

Examiners' Report  
June 2018

GCE Economics B 9EB0 02

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# Introduction

This was the second sitting of the Economics B 9EB0 02 Advanced Paper 2: Competing in the global economy. The paper is split into three sections. Section A consists of three data extracts and then eight questions based upon these extracts. Section B consists of one data extract and one 20 mark essay question. Section C consists of two data extracts and one 20 mark question. Candidates have to answer all questions in the two hour time period.

As in 2017, there was a wide variation in performance on the paper, both within the Sections and across the paper as a whole. There were clearly many candidates who had thoroughly prepared for the examination by completing the sample assessment materials and engaging with the specific conceptual and theoretical demands of the specification. There were also those candidates who appeared to rely far more on their everyday knowledge and personal opinions to answer questions that, in fact, demanded a good grasp of concepts and theories from within Economics and Business Studies. This resulted in many unsupported assertions which were not credited.

A specific concern arising from this session was the number of candidates who do not seem to understand the levels of response marking on the 8, 12, and 20 mark items. There were many examples of candidates writing brief notes on the levels of response questions, indicating how many knowledge, application, analysis and evaluation marks they expected to be awarded. It is important that candidates understand both the command words and how the questions will be assessed. This will help them to structure their responses appropriately.

## Question 1 (a)

The paper begins with a calculation of income elasticity of demand (YED), using the data taken from the stem of the question. It is worth remembering that 20% of the marks for the paper derive from quantitative skills. For a description of these please refer to the 9EB0 specification. Although the question involved the calculation of a percentage change and then a simple division, producing a YED coefficient to 1 decimal place, there were many basic errors. The most common error was to get the formula incorrect, dividing change in income by change in quantity. This is basic knowledge that should be known at this level. Another common error was to express the coefficient of YED as a percentage.

Here we have an accurate and efficient response to the item.

- 1 Average wages in China increased from ¥29 229 per year in 2008 to ¥62 029 per year in 2015.

In the same period, there was an increase of 161% in outbound tourists from China.

- (a) Using this information, calculate, to 1 decimal place, the income elasticity of demand for outbound tourism from China. You are advised to show your working. (4)

$$YED = \frac{\% \Delta QD}{\% \Delta Y} \times 100 = \frac{(Final - del)}{del} \times 100$$

$$112.2 \times 161\% = 180.6\%$$

$$\frac{161}{112.2} = 1.4 = YED$$

- Elasticity



**ResultsPlus**  
Examiner Comments

The correct answer is also given to 1 decimal place and therefore 4 marks are awarded. The correct formula and calculations are also shown.



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Examiner Tip

Read the question carefully. In this case YED coefficient was requested and no other comment was required. If it is useful, highlight the key words in the question, such as 1 decimal place. It is easy to miss a crucial word or phrase in the pressure of an examination.

## Question 1 (b)

This item was intended to test candidate understanding of the balance of payments. It also tested the ability of the candidate to apply this understanding to the case study material, with tourism an invisible export on the current account of the balance of payments. There was one knowledge/understanding mark for identifying an impact, two application marks for reference to the context and one analysis mark for further development of the impact.

This response is typical, covering all of the marking points.

(b) Using Extract B, explain **one** impact of the increase in tourists from China on the UK Balance of Payments.

(4)

One impact is that the UK Balance of Payments (BOP) will be improved. Trade deficit of UK might be reduced. This is due to the enormous spending power of Chinese tourists: highest spenders at £2688 per person, the no. of Chinese tourists increased by 37% in the first nine months of 2015, more than 200,000 visitors in total. The reason for BOP to improve is due to <sup>increased spending</sup> from Chinese tourists. They are ~~a~~ part of the foreign direct investment of the country. Then spending would increase UK exports, which means this leads to more money flowing into the UK, improving BOP.



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The knowledge mark is awarded in the second sentence, where a reduced trade deficit is identified. Then reference is made to the case study in the next two sentences and two application marks are awarded. There is clear application here. The response then suggests a consequence of this may be increased exports and more money flowing into the UK. This is where the analysis mark was awarded.



While there are no marks for definitions as such, it is important that accurate knowledge and understanding is there to support application and analysis. In this case, if a candidate did not understand the balance of payments (that the balance of payment must balance) then they would not have achieved knowledge or application marks. For example, responses which did not make reference to a relevant component(s) – such as balance of trade or current account – and simply asserted that “the balance of payments would improve or achieve a surplus” were not credited.

