

Examiners' Report
June 2018

GCE Economics B 8EB0 01

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Introduction

A good awareness of economics and business was shown by candidates taking this, the first paper of the 2018 AS Economics B specification. In general, candidates appeared to be well prepared for the topic areas covered by theme 1, and more so than in the previous series. 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 generic approach. The levels of response questions required understanding to be developed and applied to the relevant evidence. Although many adapted this approach there were 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 and responses on the final question appeared to have benefitted from a little more preparation regarding the time allocation by the candidates.

Question 1 (a)

There were two parts to the explanation of entrepreneur and examiners were looking for references to organising factors of production with the aim of adding value. Candidates had to provide both parts to gain 2 marks. Examiners accepted references to 'revenue setting up in business' as well as 'taking risks' but did not accept vague references to 'making a profit'. Examples were occasionally used by candidates but no marks were available for the use of examples. Partial explanations were awarded 1 mark.

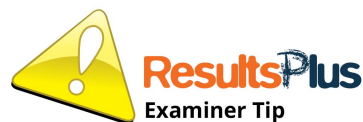
1 (a) What is meant by the term 'entrepreneur'?

(2)

An entrepreneur is someone who takes a risk with a business venture and organises factors of production well. They use their ideas to grow a business.



This response was awarded 2 marks as it has both the required parts in the explanation: 'takes a risk' and 'organises factors of production'.



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, but some candidates confused gross profit with gross profit margin. 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 two 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 gross profit margin for SSL in 2015. You are advised to show your working.

$$\text{gross profit} = \text{Turnover} - \text{cost of sales expenses (vc)} \quad (4)$$

$$\text{GP margin} = \frac{\text{GP}}{\text{turnover}} \times 100$$

$$15.9 - 10.28 = 5.62$$

$$\frac{5.62}{15.9} \times 100 = 35.35\%$$

35.3459



ResultsPlus
Examiner Comments

This response scored 4 marks. It has clear workings to arrive at the correct answer of 35.35%.



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. If the question asks for a percentage or an answer to two decimal places, then full marks can only be achieved by using a percentage and to two 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 showing knowledge/understanding of opportunity cost. Application could be awarded for contextualising the answer to Adam having gained his degree and Elliot having trained to be a solicitor. 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 applied knowledge such as Elliot and Adam not being guaranteed a secure income by setting up SSL.

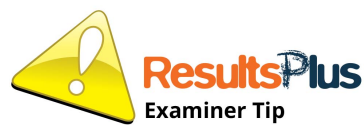
(c) Explain the opportunity cost for Elliot and Adam of setting up SSL.

(4)

Opportunity cost is the cost of the next best opportunity forgone when making a decision. In the case of SSL and its founders the opportunity cost for Elliot would have been the salary he would have received as a solicitor and Adam could have had an equally lucrative career option depending on his degree. By deciding to focus on SSL instead they gave up the opportunity to start these careers early on and the opportunity cost is the missed salary.



This response scored 4 marks as it met all of the criteria required by the AOs in the mark scheme. Knowledge of opportunity cost is shown, followed by reference to Elliot missing out on a solicitor's salary and Adam missing out on a lucrative career. The link between these and the opportunity cost is clearly explained alongside the application to gain the analysis mark.



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. There were some very good discussions regarding the benefits of having limited liability alongside its drawbacks but some candidates incorrectly discussed benefits of being a private or public limited company.

(d) Discuss the benefits of limited liability to Elliot and Adam when operating SSL.

(8)

Limited Liability is where the debts your personal assets are not in danger if the just everything associated with the business.

In this case, the benefits of limited liability for Elliot and Adam is that they are not at risk of losing their assets if Sports Supplements can not pay its debts this is because Sports Supplements is a private limited company. As a consequence, Adam and Elliot are able to take more risks and so will be able the business will be able to grow faster. This may mean they can expand to the US which is said to be risky because they are limited and able to take the risk.

However, limited liability for Elliot and Adam may not be so beneficial this is because they will now have to share the sales figures and all figures on associated business and so competitors can will be able to find out how well Sports Supplements are doing.

