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Economics and Business
Advanced Subsidiary
Unit 2B: Business Economics

Tuesday 3 June 2014 – Morning
Time: 1 hour 15 minutes

Paper Reference

6EB02/01

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 Section A and Section B.
- Answer the questions in the spaces provided – *there may be more space than you need.*
- You may use a calculator.

Information

- The total mark for this paper is 70.
- The marks for **each** question are shown in brackets – *use this as a guide as to how much time to spend on each question.*
- Quality of written communication will be taken into account in the marking of your response to Question 12 in Section B. This question is indicated with an **asterisk*** – *you should take particular care on this question with your spelling, punctuation and grammar, as well as the clarity of expression.*

Advice

- Read each question carefully before you start to answer it.
- Keep an eye on the time.
- Try to answer every question.
- Check your answers if you have time at the end.

Turn over ►

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SECTION A

Answer ALL the questions in this section.

Write the letter of your chosen answer in the box and then explain your choice in the space provided.

You should spend 30 minutes on this section. Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

- 1** (a) Dell Computers uses a lean management system called 'build to order' in all of its computer manufacturing centres.

Lean management is **most likely** to lead to

(1)

- A** high stock levels
- B** long product development lead times
- C** greater efficiency
- D** excess capacity

Answer

- (b) Explain your answer.

(3)

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(Total for Question 1 = 4 marks)



2 (a) Sir Richard Branson, Chief Executive of the Virgin Group, uses delegation to manage his business empire.

Delegation is **most likely** to result in

(1)

- A** workers lower down the hierarchy making fewer decisions
- B** closer supervision of the workforce
- C** empowerment of employees
- D** a centralised organisational structure

Answer

(b) Explain your answer.

(3)

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(Total for Question 2 = 4 marks)



P 4 3 2 3 2 A 0 3 1 6

3 (a) In 2012, the Royal Mail announced a 30% price increase for First Class stamps to 60p.

If the price elasticity of demand is -2, demand will

(1)

A rise by 60%

B fall by 60%

C rise by 15%

D fall by 15%

Answer

(b) Explain your answer (show your workings).

(3)

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(Total for Question 3 = 4 marks)



4 (a) Inflation affects us all and during 2012 inflation in the UK peaked at 4.2%.

All of the following are likely consequences of inflation, **except**:

(1)

- A an increase in business uncertainty
- B a fall in nominal prices
- C a loss of competitiveness
- D a redistribution of wealth

Answer

(b) Explain your answer.

(3)

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(Total for Question 4 = 4 marks)



5 (a) If there are high barriers to entry in a market such as petrol retailing, it is **most likely** that this will lead to low (1)

- A consumer choice
- B profitability
- C start-up costs
- D prices

Answer

(b) Explain your answer. (3)

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(Total for Question 5 = 4 marks)



6 (a) In the first quarter of 2012, the euro fell in value against most other currencies

Which of the following is **least likely** to be a consequence of the above?

An increase in the

(1)

- A number of UK tourists to Barcelona, Spain
- B number of French tourists to London, UK
- C import of German Audi cars by the USA
- D export of Italian Energie fashion clothing to the UK

Answer

(b) Explain your answer.

(3)

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(Total for Question 6 = 4 marks)

TOTAL FOR SECTION A = 24 MARKS



SECTION B

Answer ALL questions in this section.

You are advised to spend 45 minutes on this section.

Evidence A

Thorntons dividend melts as profits tumble 92% in 2011

The chocolate company Thorntons, founded in 1911, made a pre-tax profit of £618,000 in 2011 compared to £8.4m last year. Sales declined by 3% to £130m and Thorntons will not be paying a dividend. Profit margins and revenues declined as customers with falling disposable incomes mainly bought Thorntons lower priced and promotional chocolate.



5

Chief Executive, Jonathan Hart, said: "The economic and retail environment will remain challenging and uncertain throughout 2012, but we are encouraged by our strong range of chocolates for Mothers' Day and Easter and have a strong order book to support this." Despite the collapse in profits Hart insisted Thorntons had a 'strong brand image'. Thorntons' UK market share increased from 7.1% to 7.7% thanks to successful product lines such as Advent calendars and Santa-shaped chocolates.

10

Thorntons has suffered as customers have deserted the mid-market brand for top-end products from rivals such as luxury niche chocolate retailer Hotel Chocolat. In comparison, Hotel Chocolat has seen a 25% increase in its pre-tax profits year on year in 2011. Research analyst Mintel forecast the 2012 UK chocolate market to be worth around £4.2bn and growing at 5% despite poor economic conditions.

15

Thorntons closed 20 stores in 2011 and announced plans to close a further 160 high street outlets over the next three years. This was to enable the business to cut costs, focus on sales through third parties such as supermarkets, and expand its own online sales.

20

(Source: adapted from <http://www.telegraph.co.uk/finance/newsbysector/retailandconsumer/9083410/Thorntons-dividend-melts-as-profits-tumble-92pc.html> 15 Feb 2012)



Evidence B

Cocoa prices rise

Cocoa is the main raw material in chocolate manufacturing. Cocoa prices have increased by 15% in less than a week. The price rise is due to growing demand for cocoa in China and to growing demand worldwide for dark chocolate, which is thought to be healthier. Global cocoa capacity would need to increase by around 30% in order to keep up with growing demand. Chocolate has become an 'affordable luxury' despite the global recession.

5

Analysts predict cocoa prices will increase by up to 110% compared to a year ago. Within eight years, there will be a shortage of one million tons of cocoa unless vast areas of land are set aside to farm the commodity.

(Source: adapted from <http://www.ingredientsnetwork.com/news-content/full/cocoa-prices-rise-on-supply-shortage-fears> 11 January 2012)

7 Explain one way in which the use of market research can help Thorntons reduce uncertainty.

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(Total for Question 7 = 4 marks)



8 Explain **one** possible benefit for chocolate retailer Hotel Chocolat of operating in a niche market.

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(Total for Question 8 = 4 marks)



9 Using Evidence B and a fully labelled supply and demand diagram, explain why the price of cocoa has increased.



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(Total for Question 9 = 8 marks)



(Total for Question 11 = 10 marks)



*12 Evaluate **two** ways in which Thorntons might increase its UK market share.

Way 1

(7)

A series of horizontal dotted lines for writing.



Way 2

(7)

Area with horizontal dotted lines for writing.

(Total for Question 12 = 14 marks)

TOTAL FOR SECTION B = 46 MARKS
TOTAL FOR PAPER = 70 MARKS