## Question 1 (c)

This question was intended to assess understanding of the impact of the digital economy, specifically in the context of UK tourism.

Most candidates actively used the data by, for example, making reference to the VisitBritain website. It was also expected that candidates would develop the response for the analysis mark, suggesting a reason for the impact upon UK tourism.

(c) Explain **one** way in which the digital economy may boost UK tourism.

(4)

As extract A states, 'The visit Britain website' had more than 22 million page views in 2015/16. This shows how the digital economy can boost tourism as it increases the amount of people who can look at holidays. Whereas before, customers would have to go to a travel agents to book their holidays, people can do this from home at any time of the day meaning more people are likely to book. Advertisements on other websites, ~~which~~ which track the internet history of customers to tailor advertisements would also increase sales. The digital economy has made booking holidays easier, more accessible and flexible for the customer ~~than~~ with increasingly less time to go to a travel agent.



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Examiner Comments

The knowledge mark is awarded in the last sentence, where the easier booking is identified. Application marks are awarded for the first sentence and for reference to the use of internet history for target advertisements. The analysis mark is awarded for the consequence of the convenience of booking from home; more people are likely to book holidays.



If numerical data is provided, for example reference to the hits for VisitBritain, then it is a good idea to use this data in the response. The example does this well, using the data provided and demonstrating an understanding of how the digital economy can be used by firms to increase sales. There is also some good development of the explanation here and it is specific to the context.



## Question 1 (d)

This question was intended to assess understanding of the role and likely impact of trade unions in the context of the London hotel industry. A surprising number of responses seemed to confuse a trade union with a trade bloc or customs unions. Given that a trade union was referenced in Extract C, this was disappointing.

There were six marks available here, two for knowledge/understanding of how a trade union may impact the industry. Two application marks for development in the context of the hotel industry. Two analysis marks for reasons, causes and consequences of this impact. Common mistakes here were for candidates to produce generic responses with no reference to the context. In some cases, a generic discussion of the role of trade unions or even industrial action was presented with no reference to the context.

(d) Analyse the impact a trade union could have on the London hotel industry.

(6)

One impact a trade Union could have is increased wage rates. The hotel sector is "facing it's workforce" that "low pay" and "exploitation." Thus a trade union can increase the level of pay by fighting for workers rights. This may have negative impact on the industry because it will make business less profitable: in a very competitive market.

Another impact it could have is improved ~~workers~~ workers rights. Staff felt "exhausted" and without "basic human and trade union rights" other countries have. The trade union could fight for better standards, working hours and labor breaks. While this may reduce efficiency, the effect should be positive as staff are happier, meaning they are more productive and less accidents will occur (due to tiredness).



This is a good example with two clear impacts identified in the two paragraphs. Each is then referenced to Extract C. Analysis is also present in each paragraph with consequences for the firms in the first paragraph (less profitable) and in the second paragraph (higher productivity).



For six mark questions it is a good idea to briefly plan a response. Think about how the marks can be achieved and what is required before starting to write the response. This helps to make sure that the question set is being answered and that you are making two, distinct points before developing them.

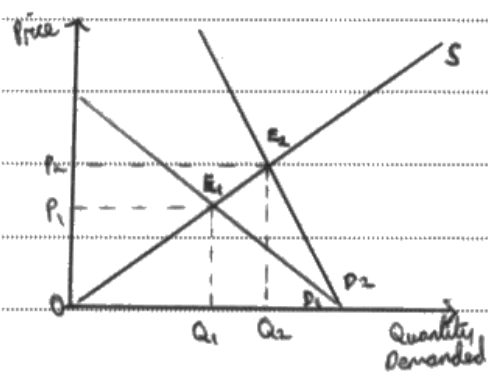
## **Question 1 (e)**

This question was generally not answered very well and suggested a gap in knowledge and understanding of basic microeconomics. Responses ranged from those where no diagram was produced, a normal supply and demand diagram presented just showing an outward shift in demand, to accurate diagrams well explained and used in analysis and evaluation.

The question asks about the impact of advertising and other promotional methods on price elasticity of demand (PED). When diagrams are drawn, it is important that they are labelled accurately or else they cannot really be used in analysis.

