

Examiners' Report  
June 2018

GCE Economics B 9EB0 03

## Edexcel and BTEC Qualifications

Edexcel and BTEC qualifications come from Pearson, the UK's largest awarding body. We provide a wide range of qualifications including academic, vocational, occupational and specific programmes for employers. For further information visit our qualifications websites at [www.edexcel.com](http://www.edexcel.com) or [www.btec.co.uk](http://www.btec.co.uk).

Alternatively, you can get in touch with us using the details on our contact us page at [www.edexcel.com/contactus](http://www.edexcel.com/contactus).



### Giving you insight to inform next steps

ResultsPlus is Pearson's free online service giving instant and detailed analysis of your students' exam results.

- See students' scores for every exam question.
- Understand how your students' performance compares with class and national averages.
- Identify potential topics, skills and types of question where students may need to develop their learning further.

For more information on ResultsPlus, or to log in, visit [www.edexcel.com/resultsplus](http://www.edexcel.com/resultsplus). Your exams officer will be able to set up your ResultsPlus account in minutes via Edexcel Online.

### Pearson: helping people progress, everywhere

Pearson aspires to be the world's leading learning company. Our aim is to help everyone progress in their lives through education. We believe in every kind of learning, for all kinds of people, wherever they are in the world. We've been involved in education for over 150 years, and by working across 70 countries, in 100 languages, we have built an international reputation for our commitment to high standards and raising achievement through innovation in education. Find out more about how we can help you and your students at: [www.pearson.com/uk](http://www.pearson.com/uk).

June 2018

Publications Code 9EB0\_03\_1806\_ER

All the material in this publication is copyright  
© Pearson Education Ltd 2018

# Introduction

This was the second examination of paper 9EB0\_03 and in some ways it was rather disappointing. The average mark was lower and many candidates did not appear to have learned from the first exam, with the same problems occurring.

The pre-release case study should have been the stimulus for independent or group-led research into a wide range of examples that could have then been used to illustrate and reinforce answers. Many answers were generic in content and therefore did not reach the higher levels. It is worth remembering the levels of response indicators, where use of supporting evidence is one of the identifying characteristics for the higher levels.

Centres need to appreciate the requirement to allocate 20% of the marks to quantitative skills (QS) as stated in the specification. For example, many candidates either failed to heed the instruction to use a diagram for questions 2(a) or drew an inaccurate one. The stimulus material contained a range of data, in both written and numerical form, QS9 (see specification, appendix 3) requires candidates to be able to 'interpret, apply and analyse information in written, graphical, tabular and numerical forms'. Many candidates chose to ignore the data or did not make full use of it, once again limiting their attainment.

On the positive side, many candidates had prepared well, and it was pleasing to see the use of many examples and case studies beyond the ones included in the extracts. Arguments based on these were convincing and able to access the highest level.

## **Question 1 (a)**

Most candidates were able to access this question and tackled it in a positive way. Stronger candidates examined HDI as an indicator of development and compared that to the rate of growth. The more perceptive candidates were able to point out that a high FDI value was a sign of a developed economy and therefore likely to have a slow rate of growth, whilst those with lower FDI values were likely to be developing economies with a faster rate of growth. This was backed up by the use of the evidence and their own wider knowledge. Some candidates explained why HDI was not a valuable measurement of growth by concentrating predominately on other economic indicators such as GDP to measure growth or the Gini-coefficient to show inequality.

Weaker responses seemed unsure as to just what HDI meant, most knew it had several strands but these were often not fully identified or were misidentified. This did not help the rest of the response to be convincing. Some candidates are still not including balance in their answers, despite the command to 'Discuss'.

This response reached Level 2 and scored 4 marks.

1 (a) Using Extract A, discuss the use of HDI as an indicator of growth.

(8)

The human development indicator or HDI is a way of measuring the development of people within a certain country. It is ~~is~~ measured by a number of factors like ~~the~~ average years in education, mortality rate, ~~and~~ life expectancy and many more factors. The closer to 1 a country's HDI is the better.

HDI is a good indicator of growth as it shows the country's standard of living on average for its residents. This allows us to see how developed the country is and how its population are living, in terms of health and education. ~~The~~ If we were to see an increase in HDI within a particular country it would inform us that they are experiencing growth as its ~~total~~ people are ~~becoming~~ getting a greater standard of living due to a growing economy as there would be more being done to help inhabitants. For example, a growing country/economy may build more hospitals which would increase life expectancy due to better healthcare and then

Increase the country's HDI.

