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Examiners' Report

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GCE Economics B 8EB0 02

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Introduction

This was the second paper for the new specification and overall candidates' performance showed a sound grasp of economic concepts. Answers suggested that candidates on the whole had been well prepared for this paper. There appeared to be use of precise economic terminology throughout all sections of the paper. The more able candidates demonstrated excellent application of their knowledge to the precise question set, while less able candidates attempted questions from a 'common sense' approach rather than demonstrating any economic concepts. The examination paper required candidates to apply their understanding; more able candidates did this well with clear development of points. Examination timing skills appeared to be very good as a whole.

Question 1 (a)

There were two parts to the explanation of 'inflation' and examiners were looking for references to an increase or rise in average/general price level **AND** references to it being sustained or reference to a time period. Candidates had to provide both parts to gain 2 marks. Examiners also accepted references to a fall in the purchasing power/value of money as a partial definition for 1 mark. Examiners did not award marks for the use of an example such as the current rate inflation or target rate, demand pull or cost push or that it is measured by CPI/RPI. Examples were often used by candidates to support their explanations of inflation but no marks are available for the use of examples. Partial explanations were awarded 1 mark.

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

(2)

Inflation is a sustained rise in the general price of products and services.



ResultsPlus Examiner Comments

This response scored 2 marks. The definition had two parts to it - sustained (time period) and rise in the general price of products and services.



ResultsPlus Examiner Tip

Make sure your definition has two parts to it and do not use examples. There are no marks available for the use of examples.

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

(2)

Inflation is a general increase in prices and GDP over time.



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Examiner Comments

This was an alternative way to define inflation and scored 2 marks.



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Examiner Tip

Make sure to learn the main economic key terms thoroughly so that a full definition with two parts can be given.

Question 1 (b)

Many candidates were able to calculate the correct answer of 16.67 vehicles per employee so achieved 4 marks. Marks were awarded for showing the formula for labour productivity and for the workings. For many candidates with an incorrect answer, marks could still be gained if the workings and formula were shown. Marks were not awarded if no units were shown or if the answer was not given to 2 decimal places. 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 a calculation or interpretation of data from the Extracts.

In 2013, JLR produced 425,000 vehicles per year with 25,500 employees.

(b) Calculate JLR's labour productivity to 2 decimal places. You are advised to show your working.

(4)

$$\text{labour productivity} = \frac{\text{output per time unit}}{\text{number of employees}}$$

$$\text{output per year} = 425,000$$

$$\text{employees} = 25,500$$

$$\frac{425,000}{25,500} = 16.67 \text{ vehicles per year per employee.}$$



ResultsPlus Examiner Comments

This response scored 4 marks for giving the correct answer of 16.67 vehicles per year per employee. The candidate gave a full answer by showing the formula and how they arrived at the correct answer. This is always a good thing to do as marks can be awarded for showing the correct formula and workings.



ResultsPlus Examiner Tip

Do not just write the correct answer even if this is a simple calculation. Always give the formula and show your workings. Check that you have given your answer to 2 decimal places and that you have included the correct units. Marks are awarded for these things.

Question 1 (c)

This was marked using points-based Assessment Objectives of 1 Knowledge, 2 Application and 1 Analysis mark. The Knowledge was awarded for giving one effect of the productivity gap between the US and UK. The most popular effect used was the US is more productive/ the UK is less productive. Application could be awarded for using the data from Figure 1 such as the Extract A shows a gap of 30 index points in 2014 between UK and US. There had to be two separate references to gain both Application marks and most candidates only used one piece of Application. Analysis could be awarded for any consequence from the productivity gap such as the lower costs may give US a competitive advantage or MNCs may locate in US rather than UK resulting in an increase in US GDP. Examiners were looking for a link between the Knowledge and the Analytical point – the Analytical point should be a consequence from the effect.

Many candidates have performed poorly on this question and this was mainly due to not being able to read data from Figure 1.

(c) Using Extract A, explain **one** effect of the productivity gap between the US and the UK.

(4)

The extract shows that the UK is making 100 in 2014, whereas the US has made 130. This shows that the US is more productive because of the higher number. The UK has been at 100 for both 2013 and 2014, which means the UK has not improved. Whereas the US was at 127 and now is at 130. Since the US is more productive, they would be able to be more efficient in the US, and therefore this could lower costs and perhaps make more revenue because there is more output. If more is being made in the US, more people would go and invest there and trade there than in the UK, where there is less productivity.



