Paper Reference 9EC0/03
Pearson Edexcel
Level 3 GCE

Economics A

Advanced
Paper 3: Microeconomics and Macroeconomics

Tuesday 4 June 2019 – Morning

Data Book

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

Surname					
Other names					
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Pearson

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.

Contents

Question 1

Figure 1: UK market share of potato crisps, 2017

Firm	Brand	Size	Market share of firm	Market share of product	Price (£)
Walkers	All Walkers		55·3%		
	of which: Regular Standard	35 g		28·1%	0·45
	Regular Max	50 g		7·4%	0·63
	Sensations	40 g		2·0%	0·59
	Doritos	40 g		4·7%	0·45
	Other			13·1%	
KP	KP	50 g	22·7%		0·52
Tayto	Golden Wonder		4·2%		
		<40g		3·1%	0·38
		40g+		1·1%	0·72
Other	Other		17·8%		

(Source: adapted from https://academic.oup.com/restud/article/3108825/The–Effects–of–Banning–Advertising–in–Junk–Food 6 April 2017)

Question 1

Extract A

The effects of a total ban on advertising of HFSS foods

Food and drinks which are high in fat, salt or sugar (HFSS) tend to be sold in highly concentrated markets. Tough new rules banning advertisements for HFSS products, such as those for confectionery, fizzy drinks and potato crisps, come into effect in July 2017 as a means to reduce consumption. The rules apply to media targeted at under–16s and will mean a major reduction in the number of advertisements children see for HFSS products in posters near schools, in films targeted at children, on catch–up television and in social media if it is directed at children.

There are three main factors that will determine the effectiveness of the intervention: first, whether advertising acts to expand the market share or steal rivals' market share. Secondly, how firms in the market adapt their behaviour in response to the ban. Thirdly, what substitute products do consumers turn to if they opted out of the targeted market.

Results from a recent survey in the UK suggest that the total quantity of crisps sold would fall by around 15% in the presence of an advertising ban, or by 10% if firms respond with price cuts, since the ban acts to make the market more competitive and firms respond to the ban by, on average, lowering their prices.

The survey showed that following a ban, consumers are more likely to switch to another junk food than to a healthy food, which (in addition to the pricing response of firms) acts to partially offset any health gains from the policy.

(Source: adapted from The Effects of Banning Advertising in Junk Food Markets, Dubois, Pierre; Griffith, Rachel, Review of Economic Studies Copyright © 2017, Oxford University Press https://academic.oup.com/restud/article/3108825/The–Effects–of–Banning–Advertising–in–Junk–Food 6 April 2017 and https://www.asa.org.uk/news/tougher–new–food–and–drink–rules–come–into–effect–in–children–s–media.html 30 June 2017)

Question 1

Extract B

Taxing HFSS foods and subsidising healthy eating widens inequality

Since low–income groups spend a higher proportion of their income on food and tend to eat less healthily, they are the main targets of taxes on products that are high in fat, salt or sugar (HFSS). Subsidies on healthy food are seen as an alternative policy approach to encourage healthy eating. While data on the impact of such policies are scarce, a recent study on the distributional impacts of HFSS taxes and healthy food subsidies found that these actually widened health and fiscal inequalities. The policies tend to be regressive and favour higher–income consumers. Taxes on unhealthy food increase prices which have a greater impact on low income groups rather than higher income groups. Lower income groups prefer to buy HFSS food.

Subsidies encouraged all income groups to buy more fruit and vegetables. However, those on higher incomes proved more responsive and the average share of budget spent on healthy food actually increased for the higher income groups who were more likely to buy the subsidised healthy food and then spend the savings they had enjoyed on yet more healthy food. The diets of the higher income groups before the subsidy tended to be healthier. The choices of the higher income groups are more responsive to price changes. By contrast, lower income groups, if they responded to lower prices, often used the money saved to buy unhealthy items or something else entirely. The long–term benefits of a healthier diet are harder to grasp for consumers when information gaps exist. Often the immediate boost of a tasty treat is more appealing. Taxes and subsidies do not change that. Other strategies are needed to promote healthy eating, especially education.

(Source: adapted from Economist 5 October 2017 https://www.economist.com/news/finance–and–economics/21730033–study–suggests–lower–income–families–end–up–paying–more–their–food–taxing–fat and https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3031005 The Economic Journal September 2017 Vol 127 Issue 604)

Question 1

Extract C

Tax on fatty foods in Denmark is an economic disaster

Denmark introduced a specific tax on saturated fat in October 2011 Recognised as a world–leading public health policy, it was abandoned just 15 months later having been both an economic and political disaster.