Overall HDI is an effective indicator as it shows the development of the ~~country~~ place's population.



The introductory paragraph shows that the candidate is not exactly sure what HDI is, nevertheless some understanding and development is shown in the latter half.

## **Question 1 (b)**

Many candidates concentrated their responses on containerisation, and most were able to link this to a reduction in costs and therefore how it has driven trade, and in turn, globalisation. However, a significant number just repeated much of the evidence/extract rather than analysing the factors that might have led to increased globalisation. The best candidates examined other factors and were able to bring in their own knowledge and examples including the opening up of previously restricted economies such as the Communist bloc and China. It was also good to see a balanced awareness of recent events such as U.S. President Trump's increasing protectionism. Very few answers were able to combine both aspects i.e. that without improved transport and communication the impact of other factors would be diminished.

This response reached Level 4 and scored 10 marks.

(b) Assess the importance of transport and communication to the increase in globalisation over the last 50 years.

(10)

Globalisation has, in part, been fuelled by technological innovations reducing barriers to communication and transportation innovations such as containerisation and unratification.

Globalisation over the last 50 years has been aided by transport innovations. Containerisation has allowed firms to benefit from low-cost shipping with imports packaged in bulk. This has allowed firms to benefit from reduced input costs, encouraging the use of international supply chains in order to utilise low-cost suppliers. For example, textiles manufactured in Bangladesh can be bulk-shipped to developed economies for retailers. However, the benefits of transport innovations to increased globalisation are largely dependent upon, and outweighed by, reductions in tariffs and other non-tariff barriers such as quotas. Without trade liberalisation, there would not be as much of an incentive for firms to outsource work to low-cost international suppliers.

Reduction in barriers to communication is particularly important to the rise in <sup>of globalisation</sup> ~~communication~~ as it has allowed for increased exchange of culture (e.g. films and music) as well as the expansion of firms into foreign markets. For example, the innovations surrounding the internet have allowed for the growth of international supply chains and marketplaces such as Alibaba, Amazon and Flipkart. This has then



allowed firms to benefit from greater access to other markets and individuals to benefit from wider choice and lower prices. However, communication's effect on globalisation would likely have been limited without both market reforms in China and the fall of the Soviet Union paving the way for the introduction of China to the world trading system (it joined the WTO in 2001) and the incorporation of nations such as Poland and Russia into global markets.



A very good answer that looks at both transport and communication and balances their impact with contextualised awareness of other factors. Chains of reasoning are clear and articulate.

## **Question 1 (c)**

Generally, this question was not well answered. Some candidates attempted the question but clearly did not understand demographic factors. Some weaker responses focused on goods and services for older consumers, rather than the impact on the labour market. Those responses which did examine the labour market were often ageist and occasionally sexist. Many asserted that an ageing population would see a sharp decline in global productivity leading to recessions and economic doom and gloom. Sweeping generalisations were common across this question and a mark in Level 2 was a common score here. Better responses looked at how government and businesses might respond to the demographic changes through various methods such as greater use of capital, development of technology, migration or changes to the retirement age. Only a small number of candidates were able to see that the problems and solutions would vary between countries and over time.

This response reached Level 2 and scored 5 marks.

(c) Assess the impact of demographic change on the global labour force.

(12)

Do Demographic changes on the global labour force can be seen <sup>to have both</sup> ~~as both a~~ challenge and a positive and negative impacts onto the ~~economies~~ global economies. ~~this is because~~

People of working age are said to decrease from 54 million in 2010 to 36 million in 2060. <sup>one reason for this</sup> ~~This is because~~ <sup>some countries</sup> ~~many places~~ such as china ~~and~~ had policies to stop overpopulation in their country. China created a one child policy to avoid future overpopulation however because of this <sup>due to</sup> has labour force peaked in 2012, it was an income driven ~~to~~ demographic change. Because of this ~~china~~ ~~countries like~~ ~~China will have to~~ workers over 55 by 2030 workers ~~will~~ at an older age will <sup>have a</sup> ~~see an~~ 22% increase globally. ~~Those countries who are experiencing a~~ demographic change

<sup>and their governments</sup> Those countries, who are experiencing demographic change at a lower ~~work~~

amount of people at a working age will have to come up with ideas on how to make businesses more efficient and productive in order to still be able to drive an increase of GDP. ~~The investment into modern technology may be a major idea a good way of doing it~~ However ~~advances~~ advances in technology may help with this issue of having a smaller workforce as businesses using ~~the~~ technologies may not need a large workforce in order to be productive and efficient.

