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Examiners' Report

June 2017

GCE Economics B 8EB0 01

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June 2017

Publications Code 8EB0_01_1706_ER

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Introduction

A good awareness of economics and business was shown by candidates taking this, the first paper of the 2017 AS Economics B specification. In general, candidates appeared to be well prepared for the topic areas covered by theme 1. The ability of the most able candidates was shown through relating their knowledge and understanding to the evidence presented, whereas those struggling with such concepts typically answered questions with a more general approach. The levels of response questions required understanding to be developed and applied to the relevant evidence. Although many adapted this approach there were certainly instances where a more basic understanding was demonstrated, thus limiting the attainment of higher levels. There didn't appear to be many issues with the length of time candidates needed to complete all questions set, however the final question could have benefitted from a little more time allocation by some candidates.

Question 1 (a)

There were two parts to the explanation of 'gross profit' and examiners were looking for references to total revenue/turnover less variable costs/cost of sales. Candidates had to provide both parts to gain 2 marks. Examiners accepted references to 'revenue or sales' as well as 'direct costs' but did not accept vague references to 'money made' or 'costs'. Examples were sometimes used by candidates but no marks were available for the use of examples. Partial explanations were awarded 1 mark.

1 (a) What is meant by the term 'gross profit'?

(2)

Gross profit is the revenue (turnover) minus the variable costs (cost of sales). It hasn't taken into account the fixed costs (overheads) or interest/taxes.

Gross profit = Revenue - variable costs.



ResultsPlus Examiner Comments

This response was awarded 2 marks as it had both the required parts in the explanation: 'the revenue (turnover)' and 'minus variable costs (cost of sales)'. It did not need the terms in brackets to score 2 marks.



ResultsPlus Examiner Tip

This question will always have 2 marks available for the explanation of 'what is meant by...' so ensure that your response is fully developed and is not a vague attempt at explaining the economic term. There are no marks available for using an example so do not rely on an example to lift an imprecise definition.

Question 1 (b)

Many candidates were able to calculate the correct answer and so were awarded 4 marks. Marks could be awarded for showing workings but these were not necessary if the correct answer was shown. Examiners awarded a maximum of 3 marks if the percentage sign was missing or if the answer was not given to 2 decimal places. Some candidates were able to show knowledge of the formula and/or apply it with correct figures, but then failed to arrive at the correct answer.

(b) Calculate, to 2 decimal places, the profit for the year margin for *Mountain Warehouse* in 2014. You are advised to show your working.

(4)

$$\begin{aligned} \text{profit of the year margin} &= \frac{\text{profit of year}}{\text{turnover}} \times 100 \\ &= \frac{12,000,000}{110,000,000} \times 100 \\ &= 10.9090\% \\ &= \underline{\underline{10.91\%}} \end{aligned}$$

profit of the year margin in 2014 was 10.91%.



ResultsPlus Examiner Comments

This response scored 4 marks. It had clear workings to arrive at the correct answer of 10.91%.



ResultsPlus Examiner Tip

Quantitative skills are an important part of the linear A and AS Levels. Candidates will be expected to be able to apply a range of quantitative skills such as percentage change. If the question asks for a percentage or an answer to 2 decimal places, then full marks can only be achieved by using a percentage and to 2 decimal places.

Question 1 (c)

This was marked using points-based Assessment Objectives (AO) of 1 knowledge, 2 application and 1 analysis mark. The knowledge mark was awarded for giving one reason that may result in profits increasing by a higher percentage than sales. The most popular reason was lower costs. Application could be awarded for contextualising the answer to sales increasing by 20% whereas profits were up 25% or reference to online sales. Application marks can only be awarded when the response is explained in context and not just a generic answer. Analysis could be awarded for linking the reason to the question such as showing the decrease in costs would lead to a rise in profits even if sales remained constant.

(c) Explain **one** possible reason why *Mountain Warehouse's* profits increased by a higher percentage than the increase in sales.

(4)

One reason why Mountain Warehouse's profits have increased by a higher percentage than the increase in sales may be due to lower costs. This may be due to them deciding to 'trade' online which can be efficient as there are less costs for things such as land, labour and capital. Their 'online sales rose by 50% in 2014' which may allow Mountain Warehouse to make larger profits from each product sold as they are saving money in other places. Therefore sales are still increasing but trading online has allowed the profits gained (revenue - fixed costs) to increase even more.



