

Examiners' Report
June 2018

GCE Economics B 8EB0 02

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Introduction

This was the third 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 better 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 are always two parts to the definition and examiners were looking for references to imports are from another country **AND** goods/services being bought/brought/transferred/received. Examiners also accepted that imports are a leakage/withdrawal as an alternative way of gaining a second mark. Overall, this question was well answered and the majority of candidates were able to score 2 marks for this question.

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

(2)

Imports are goods or services that are bought from another country. They are in a leakage in the circular flow of money because the money exits the domestic economy and injects into the foreign economy.



ResultsPlus
Examiner Comments

This example scored both marks and has that goods or services that are bought from another country (1 mark). The second mark was gained by stating it is a leakage in the circular flow of money.



ResultsPlus
Examiner Tip

Make sure your answer has two parts otherwise you will not be awarded both marks.

Question 1 (b)

Many candidates were able to calculate the correct answer and it is pleasing to see the improvement in the marks being achieved for these types of questions. Marks can be awarded for showing workings but these are not necessary if the correct answer is shown. There were some minor errors in that some candidates still did not include the percentage sign or their answer was not to two decimal places. Overall, most candidates were able to score at least 3 marks for this question.

In December 2016, *Nim's Fruit Crisps* produced 84,250 packets of fruit crisps.
The production line can produce 125,500 packets per month.

- (b) Calculate, to 2 decimal places, the capacity utilisation in December 2016. You are advised to show your working.

(4)

$$\text{Capacity utilisation} = \frac{\text{actual output}}{\text{maximum theoretical output}} \times 100$$

$$\frac{84250}{125500} \times 100 = 67.13\%$$



ResultsPlus
Examiner Comments

This response gives the correct formula and shows the workings in order to get to the correct answer of 67.13% so scores 4 marks.



ResultsPlus
Examiner Tip

Make sure you include the appropriate units and that your answer is to two decimal places, otherwise you will lose marks.

Question 1 (c)

This is marked using a points-based mark scheme. The knowledge mark is for giving one 'way' and examiners accepted any valid way which would improve capacity utilisation. Application marks were awarded for any use of relevant evidence such as the use of 84 250 or 67.13% from the previous question, references to dried fruit, different flavours and using locally grown fruit. There had to be two separate references to gain both application marks. Most candidates only gave one piece of application and many gave none at all. The analysis mark was awarded for how the stated 'way' could increase capacity utilisation. Unfortunately, many candidates misread the question and therefore performed poorly. Many candidates gave answers about how to increase productivity or efficiency rather than capacity utilisation and examiners were looking for ways to increase demand such as increased advertising rather than how to increase output per worker.

(c) Explain **one** way Nim's Fruit Crisps could improve its capacity utilisation.

(4)

One way in which Nim's Fruit Crisps (NFC) could improve its capacity utilisation is by extending their product range in the form of selling new types of dried fruits.

By selling new varieties of dried fruits, Niniasha will attract new customers who are looking for those particular fruits such as dried strawberries, for example and so demand for her products will increase. Her increased demand will mean that she will need to use her fruit drying machinery ~~and packaging~~ more and her production line will be used more thus her capacity utilisation will improve as she will be producing more packets per month in order to meet ~~the~~ the increased demand for her crisps.



This response scored all 4 marks and clearly shows how Nim's Fruit Crisps could improve its capacity utilisation by extending its product range. There are two separate application points and the analysis mark is gained by showing how extending the product range will use more of its existing resources thereby increasing capacity utilisation.



Application is usually the one area which is missing from the 4-mark questions or if it is present, there is only one piece of application. One tip is to write the application in separate sentences so that you know you definitely have two pieces. Application is NOT the name of the firm but it can be anything such as data, numbers or references to the products the firm makes.