As a consequence, they will have a loss of a competitive advantage over competitors as they their competitors will be able to know everything about their business. This may mean Elliot and

Adam will be not be able to expand
as quickly e.g. to US.



This response scored 7 marks. It provides a two-sided argument and uses relevant evidence throughout the answer. There is also a good balance between the competing arguments but it does not receive full marks as the chains of reasoning are not fully developed.



The command word 'discuss' requires a two-sided argument. In this question, it was the benefits and drawbacks of limited liability. If a candidate didn't provide a two-sided argument they would restrict their marks. A conclusion is not required for an 8 mark 'discuss' question.

Question 1 (e)

This was a levels-based question with four levels. Many candidates were able to assess a rationale why a bank loan was refused, providing arguments for and against the justification of this. For a level 4 response, examiners were looking for developed arguments stating both why it may have been a good decision, using evidence but also why it may not have been, 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) Elliot and Adam were refused a bank loan when they started their business in 2005.

With reference to Extract A, assess if the bank made the right decision.

(12)

A Bank loan is offered from financial institutions to businesses and individuals, usually with a certain risk in hope they receive a good return through payback and collateral.

One reason the bank refused is due to the inexperience Elliot and Adam may have in business. One is training to be a solicitor - in a completely different field, and the other is still studying to get a degree. This would mean that they have a much greater risk because they are inexperienced and unable to effectively control a business - in the eyes of the bank. All they have is knowledge of the market through being gym crazy and bodybuilders which may not be enough.

Furthermore, the businesses plan to import supplements and sell into a UK and European market is very uncertain. Importing can have a great deal of risk as it is very reliant on strength of the currency or domestic prices, if these fall then the business will start to struggle, and it will be hard to lower costs as they are reliant on importing from the US market.

This shows how the business has a great deal of risk as it could quite easily fail just because of the nature of the business plan - which this itself could be not up to scratch due to a lack of expertise.

However, even though the business is quite risky, Elliot and Adam have quite clearly shown the gap in the UK market for relatively cheap products as there is not cheaper supplements like in the US, which have "significantly cheaper" prices on the website. This can be very beneficial as they will have a USP, which will allow ~~them~~ ^{SSL} to make high returns quickly, if exploited well. Moreover, having this USP allows them ^(SSL) to make substantial profits and grow very quickly to achieve and exploit economies of scale - bulk-buying allows for negotiated pricing, which will allow the company SSL to lower costs and lower prices to achieve greater profit margins. Furthermore, this allows to lower costs or have lower costs in comparison as they may only need a great ~~etc~~ online presence and not a physical store, with high or long-term running costs, which lowers profits, due to the nature of the market being mainly online in the digital economy.

Overall, I believe that even though the bank refused, they should have ~~g~~ ~~df~~ given a small £6000 loan to the business - especially if they look into the market and business plan effectively. But due to the nature of the owners I can see why they refused.



This response achieved level 4 - 12 marks. It has a well-balanced, logical and coherent argument with good chains of reasoning. Arguments are developed and evaluated with a further appropriate link to the extract being effectively used in the conclusion to show significance of the argument presented.



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 'regulation' and examiners were looking for references to rules made by governments/authorities and what those rules were to achieve. Candidates had to provide both parts to gain 2 marks. Examiners accepted references to 'control of an activity' and to 'reduce market failure'. Examples were sometimes used by candidates but no marks were available for the use of examples. Partial explanations were awarded 1 mark.

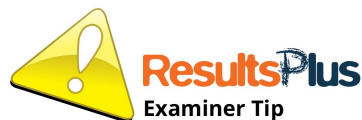
2 (a) What is meant by the term 'regulation'?

(2)

Regulation refers to laws created by and rules created by the government to help correct a market failure or to simply attempt to control economic activity.



This response was awarded 2 marks as it has both the required parts in the explanation: 'rules created by government' and 'to correct a market failure' are both used.



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.