ResultsPlus Examiner Comments

This response scored 4 marks as it met all of the criteria required by the AOs in the mark scheme. Knowledge of lower costs was shown, followed by reference to trading online and a 50% rise in these sales. The link between this and the higher rise in profit compared to sales is explained at the end of the response, and consolidated by stating the calculation for profit.



ResultsPlus Examiner Tip

The AO allocation for this question will always be: 1 Knowledge, 2 Application and 1 Analysis, so ensure that you provide enough use of context - whether this is use of your own examples, data or context from the extract(s) to be able to gain both Application marks. Some candidates only gave one clear point of application and so reduced the total marks achieved on this question.

Question 1 (d)

This was marked using the levels-based marking grid. For an 8 mark 'discuss' question there are three levels. Examiners read the whole response and decide which level is the best match. If a response is lacking certain characteristics, examiners move towards the bottom of the level. If it is a strong match they will move towards the top and this approach is used for all levels of response questions on the paper. On the whole, many candidates were able to use the information in the extract to effectively discuss whether Mountain Warehouse has a competitive advantage and use of relevant evidence was pleasing.

Question 1 (e)

This was a levels based question with four levels. Many candidates were able to assess whether profit maximisation was the main objective for Mountain Warehouse, providing arguments for and against the case. For a Level 4 response, examiners were looking for developed arguments stating both why it could be the main objective, using evidence but also why it may not, again using evidence. For a high Level 4 response, examiners needed to see evaluation as well as a balanced awareness of the validity and significance of competing arguments.

(e) Assess whether profit maximisation is the main objective for Mountain Warehouse.

(12)

Profit maximisation is when a business ~~only~~ wants to make as much profit as possible with the output it is currently working at.

Mountain Warehouse's profits increased by 25% in 2014 to £12 million and this was higher than the 20% ~~of~~ increase in sales. This shows that profit is higher up on Mountain Warehouse's objectives as they have had the most increase in profit.

Having high levels of profit means Mountain Warehouse can invest in other parts of the business such as opening more stores in the UK and Europe or being focused on their online retail. Both the net and gross profit increased in 2014 indicating ~~a~~ the main objective of profit maximisation however a rival Millets has come under pressure meaning Mountain Warehouse may have gained ~~5~~ some of Millets consumers and made more profit because of the decline of a rival. This means Mountain

warehouse may not have had their main objective as profit maximisation.

Mountain Warehouse was set up by Mark Neale who previously owned 2 businesses. This means Mark Neale's most main objective could be ~~great~~ survival as the other 2 businesses did not succeed. Neale was also given £40,000 from private investors meaning his main business objective would be to get a return on investment.

~~But~~ Profit did increase the most by 25% however sales increased by 20%. Mountain Warehouse ~~may~~ main objective could be sales maximisation but as sales increase so do profits. ~~So~~ This means Mountain Warehouse could have been increasing productivity and output and trying to sell all outputs by employing more people as as the sales grew ~~to~~ by 20% the profit grew by more.

In conclusion profit maximisation was probably the main objective of Mountain Warehouse as it covers other objectives such as return on investment and survival and also allows the business to expand.



ResultsPlus Examiner Comments

This response achieved Level 4 - 11 marks. It used relevant evidence to firstly set out an argument why profit maximisation could be the main objective, evaluating this towards the objective. It went on to argue alternatives, again using the evidence and both sides had a logical chain of reasoning. The only thing lacking to reach the full 12 marks was a better evaluation of the counter argument.



ResultsPlus Examiner Tip

The command word 'assess' will always require a more in depth development and some evaluation of the arguments compared to the command word 'discuss'. Candidates are encouraged to use a range of relevant evidence throughout their response - either from the extracts or their own examples to highlight their chains of reasoning.

Question 2 (a)

There were two parts in the explanation of the term 'loan' and examiners were looking for references to an idea of either a form of credit or borrowing of money, which needed to be paid back. Candidates had to provide both parts to gain 2 marks. Examiners accepted references to 'money being lent'. Examples were sometimes used by candidates but no marks were available for the use of examples. Partial explanations were awarded 1 mark.

2 (a) What is meant by the term 'loan'?

(2)

A loan is a source of credit from banks or friends and family for example, in which capital is borrowed and often paid back with a percentage of interest.