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Examiner Comments

This response scored 4 marks. There was plenty of use of the data from Figure 1 and the candidate had been able to use this data to show the effect of the productivity gap in terms of the US being more productive and efficient. The candidate then developed this by explaining the consequence of the US gaining more trade compared to the UK.



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Examiner Tip

Make sure you have two separate pieces of Application in your response - use the data and show that you understand what is it showing you.

Question 1 (d)

This was marked using the new levels-based marking grid. For an 8 mark 'Discuss' question there are three levels. Examiners read the whole response and then decided which level best matched the response. Examiners then awarded marks according to the quality of the response within the level. If a response was lacking certain characteristics, examiners moved towards the bottom of the level and this approach was used for all levels of response questions on the paper. Overall, many candidates have been able to use some of the information in the Extract to write about the importance to JLR of increasing productivity – mainly focusing on the cost savings from increased productivity and how these can be passed on in terms of lower prices or used elsewhere within the business. The counter argument could have been anything from the impact on the workers, to the cost of increasing productivity or to other factors (apart from productivity) which may be as equally important to JLR such as references to exchange rates due to the amount that they export, the impact on quality or references to PED.

The command word was 'Discuss' but unfortunately many candidates only gave a one-sided response which only focused on the importance of productivity so were unable to fulfil all the requirement of 'a balanced awareness of competing arguments' part of the descriptor in Level 3 in order to achieve full marks.

²
2 (d) Discuss the importance of increasing productivity to UK firms such as JLR. (8)

²
2 Ideally, increasing productivity should be a main aim for UK firms like JLR as it results in lower production costs. This has been famously demonstrated in Japan with the use of Kaizen (continual improvement) and increased employee participation. As productivity is a measure of efficiency, the more productive the firm, the quicker they can produce the product. In terms of JLR, increasing productivity allows them to produce more cars in a shorter amount of time. This could be achieved through use of lean production which main aim is to minimise ^{waste} this. By doing this UK firms may gain a competitive advantage, through either convenience of having a large supply of vehicles or price as productivity cuts production costs which may result in JLR decreasing

ing the price of their cars which will increase demand. Also, as JLR exports 80% of its vehicles, increasing productivity would allow them to become more price competitive in foreign markets as UK products will be cheaper and more attractive. Also, However, this depends on the exchange rate. If the pound depreciates then UK firms, no matter how productive, will not have high demand overseas. Also, UK firms may not choose to reduce the cost of their product, but reinvest the added profit into the business, this, could increase productivity even more in the long run if spent on training or wages.



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Examiner Comments

This response scored 7 marks. There was a clear understanding of why increasing productivity is important to JLR in terms of cost savings and a counter argument was also given in terms of other factors which may also be important to JLR. This was awarded mid Level 3 due to the fact the response was not balanced and there could have been more relevant evidence used throughout the response.



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Examiner Tip

'Discuss' questions require evaluation and so ensure that you give a balanced awareness of competing arguments with plenty of relevant evidence throughout.

Question 1 (e)

For a 12 mark 'Assess' question there are four levels and examiners read the whole response and then decided which level best fitted the response. Many candidates did evaluate and provided reasons why education and training helps to improve labour productivity – such as specialisation, skills and output benefits. Relevant evidence could be either linked to a business such as JLR or applied to the UK economy. Many responses were generic and only focused on the benefits of education and training.

Again, examiners did see many one-sided responses despite the command word being 'Assess'. A one-sided response with relevant evidence was unlikely to enter Level 4 as the bulk of the descriptors are to do with the candidate providing evaluation and a full and balanced awareness. For a Level 4 response, examiners were looking for arguments which were developed and evaluated and supported throughout with relevant evidence. For a high Level 4 response, examiners were looking for developed evaluation as well as a full and balanced awareness of the validity and significance of competing arguments. Counter arguments could be anything from the cost and effectiveness of education and training as well as other factors which could also improve labour productivity such as investment in capital assets, improvements in infrastructure, tax and welfare reforms to improve work incentives, inward migration of skilled labour, living wage or increasing the national minimum wage, business investment and tax breaks on the use of new technologies.

(e) Assess the importance of education and training to improve labour productivity in the UK.