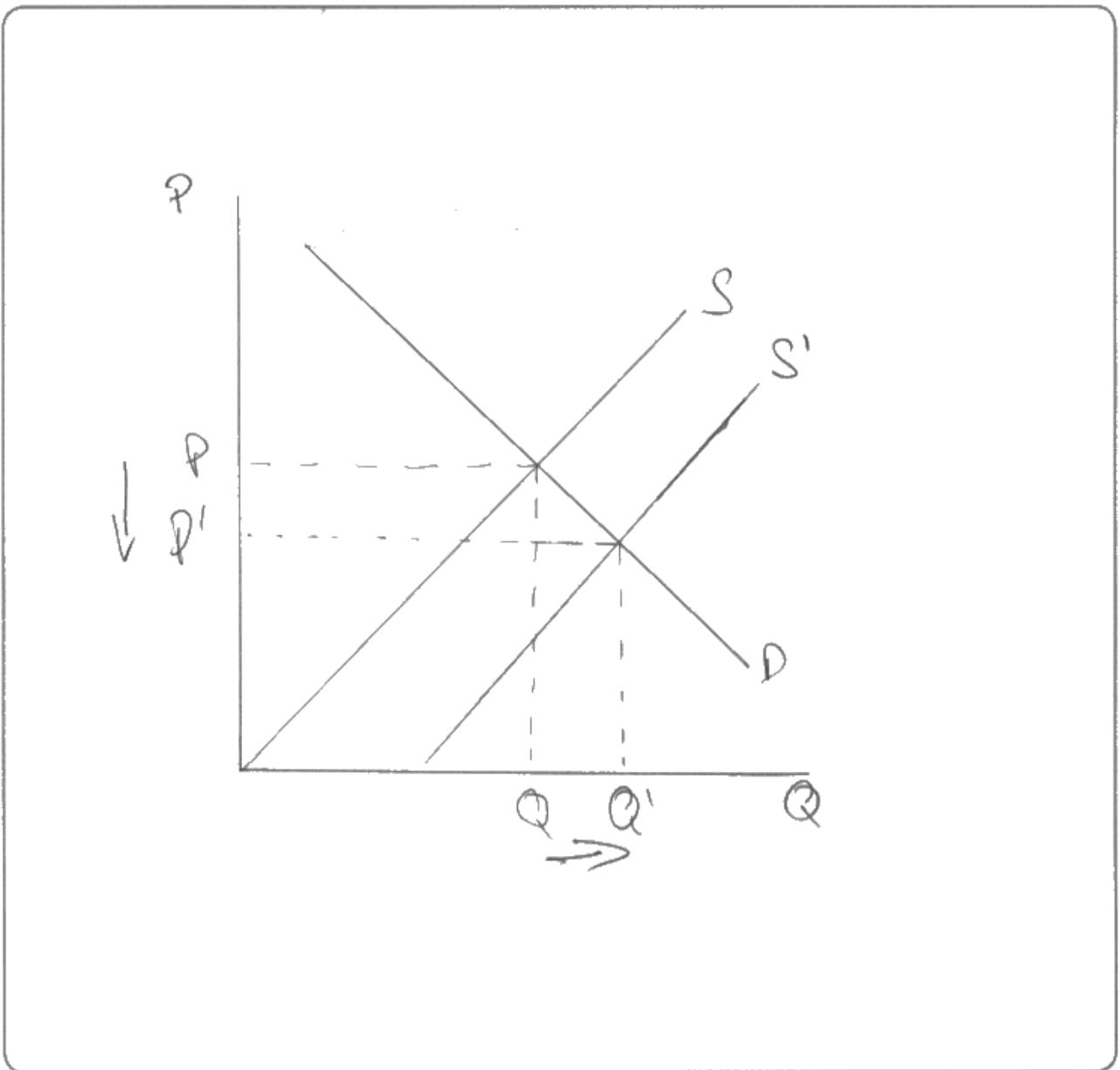
Question 2 (b)

Many candidates were able to correctly draw a supply and demand diagram with an outward supply shift, thus achieving 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.

- (b) Tax breaks have been introduced to micro-entrepreneurs who offer accommodation.