ResultsPlus Examiner Comments

This response was awarded 2 marks as it had both the required parts in the explanation: 'source of credit' and 'borrowed' were both used, but only one was needed, along with the idea it was 'paid back'.



ResultsPlus Examiner Tip

This question will always have 2 marks available for the explanation of 'what is meant by...' so ensure that your response is fully developed and is not a vague attempt at explaining the economic term. There are no marks available for using an example so do not rely on an example to lift an imprecise definition.

Question 2 (b)

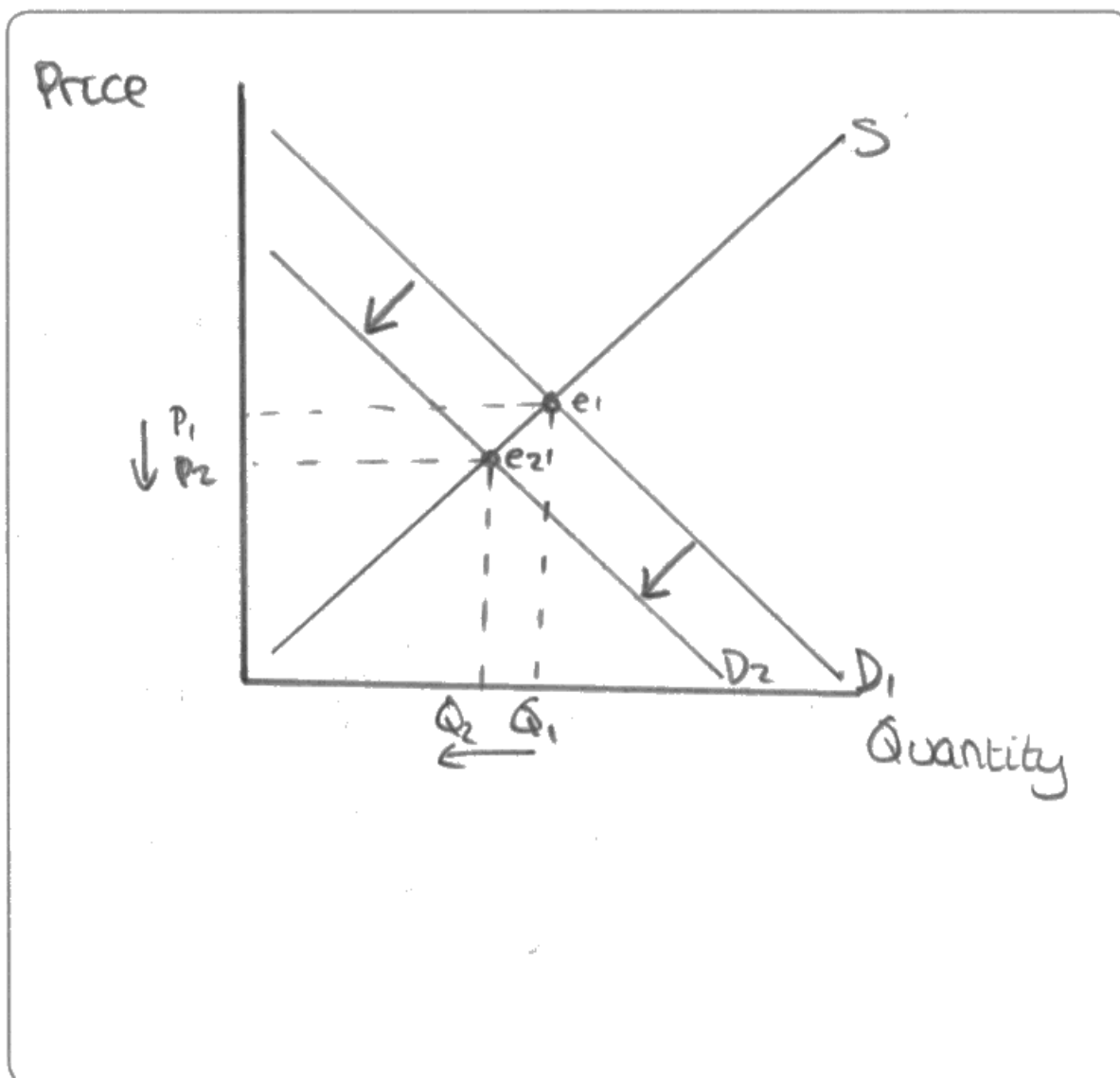
Many candidates were able to correctly draw a supply and demand diagram with an inward demand shift, thus achieve 4 marks. Correct labelling of the curves, the original and new equilibrium points on the axes and the correct shift led to all 4 marks. However many candidates with an incorrect answer, still gained marks if they drew/labelled the correct original diagram.