A good factor in the demographic change on the global labour force is that the life expectancy is to increase globally from 69 years in 2014 to 76 years in 2050. This may be due to the fact a smaller amount of people of a working age in future ~~may mean~~ could mean that there will be less people who are unemployed globally. If more people are employed it will mean more people ~~there~~ will have a better standard of living. ~~enabling them to buy~~



This was typical of many responses seen. The evidence is repeated with very little added. Chains of reasoning are attempted but are mostly assertions with little in the way of balance.

## **Question 1 (d)**

The 20 mark questions are designed to be open ended and to give candidates a chance to show what they know and to demonstrate their understanding of the interconnectedness of the subject matter. This particular question is straight from the specification and while most candidates did find this question more accessible, many, perhaps because of the open nature of the question, lost focus. It is important to keep in mind the actual point of the question, rather than embarking on a pre-prepared one. A significant number of candidates saw this as an opportunity to write all they knew on MNCs, particularly on the advantages of lower labour costs in emerging economies, ignoring the fact that as these economies grow wage rates tend to grow as well.

The best answers looked at a range of points that might affect individuals and firms in developed and developing economies both in the short term and the long term. They used evidence and wider knowledge to back up their arguments. However, although this was a very accessible question, Level 4 answers were scarce, with the better answers generally scoring at the top of Level 3 and weaker answers in Level 2.

This response reached Level 4 and scored 16 marks.

+ FDI + MNC activities - Explanation

(d) Evaluate the implications of the growing economic power of emerging markets for individuals and firms.

(20)

Growing economic power of a country implies the rise in GDP levels and perhaps disposable income of an economy. Growing economic power of emerging markets may benefit individuals in the form of greater levels of FDI. With FDI increasing by 600% in the last 35 years, many western firms are looking to outsource production or offshore production to lower-cost production sites, in order to reduce costs and maximise profits. This may benefit individuals in an emerging economy in the form of greater employment opportunities, as many MNCs will be expanding production to meet the greater world demand that has come about from this rising economic growth of LEDCs. This is evident from the fact that Apple employs over 92,000 people globally. This may lead to greater levels of disposable income and standards of living for these individuals, many of whom would want to escape the agricultural sector, thereby suggesting that individuals are enjoying a greater quality of life. However, it must be considered that MNCs often will be maximise the reduction in costs through exploitation of workers - evident from Foxconn workers in China, where Apple outsources production, earning as little as \$1.70 a day, suggesting that workers may not enjoy greater incomes.

The growing economic power of emerging markets however may not benefit firms in developed economies who now face far greater competition, with the share of world trade used by LEDCs rising from 21% in 1988 to 42% in 2016, and expected to grow even more - with emerging economies predicted to have 50% of the world economy by 2025, this has led to the decline of many industries who were once strong.

Competition with LEDCs that have a comparative advantage. This could be seen in the closing of the steel mill in Redcar in north-east England, as of China's comparative advantage in steel led to far less revenue for the British steel industry. This led to a vast loss of jobs, which would lead to falling incomes and falling living standards within these areas. Like Redcar, which was also potentially affected the human capital of workers, who perhaps lose skills while being unemployed. However, with many economies in the west tending to have more skilled workers than those of LEDCs, this suggests that a decline of an industry may not always lead to a loss of jobs, as workers with transferable skills can easily join another industry.

Another benefit of growing economic power for emerging world's is the fall in absolute poverty that has resulted, which in turn will lead to greater supply of labour for firms looking to expand. Since China joined the WTO in 2001, and her its growth boom, it has brought 300 million people out of poverty, while 620 million people globally have been brought out of poverty in the last 20 years. This will inevitably lead to greater levels of income and standard of living for these workers, while also leading to greater consumption levels, as firms' products are more demanded, which could then lead to greater physical employment as more workers are needed to meet this demand. However, there has been an increase in relative poverty among some LEDCs - seen in China as the income share of the richest 1% rose from 6% - 14% from 1990 to 2016. Many people do manage to escape absolute poverty, but by no means live lives of luxury, as they're employed, but exploited by MNCs with low wages and poor working conditions.