(e) Using a suitable diagram, discuss the likely impact of advertising and other promotional methods on the price elasticity of demand for UK holidays.

(8)



Advertising successfully can create a shift in demand but can also decrease the elasticity of demand. A good promotional method could attract potential ~~consumers~~ tourists to the UK as they will see the positive

reasons to visit the UK. This means they will be willing to book a holiday to the UK so there will be a ~~the~~ positive shift in demand as ~~shown~~ shown in the diagram because there is an increasing number of people booking UK holidays. Furthermore, people ~~are~~ usually spend large amounts of disposable income on holidays and so, if the advertising was successful, the consumers could also be willing to spend more. Therefore, if prices rise it probably ~~not~~ won't as much of a negative effect on quantity demanded due to increased ~~the~~ price inelastic demand for UK holidays.

However advertising is not always successful and doesn't have the ideal, expected effect. Tourists now have access to digital marketing and have more knowledge of potential places they can visit or stay in. This means they ~~will have~~ could be aware of the fact that London is 'one of the most unethical tourist destinations in the world'. This could lead to people boycotting London tourist attractions until action has been taken place to improve. This means there ~~is~~ might not be an increase in demand for UK holidays. Therefore price elasticity may

*also not change for UK holidays.*



The response presented here achieved Level 3 and full marks and does so because it answers the question, using an appropriate, accurate diagram. There is a discussion of the likely impact on PED and the response is not one-sided. It demonstrates an awareness of competing arguments.



Practice drawing normal supply and demand diagrams to represent changes in one or more of the factors determining demand and supply. Also, practice explaining what the diagram shows in terms of PED. While the gradient remains the same, since PED is a measure of proportionate change it varies along a demand curve.

## **Question 1 (f)**

This question was intended to test understanding of why and how emerging markets such as China might represent an opportunity for UK firms. What was surprising was that while many responses discussed the possible benefits of increasing tourism, not as many talked about some of the possible costs of focusing upon an emerging market.

The best responses used the data to demonstrate an awareness of competing arguments, highlighting that the UK is not the most popular destination for Chinese tourists, made reference to visa problems and also pointed to slower growth in China as a potential problem for a normal luxury such as tourism.

(f) Assess the claim that China represents 'a huge tourism opportunity for Britain' (Extract B)

(10)

~~China~~ Tourism is exports of the UK. Visit Britain is hoping the spending from Chinese tourists to increase to £1bn which is doubled. This is evidently a positive estimate as the highest spenders spent £2688 and they account for 20% of tourist spending. It is a huge opportunity because they increased the ~~circulation~~ <sup>circulation</sup> flow of income flowing into the UK economy, exports is a component of Aggregate Demand (AD) so as exports increase, AD increase, UK will see economic growth due to the increase spending from Chinese tourists. Secondly, Chinese tourists increase their demand for UK pounds as they spend visiting tourists spots, paying for accommodation. This leads to the appreciation of pounds, which allows imports to <sup>be</sup> bought by the British at a lower price, increasing the standard of living. Though this might offset the benefit of improved BOP brought by Chinese tourists, because appreciation means British exports are less competitive. Thirdly, China represents a huge tourism opportunity because their visits create jobs in the UK. The direct impact support 1.4 million jobs, this allows UK individuals to have increase disposable income to spend, which <sup>probably</sup> creates confidence after UK leaves the EU. <sup>Government</sup> Tax revenue would increase due to Chinese tourists purchasing goods and services e.g. ~~tax~~ <sup>from</sup> retail shops. VAT <sup>revenue</sup> could allow UK govt. to spend more on govt. expenditure.

increasing infrastructure. In addition to the reduced benefits like JSA to be paid by the govt due to increased employment brought by Chinese tourists increasing their visits (due to depreciation of pounds), UK economy is better off because expenditure means better education, health services, increasing the LRAS benefits. Expenditure can also be on attracting even more tourists, like selling Royal <sup>Spent</sup> Family souvenirs. As Chinese tourists have <sup>increase</sup> increased demand on UK services through tourism, an accelerator effect is created as businesses like those in hotel industry would increase their investments meeting the increased demand.