The vast majority of candidates were able to score 3 or 4 marks for this question. It is essential that candidates are able to use a range of quantitative skills either in the construction of a diagram, in a calculation or an interpretation of data from the extracts.

- (b) There are an increasing number of 'copycat' products of *Magmatic Ltd's Trunki* available.

Using a supply and demand diagram, illustrate the likely impact of this on sales of *Trunki*.

(4)





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Examiner Comments

This response was awarded 4 marks as it had correct labelling, the correct original and new equilibrium positions and the correct inward shift in demand.



ResultsPlus

Examiner Tip

The 4 mark 'illustrate' questions will always require correct labelling of the diagram, so ensure that your response is fully labelled, with the equilibrium points shown on the axes. When a shift is required, it must not be ambiguous.

Question 2 (c)

Just like Q1(c), this question was marked using points-based AOs of 1 knowledge, 2 application and 1 analysis mark. The knowledge was awarded for giving one way in which Magmatic Ltd might increase demand for its range of Trunki products. Candidates scored very well on stating this, often using advertising. Application marks could be gained from reference to Magmatic's development of new cases and/or the forthcoming launch at the end of the month and/or for mention of the Chinese copycat competitors. There had to be two separate references to gain both application marks. Analysis could be awarded for any cause or consequence such as increasing their sales.

(c) Explain **one** way in which *Magmatic Ltd* may increase demand for its range of *Trunki* products.

Introduce new products → creates buzz + attention away, + gain innovative brand. (4)

One possible way in which Magmatic LTD may increase demand, is by introducing new products to their Trunki range, for example by changing the design or expanding to adult, or teen suitcases. This may increase demand, as Trunki could market themselves as innovative, and create a reputation of being more high end. This could, potentially, bring sales back to Trunki, as they differentiate their products from Chinese "copycats".



ResultsPlus Examiner Comments

This response scored 4 marks. After showing knowledge with the way of 'introducing new products', the candidate used the extract to help contextualise the idea of expanding to adult ranges or changing the design of suitcases. The analysis was interlinked with the second application point with talk of being innovative and their reputation potentially bringing sales back, in differentiating from the Chinese copycats.



ResultsPlus Examiner Tip

As with Q1(c), the AO allocation for this question will always be: 1 knowledge, 2 application and 1 analysis mark. You should ensure that you provide enough use of context; whether this is use of your own examples, data or context from the extract to be able to gain both application marks. Some candidates only gave one clear point of application and so reduced the total marks achieved on this question.

Question 2 (d)

Like Q1(d), this was marked using the levels-based marking grid and consisted of three levels. Candidates were generally able to provide a two-sided response which usually focused on the £1.5m loss versus the improving turnover. However, some candidates did not use Extract C as was required by the question, or failed to observe that the 2013 figure was indeed a loss. The latter mistake led to very confused answers and usually therefore a low level mark.

(d) Using Extract C, discuss the difficulties in obtaining the necessary funds for Magmatic Ltd's expansion plans.

(8)

funds for expansion come from a variety of sources of finance. Without these a business can not expand or grow. In 2013 Magmatic Ltd's ~~set~~ profit for the year fell into a negative £1.5 million. This means they would not have paid dividends, their ^{start} ~~up share price~~ ^{shareholders} ~~would have dropped~~ ^{not have been happy} and they would have a lack of share capital, ^{and also lost any personal investment}. This also means they will not have any retained profit in 2014 that they could have saved from 2013. This rules out several sources of finance and may lead to a halt in the production of their new product and also the new project. Alternatively Magmatic Ltd could look at taking out a loan to help them. This would immediately improve cash flow and help the expansion. They would then need to work on cutting costs and improving sales to make sure they could repay the loan with interest otherwise they may end up in more financial difficulties at a later date. This loan on top of the investment received from

the 'BGF' should be enough to cover the expansion. On the other hand turnover has increased by £2826000 which is promising and may indicate that the new product sales will generate enough revenue to save Magmatic Ltd from falling profits.