(12)

Education & training can be ^a very important part of improving labour productivity in the UK as education can provide more people with better skills along with training. The ^{more} people the UK has with beneficial skills the higher the efficiency of the economy will be. ~~as the more people~~
~~need for extra~~ This can lower costs for firms ~~like~~ such as UKfast as they do not need to retrain workers if they already have the appropriate skills which would cost money & time &

Therefore losing productivity. Education is especially important in acquiring the skills & knowledge needed to be a productive member of society. Firms such as JLR could use higher skilled workers to boost labour productivity which can lead to lower average costs & therefore competitiveness on the foreign market. Higher increased exports can help the UK economy to grow. However, education & training may not be as important as other factors such as investment ⁱⁿ capital assets. There is no point in having a skilled & educated workforce if they are not provided with the appropriate physical capital needed to be productive. Newer technology can be a key in increasing labour productivity. This is especially important to firms ~~within~~ ⁱⁿ the digital market such as Talktalk. In conclusion, ^{the importance of} education & training depends on the nature of the firm and whether skills ^{& education} are more likely to increase productivity or higher quality capital.



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Examiner Comments

This response scored 10 marks and did access Level 4. The response showed accurate knowledge and understanding supported with relevant evidence. There was an attempt at a counter argument and a conclusion.



ResultsPlus
Examiner Tip

Give a full and balanced answer with an awareness of the validity and significance of competing arguments. You can use your own examples and always try to contextualise both sides of the argument.

Question 2 (a)

As with Q1(a), there were two parts to the explanation of 'predatory pricing' and examiners were looking for references to very low prices/below cost price/cost of production **AND** that it is used to eliminate competition. Examiners did not reward that predatory pricing was illegal in the UK. Again, examples were often used by candidates but no marks are available for the use of examples. A partial definition achieved 1 mark.

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

(2)

Predatory pricing is when a company charges an extremely low price, sometimes below the cost of production, in order to force other rival firms out of the market. It is illegal in the UK.



ResultsPlus Examiner Comments

This response scored 2 marks. Marks were awarded for 'extremely low prices, sometimes below the cost of production' and for stating 'to force other rival firms out of the market'. This candidate did also add that this is illegal in the UK but marks were not awarded for this and the candidate already has given enough to gain both marks.



ResultsPlus Examiner Tip

Try to be precise and use economic terminology to define these key words. Check that you do have two parts to the definition.

Question 2 (b)

Marks can be awarded for showing workings but these are not necessary if the correct answer is shown. Examiners only awarded 3 marks if the percentage sign was missing or the answer was not to 2 decimal places. Many candidates were able to score 4 marks and examiners have seen a definite improvement since last year which was rather pleasing. Again, 1 mark could be awarded for giving the formula for percentage change.

- (b) Using Extract C, calculate to 2 decimal places the percentage change in the number of private hire vehicles in London from 2013 to 2015. You are advised to show your working.

(4)

$$\frac{\text{New} - \text{Old}}{\text{Old}} \times 100\%$$

$$\begin{aligned} \text{New} &= 62,754 \\ \text{Old} &= 49,854 \end{aligned} \quad \frac{(62,754) - (49,854)}{49,854} \times 100$$

$$= 25.8755\%$$

$$= 25.88\% \text{ (2dp)}$$



ResultsPlus Examiner Comments

This response scored 4 marks for giving the correct answer of 25.88%. This candidate also provided the formula for percentage change as well as showed their workings.



ResultsPlus Examiner Tip

Make sure you give the formula and double check you have given your response to 2 decimal places. Always include units.

Question 2 (c)

This, like Q1(c), was marked using points based Assessment Objectives of 1 Knowledge, 2 Application and 1 Analysis mark. The Knowledge was awarded for stating there might be lower/falling prices.

Application marks were awarded for references to the data in the extract such as Extract C shows the total number of vehicles increased over the 10 years to 85,254 and Extract D states that Uber is up to 40% cheaper than black cabs.

Again, there had to be two separate references to gain both Application marks. Analysis could be awarded for candidates showing why there is a fall in prices – ideally examiners were looking for references to taxis having to be more competitive in order to survive rather than just repeating the knowledge mark of lower prices.

Overall, examiners felt that this question was answered better than Q1(c).

(c) Explain the likely impact on the price of taxi journeys resulting from the trends shown in Extracts C and D.

(4)

The price of taxi journeys are likely to decrease as other taxi companies try to compete with the low prices of UBER taxis. The trend shown in extract C is that more people are hiring private hire vehicles with a 25.88% increase over 2 years, this sign is a result of people now using the easy UBER app as taxis can be provided easily and efficiently. As UBER charges a 40% cheaper rate than other private hire vehicles, other firms will be forced to either reduce their prices in order to compete or eventually leave the market as it will begin to fail due to UBER overtaking the market share as the market leader. As demand increases, price will fall.