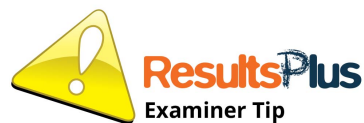
However, there could be negative externalities brought. For instance as more people use transports in London (centre tourist spots locate), and as hotel industry increases infrastructure to meet increased demand for Chinese tourists, air pollution <sup>and noise</sup> can be brought ~~to~~ by construction and traffic. Problems like congestion could affect London people working there, slowing down the long run supply of UK as their productivity falls. ~~de~~ Appreciation brought could worsen BOP. There are many uncertainties about UK leaving the EU, the depreciation of pound could last for a long time until the Brexit terms are confirmed. So the tourism opportunity could bring long term benefits for Britain. <sup>In conclusion</sup> This could depend on performance of other countries, if tastes and fashion change and if other countries have lower exchange rates, Chinese tourists could shift their demand and travel elsewhere. So heavy reliance on tourism from Chinese might not be recommended.





There were very few full mark responses to this question as, while there was often accurate knowledge and understanding, supported by the use of relevant evidence, there was rarely a balanced awareness of the validity and significance of competing arguments. The response included here is fairly typical of a top Level 3 response.

There is accurate knowledge and understanding, supported by use of relevant evidence to support the argument. There are clear chains of reasoning, with well-developed arguments. An awareness of the significance of competing arguments is present although this lacks balance and is limited to possible externalities and some evaluative points which lack development.



With the level of response questions, it is a good idea to read through your response and try and decide if the examiner could determine the question set from reading the essay. If this is not the case, then it is unlikely that the question has been fully answered. Remember, the 'assess' command word requires a full and **balanced** awareness of the validity and significance of competing arguments.

## **Question 1 (g)**

This question was intended to test understanding of the likely impact of depreciation on the UK tourism industry. There were lots of opportunities to gain high Level 3 marks here, provided the answer focused on the tourist industry rather than the national economy or trade more generally.

As with many of the longer levels of response questions, there was a tendency to make unsupported assertions or offer lots of unexplained points, rather than following through coherent chains of reasoning. This led to many Level 3 or even Level 2 scores. Quality of arguments rather than quantity is far more important with these questions. There was a common tendency to focus on the benefits of depreciation rather than the costs, and quite a few responses seemed to focus on the impact on the macroeconomy rather than the tourist industry.

The response included here is an example of a full marks, Level 4 response which does make an excellent effort to answer the question.

(g) Assess the likely impact of the depreciation of the pound on the UK tourism industry.

(12)

Depreciation of pound is the decrease <sup>in</sup> value of pound.  
First impact is that the goods and services consumed / demanded by the tourists would be cheaper for them, as this would mean they could exchange more / better value of goods with the same amount of money in their currency e.g. Yuan in China. The <sup>services provided by</sup> wide range of sectors: transport, arts, museums, hotel industry would be cheaper in price from foreigners' perspective compared to before Brexit, due to depreciation. This would lead to increase tourists travelling and increase FD from the UK tourism industry. UK will face economic growth as aggregate demand increases (tourism is UK exports and exports is a component of AD). Circular flow of income would increase. This would depend on the degree / magnitude of depreciation. Brexit which brought uncertainties has possibly caused a huge fall in the value of pounds, but exchange rates do fluctuate a lot, especially when UK is experiencing a recession, so the length of time benefits would be brought to the UK tourism industry due to depreciation is unpredictable. More information would be needed on the change in <sup>UK</sup> exchange rate.

Depreciation means imports are more expensive for UK individuals / businesses. Those businesses involved in tourism, e.g. transport, farming, hotel industry, if they ~~use~~ <sup>use</sup> their ~~costs~~ <sup>raw</sup> materials or commodities are heavily relied on provision from abroad, then they would see a huge increase in cost of raw materials due

to depreciation. This could increase the price of products for tourists, depending whether firms can pass on the increased in costs to consumers based on PED, and whether depreciation could offset the increase in price in foreigners' perspective.

Other businesses importing raw materials abroad would see huge increase in costs and this could lead to cost push inflation due to pressure on costs. Inflation could drive ~~up~~ the <sup>general</sup> price level of UK products increase in price, lowering the British's purchasing power of money, reducing their incentive to work in the tourism industry, reducing productivity and output. The above negative impacts of depreciation depends on ~~how much~~ the proportion of UK tourism industry is UK exports.