ResultsPlus Examiner Comments

This response scored 7 marks. It was well written and used the evidence in order to state a two-sided argument. Discussion of the failings with a £1.5m loss leading to problems in obtaining funds versus the increase in turnover allow it to reach Level 3. If the discussion regarding turnover was linked to encouraging finance to be credited from an alternative source, it would have been a stronger candidate for the full 8 marks.



ResultsPlus Examiner Tip

The command word 'discuss' requires both sides of an argument. In this question, the difficulties in obtaining finance were to be discussed, allowing the candidate to talk about why there may or may not be problems for Magmatic Ltd. based on the evidence provided in the extract. Some candidates only looked at one side, thus restricting their marks due to not providing a balanced awareness of competing arguments. A conclusion is not required for an 8 mark 'discuss' question.

Question 2 (e)

As with Q1(e), this was a levels-based question with four levels. However, unlike Q1(e) use of evidence from the extracts or use of own evidence was poor. Too many candidates took an approach simply looking at positives and negatives of break-even analysis and did not apply it to a business such as Magmatic Ltd, as was required by the question. At best these responses would match the 'using little or no relevant evidence' part of the Level 2 descriptor. More able responses used evidence such as the forthcoming new product launch, problems with the Chinese copycats and the limits of break even for Magmatic seeing as they sell more than one product.

(e) Assess the benefits of using break-even analysis to a business such as Magmatic Ltd.

(12)

Break-even analysis is calculated by: $\text{Fixed cost} / \text{contribution}$.

This analysis is beneficial to Magmatic Ltd because it helps them to conduct 'what-if' analysis. They are currently threatened by Chinese "copy cat" products and perhaps a decrease in selling price may ease the situation. As a result of the break-even analysis, they may be able to predict how many items they have to sell in order to cover total costs. Therefore, it shows figures that allows them to choose adequate pricing decisions. On the other hand, this type of analysis may not seem beneficial as it assumes that all fixed and variable costs are known. They are currently "improving its manufacturing facilities and developing a new product". As a result, it may be impossible to forecast their fixed costs such as rent and variable costs which fluctuates with productivity. Therefore, the analysis may be inaccurate.

and may end up a waste of resources and time. However, break-even may still be useful as it allows Magmatic to predict sales levels. They are dedicated to "children's travel products" and the use of a break-even analysis allows them as a result to forecast sales as the formula: $\text{Fixed cost} / \text{contribution}$ informs the amount of items needs to be sold to break-even. Therefore, this information may become useful to the firm when planning a forecast, they may decrease supply if sales levels ~~with~~ are predicted to be low.

However, break-even analysis have limitations which reduces its usefulness. This is because there is no guarantee that their products will sell, especially when "copycats are a huge issue to us". As a result, a forecast analysis with no guarantees may seem useless when the most critical variable (sales level) is not guaranteed. Therefore, ~~trade~~ inaccurate analysis may ^{wrong business decisions} ~~in~~ **(Total for Question 2 = 30 marks)**

and lead to market failure. **TOTAL FOR SECTION B = 30 MARKS**

In overall, the benefits on using break-even analysis depends on how reliable the variables are, such as fixed costs. In the short term, break-even may seem necessary as their sales are threatened by "copy cats".



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Examiner Comments

This response achieved Level 4 - 10 marks. The response showed knowledge in the context of Magmatic Ltd and had a balanced argument. It is at the bottom of the level, albeit Level 4, because the evaluation and chains of reasoning are not as well developed as we would like to see for an answer worthy of full marks.



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Examiner Tip

As with Q1(e), the command word 'assess' will always require more depth and development of the concept and chains of reasoning compared to the command word 'discuss'. Candidates are encouraged to use a range of relevant evidence throughout their response - either from the extracts or use of their own examples to highlight and demonstrate their chains of reasoning. Generic answers are not going to score high marks.

Question 3

This is the highest mark question on the paper, worth 20 marks and with four levels. The understanding demonstrated by candidates was strong in terms of costs and benefits and the use of evidence in responses was very pleasing. However, this is an 'evaluate' question meaning that ideas needed to be developed and presented with understanding of the significance of competing arguments rather than simply stated as separate points.

More able responses used a cost to evaluate a benefit and vice versa, whereas an approach looking at these factors in isolation was unlikely to reach the same level. However, approaches to evaluate looking at the extent a factor may impact the economy or society was often also rewarded with higher-level marks.