Question 1 (d)

Overall, this was a popular question and candidates were able to use some of the information in the extract to write about the how lean production methods such as JIT, Kaizen, TQM may help *Nim's Fruit Crisps* achieve a competitive advantage. However, some candidates still only gave a one-sided response and focused on the benefits of lean production. Examiners did look for relevant evidence to *Nim's Fruit Crisps* rather than *KFC* or other firms. The command word is 'discuss' and this requires evaluation of the concept being examined so some responses were unable to fulfil all the requirements of a 'balanced awareness of competing arguments' in Level 3 descriptor in order to achieve full marks.

(d) Discuss whether using lean production will help *Nim's Fruit Crisps* achieve a competitive advantage.

^{lower costs less wastage}

^{expense to implement}
(8)

An advantage of lean production is that it should ~~enable~~ reduce wastage and increase ~~efficiency~~ ^{lowering the costs of the business} the ~~flexibility~~ of the business. By reducing wastage, 'Nim's fruit crisps' is likely to have lower costs of production and therefore may be able to lower their prices ~~at~~ which may be a source of competitive advantage in the competitive snack industry. However, given the impact of brexit ~~and~~ ^{on} increasingly import prices ^{to which is of 'water melon'}, these ~~lower~~ costs are more likely to be used in retaining existing prices ~~by~~ and lessening the reduction in their profit margins. Maintaining prices may give *Nim's fruit crisps* a competitive advantage as being a ~~low~~ price leader, ~~es~~ especially if their rivals raise prices.

A disadvantage to lean production is that it is ~~often~~ ^{expensive} may make it harder for 'Nim's fruit crisps' to respond to changes for demand for their products. As shown in the extract, 'export demand has gone up'. ~~However~~ However, if *Nim*

uses strategies like JIT then her ability to meet these new orders quickly will be diminished as she is unlikely to have excess stock, for example of watermelon. This may be a disadvantage to the business if their rivals are able to increase production and meet these orders at a faster rate.



ResultsPlus
Examiner Comments

This response scored 8 marks and did fulfil all the requirement in the level descriptor box to achieve this. There is plenty of relevant evidence used throughout the response and the argument is balanced and evaluated.



ResultsPlus
Examiner Tip

Discuss questions require evaluation. There does not need to be a conclusion but there does need to be a balanced awareness of competing arguments.

Question 1 (e)

For a 12-mark 'assess' question there are four levels and examiners read the whole response and then decide which level best fits the response. Many candidates gave a simplistic view of the impact of the depreciation of the pound sterling – explaining the impact on imports and exports with some relevant evidence to *Nim's Fruit Crisps* and using the data from the extract. A one-sided response with relevant evidence was *unlikely* to enter Level 4 as the bulk of the descriptors require evaluation and a full and balanced awareness. More able responses attempted to assess the extent of the impact or how this may affect *Nim's Fruit Crisps* in terms of investment, revenue, profit margins and uncertainty rather than just a simplistic view that imports are more expensive and exports become competitive.

(e) Using the data in Extract B, assess the extent to which the depreciation of the pound sterling (£) will have an impact on UK manufacturers such as *Nim's Fruit Crisps*.

(12)

The depreciation of the pound could have a significant and negative impact on products like NFC, as it could cause significant cost hikes. Since the pound fell in value by €0.21 from Jan-Oct 2016 and \$0.20 from Jan-Oct 2016, the costs of buying other currencies has increased significantly. This means that for businesses who buy dollars or euros in order to purchase raw inputs like goods and materials, costs can increase significantly – this drives up average costs per unit for UK firms so decrease profit significantly, affecting some UK firms tremendously. However, the extent of this impact may depend on where the business imports from – a business such as NFC might not see costs rise so much, since they are mainly purchasing inputs from countries not in North America or Europe, so they purchase extra fruit. For these businesses, costs may not rise as much, as the pound may not have fallen so far against their local weaker currencies, making the extent of this decrease.