In conclusion, depreciation of pound attracts foreign direct investment from UK tourism industry. Although ~~these~~ depreciation of pound might not be the only impact on the increased demand of UK tourism, for instance, trend, tastes and fashion changed (e.g. trend of Royal wedding) acts as an attractive reason tourists visit. Uncertainties brought by Brexit like ~~the~~ unknown terms of trade, migration law could reduce <sup>UK</sup> business confidence and foreign investment in the UK, this could affect supply ~~of~~ of accommodation, ~~eaterys~~ restaurants, food industries in the UK, affecting demand <sup>of</sup> UK tourism. (foreign tourists)



There is accurate knowledge and understanding, supported throughout by use of relevant evidence which is well chosen and logical. There are coherent chains of reasoning, showing full understanding of the question. Arguments are developed and are evaluated. There is a full and balanced awareness of the validity and significance of competing arguments. The concluding paragraph is particularly strong and certainly differentiates this response from many other good ones.



It is always worthwhile creating a brief plan for the essay before starting to write the response. It needs to be balanced to achieve the top level of response.

## **Question 1 (h)**

This question was intended to test understanding of the labour market, specifically the demand and supply factors that may bring about low wages and poor working conditions. What was surprising was the confusion evident about the labour market. Many candidates talked about the demand for jobs from employees rather than the demand for labour from the hotels and restaurants. Furthermore, there were plenty of examples of candidates discussing the supply of jobs from hotels and restaurants. This showed a lack of basic understanding of the labour market.

As with the previous question, there were lots of opportunities to gain high Level 3 marks here, provided the answer correctly focused on factors determining the demand for labour and the supply of labour. As with many of the longer levels based questions, there was a tendency to make unsupported assertions or offer lots of unexplained points, rather than following through coherent chains of reasoning which led to many Level 2 or even Level 1 scores. Quality of argument and using accurate economic theory was vital in answering this question.

The response included here is an example of a low Level 4 response which does make a good effort to answer the question.

The low wages and poor working conditions of staff in the London hotel industry are entirely due to the factors influencing the demand and supply of labour.

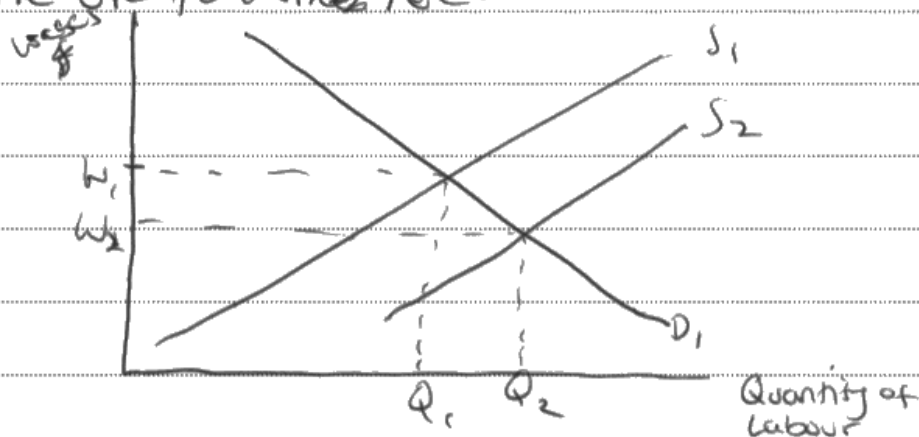
(h) Assess the accuracy of this statement.

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(12)

It may be argued that the poor conditions for workers in London hotels are entirely due to demand and supply of labour. This may be because of the increased supply of labour in the hotels industry, "many migrants are employed in London hotels", this may show that the supply of labour has increased because migrant workers have come to the UK to work here.



This increase in supply of labour, as shown from  $S_1$  to  $S_2$ , may lead to an ~~increase~~ decrease in wages, as shown from  $w_1$  to  $w_2$  because companies can may be able to get away with paying staff less if there's more staff they can employ because staff <sup>may</sup> be easily replaced.