Using a supply and demand diagram, illustrate the likely impact of this on the market for accommodation offered by micro-entrepreneurs.

(4)





This response was awarded 4 marks as it has correct labelling, the correct original and new equilibrium positions and the correct outward shift in supply.



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 1(b), many candidates were able to calculate the correct answer and so were awarded 4 marks. Again, 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 two decimal places.

- (c) Calculate, to 2 decimal places, the percentage change in the number of Airbnb listings in London between July 2015 and September 2016 (Extract C). You are advised to show your working.

(4)

$$\text{Percentage Change} = \frac{\text{Difference between Values}}{\text{Original}} \times 100$$

$$42647 - 31000 = 11647$$

$$\frac{11647}{31000} \times 100 = 37.57\% \text{ increase in the number of Airbnb listings.}$$



ResultsPlus
Examiner Comments

This response scored 4 marks. It has clear workings to arrive at the correct answer of 37.57%.



ResultsPlus
Examiner Tip

Candidates should be able to make calculations as shown in the QS appendix of the specification.

Question 2 (d)

Like 1(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 unique or standard accommodation allowing either a higher or lower price versus location being an alternative. More able responses made good use of the evidence.

(d) Extract B gives examples of standard and unusual Airbnb accommodation.

Discuss the extent to which the type of accommodation might determine the price set by Airbnb hosts.

(8)

The type of accommodation may determine the price set by Airbnb hosts because if the accommodation is unique and niche, they may be able to charge a higher price for the accommodation because it is differentiated. As a consequence, accommodation such as a ~~tree~~ treehouse or a lighthouse may not be in huge supply, yet demand may be high because of the unique experience consumers would gain from their holiday. This may mean consumers will be willing to pay this higher price if the accommodation adds value to their holiday - for example the added value of sleeping in a tree house.

However, the type of ~~accomo~~ accommodation might not hugely determine the price set by Airbnb hosts because in London alone there are 42,647 Airbnb hosts and so consumers may not pay too high a price if they could easily find ^{an} alternative Airbnb. As a consequence, competition in cities like London and Brighton may limit the price an Airbnb host can

charge for their Airbnbs because they ~~but~~ may not be able to ^{and anyone} ~~rent~~ to rent their if price is too high - competitive pricing is introduced. This may mean that an Airbnb host ends up making greater profit in cities such as London from charging a lower price - but increasing demand from ~~to~~ tourists to London - than charging a high price despite any unique features or even due to ~~the~~ being in London.



ResultsPlus
Examiner Comments

This response scored all 8 marks (level 3) as it discusses why the type of accommodation may determine the price set, with good use of evidence and then why location (London) may be an alternative to price determination, again using good evidence.



ResultsPlus
Examiner Tip

The command word 'discuss' requires both sides of an argument. In this question, the extent to which the type of accommodation determined price was to be discussed, allowing the candidate to talk about why this may or may not be the only factor for Airbnb hosts, based on the evidence provided in the extracts. 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 1(e), this was a levels-based question with four levels. However, unlike 1(e) use of evidence from the extract was not as good. More able responses used evidence from Extract C as well as Extract D, such as growth in Airbnb listings which greatly enhanced their response.

(e) With reference to Extract D, assess Airhead's potential for growth.

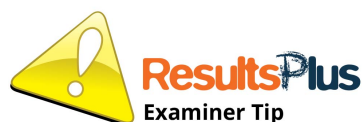
(12)

From extract D, it can be seen that Airhead's have a ~~huge~~ huge potential growth in the short term. ~~This~~ This can be supported by Amanda's idea leading to the rapid escalation into ~~her~~ running her own business, employing eight people. The potential growth is referred in the extract as "boom", indicating rapid growth in terms of GDP generated by the business. Amanda's business was unintentional but she has succeeded in filling a gap in the market. She has positioned herself in a niche market where prices can be charged ~~at~~ at premium to meet the objective of sales maximisation. The potential growth of Airhead can also be assessed based on the fact that Brighton is England's second most popular destination for short term lets. The demand for Airhead's is likely to be constant and fairly high in comparison to other rental businesses in the UK, the company is likely to benefit from growth. As Brighton has less regulation than London, this would mean a reduction in costs of Amanda's business. There are less rules and legislation to comply to, therefore the fees ~~for high~~ ^{for high} administrative costs are absent, the business's profitability is further increased/pushed up by the decrease in costs. However, this potential growth is likely to be a rather short term one as more entrepreneurs will see the