To conclude, the implications of rising economic power of emerging



Economies will depend on the economy in question and their willingness to seize these new trade opportunities. While economies like China were present by virtue of competition to many western firms, there are still many LEDCs whom we see globalised - such as African countries where perhaps there is too much political conflict and spread of epidemics to allow any real investment into the economy or into trade.



A good answer that uses relevant evidence from the extracts as well as from wider reading. Chains of reasoning are developed and there is some awareness of competing arguments. It just makes Level 4.

## **Question 2 (a)**

This question was generally handled well with many candidates being able to draw the correct diagram. Less able candidates drew poor and at times inaccurate diagrams and some still managed to get the demand and supply curves mixed up. Explanations were generally sound, with the best answers using the evidence and some brought in their own knowledge to extend their answer. Good answers commonly showed balance by discussing the role of PED or the relatively cheap price of Indian bicycles in the first place.

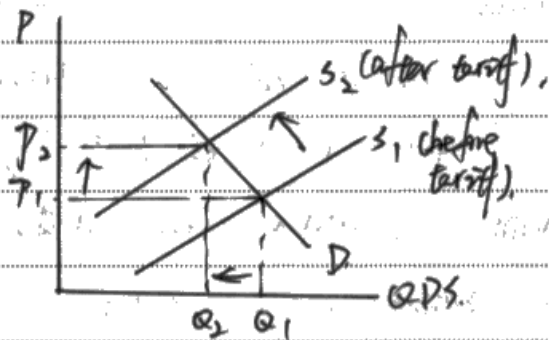
Again, despite being a 'discuss' question a large number of answers were one sided. This seemed to be particularly prevalent amongst those candidates that chose to use the 'world tariff' diagram. Considerable time and energy went into a detailed highly theoretical description of how it worked, including explanations of 'deadweight' loss. All this was at the expense of the context of the question and any balance.

This response reached Level 3 and scored 8 marks.

2 The European Union (EU) imposes a tariff of 14% on bicycles entering the EU from outside Europe. (Extract F)

(a) Using a suitable diagram, discuss the impact of this tariff on sales of Indian bicycles imported into the EU.

(8)



If the ~~tariff~~ tariff of 14% applies to ~~the~~ Indian, there would be a decrease in supplies of bikes from Indian as its producers needs to pay more

than before.

Tariffs as a tax per unit on imports would decrease the sales of Indian bikes imported into the EU. When the price to export rises, its suppliers are more likely to reduce the supply. Hence, less supplies ~~is~~ means less sales for Indian suppliers. Also, if the Indian suppliers choose to absorb the tariffs and keep on exporting, their profit margin is more likely to be damaged due to the higher costs.

However, the sales of Indian bikes imported into the EU may not be influenced as Boris Johnson promises ~~that~~ tariff-free imports of Indian bikes after Brexit. As a result, Indian suppliers may take advantage of it as its outside EU competitors still face the problems of import tariffs. As a Chinese product results, India suppliers may see a increase in demand due to its lower price. Hence, sales ~~is~~ increases <sup>and</sup> boosts profit. Further ~~the~~ investment could in turn help sales grow more

due to better market research leads to market ~~orientation~~ orientation and R&D etc.

In addition, even though India will need to face the tariff, its sales may not be reduced so much. Because the price of bicycle in Europe is relatively high, (highest price is € 914 in Netherlands and lowest is € 110 in Slovenia, Malta, Latvia and Croatia), India's exporters may still have an advantage on price after tariffs. For example, they could sell in Netherlands with cheaper price. As a result, demand and sales may keep the same.