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Examiner Comments

This response scored 4 marks. The candidate has clearly identified that the price of journeys is likely to decrease and has supported this by using the data from the extracts to gain both Application marks. This candidate then fully explains why this is the case and makes references to taxis having to be more competitive to remain in the market.



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Examiner Tip

Try and link your Knowledge point to your Analysis point - show how they are linked or the reason, cause or consequence. Always have two separate data references to gain both Application marks.

Question 2 (d)

Like Q1(d), this was marked using the new levels-based marking grid and consisted of three levels. Overall, many candidates were able to evaluate well on this question and the vast majority of candidates were able to access top Level 2 or Level 3. The question did ask about the impact on the demand curve not demand and some candidates only referred to an increase in demand from advertising so were not answering the question. Many candidates did draw a diagram (but this was not required) and examiners were looking for references to a right shift in the demand curve. For the competing arguments, again these had to be focused on the demand curve and not about the cost of advertising. Examiners looked for references to the advertising campaign being unsuccessful and not shifting the demand curve due to poor advertising or that other rival taxi firms also advertised or had a USP so again, there was an insignificant impact on the demand curve.

Uber is planning an extensive advertising campaign across the UK in 2016.

(d) Discuss the possible impact on Uber's demand curve from this advertising campaign.

(8)

One possible impact on Uber's demand curve is that it will shift right meaning the demand has increased at all price levels. The advert may get more people to use Uber over rivals such as black cab & therefore they will see an increase in demand.

On the other hand, the advert may have no impact on the demand curve for Uber as other competitors like PMV may compete on other factors to gain more demand e.g. they may come up with a unique selling point that could possibly ^{even} shift Uber's demand curve inwards as the demand for ^{other} taxis ~~increases~~ e.g. PMV increases.



ResultsPlus

Examiner Comments

This response scored 6 marks. The candidate was able to fully explain the impact on the demand curve from the advertising campaign. They then give a counter argument as to why the demand curve may not shift. There was relevant evidence on both sides of the argument. This did access Level 3.



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Examiner Tip

Discuss = evaluation. It does not have to be as deep as a 12 mark question but there has to be a balanced awareness of competing arguments. A conclusion is not required for a 'Discuss' question.

Question 2 (e)

This was a levels-based question with four levels for this question. Many candidates were able to evaluate and provide logical and realistic ways a small taxi firm could compete in the taxi market. Examiners accepted all possible ways such as price and non-price strategies, USP, differentiation, advertising, customer service, technology, targeting niche markets and women only drivers.

Examiners did see some one-sided responses with relevant evidence but these were unable to enter Level 4 as the bulk of the descriptors are concerned with candidates providing evaluation and a full and balanced awareness. For a Level 4 response, examiners were looking for arguments which were developed and evaluated and were supported throughout with relevant evidence. For a high Level 4 response, examiners were looking for developed evaluation as well as a full and balanced awareness of the validity and significance of competing arguments.

(e) Assess how a small private hire vehicle firm could compete successfully in the taxi market.

(12)

A small private hire vehicle firm could compete successfully by being in a niche market.

For example, a small high end taxi firm may offer a different style of luxury taxi, which focus on giving the customer a comfortable journey, for example with leather seats and a complimentary drink and lots of foot room, like a limousine. This allows them to increase prices so they can compete successfully.

A company like Uber who started as a small private hire vehicle firm used product differentiation. They had an app, and no physical payment was given. This led to brand loyalty within their customers, so they were able to compete successfully.

However, it may be difficult, as technology is advancing. Small local taxi drivers used to have a good knowledge of local streets, which was

beneficial to them, however now with the existence of SatNavs, this knowledge isn't needed and big taxi firms have knowledge of local streets electronically.

Also, it is likely that bigger taxi firms are trusted as they are well known and drivers have a reputation to uphold, so customers may feel safer to use the service of a larger taxi firm instead.

In conclusion, I think that small private hire taxi firms can compete by proving themselves to be safer than larger taxi firms. For example, Uber's app tracks the journey to friends and relatives know that the customers are safe, which creates trust and brand loyalty.



ResultsPlus Examiner Comments

This response scored 10 marks and accessed Level 4. The candidate used economic concepts and fully explained how these could gain customers in the taxi market. This was then contrasted with a counter argument as to why it may be difficult to compete with the advent of technology. The response was balanced and had relevant evidence throughout. The conclusion did not really add anything to the response and simply repeated the earlier points made.



ResultsPlus Examiner Tip

Use a conclusion in the 'Assess' questions. Do not just repeat what you have already said in the response but consider a 'full and balanced awareness of the validity and significance of competing arguments'. What does it depend on? Are there any arguments which are stronger than others? Consider the short term and long term.