chance of entering the market. Profit/potential rapid growth of this particular type of business is likely to serve as an incentive for the business to enter the dynamic yet profitable market. Once the competition increases, and when Amanda is no longer the monopoly, ~~to sustain~~ Amanda will have to sustain her business using methods of differentiation or set herself at a competitive advantage ~~if she wanted~~ for her to benefit the potential growth.



This response scored 11 marks (level 4) as it is a good match to the level 4 descriptor for a 12 mark, 'assess' question. The only thing missing is it does not have the full awareness of the significance of competing arguments required for 12 marks.



As with 1(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 their own examples to highlight, depending on whether the question directs them to a specific extract. Also to 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 market research 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 and a generic list of disadvantages of market research was not likely to allow many candidates to achieve marks in the top level.

3 Evaluate the importance of market research to the success of a business such as Will's Wheelie Wash.

(20)

Market research is research carried out by a firm to find out what consumers want so that they can provide the best service possible. Market research can either be primary (carried out by the firm itself) or secondary (collected by another firm).

On one hand market research is important for a firm such as Will's Wheelie Wash. Firstly, this is due to the type of service they are offering. It is non-essential and very much a matter of preference. Due to this his service is very price elastic. This means that a small change in price has a large effect on quantity demanded. To lower his PED he must make his product more desirable so that he can keep revenue coming in. To keep demand high he must make his service the best it can be. And to do this he must conduct market research to find out exactly what consumers want. This makes market research extremely important for Will's Wheelie Wash as without market research they may see no demand for his service and so the business will fail. Another reason for market research being so important to firms such as Will's Wheelie Wash is the fact that Wheelie Bin washing is often something that people who have it done will not really take much notice of it unless and so would

not change the Supplier of the service unless they had a problem currently or a new firm offers something special and important to them. This is important as will's wheelie wash is currently expanding so will need to start working while since currently is chosen by others. To do this they must provide a better service to the consumer. To provide a better service they must conduct market research to find out what a consumer wants. Without market research the world struggle to gain new customers and the business may fail, so market research is very important to them.

On the other hand, market research is not that important to a firm such as will's wheelie wash. After all, what can be done when washing a wheelie bin to make one service better than another, as long as it is cleaner why does it matter who cleans it. Doing market research would be useless as it is costly and will most likely result in people just wanting lower prices. Also, depending on the type of market research it is not always correct, this could lead to will's wheelie wash providing a service that is not wanted and so the demand falls leading to the business failing. For market research to be worthwhile it has to be correct which can not be guaranteed.

To conclude, I believe that market research is very important to firms such as will's wheelie wash.

This is because the service they provide is non-essential and has a negative PED above 1. This means the service they provide has to be top quality for consumers to demand it. To provide a top quality service market research has to be done. Although the market research may be incorrect if a primary research this is unlikely and if carried out by yourself costs can be lowered significantly making market research very worthwhile and important.



This response achieved 17 marks (level 4). It uses evidence throughout to evaluate a two-sided argument which is logical and well developed. It fails to reach the top end of the level as the conclusion does not fully meet the descriptor nor does the response fully demonstrate awareness of the validity of competing arguments.

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. The response cannot go up as it does not have the nuanced judgement, however it goes down a little because arguments have not been fully evaluated throughout.



This question is worth 25% of the marks and so is it essential to ensure enough time is spent on it. It is important for candidates to remember that examiners are looking for an awareness of how significant competing arguments are.

Paper Summary

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

- Questions 1(a) and 2(a) are worth 2 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.
- There may be more answer space provided than you need to write your responses. This is also indicated on the front cover of the question paper.
- 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 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>

