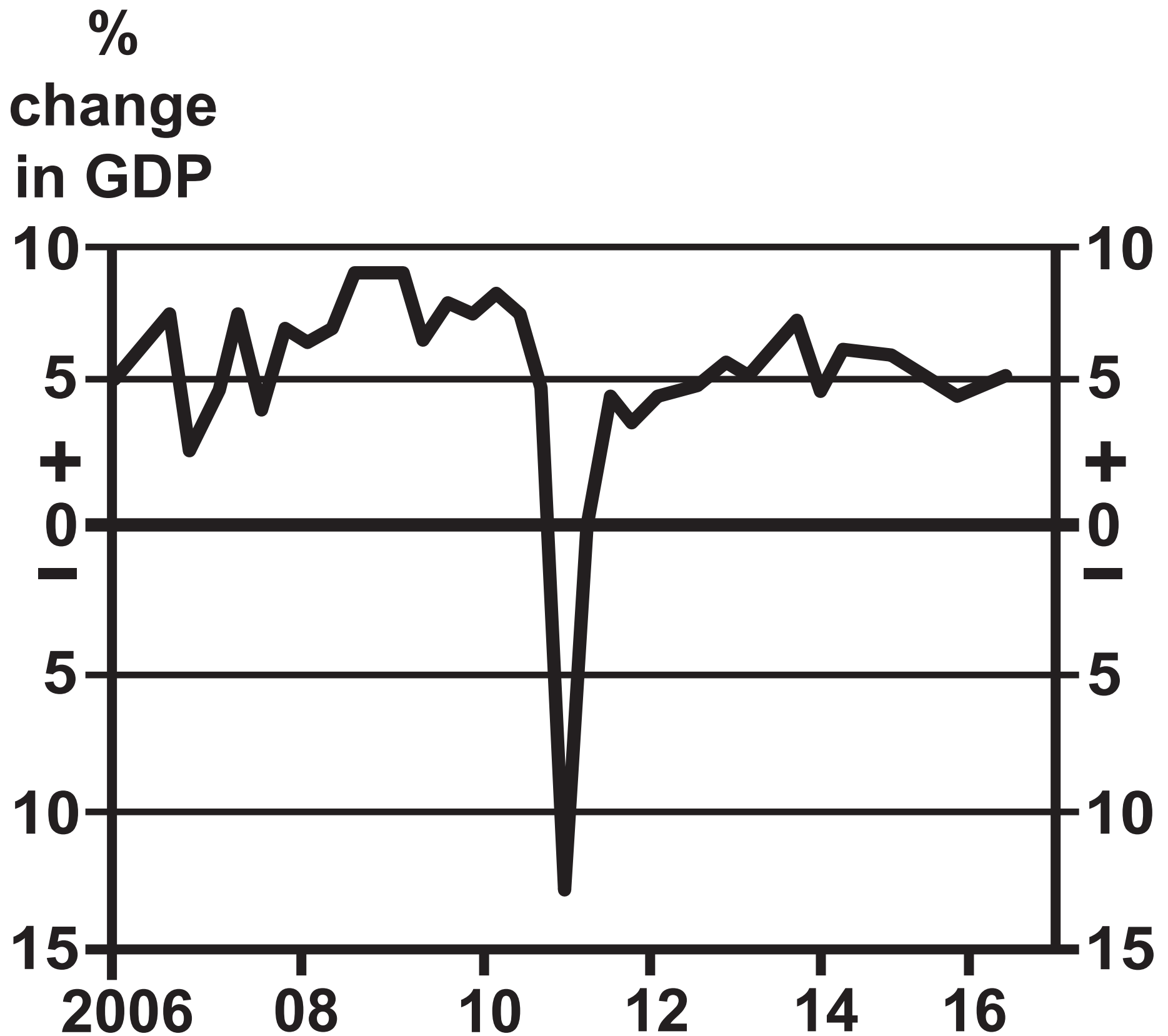
Question 2

Figure 4: World coal prices, 2006–2016, US dollars per tonne



(Source: <http://www.economist.com/news/world-week/21697025-business-week>)

Figure 5: Indonesia's real GDP, annual percentage change



(Source: <http://www.economist.com/news/world-week/21697025-business-week>)

Extract D**Indonesia's economic outlook**

The Indonesian economy is expected to grow by an average of 4.8% a year between 2017 and 2021

- 5 Joko Widodo, president of Indonesia since 2014, is increasingly confident in his role and now has enough political support to pass some of his desired supply-side reforms. His**
- 10 government has been aggressively trying to improve the business and investment environment by easing regulations and offering tax incentives, for example to firms**
- 15 investing in special economic zones.**

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Extract D continued.

Indonesia receives US\$2·3 billion a year in overseas development aid, which is mainly spent on education and healthcare. There is also ongoing aid from international institutions and non-government organisations paying for restructuring after the 2004 Indian Ocean earthquake and tsunami, which led to the loss of over 170 000 lives and much damage to economic livelihood. Aid agencies have supported the Indonesian government in providing healthcare free at the point of access for 88 million of the poorest people, free schooling for 12 years for each child, and tertiary education for students accepted into university. There is a

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Extract D continued.

35 scheme to provide each of Indonesia's
15·5 million poorest households
with a cash transfer of
200 000 rupiah (US\$14·37) a
month. The World Bank has approved
US\$800 million in infrastructure loans
40 to Indonesia, with another
US\$950 million as conditional loans.
The Asian Development Bank has
committed itself to lending
US\$2 billion. In December Japan's
45 development agency lent Indonesia
US\$535 million to construct two
power stations.

(Sources: adapted from <http://country.eiu.com/Indonesia> and <http://www.economist.com/news/special-report/21693404-after-decades-underinvestment-infrastructure-spending-picking-up-last>)

Question 2

Extract E**Indonesia's economic policies as commodity prices collapse**

Indonesia is the world's fourth largest exporter of coal and the raw material accounts for 11% of its exports. Its other main exports are crude oil, palm oil, rubber and tin. Its main commodity exports tripled in value between 2000 and 2010, and as exports boomed, so did the economy. But the value of commodity exports has fallen by more than half from its peak. Coal now sells for just US\$50 per tonne, against US\$125 in 2011

15 In the decade to 2014, Indonesia's
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Extract E continued.

real GDP grew by an annual average of 6%, but the collapse in commodity prices has slowed the economy. In 2015 growth was 4·8%, the slowest rate since 2009. But compared with many other commodity exporters, Indonesia is getting off lightly.

The value of the rupiah, Indonesia's currency, against the US dollar has fallen by 30% since 2013, but has since stabilised. Other emerging market currencies have depreciated even more steeply over that period. Despite the weak exchange rate, Indonesia's inflation rate has mostly remained within the central bank's target range of 3–5%. The main impact of the rupiah's fall has been

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Extract E continued.

to curb imports, helping limit
35 Indonesia's current account deficit
to around **2%** of GDP despite weaker
export earnings. A cautious fiscal
policy during the boom years has
allowed for a modest fiscal expansion
40 to offset the effects of weak exports
and investment. The national debt is
just **26%** of GDP.

Mr Widodo knows that Indonesia
cannot raise its long-term growth
45 rate if the economy remains reliant
on coal. It needs a broader range of
manufacturing and service industries.
If new enterprise is to flourish,
Indonesia must support local
50 entrepreneurship. The labour market is
inflexible. To start a business takes
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Extract E continued.

an average of **47** days, compared with four in Malaysia and two in Singapore. The President's

55 supply-side policies are improving the business climate. The average number of days needed to approve a new power plant has declined from **900** to **200**. The government

60 recently revised its “negative investment list” of sectors in which foreign ownership is banned or restricted, fully opening up the rubber, film and restaurant sectors,

65 among others. In **2015** he launched a series of measures to try to reduce government failure, including easing some regulations, streamlining licensing procedures for firms on

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Extract E continued.

**70 industrial estates and providing
tax incentives to invest in special
economic zones.**

**75 The government has used savings
from cutting fuel subsidies, worth
over 4% of GDP, to fund extra capital
spending. But the budget deficit still
widened to 2·8% of GDP, very close
to the legal limit of 3%. If public
expenditure is to increase further,
80 the government will need to raise
more revenue. That will not be easy.
Most workers and employers pay
little or no tax. Only 27 million of
Indonesia's 255 million people are
85 registered taxpayers, and in 2014
just 900 000 of them paid what they
owed, leaving it with a tax revenue to
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Extract E continued.

GDP ratio of around 10%. Big companies say that they are being squeezed harder by the tax authorities because they are an easier target.

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Infrastructure spending will help bring foreign investment and good jobs to Indonesia as well as encouraging exports. Indonesia's infrastructure problem can be summed up as too few roads and congested ports.

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In the short term, infrastructure spending puts people to work and boosts demand for raw materials. In the longer term this spending offers the chance to make up for decades of neglect and underinvestment.

100

**Indonesia has plans for 65 dams,
(continued on the next page)**

Extract E continued.

**105 16 of which are already under
construction. In 2015 work started
on the Keureuto Dam, designed to
boost agricultural productivity in
Aceh. Recently fields were flooded
110 for the massive Jatigede Dam in West
Java, after 20 years of delays. Once
complete, the dam will irrigate
90 000 hectares of rice paddy,
increasing efficiency by giving
115 farmers two harvests a year instead of
one.**

(Sources: adapted from <http://www.economist.com/news/special-report/21693405-secure-growth-it-needs-indonesia-must-resist-its-protectionist-urges-roll-out> and <http://www.economist.com/news/special-report/21693404-after-decades-underinvestment-infrastructure-spending-picking-up-last>)