It may also be argued that the poor working conditions and low wages of staff employed in the UK may not be due to demand and supply of labour because it may be due to the lack of power given to trade unions in this industry. The hotels

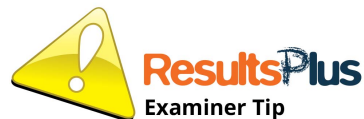
Industry has trade unions for staff and often trade unions have the power to ~~even~~ prevent poor working conditions and poor pay. However they may not have this power ~~at~~ in the industry due to the hostility, "open hostility to trade unions", this shows that ~~staff~~ trade unions may not have much power in the industry so this may be contributing to the lack of good working conditions and pay for staff. Therefore, businesses may know that they can get away with treating staff in this way because they may not have a force 'preventing' them from doing so.

In conclusion, ~~the~~ demand and supply of labor may not be the reason the ~~to~~ hotels industry has poor working conditions and it may be due to lack of substitute companies for ~~migrant~~ people joining this industry to work for because a lack of <sup>many</sup> companies may mean staff may be forced to work for a company, giving sovereignty to the company and away from the workers. However, it depends on if ~~they are~~ there are many companies but they're in a tacit agreement in order to give ~~back~~ control of wages over to the London hotel industry.





There is accurate knowledge and understanding, supported by the use of relevant evidence which is well chosen. There are logical, coherent chains of reasoning, showing full understanding of the question. The use of the diagram adds to this. Arguments are developed and evaluated. There is a full and **balanced** awareness of the validity and significance of competing arguments. The reference to the lack of trade union power is good and there is a reasonable attempt at a conclusion to the essay.



Candidates are advised to study the labour market, employment and unemployment at a micro and macro level. Look at job advertisements and try to understand why the wages, high or low, are offered. Be aware of debates about the free movement of labour and the costs and benefits of such policies. Why are there skill shortages in some industries but not in others? Why do some people have relatively high incomes and others relatively low incomes?

## **Question 2**

There were some very good responses to this question that really did address the issues and demonstrated good knowledge and understanding, which was pleasing. However, some responses just went through the case study and remained purely descriptive. While the question referred to Britvic, this did not mean that this was the only firm affected by inflation.

A common error was to provide a generic discussion of the causes of inflation and the consequences of inflation on consumers, without linking this to the impact on firms. There were some examples of essays focused entirely on the impact of Brexit, giving little or no attention to the question. There were also some extended discussions of the sugar tax, but these were often not linked to the likely impact on inflation or the firm.

The response here is good and was awarded top of Level 3. It is important to remember that inflation itself is the rate at which the average price level is increasing. Therefore, to assert that inflation causes prices to rise is tautological. However, higher wage demands, as a result of falling real incomes, may increase costs and increase inflation.

2 Evaluate the impact of rising inflation on UK-based firms such as Britvic.

(20)

Inflation is the average increase in the general price level over time. The UK's CPI target for inflation is 2% yearly. Inflation can be cost-push (influenced by supply side factors of the economy) or demand pull (influenced by demand side factors of the economy).

A rise in inflation on consumers in relation to Britvic could be negative in terms of income. If the ~~lower~~ real wage growth is at a lower rate than the rising inflation it could cause a ~~reduction~~ fall in real wages for UK consumers and thus a reduction in their disposable incomes. This could mean households and individuals have a lower share of their income to spend on UK based firms such as Britvic and thus this could result in ~~the~~ a reduction of demand for these firms due and thus revenues and potentially profits. This could ~~also~~ make it increasingly challenging for <sup>UK</sup> firms such as Britvic and cause them to attempt to reduce even more of its annual costs which could mean ~~reducing~~ the ~~reducing~~ some employees ~~are~~ redundant or reducing R+D. ~~which is good for~~

However, the extent to which the demand for UK based firms such as Britvic's demand will fall due to this inflation is ~~questioned~~ dependent on the income elasticity of demand for the goods and services that the UK based firms offer. For Britvic it is likely they will see little changes given that things such as ~~a~~ sugary drinks tend to be relatively income and price inelastic due to the addictive nature of them and thus demand may not be <sup>greatly</sup> affected.