Indirect taxes of this sort are invariably regressive, disproportionately affecting the elderly and the poor. The specific tax led to prices rising on average 15% for highest–fat products, yielding a total decrease of 5% in the intake of saturated fat from products such as minced beef and cream. 80% of Danish consumers did not change their shopping habits at all. The behavioural change was economically damaging as consumers switched to cheaper brands and crossed the border to Sweden and Germany to do their shopping. Danish tax revenue fell as a result.

(Source: adapted from https://iea.org.uk/in–the–media/press–release/evidence–shows–a–fat–tax–would–hit–poorest–the–hardest 25 May 2013 and https://www.cambridge.org/core/journals/public–health–nutrition/article/effects–of–the–danish–saturated–fat–tax–on–the–demand–for–meat–and–dairy–products/984CF03634C819D50E66C7B5DC5209DA/core–reader)

Question 2

Figure 2: Interest rates (bank rate of the central bank) and inflation rates of selected African countries, 2017

Selected country	Central bank rate of interest	Inflation rate (CPI measure)
Congo (D.R.)	14%	13·8%
Ghana	21%	9·1%
Kenya	10%	10·1%
Malawi	18%	21·4%
Mozambique	**21·75%**	**18·0%**
Nigeria	14%	21·1%

(Source: official government websites, and other news sources, July 2017)

Question 2

Extract D

Rising debt levels in Africa

Increases in national debt have brought several African governments towards a debt–servicing crisis when the repayment of debt and interest become unsustainable. Between 2010 and 2015, many sub–Saharan countries raised debt totalling more than £20 billion. Back then, with commodity prices soaring and foreign loans available at very low interest rates, everyone agreed that borrowing was the way to grow an economy with expansionary fiscal policy. Since 2015, some African governments – beneficiaries of big debt write–offs at the start of the century – have taken to private debt markets too eagerly, leaving them with heavy repayment schedules at a time of lower commodity prices.

Until recently, the International Monetary Fund (IMF) has played down African debt concerns, pointing to better management of public resources and greater transparency. But it was shaken by Mozambique's default on more than £2 billion of secret loans used to purchase a non–existent tuna–fishing fleet, raising fears of hidden debt in other African countries with similar levels of corruption. The median level of debt in sub–Saharan Africa had risen sharply from 34% of gross domestic product in 2013 to 48% in 2017. Although that is low by international standards, analysts said debt burdens were heavier than they appeared because of most African countries' low tax base. "The real thing to look for is debt to revenue, or debt–service as a percentage of government spending," said John Ashbourne, Africa Economist at Capital Economics. In several countries, he said, debt payments were above 20% of government revenue, with an opportunity cost in terms of government spending.

(Source: adapted from African debt worries intensify as levels near tipping point by David Pilling © Financial Times 2017 https://www.ft.com/content/939808dc–b4d8–11e7–a398–73d59db9e399)

Question 2

Extract E

Mozambique's economic stability is being put to the test

The economy of Mozambique, which gained independence from Portugal in 1975, has continued to under–perform. Large–scale emigration, especially of skilled workers, economic dependence on South Africa, a severe drought, a prolonged civil war and political tensions have hindered the country's development. More than half of Mozambique's 26 million people continue to live below the poverty line.

GDP growth declined to 3·6% in 2016 due to fiscal tightening and a slowdown in foreign direct investment. A weak manufacturing sector employs just 3·2% of the population, and is made up of small enterprises (90%), many of which were set up with the aid of microfinance. Traditional export earnings dropped due to depressed global demand. In addition a wide–scale drought seriously affected agricultural production. Foreign currency inflows have weakened – as large–scale gas projects were put on hold, and 14 external lenders suspended direct budget support, as a lesson to be learned from the tuna–fleet scandal. The state budget deficit was 10·7% of GDP in 2017. High interest rates have reduced aggregate demand, and import costs added to inflation following further depreciation of Mozambique's currency, the **metical**, to a new low of 100 meticals to £1

Mozambique needs urgently to improve its investment environment and confidence in its institutions. The World Economic Forum's global competitiveness ranking placed Mozambique 136 out of 137 countries.

Longer term, Mozambique's economic prospects are promising. There has been progress in talks on restoring international confidence in the government's running of the economy, leading to a lasting and sustainable agreement between rival political groups. The development of gas fields off

(continued on the next page)

Extract E continued.

Mozambique's coast discovered in 2011 is set to transform the economy, coming into production in the 2020s. A rise in coal and electricity exports should help growth to increase. But in the short term, it remains uncertain whether Mozambique can deliver badly needed economic stability.