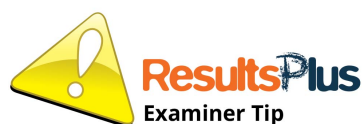
The depreciation of the pound could also have a significant positive impact, as international demand for our exports increases. The example of MFC saw "Export demand go up", as countries like Lithuania, Italy, France and Belgium start to demand our exports more. This is because a weaker pound makes our export

cheaper, as fewer of the local currency is needed to purchase them. This means that businesses like NFC can retail more abroad, increasing demand and revenue for firms significantly. However, the extent of this depends on the country itself. If they have an absolute or comparative advantage, and domestically produced goods are still cheaper and more desirable, then the demand might not rise that significantly at all, reducing the extent.

Overall, the impact is likely to be negative. The UK relies tremendously on ~~the~~ imported goods and materials, so ^{most} firms are likely to see increases in price, despite the potential of higher international demand, but the specific impact on a firm depends highly on its retail practices and the nature of it.



This response scored Level 4 and 11 marks. This went beyond the simplistic 'imports dear, exports cheap' evaluation and really looked at the extent of the depreciation on the firm. This response also had a conclusion which tried to say what the overall impact would be.



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. Often it is the quality not the quantity of your argument which will get you into Level 4.

Question 2 (a)

As with Q1(a), there are two parts to the definition and examiners were looking for references to: 'measurement of inflation/weighted index' **AND** it being 'a basket of goods'. Examiners did not accept examples of what is or isn't included in the basket of goods. Many candidates were able to score at least 1 mark for a partial definition.

2 (a) What is meant by the term 'Consumer Price Index'?

(2)

Consumer Price Index is the way in which inflation is measured, as an average price of a basket of goods bought by the consumer.



ResultsPlus
Examiner Comments

This scored 2 marks for the measure of inflation and reference to a basket of goods.



ResultsPlus
Examiner Tip

Do not use examples in your response as there are no marks available for these.

Question 2 (b)

This question was poorly done with many candidates not able to calculate the change in average earnings despite this being a very simple calculation. Many candidates instead calculated the change in real savings rate and many did not understand the difference between nominal and real. Marks were available for the correct formula and for showing the calculation. As in previous years, 1 mark was deducted for not showing the percentage sign.

- (b) Using Extract C, calculate the change in average real earnings for November 2016.
You are advised to show your working.

$$\text{Average real earnings change} = \frac{\text{average nominal earnings change}}{\text{inflation rate change}} \quad (4)$$

$$= 2.8 - 1.2$$
$$= 1.6\%$$



ResultsPlus
Examiner Comments

This candidate gives the correct answer (1.6%) as well as showing the formula and workings.



ResultsPlus
Examiner Tip

Read the question carefully so that you know exactly what you are calculating. Check the units are included in your answer.

Question 2 (c)

This like Q1(c) is marked using a points-based mark scheme. The knowledge mark could be awarded for stating there might be a negative impact, savings lose value or money is worth less. Application marks could be awarded for two separate references to the data in the extract. The analysis mark was awarded for candidates showing that savings can buy fewer goods.

(c) Using Extract C, explain **one** impact of rising inflation on individuals with savings.

(4)

Individuals who have savings in the bank will become worse off when the interest rate is lower than the consumer price index i.e. inflation rate. For example, in November 2016, a saver would have been effected because the ~~the~~ interest rate was 0.25% and inflation was 1.2%. Therefore as inflation rises, the purchasing power of the savings will be reduced and if the interest received on the savings is less than the rate of inflation, the individual will become worse off and the money is worth less. This is also the case in July, August, September and October, but not in May and June.



ResultsPlus
Examiner Comments

This response scored 4 marks and clearly shows the impact of rising inflation on individuals with savings. They have used the data from the table (0.25% and 1.2%) and have shown the consequence of this on the purchasing power of savings.



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)

For an 8-mark 'discuss' question there are three levels and examiners read the whole response and then decide which level best fits the response. Many candidates gave a simplistic evaluation of the impact on revenue so were able to access Level 2. Some candidates were able to link the impact on revenue to the type of ticket, the type of traveller and whether there are any substitutes to train travel.