On the other hand, rising inflation on UK based firms such as British may be negative as it means that costs for these firms are potentially rising, causing profit margins to potentially decrease. This is because there is a higher average increase in the general price level of goods and thus the costs of the raw materials and commodities, that may be from abroad are likely to be more expensive, causing the break even point to be potentially higher and may mean that profit margins decrease, unless UK based firms such as British decide to increase the price of their products/services instead to reflect their rising costs. \* However the likelihood of these <sup>UK based</sup> firms being able to increase their prices successfully is questionable given that firms such as Unilever, the maker of Marmite were unsuccessful in their attempt of 10% price increase in Tesco. If a firm are unsuccessful at increasing price then in real terms their profits and revenues are likely to decrease ~~in terms of~~ due to the rising inflation, reducing their profitability. Reduced profitability could make UK based firms have a larger challenging in competing with global firms or foreign firms. \* But, increases in prices of UK Based firms products and services could cause consumers to purchase from other firms selling at a lower price instead such as foreign firms, however this is dependent on the availability of substitutes and the price elasticity of demand for that good or service.

The extent to which UK firms are likely to be impacted on this rising inflation is largely dependent on how much they import and rely on the exchange rate, rather than the decisions

op consumers given that this inflation is cost push - due to weaker pound and increasing commodity prices. Therefore <sup>UK based</sup> firms who firms who import commodities ~~as a means of their~~ are more likely be impacted negatively by this inflation. All in all, it seems to me, that given the uncertainty of Brexit and inflation rises are likely to have a worrying impact on UK firms such as Britvic, <sup>cost</sup> but for Britvic it seems the sugar drink tax will have a worrying impact on its cost.



There is accurate knowledge and understanding here, supported by the use of relevant evidence to support the argument. There are developed chains of reasoning, showing an understanding of connections between the causes of inflation and consequences. Arguments are generally well-developed and partially evaluated. There is an awareness of the significance of competing arguments, although this lacks balance. A conclusion is attempted but does not really show a full awareness of the significance of competing arguments.



Make sure that you use as much of the data provided as possible and use your own examples to support arguments. Try to keep up to date with UK macroeconomic data, including inflation, growth and interest rates.

### **Question 3**

The final question was generally answered quite well and better than the previous one. Often the best responses to this question were able to refer to absolute and comparative advantage, as well as opportunity cost and fair trade. In addition, some candidates discussed how relying on a limited range of exports means that imports such as petroleum need to be paid for.

Although Madagascar is referenced in the question, this does not mean examples have to relate to this specific economy. Candidates who used their own examples to support analysis were rewarded and were often able to show an awareness of competing arguments by doing so.

The response here is typical of a high Level 3 response.

3 Madagascar specialises in the production of primary commodities such as nickel and vanilla.

comparative advantage

Evaluate the impact of specialisation as a source of economic growth for developing economies such as Madagascar.

(20)

Specialisation in terms of an economy as a whole is the <sup>when a country</sup> focus on one sector or resource ~~as~~ as their main <sup>business</sup> activity in the country and as a result a country is likely to be more efficient and specialised in that area. This can have great benefits and drawbacks to economies. For Madagascar it seems the focus on the ~~secondary sector~~ and production of primary commodities such as nickel and vanilla.

Specialising can enable <sup>developing</sup> an economy such as Madagascar to have comparative or absolute advantage and thus demand for their products can be extremely high as it is required and demanded from countries globally. If it is highly demanded from this economy it can mean that the revenue raised from sales can result in profits and thus incomes for these employees working in the production, ~~leading to more people contributing~~. If they are specialised Madagascar are more likely to be more productively efficient at their production, which can reduce per costs of producing things such as nickel and vanilla, causing profitability of the production to be potentially higher and potentially increase demand. This could lead to more people working in these industries and more people and profits contributing to the Madagascar economy, potentially increasing the economic growth of Madagascar, as output and GDP rises. However the likelihood of this increase in profitability is ~~question~~ and economy

growth is questionable given the fluctuation of commodity prices as a whole due to supply and demand. Also, despite 80,000 farmers producing the vanilla, and the spice being the second most expensive in the world, these employees still earn low wages - the majority on less than \$1 a day and this ~~lowest~~ it seems that even if there are more sales of vanilla or more farmers, their wages still don't have a large impact on economic growth.

The value of the production of primary commodities that Madagascar focuses on seems to be relatively low as 30.4%, less than 1/2 of the total value in 2014 exports ~~is based~~ to come from their ~~most~~ specialized production. Therefore it seems that its low value ~~may~~ compared to total value may not have as great an impact on economic growth. Also given that ~~figure~~ Figure 1 shows them to have a trade deficit it seems that economic growth will be at a slower rate.