(Source: adapted from http://www.africaneconomicoutlook.org/en/country–notes/mozambiqua and https://www.chathamhouse.org/expert/comment/mozambique–s–stability–being–put–test 6 October 2017 Dr Alex Vines OBE)

Question 2

Extract F

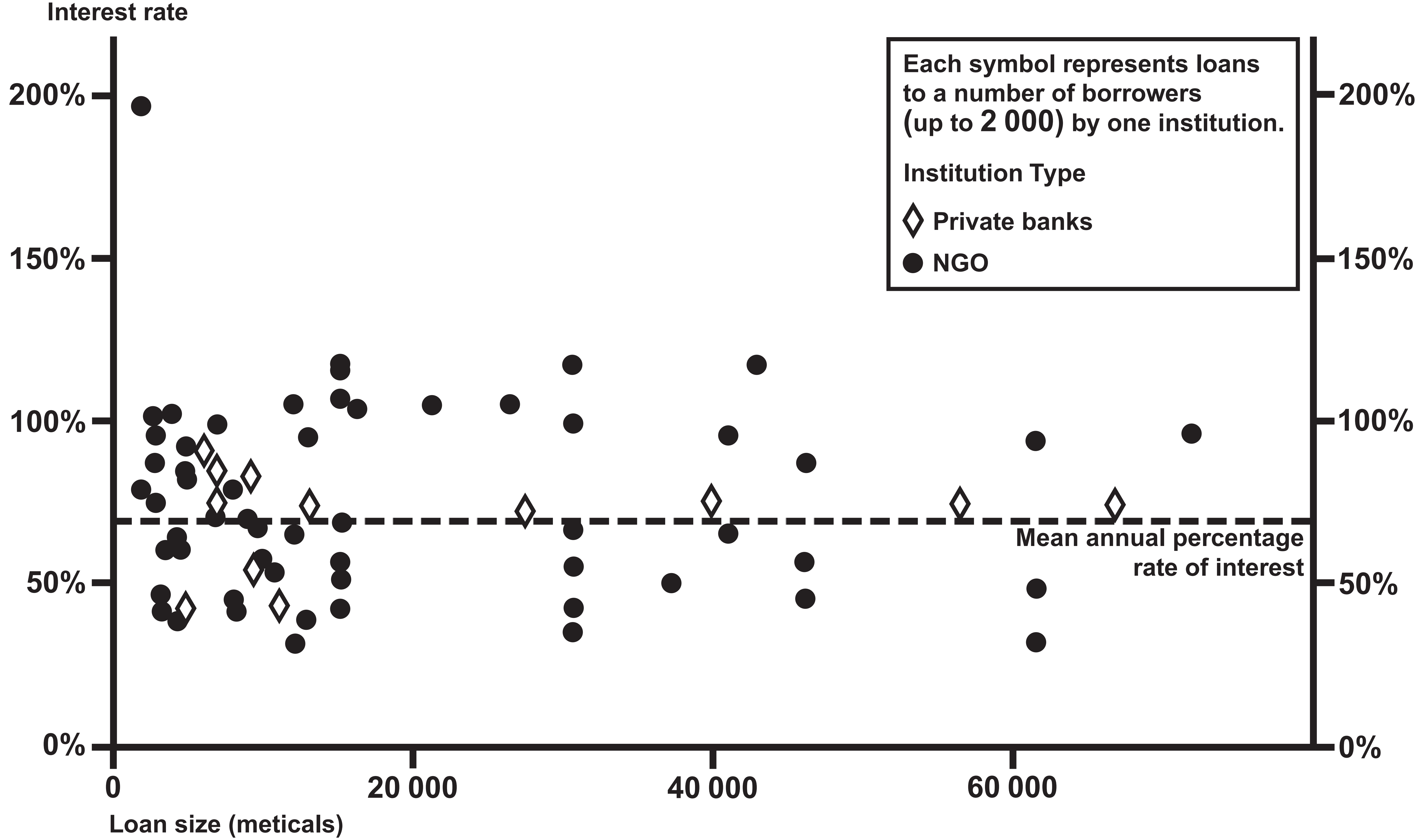
Microfinance in Mozambique

Microfinance in Mozambique started in the late 1980s through projects initiated by international relief organisations. The sector has expanded to include many private banks and non–government organisations (NGOs), see Figure 3. This has resulted in wider use (over 100 000 borrowers) and many new business start–ups which could not have gained finance from any other source. Evidence suggests that there is unfulfilled demand for microfinance and a large potential for expansion.

(Source: adapted from http://www.mftransparency.org/microfinance–pricing/mozambique/)

Question 2

Figure 3: The cost of microfinance loans in Mozambique, 2015



(Source: http://www.mftransparency.org/microfinance–pricing/mozambique/)