Mark Scheme (Results)

Summer 2017

Pearson Edexcel Level 3 Advanced GCE
in Economics B (9EB0)
Paper 01 Markets and how they work

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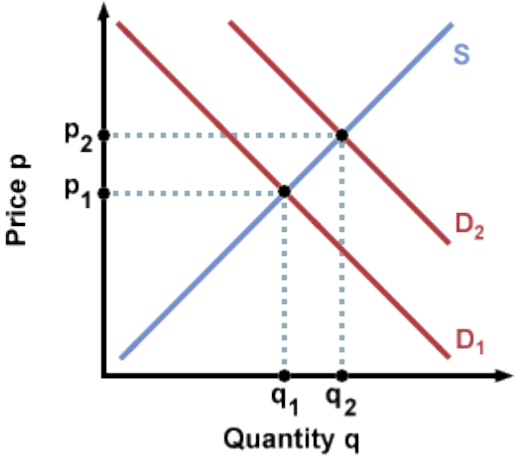
General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.

- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.

- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.

- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.

- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.

- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.

- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.

- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

Section A

Question Number		Mark
1(a)	**Knowledge/Understanding 1, Application 3** **Knowledge/Understanding:** 1 mark for formula Operating profit x 100 (1) Revenue **Application:** Up to 3 marks for calculations 110 x 120% = operating profit of £132m (1) 132/951x100 (1) = 13.88% (1) **NB if no working is shown award marks as below**: If the answer given is 13.88% award 4 marks. If the answer given is 13.88 award 3 marks.	**(4)**

Question Number		Mark

1(b)	**Knowledge/Understanding 1, Application 3**
	
	Knowledge/Understanding: 1 mark for formula
	Difference in price / original price x 100 (1)
	OR
	Current price – original price / original price x 100 (1)
	
	Application:
	Up to 3 marks for calculations
	
	Difference 87.98 - 109.39 (1)
	        -21.41 / 109.39 (1)
	        = -19.57% (1)
	
	NB if no working is shown award marks as below:
	If the answer given is -19.57% award 4 marks.
	If the answer given is -19.57 award 3 marks.
	If the answer given is positive no marks can be awarded.
		(4)

Question Number		Mark
1 (c)	**Knowledge/Understanding 2, Application 1, Analysis 1** **Knowledge/Understanding:** up to 2 marks for: correctly constructing supply and demand curves and for correctly labelling the axes with price and quantity (1) showing original equilibrium price and quantity p_1 and q_1 (1). **Application:** 1 mark for correctly interpreting the shift in the demand curve to the right. **Analysis** 1 mark is available for showing new equilibrium and consequences on the quantity and price axes p_2 and q_2.	**(4)**

Question Number		Mark
1(d)	**Knowledge/Understanding 2, Application 2, Analysis 2** **Knowledge/Understanding:** up to 2 marks for identification of the market structure and pricing strategy – Oligopoly (1); identification of valid pricing strategy (1). **Application:** up to 2 marks for Costa, Nero and Starbucks dominant - 2842 of the 5781 coffee shops in 2014 (1) which represents 49% market share (1). **Analysis:** up to 2 marks for consequences may be oligopolies tend not to compete on price (1), therefore pricing strategy will be competitive/similar to rivals (1).	
		(6)