**ResultsPlus**  
Examiner Comments

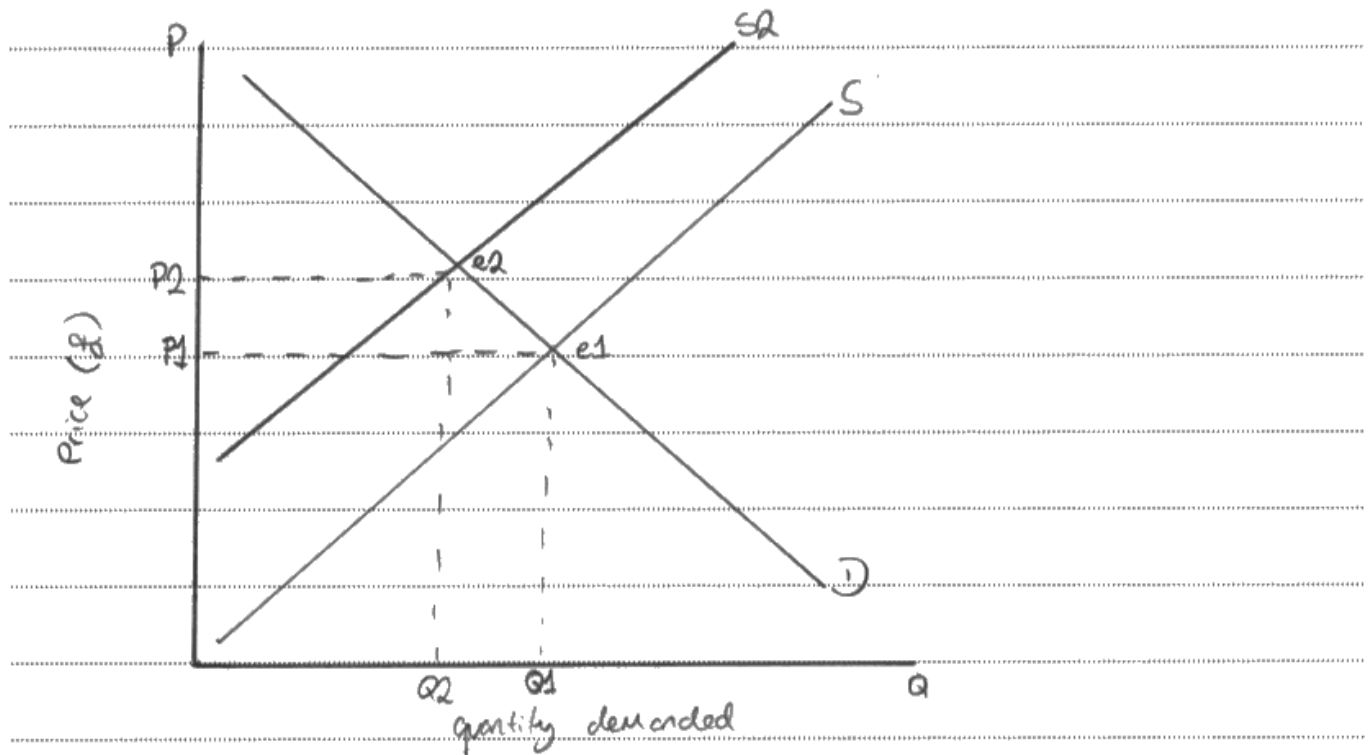
A very good response with developed arguments and a balanced awareness of competing arguments.

This response reached Level 2 and scored 4 marks.

2 The European Union (EU) imposes a tariff of 14% on bicycles entering the EU from outside Europe. (Extract F)

(a) Using a suitable diagram, discuss the impact of this tariff on sales of Indian bicycles imported into the EU.

(8)



A 14% ~~tariff~~ tariff on the Indian bicycles would increase their price. As a result according to the law of supply and demand this will reduce demand for Indian bicycles. Which in turn will put Indian bicycle firms off the EU market and reduce supply.



The diagram is fine but there is little in the way of development and there is no awareness of competing arguments.



All questions on this paper require awareness of competing arguments and some evaluation. Don't forget to include this.

## **Question 2 (b)**

Some responses to this question used the evidence well but many treated this as a generic answer with little or no mention of Hero Cycles, Avocet or the bicycle industry. Although many answers showed a good understanding of market segmentation they were descriptive rather than showing higher order analytical and evaluative skills. A number of responses focused heavily on market research, talking about the how and why, without linking it to the success of the business or the point of the question. Despite this, it proved to be a good question for most candidates. Many were able to score Level 3 comfortably, with most of the candidates who actually tackled the question as set, reaching Level 4.

This response reached Level 4 and scored 9 marks.

(b) Assess the benefits of market segmentation for the global bicycle manufacturer Avocet.