(d) Discuss how price elasticity of demand might affect train operators' revenues following an increase in the price of rail tickets.

(8)

Price elasticity of demand shows that if the price of a product changes, the demand also does to, but is dependent on the elasticity of the product or service.

Price elasticity of demand may cause a decrease in train operators revenues following an increase in price because 60% of tickets are bought are unregulated fares such as off peak leisure tickets. This may PED may lead to a loss in revenue with an increase in the price of rail tickets, because these 60% of tickets sold are used for leisure trips that are not necessary, which means that a change average increase of 2.3% may decrease demand and therefore decrease revenue because there are less consumers willing to pay for the travel when their are cheaper substitutes such as bus, coach or car. However, the impact may be limited because the customers are able to see that the increase in price leads to a substantial worth of improvement on the railways which may overall increase the customer satisfaction of the service.

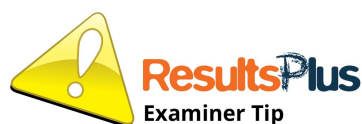
On the other hand, price elasticity of demand may not affect train operators revenue following an increase, because peak rate season tickets are capped at an increase at 1.9%. This means that for commuters, train tickets are often a necessity and are therefore more price inelastic because it is the most convenient way to get to work, which therefore means that revenue may not

decrease significantly because 40% of consumers may be willing to still pay, as well as the peak-rate season tickets offering a lower price in comparison to unregulated tickets which may suggest revenue may increase slightly due to a higher demand of the more expensive tickets. However, private trains as substitutes may limit that because they may attract more customers with lower prices and more reliability.

$$\frac{\% \text{ change in QD}}{\% \text{ change in price}}$$



This response achieved Level 3 and 6 marks. There is a clear understanding of the impact of PED on the revenue and the candidate has tried to look at the type of traveller and ticket type as to the impact on the overall revenue of train operators.



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 is a levels-based question and there are four levels for this question. Many candidates provided ways in which increased investment in the UK rail network would lead to economic benefits and candidates were able to discuss the potential economic benefits in terms of reducing unemployment, increasing productivity and reducing traffic congestion. The counter argument focused around the opportunity cost of the investment and whether there would be any economic benefits. Again, a one-sided response with relevant evidence is *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 high Level 4 response, examiners were looking for arguments which are fully developed and evaluated and are supported throughout with relevant evidence as well as a full and balanced awareness of the validity and significance of competing arguments.

geographical immobility, customer satisfaction

(e) Assess the economic benefits of increased investment in the UK rail network.

(12)

One economic benefit of increased investment in the UK rail network might be that ~~improved~~ ^{reduced} average journey times and diversification of addition of new rail routes as a result of the investment may eliminate some geographical immobility that is causing unemployment. By mobilising the unemployed geographically it would mean that they could "go where the jobs are" and find work more easily. This would result in lower unemployment, meaning more people would have more disposable income resulting in an increase in consumer spending. This increase in consumer spending would be a beneficial injection into the circular flow of income in the UK and could also increase aggregate demand.

However, investment in the UK rail network would mean that there would be less money to invest elsewhere. Train carriages, railway repairs and train engineering are all very costly and so some people might argue that this money could be better invested elsewhere such as in education and healthcare which will ultimately lead to a healthier, more skilled and more productive workforce in the future.

Nonetheless, increased investment in the UK rail network could still benefit the economy in that ~~the~~ the improved infrastructure of the UK may make it easier for companies to distribute within the UK and these improved transport links may reduce production time thus increasing efficiency of UK businesses making them more productive.

However it could still be argued that increased investment will not benefit in that until the rail network is designed in a way that will not need constant repairs to stations, lines and carriages, it will cost the UK government large amounts of money annually despite investment due to technology being so advanced yet.

In conclusion, increased investment would benefit the UK economy as long as the money was invested in the correct ^{locations} parts of the UK and other sectors such as healthcare were not in more desperate need of improvements.