Question Number		Mark
1(e)	**Knowledge/Understanding 2, Application 2, Analysis 2, Evaluation 2** • Market share is a relative measure against external benchmarks so allows *Timberyard* to measure how they are performing relative to *Starbucks* / or other independents. • Helps judge effectiveness of marketing campaigns. • Market share drives the market's perception of a service, and the market's perception of a business is a prerequisite for growth. • Economies of scale (purchase of coffee. Management costs, advertising etc) may be derived from size. • However other objectives may be more important in this very competitive, oligopoly market. • Ethical considerations may be a key consideration such as supporting local producers. • Customer satisfaction and loyalty of the creative Londoners may be a key focus. • *Timberyard's* new venture in Soho is aimed at satisfying this market segment rather than pursuing market share. • Survival may still be an important objective in this very competitive industry with established branded retailers, new independents and supermarkets entering the market. • ROI may be crucial. The Soho store in the heart of London will be costly and payback is crucial.	**(8)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Isolated elements of knowledge and understanding, using little or no relevant evidence. Arguments and chains of reasoning may be attempted. Limited attempt to address the question.
Level 2	3–5	Elements of knowledge and understanding, using limited relevant evidence. Arguments and chains of reasoning are developed. Judgements may be attempted.
Level 3	6–8	Accurate knowledge and understanding, supported throughout by use of relevant evidence which is well chosen. Arguments are developed, using logical, coherent chains of reasoning. A balanced awareness of competing arguments.

Demonstrating application (AO2) in responses
Where questions specifically stipulate the use of data or information
provided in a stimulus, students:
- must directly reference, interpret or analyse the information provided
  in the stimulus
- in addition, may select examples from their own knowledge but these
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Question Number		Mark
1(f)	**Knowledge/Understanding 2, Application 2, Analysis 3, Evaluation 3**	
	• Lower input costs, coffee prices reduced by 20%, should reduce cost of cup of coffee to the retailers.	
	• If cost savings passed onto consumers then the price in the coffee shops should fall and the consumers benefit.	
	• The price is likely to fall if the coffee shop is competing heavily on price factor/if price elastic.	
	• However, though Coffee price reduced in 2015 by 20% the coffee may be a small element of the overall costs e.g. barista costs, coffee shops on high streets have high fixed costs.	
	• May not affect consumers short term due to fixed/forward contracts for coffee with farmers.	
	• If consumers loyal to brand, good is price inelastic then retailers may maintain current price level.	
	• Due to fluctuating wholesale prices (as shown in the evidence) retailers may see uncertainty in the coffee market and price stability and take no action short term.	**(10)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Isolated elements of knowledge and understanding, using little or no relevant evidence. Arguments and chains of reasoning may be attempted. Limited attempt to address the question.
Level 2	3–4	Elements of knowledge and understanding, using limited relevant evidence. Arguments and chains of reasoning are presented but with limited attempt to address the question. Comparisons and judgements may be attempted.
Level 3	5-7	Accurate knowledge and understanding, supported by use of relevant evidence to support the argument, clear chains of reasoning, well developed with arguments. An awareness of the significance of competing arguments is present although this may lack balance.
Level 4	8-10	Accurate knowledge and understanding, supported throughout by use of relevant evidence which is well chosen, logical, coherent chains of reasoning, showing full understanding of the question. Arguments are developed and evaluated. A full and balanced awareness of the validity and significance of competing arguments.