(10)

Market segmentation is the process in marketing by which specific groups and areas are targeted, in order to cater to this type of demographic. This will be beneficial for ~~the~~ Avocet because they can target different groups in order to maximise sales revenue and thus profit. They can understand consumer tastes and fashions and apply this to their business, as Extract E states: "children's brand... mountain bike brand... women's Dutch-style roadsters and 'electric bike brand'". These different market segments mean that Avocet's demand for bicycles are likely to increase, given that their range of goods is broad and is thus attractive to a wide range of consumers. This will make Avocet's demand ~~for~~ increase and benefit them in gaining a competitive advantage over potential ~~business~~ rivals.

Moreover, the extract states that Avocet are appealing to the 'mass market' in the hope of becoming the 'market leader'. This will therefore assist them in achieving this objective. Extract 6 writes that '205,751,000 bicycles are now sold annually across



Europe," suggesting that demand for this type of 'E-bike' is increasing, which Avocet can reap the benefits of. That said, market segmentation is a fairly costly process and also requires high manufacturing costs for production. Given their extensive range of goods, each bike being unique will require different components in order to be made successfully, which could result in high costs for Avocet to recover. ~~After~~ of R&D will further have to go into this, a sunk cost which can be negative.



Although a little generic to begin with this does use the evidence to build logical chains of reasoning and shows some awareness of competing arguments.

## **Question 2 (c)**

There was good use of evidence here, but many candidates failed to address the question that was set and focused instead on marketing bicycles to students in Manchester. Lots of candidates discussed the student population only in terms of a sales market, as opposed to looking at the benefits a recruitment drive of highly trained graduates could bring to the business. Few used the evidence to point out the expertise that might be linked to the National velodrome or the positive image that might result from an association with it. Again, only a few candidates used the evidence to add balance by considering other locations for the design centre. Some candidates were able to use knowledge of Brexit in terms of 'uncertainty' to build an answer. Candidates who actually addressed the question and used the evidence were able to access Level 4.

(c) Assess Hero Cycles' decision to open its Global Design Centre in Manchester.

(12)

Hero Cycles' decision to open its Global Design Centre in Manchester over Amsterdam, Berlin and others can be seen as an investment in Manchester's passion for cycling, but it can be argued that economically the decision was unwise.

Firstly, Mr Munjal (the owner of Hero cycles) expressed his desire to export to Europe, Africa and India; but a major limitation here is Brexit. Unless Britain agrees a free trade deal with the EU, Hero cycles will face a 14% tariff on exports to Europe. As bikes are price elastic this could seriously affect sales. Germany and France are huge consumers of bikes, and a loss of competition in these markets could be damaging.

However, 13 million / ~~20~~ 20.3 million bikes <sup>Sold in the EU</sup> are already produced in non-EU states; meaning the impact of this 14% tariff can be questioned.

Secondly, Hero cycles want to be at the forefront of development and innovation, but the UK's decision to leave the EU will decrease FDI in the UK, meaning being at the forefront of innovation may be more difficult.

However, it can be seen that Manchester is a global hub of cycling, while with 'Team Sky' and Great Britain Olympic success in cycling, Hero cycles will still benefit from significant innovation in Manchester.

It can also be seen that the decision to have in Manchester is a positive one.

Firstly, as Manchester (and the UK in general) is a hub of cycling innovation, 'hero cycles' may benefit from external economies of scale. This can occur as British-based firms innovate together as a result of the infrastructure in Britain (such as the National Velodrome).

It can be seen however that the scope for innovation will be reduced as the UK cuts ties with the EU. 500 million people and a huge innovative community will be lost if a 'hard Brexit' occurs, which would damage innovation.

Secondly, as the company wants to export to China and India, Brexit may be a positive as Britain gains the ability to negotiate bilateral trade deals with these economies. While the UK is currently restricted due to the customs union, Brexit can (as Boris Johnson has argued) be a chance to strengthen ties with the rest of the world.

In conclusion, while Brexit can be seen as a limiting factor, such is the innovation and opportunity of global trade deals that the decision to open in ~~Manchester~~ <sup>Manchester</sup> can be seen as positive.



This response reached Level 4 and scored 12 marks.



Good logical chains of reasoning showing a full understanding of the question. Awareness of competing arguments is strong and balanced. It makes good use of wider knowledge and brings in other economic concepts such as external economies of scale.

## **Question 2 (d)**

This was a straightforward and open question, but was often answered generally, with some candidates writing generically about the positives and negatives of marketing. