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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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Q52317A

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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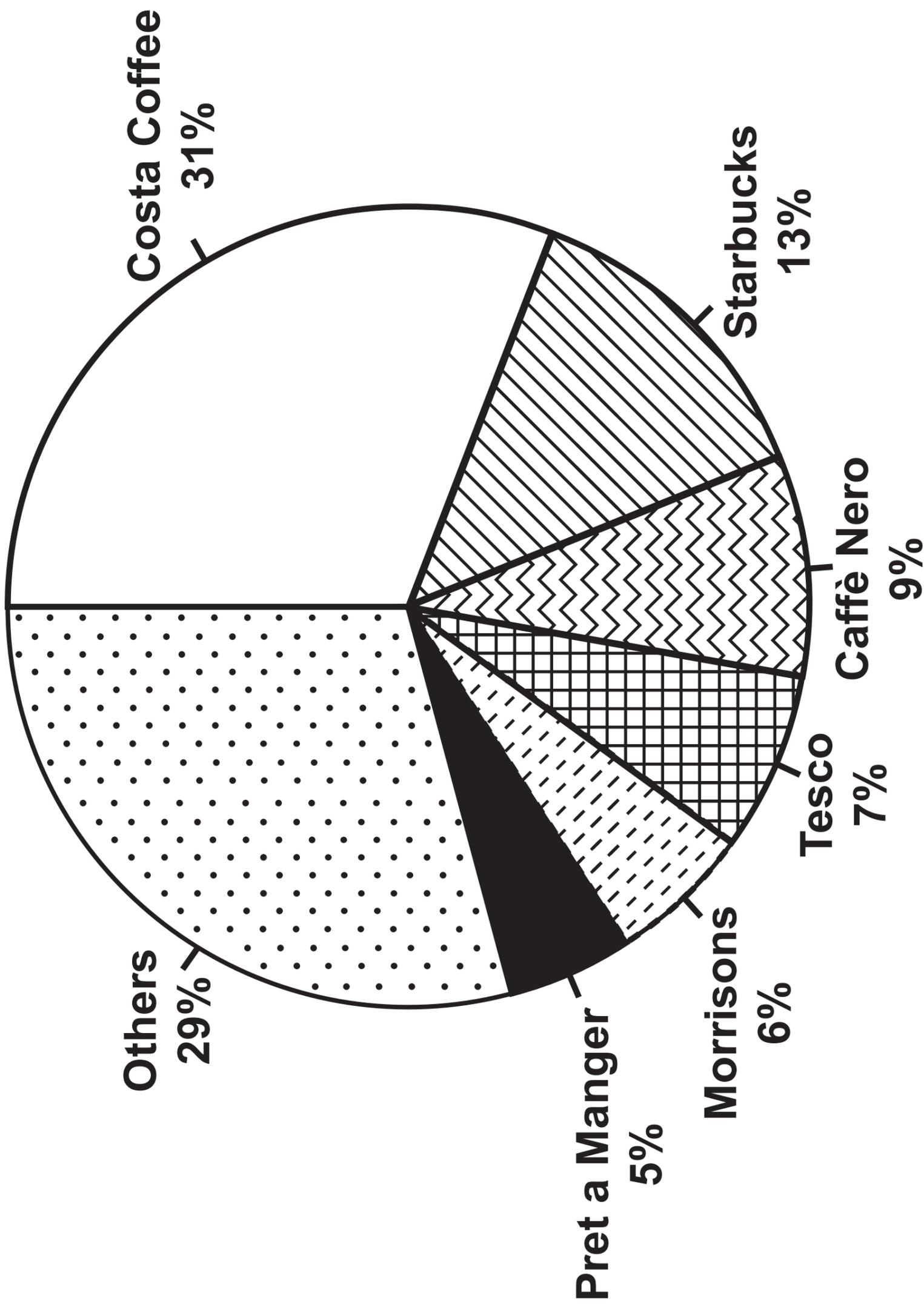
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Question 1

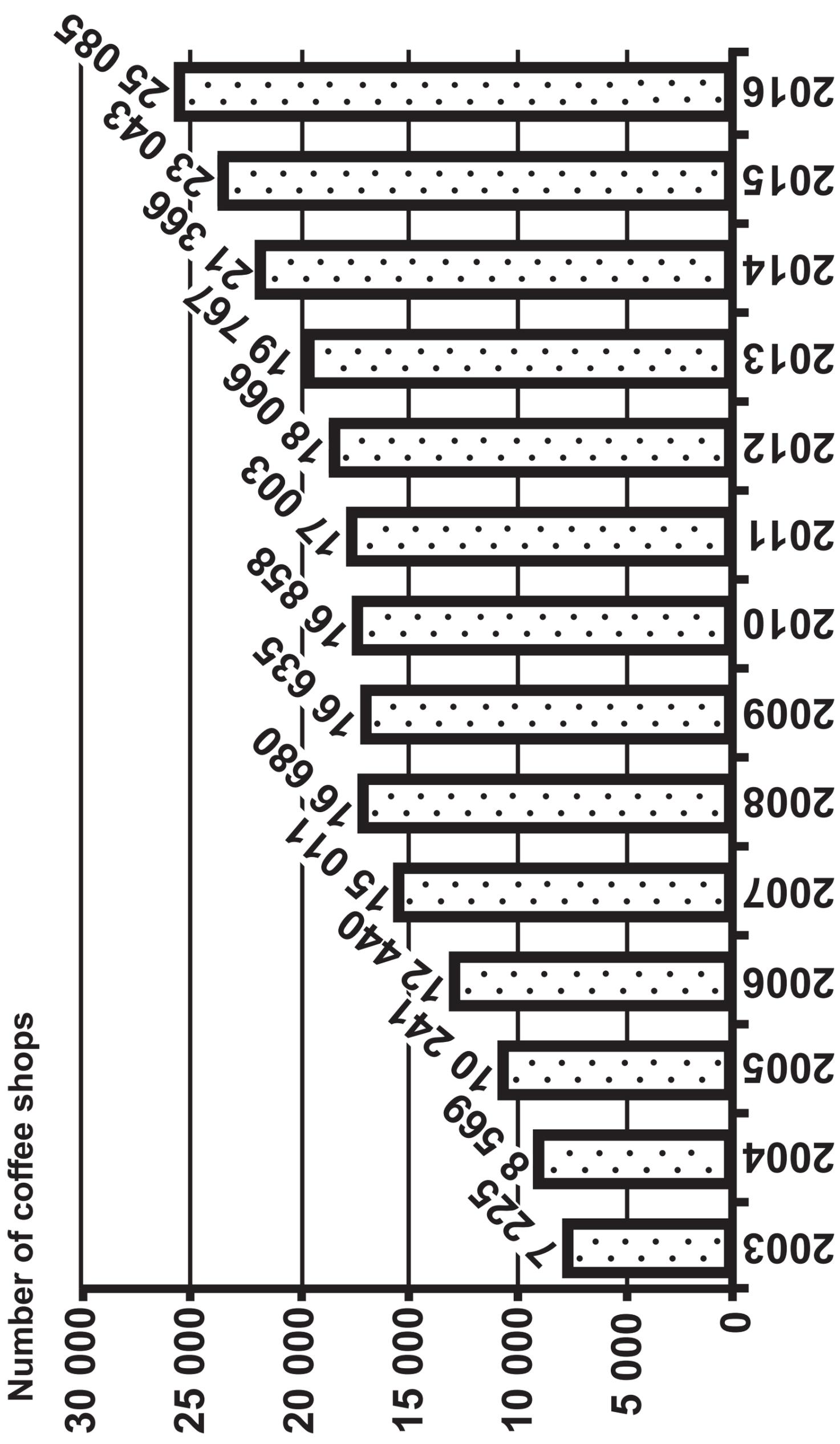
Figure 1: Market share of UK branded coffee shops, 2015, percentages



(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
5 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
10 biggest market, America, where revenue rose 11%. The fastest growth was in the China and Asia Pacific region, with revenue up 23%. Howard Schultz, the CEO of Starbucks, said its Chinese coffee shops were the most efficient and profitable. While Starbucks still makes most
15 of its profit in the US, Mr Schultz has said 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

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Extract A continued.

However its British subsidiary, at first glance, appears to
20 be doing less well. It has announced its first ever profit in
Britain in **2015** – of just **£1** million – despite opening its
first coffee shop in 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
25 for its coffee, but to minimise 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 Britain as in the
USA. It faces competition from home-grown chains such
30 as Costa and Caffè Nero. Accusations of tax avoidance
have also damaged Starbucks' sales to the benefit of its
competitors. A survey found that a third less people rated
Starbucks as their preferred coffee shop than they did
before the tax-avoidance allegations were first published.

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Extract A continued.

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

40 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)

Question 1

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 one in **400** is recycled. The UK Environment Minister has

5 suggested that a coffee cup tax could work in a similar manner to the plastic bag charge. The **5** pence a bag charge has 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

10 usage by two billion every year. One environment spokesperson, Kate Parminter, said: “We’ve seen how dramatically a small charge has affected public behaviour when it comes to the plastic bags and it is clearly time to extend it to coffee cups. Most people purchase a tea or

15 coffee and throw away the cup without even thinking about it, but a charge would increase our awareness of the environmental impact.”

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Extract B continued.

In response, another MP welcomed her comments but said he did not believe a tax was the solution. He said: “My
20 initial reaction is charging 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 suspect a more technological answer is what we need – either the composition of the disposable cups being
25 changed so they’re more easily recyclable, or changing the technology in the recycling.”

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
30 facilities in the 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 must be cut down annually to keep up with the demand. CO₂ emissions of
35 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>)

Question 1

Extract C

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

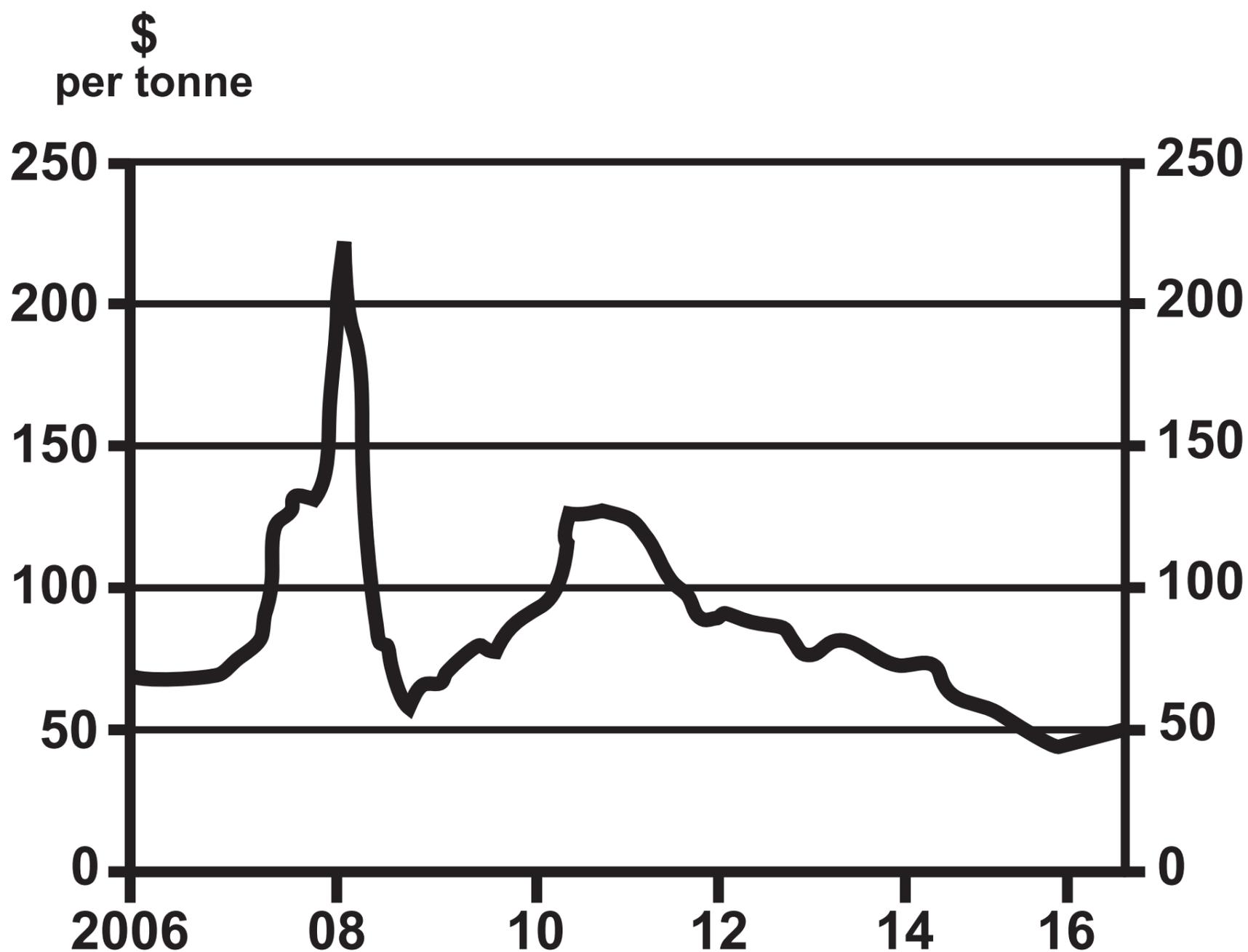
The 'Freiburg cup', made from dishwasher-proof plastic, can be reused hundreds of times. Cups are issued
5 with a one-euro deposit, and can be returned to any of the participating coffee shops in the German city. The cups, which are provided to coffee shops by local councils, are washed in the cafés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

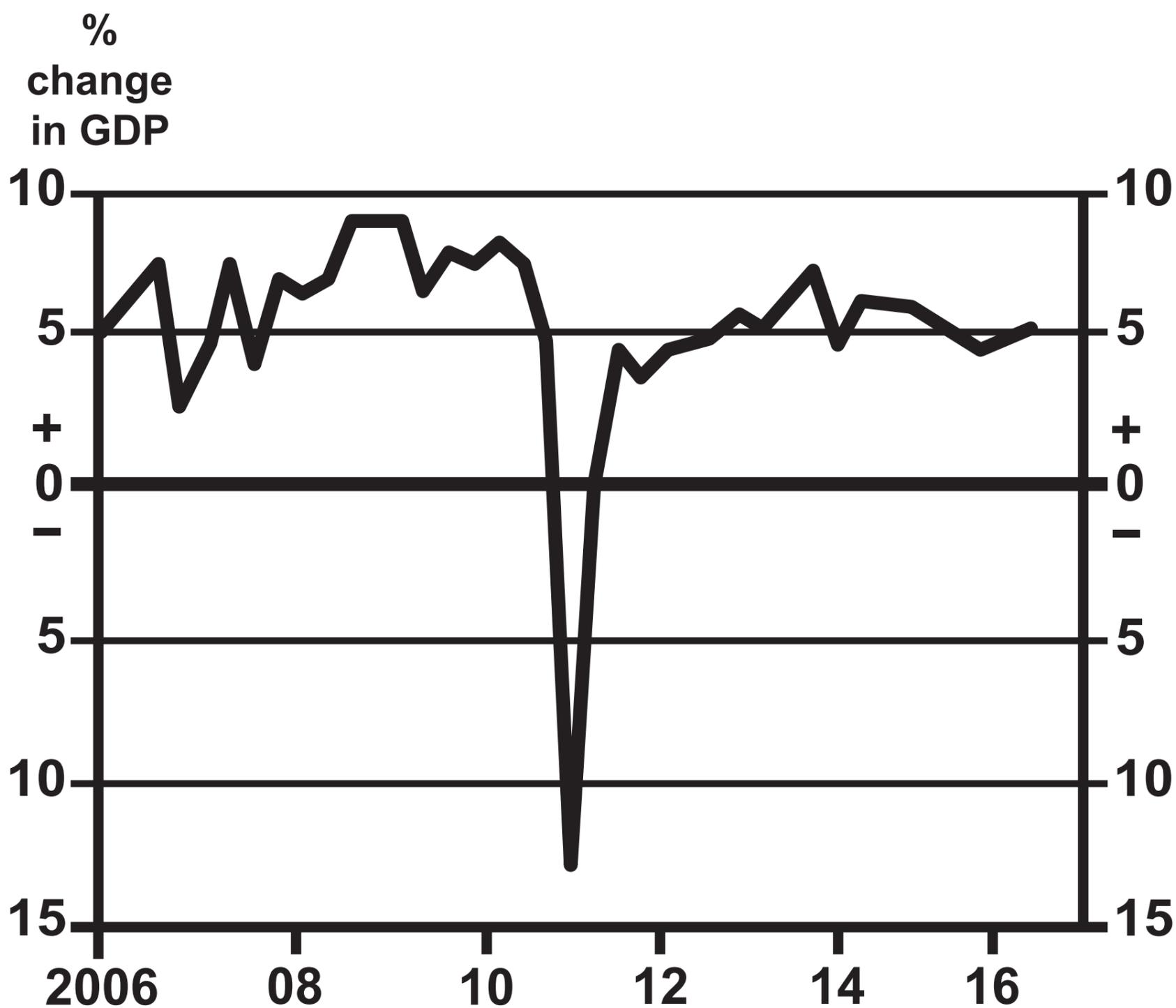
Figure 4: World coal prices, 2006–2016, US dollars per tonne