ResultsPlus
Examiner Comments

This response was a clear Level 4 answer and scored 11 marks overall. There was plenty of relevant evidence used throughout the response and the counter argument was very well developed. The conclusion was good and did push this to the mid-point in Level 4.



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 impact.

Question 3

This is the largest mark question on the paper, worth 20 marks and has four levels. Examiners were looking for relevant evidence in terms of using the information in the extract but many responses tended to be generic in nature with little relevant data so these types of responses were likely to be in Level 2 or Level 3 band. Many responses focused on the negatives rather than the likely impact of unemployment on the Spanish economy. Some candidates saw high levels of unemployment as an opportunity for business start-ups, larger pool of workers to choose from, lower wage demands, lower inflation and used these ideas as counter arguments. Overall, examiners commented that some responses were very generic in nature and did not use the extract to support the evaluation. Some candidates incorrectly focused on how to reduce unemployment through the use of government policies rather than the question set.

3 Using Extract E, evaluate the likely impact of unemployment on the Spanish economy.

(20)

Unemployment refers to the % of the population who are not currently in formal work.

The Extract shows that Spain's unemployment figures have fallen from 27% in 2013 to 18.1% in 2016.

This number however is still a drastically high amount (the UK has approx. 4% unemployment in comparison). This concerning high value is likely to have lasting impacts upon the general success of the Spanish economy. For example the fact that over $\frac{1}{6}$ of the entire population is out of work will lead to a lower amount of average household incomes across Spain, due to the fact that many people do not have a reliable source of income.

This will likely cause a fall in consumer confidence within the Spanish economy resulting in lower amounts of consumer spending.

A reduction in expenditure will further damage the economy as firms' outputs will now also decrease due to the fall in consumer spending bringing down Aggregate Demand.

This will likely result in firms beginning to struggle as sales targets may not be met and profits may begin to slow down, slowing down growth and expansion within large numbers of markets.

Overall the still high numbers of unemployed within Spain are likely to cause the growth of the economy

to reduce, due to the fact that output from Spanish firms is likely to fall causing Spanish GDP to be damaged.

However on the other hand, there may be some benefits for the Spanish economy caused by the high unemployment.

Unemployed people are classified as seeking work but not currently in employment. And due to the 9% in unemployment between 2013 and 2016 it shows that those people are looking ~~to~~ to be back in employment. These factors suggest that Spain has a large available and willing labour market.

This large pool of eager workers may cause firms to be more confident in terms of expanding their businesses or aiming to grow as they can be confident that any new jobs created will be filled and they will have a large selection of employees to choose from, with a wide range of skills.

The large labour market may also encourage FDI into Spain as other multinationals will see Spain as an opportunity for investment due to the availability of labour (an important factor of production) who may be willing to work for cheaper rates due to the lack of other jobs.

Conversely the high unemployment may have long lasting effects due to the fall in expenditure, mentioned previously. This may be because of the negative multiplier effect caused by high unemployment firms may wish to scale back their operations further adding to the already large problem mentioned in the extract of long term unemployment. Although unemployment fell in those 3 years the Extract suggest long term unemployment did not fall, implying that this has been an ongoing concern within Spain's economy and may not be fixed easily. This is also down to negatively impact the Spanish economy as it's government has been forced to invest in a €515 m plan to tackle long-term unemployment. This is taxpayers money which could have been used elsewhere to promote growth and innovation but cannot as it needs to be used to tackle the unemployment problem.

In conclusion Spain's unemployment figures, although falling, are still going to damage the economy due to the reduction ~~in~~ spending and output, which will likely make the problem worse. The only positive that may be drawn from it is that Spain may be hopefully of attracting future FDI.



This response scored 15 marks and was placed at the top of Level 3. It used the data from the extract and had good use of economic concepts rather than a 'common sense' approach which is often seen.



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. Make sure you have a good conclusion which doesn't just repeat earlier points.

Paper Summary

Based on the performance in this examination, 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) 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:

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