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Question Number		Mark
1(g)	**Knowledge/Understanding 2, Application 2, Analysis 4, Evaluation 4** • Non-price competition occurs in situations of imperfect competition. Products will not be homogeneous although some may be very similar. • Differentiation of drinks may attract customers interested in speciality coffees, which in turn may lead to premium pricing. • Non-price methods may include level of service offered. *Timberyard* aim to meet the 'evolving needs of life in London' to respond to social trends and increase sales. • Coffee shops are seeking to differentiate as with *Timberyard* and their vibrant workspaces and commitments to local suppliers to increase demand. • Loyalty schemes such as loyalty cards are used to encourage repeat purchase and build brand loyalty. • Growth of chains in major cities help build brand awareness as independents transform into small chains. • Location is an important factor to attract consumers, whether that is adding to the vibrancy of the local community or locating in prime locations such as Soho. • As it is a growing market non-price factors may be more important than price. Discounted or lower prices may lead to perception of lower quality, discouraging some consumers. • May be more realistic that there is relative price stability in an oligopoly and customer loyalty built on other factors e.g. location, differentiation, levels of service. • Price may be a more important factor -Price strategies may be: discount pricing, price discrimination, BOGOF, predatory pricing to attract greater footfall. • However, this may cause problems e.g. price wars. This depends on reaction of other firms (may refer to game theory) and could result in cost cutting/lower levels of service for customers. • Pricing may be an important factor to price sensitive consumers and may be more evident in the non-specialist coffee providers such as supermarkets and public houses rather than speciality coffee retailers.	**(12)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Isolated elements of knowledge and understanding, using little or no relevant evidence. Arguments and chains of reasoning may be attempted. Limited attempt to address the question.
Level 2	3–5	Elements of knowledge and understanding, using limited relevant evidence. Arguments and chains of reasoning are presented but with limited attempt to address the question. Comparisons and judgements may be attempted.
Level 3	6-9	Accurate knowledge and understanding, supported by use of relevant evidence to support the argument, clear chains of reasoning, well developed with arguments. An awareness of the significance of competing arguments is present although this may lack balance.
Level 4	10-12	Accurate knowledge and understanding, supported throughout by use of relevant evidence which is well chosen, logical, coherent chains of reasoning, showing full understanding of the question. Arguments are developed and evaluated. A full and balanced awareness of the validity and significance of competing arguments.

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Question Number		Mark
1(h)	**Knowledge/Understanding 2, Application 2, Analysis 4, Evaluation 4**	
	• A contestable market is a market structure where there is freedom of entry and exit. It is a market structure which has low sunk costs. • There is evidence of contestability as new firms, such as *Taylor St. Baristas* and *Timberyard*, are entering the market and winning awards. New firms bringing are out new coffees/niche products and service. • There is evidence of entrance/growth in the non-speciality sector such as garden centres, showing access to the coffee market. Supermarkets, garages etc. are also providing coffee shops/concessions. • Economic upturn in the UK may encourage more dining out/café culture and encourage new entrants to the growing market. • The names of some new entrants are already well established such as *Timberyard* and independents are now 'transforming into smaller chains'. • There is little evidence of high sunk costs/or high technology levels/or collusion in the coffee market which may prevent new entrants to the market. • However the high investment costs into premium high street London locations e.g. Soho, plus coffee machinery costs may prevent new entrants. • Level of contestability may be low due to economies of scale gained by large branded retailers such as *Costa* who opened 151 new outlets in 2014. • It is likely that most large retailers have contacts/vertical integration with coffee growers giving cost advantages over new entrants. • There is limited evidence that the new entrants will survive. Due to brand loyalty, *Costa* and *Starbucks* are now household names.	**(12)**

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Level 2	3–5	Elements of knowledge and understanding, using limited relevant evidence. Arguments and chains of reasoning are presented but with limited attempt to address the question. Comparisons and judgements may be attempted.
Level 3	6-9	Accurate knowledge and understanding, supported by use of relevant evidence to support the argument, clear chains of reasoning, well developed with arguments. An awareness of the significance of competing arguments is present although this may lack balance.
Level 4	10-12	Accurate knowledge and understanding, supported throughout by use of relevant evidence which is well chosen, logical, coherent chains of reasoning, showing full understanding of the question. Arguments are developed and evaluated. A full and balanced awareness of the validity and significance of competing arguments.