Specialising on a good or production such as nickel or vanilla and Madagascar limits the potential of economic growth in the economy, as the economy relies heavily on the production of these goods. If there were a natural disaster or issues with producing these goods in the future the developing economy has less industries to fall back on ~~in the~~ and thus if a disaster were to occur, economic growth may be slowed even further.

Developing economies with natural resources such as nickel and vanilla in Madagascar often have lesser political and governmental powers and



Thus are often exploited by MNCs and superpower countries for their demand of the resources. Therefore by specialising, even though cost of producing may be reduced by their productive efficiency, often their prices are often reduced by MNCs ~~and~~ ~~and~~ and thus employees and the economy receive less income and revenue. This depicts, despite being the world's top producer of <sup>natural</sup> vanilla. If these MNCs were to be fairer on prices, ~~and~~ the specialisation of their production of vanilla would be more beneficial and contributory to Madagascar's economic growth.

All in all, it seems that it would be more beneficial for Madagascar to focus on producing ~~and~~ specialising in these things gives Madagascar comparative advantage, ~~however~~ enabling economic growth, however it seems MNCs restrict the economic growth to a lower level, by taking advantage of their stance as a developing economy.



**ResultsPlus**  
Examiner Comments

There is accurate knowledge and understanding here, supported by the use of relevant evidence to support the argument. There are developed chains of reasoning, showing an understanding of connections between specialisation and some of the consequences. Arguments are generally well-developed and partially evaluated. There is an awareness of the significance of competing arguments, although this lacks balance. The reference to fluctuations of commodity prices is particularly appropriate. A conclusion is attempted but does not really show a full awareness of the significance of competing arguments, although the point about the role of MNCs is relevant.



Practice writing balanced conclusions. Base a conclusion upon your previous analysis and evaluation.

Even if there is not a single, 'correct' final conclusion, it is acceptable to state that more data may be needed or the time period in question may be too short. Try to avoid concluding an essay with simple, unsupported assertions. Try to read essays published in magazines and journals and take note of how conclusions are constructed in such articles.

## Paper Summary

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

- Candidates need to learn basic definitions and techniques. A good example of this is the use of a normal supply and demand diagram to analyse a context. A successful response to item 1(e) on this paper, for example, required both an understanding of price elasticity of demand (PED), as well as an ability to represent diagrammatically the impact of changes in PED on the demand curve. A surprising number of candidates did not seem to understand how changes in PED can be represented diagrammatically.
- It is important that candidates are familiar with the command words for the Advanced Level papers. If the question asks for the use of a specific data item, or extract, then this must be used in the response. Item 1(b), for example, asked candidates to use data from Extract B. There were many generic responses to this question which made no reference to Extract B and therefore achieved, at best, two marks out of a possible four. If a question asks the candidate to 'discuss', 'assess' or 'evaluate', then an awareness of competing arguments must be demonstrated for higher levels to be attained. Alternatively, if the command words 'explain' or 'analyse' are used then a coherent chain of reasoning is expected but not an awareness of competing arguments.
- Where possible, candidates are encouraged to use the data provided in their responses.
- In the case of the essay questions, these can be supported by candidates' own examples arising from their study of the subject over the previous two years. However, if a question asks for a response relating to a specific context, then it is expected that the answer will do just this. Item 1(f), for example, asked about the likely impact of depreciation upon the UK tourism industry. This therefore required a discussion of the tourism industry and not the impact of Brexit on the macroeconomy or upon manufacturing.
- Where a calculation is required, always show working out. This can then mean that marks are awarded for the process even if an incorrect final answer is given. Also remember that if the question specifies an answer to 1 decimal place, this needs to be done.
- The space provided in the examination booklet is intended to guide candidates as to the suggested length of the response, given the number of marks allocated to the question. There were many cases where candidates left a 12 mark or, in some cases, a 20 mark question blank because they had clearly run out of time. As a general rule, given the reading time required, it is probably best to think of the examination as requiring 'a mark a minute' over the two hours.
- Finally, handwriting is important. It is vital that candidates practice written responses throughout the course of study and do not rely too much on word processed work. If a script is illegible, it simply cannot be marked.

## 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>