Question 3

This was the largest mark question on the paper, worth 20 marks and had four levels. Overall, examiners were pleased with the responses seen as many candidates were able to give the benefits as well as the difficulties of inorganic growth. Examiners were looking for relevant evidence in terms of using the information in the Extract or by candidates bringing in their own examples which they may have studied in class. More able candidates were able to really contextualise their response and use the information in the Extract such as the newly formed firms will have 2,000 dairy farmers as suppliers, employ over 8,000 and will now process 25% of Britain's milk production.

More able responses with accurate knowledge, supported by use of relevant evidence and an awareness of competing arguments which had correct chains of reasoning, were able to access Level 3. In order to access the highest marks, examiners were looking for a 'nuanced and balanced conclusion' and better use of economic concepts which were very well developed and applied throughout to Muller.

Timing seemed to be better this year and the vast majority of candidates did spend the required time on this question.

3 Evaluate the possible benefits of inorganic growth for a firm such as Muller Milk & Ingredients.

(20)

Inorganic growth is when a firm expands through a merger or a takeover with another business. In this case, Muller has merged with Dairy Crest in the hope that as a combined business, they will generate more revenue.

Growing inorganically will mean growth is faster than if Muller had grown organically from within. Now that the business is combined, it will be able to rationalise so costs can be cut. This is because the firm only needs one head office and one manager, so some employees of the former ~~two~~ will be made redundant. This will allow the firm Muller Milk & Ingredients to select employees with the best skills and in order to increase efficiency and therefore profitability. Economies of scale ~~can~~ can be reached as average costs will be lower as they are spread over a higher level of output.

Merging will allow the new business to increase market share and acquire brand names and patents as well as entry into other geographical locations. An increased market share may mean the new firm has more monopsony power as they can control the price of milk from farmers or other suppliers due to them being one of the main purchasers.

The new firm will be able to build a good rapport with suppliers, who will be reliable and therefore increase productive efficiency of the firm.

On the other hand, there may be risks associated with growing inorganically as it is an expensive process. The merger ^{was expensive and} cost £80 million, which may have been more than Dairy Crest was actually worth, so Muller will have to pay back more than it would have done ^{in interest than} if it had paid less in the first place. There is also a possibility that diseconomies of scale may be reached and average costs will rise as the firm is not as productive.

Additionally, if the merger is unsuccessful, it will be difficult for the two there may be a culture clash between the managers or employees of the two firms which will make it difficult for them to work together and can reduce productive efficiency. As a result, there could be a lack of synergy as the firm may become too big to manage, so less milk will be sold, reducing profitability. Rival dairy firms may become more competitive to try and increase their own market

share by selling in large supermarkets like Asda and Tesco or diversifying their product range.

It would have been cheaper for Muller to grow organically as they would have had less debt and could use retained profit or money from sale of assets to pay for growth and expansion.

In conclusion, the success of inorganic growth depends on the elasticity of dairy products like milk, which are generally considered a normal

necessity. It also depends on whether the two firms are able to work together to increase efficiency and how rival firms react. The stakeholders in both will be satisfied as long as the firm makes a profit, which is the main aim of business growth, ^{inorganic} ~~is~~.



ResultsPlus Examiner Comments

This response scored 17 marks and accessed Level 4. The response is detailed, balanced and uses relevant evidence throughout. Great use of economic concepts rather than a 'common sense' approach. The candidate also considers alternative ways (organic) of growth for Muller.



ResultsPlus Examiner Tip

Make sure you spend the correct amount of time on this question as it is worth 25% of the marks. Some candidates do this question first but so long as you give the appropriate amount of time to this question, you should score highly. Remember to use the data in the extract or if the question says 'for a firm such as...' you can use your own examples as well. Make sure you have a good conclusion which doesn't just repeat earlier points.

Paper summary

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

- Read the questions carefully in terms of the command words. It was clear that some candidates were not aware of the demands of the question or how to structure their responses.
- Q1(a) and Q2(a) will require two parts to the explanation and examples are not rewarded.
- Quantitative skills will be tested throughout the paper and these may be in the form of calculations or using the data from the Extracts to provide the Application in the 4 mark questions.
- The 4 mark 'Explain' questions will always have two Application marks so ensure that there is enough Application to gain both marks.
- The command word 'Discuss' is an evaluative command word so candidates must provide both sides of an economic argument in order to achieve full marks.
- 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:

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