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Section B

Question Number		Mark
2	**Knowledge/understanding 4, Application 4, Analysis 6, Evaluation 6**	
	• Falling oil prices are likely to lead to falling prices elsewhere in the economy because oil is an important part of the cost of production and transport.	
	• Falling costs of production for firms may lead them to increase investment. Further increases in AD AS and real income which could lead to a fall in unemployment.	
	• Savings made from lower petrol prices allow households to increase spending elsewhere, thus increasing AD.	
	• As a result of growing economic activity, government tax revenues may also rise as the tax taken from corporate and personal income taxes increase, perhaps offsetting declining revenues from the oil sector.	
	• Many other oil related costs, such as plastics and man-made fabrics will directly fall, leading to lower costs and prices, reducing inflationary pressures.	
	• The value of oil imports will drop. This will reduce the current account deficit.	
	• In recent years - may reduce income inequality for low income earners where a high proportion of income is spent on fuel resulting in a real saving.	
	• Falling oil prices could delay investment into alternative 'greener' forms of energy, such as electric cars and investment in fracking.	
	• Falling oil prices could increase car usage, leading to a steady increase in traffic congestion and environmental costs of petrol use.	
	• Falling oil prices rather than helping increase spending is pushing down the inflation rate and making actual deflation a real possibility.	
	• However, Figures 1 and 2 show that oil and fuel prices fluctuate and a fall in price may be temporary.	
	• Cost savings may not be passed on immediately to the consumer and Industry may be reluctant to invest.	
	• Supply chains and fixed price contracts may mean benefit/impact not felt immediately.	
	• Depends on significance of fall as some consumers may not feel much better off in times of falling retail prices.	
	• Different effects on different industries - for oil exporters, a falling oil price will do the opposite reducing the value of their exports. The UK is currently a small net importer of oil, so will have limited impact on UK current account.	
	• Dependency on oil may be falling due to increasingly service based economy and/or increased use of renewable energy sources.	**(20)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Isolated elements of knowledge and understanding, using little or no relevant evidence. Arguments and chains of reasoning may be attempted, but fail to connect causes and consequences. Limited attempt to address the question.
Level 2	5-9	Elements of knowledge and understanding, using limited relevant evidence. Arguments and chains of reasoning are presented, but connections between causes and consequences are incomplete. Limited attempt to address the question. Comparisons, judgements or conclusions may be attempted, but are unsupported or generic.
Level 3	10-15	Accurate knowledge and understanding, supported by use of relevant evidence to support the argument, developed chains of reasoning, showing understanding of connections between causes and consequences. Arguments are well developed and competing arguments are present although this may lack balance. A conclusion may be attempted but may not show awareness of the significance of competing arguments
Level 4	16-20	Accurate knowledge and understanding, supported throughout by use of relevant evidence which is well chosen and fully integrated to support the argument, well developed and logical, coherent chains of reasoning, showing full understanding of the question. Arguments are fully developed and evaluated. A full awareness of the validity and significance of competing arguments, leading to nuanced and balanced comparisons, judgements or conclusions.

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Section C

Question Number		Mark
3	**Knowledge/Understanding 4, Application 4, Analysis 6, Evaluation 6** • Customers are protected from market imperfections and failures and should see improved service eg accessing their accounts using ATM's etc gives customer confidence if information asymmetry reduced. • Business customers may see reduction in charges if bankers are regulated in terms of salaries and bonus's awarded. • Government – savings and investments encouraged if financial services operating effectively. This should also positively affect shareholder's returns. • UK taxpayers- stronger policy will prevent taxpayers from being forced to pay if big banks collapse, in the event of another financial crisis. • Another important role of regulation is to set minimum standards and thereby remove failing banks from the market. By setting standards banks should also maintain standards and participate actively in the market. • Without restriction and changes to the 'too big to fail' concept then moral hazards may increase e.g. consumers are less careful in the selection of bank. With a view that depositors are protected, the financial firm may be induced to take more risk. Banks can hold lower levels of capital because of deposit insurance. This could lead to collapse like Northern Rock and taxpayers/Government bailing banks out. • However bank employees may not be rewarded sufficiently for their efforts if remuneration capped. • In turn the banks may lose their best managers to other industry/overseas which may cause skill gaps. Banks themselves may move abroad. • Can banks self-regulate? Regulation costs are high as well as the cost of the fines –increasing costs to customers and potentially reducing dividends to shareholders. • Unless banks can earn returns that are sufficiently attractive to private investors to draw in capital, then they will suffer a slow decline. That could choke off credit to companies and households, damaging economies and diminishing growth.	**(20)**

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