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

Question 2

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



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

Question 2

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**.

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

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
15 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.

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Extract D continued.

Aid agencies have supported the Indonesian government in providing healthcare free at the point of access for 20 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 scheme to provide each of Indonesia's 15.5 million poorest households with a cash transfer of 200 000 rupiah 25 (US\$14.37) a month. The World Bank has approved US\$800 million in infrastructure loans 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 development 30 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**

In the decade to **2014**, Indonesia's 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.

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Extract E continued.

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
20 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 to curb imports, helping limit Indonesia's current account
25 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 to offset the effects of weak exports and investment. The national debt is just **26%** of GDP.

30 Mr Widodo knows that Indonesia cannot raise its long-term growth 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 entrepreneurship. The
35 labour market is inflexible. To start a business takes an average of **47** days, compared with four in Malaysia

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Extract E continued.

and two in Singapore. The President's supply-side policies are improving the business climate. The average number of days needed to approve a new power plant
40 has declined from **900** to **200**. The government 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, among others. In **2015** he launched a series of measures to try to reduce
45 government failure, including easing some regulations, streamlining licensing procedures for firms on industrial estates and providing tax incentives to invest in special economic zones.

The government has used savings from cutting fuel
50 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, the government will need to raise more revenue. That will not be easy. Most
55 workers and employers pay little or no tax. Only **27** million of Indonesia's **255** million people are

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Extract E continued.

registered taxpayers, and in **2014** just **900 000** of them paid what they owed, leaving it with a tax revenue to GDP ratio of around **10%**. Big companies say that they
60 are being squeezed harder by the tax authorities because they are an easier target.

Infrastructure spending will help bring foreign investment and good jobs to Indonesia as well as encouraging exports. Indonesia's infrastructure problem can be
65 summed up as too few roads and congested ports. 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. Indonesia has plans for
70 **65** dams, **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 for the massive Jatigede Dam in West Java, after **20** years of delays. Once complete, the dam
75 will irrigate **90 000** hectares of rice paddy, increasing efficiency by giving farmers two harvests a year instead of one.

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Extract E continued.

(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>)