3 Evaluate the potential costs and benefits of building a new runway at Heathrow Airport.

(20)

Social costs and benefits are impacts that a business/company has on both the people involved and third parties. In the case of the new runway at Heathrow, there are both costs and benefits, especially to third parties.

One of the main costs of building the third runway is that it comes with a huge opportunity cost. It is estimated to cost £18.6bn which means that something else is being given up in order to pay for it. This could be increased spending on the NHS, a decrease in taxation or more spending on benefits. Therefore, this will make a lot of people angry as a new Heathrow runway may not affect people living in other parts of a country but things like the NHS will have an impact on everyone. However, it could be argued that increased spending on the runway now will bring benefits in the future in the form of more money into the economy. This is because it could increase the number of flights entering and leaving the country which would therefore increase tourism,

consequently bringing more money into the economy which could be spent on other sectors in the future.

On the other hand, it is suggested that the building of the new runway will bring many external costs such as noise and air pollution. An external cost is a cost to a third party, so somebody who has no involvement with the company. Although the results of the air pollution tests are not yet to be revealed, it is expected that the new runway will have a negative impact on the environment. This is because a new runway will bring more visitors and therefore more traffic which would increase greenhouse gas emissions. Also, the heavy equipment & machinery will also contribute to this as well as noise & air pollution, directly impacting on those living in the surrounding area.

However, a new runway may also be beneficial to both local people and the economy as it should provide more job opportunities and reduce unemployment. This is because the tourism industry is one of the largest in the country so more workers will be required to cater to the increased number of visitors. Also, the building of the runway is set to be a huge construction job so there will be more jobs available in the construction industry as well. This would be great for the economy as it would reduce unemployment and therefore the amount needed to spend on benefits, as well as the amount that people pay on taxes, suggesting that building

the new Heathrow runway won't just be beneficial to those involved, it could benefit the entire country

In conclusion, the new Heathrow runway will bring both costs and benefits. However, a lot of the costs such as opportunity cost are only short-term costs that will actually bring benefits in the future. It could also be argued that the majority of the costs only affect the locals and those involved whereas the benefits will benefit many more people, suggesting that the costs are worth it for the benefits.



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Examiner Comments

This response achieved 17 marks (Level 4). The first point discussed was a cost but the chain of reasoning led into a benefit with which the candidate was able to evaluate their initial argument.

Although the next cost didn't reach the same standard, further evaluation was present in the next point, where a benefit was evaluated in terms of the whole economy and not just the local area.

Having started in the middle of Level 4, examiners use the standard marking method for levels of response questions and start at a midpoint of 18. This response cannot go up as it does not have the nuanced judgement, however it did go down a little because arguments were not been fully evaluated throughout.



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Examiner Tip

This question is worth 25% of the marks and so is it essential to ensure enough time is spent on it. Some examiners commented it appeared rushed or without sufficient thought for a question worth so many marks. This hindered some candidates in developing their evaluative argument.

Paper Summary

Based on their performance in this exam, candidates are offered the following advice:

- Questions 1(a) and 2(a) are worth two marks each and so will need two parts in the explanation of what is meant by the term to attain both marks. Examples are not rewarded.
- Be careful to read the whole of the question. Certain requirements are given which were not acted upon by some candidates in this series, e.g. when answers are required 'to 2 decimal places'.
- Candidates need to understand the requirements of the command words in the questions. This will allow them to access marks requiring each of the four assessment objectives.
- Quantitative Skills will be tested throughout the paper. These may be in the form of diagrams/graphs, calculations or using the data in the extracts to provide the application in the 4 mark questions.
- Diagrams which require equilibrium points to be shown, will always require them to be labelled on both the axes.
- The 4 mark 'explain' questions will always have 2 application marks so ensure that there is enough application to achieve both marks.
- The command word 'discuss' requires a two-sided argument in order to achieve full marks.
- The use of relevant evidence is required throughout and this can be from the extracts provided or using examples provided by the candidate themselves.
- The extracts are there for a reason – so use them.
- Use economic concepts rather than generic 'common sense' answers.
- Examination timings – make sure there is enough time to answer the 20 mark question in Section C.

Grade Boundaries

Grade boundaries for this, and all other papers, can be found on the website on this link:

<http://www.edexcel.com/iwantto/Pages/grade-boundaries.aspx>

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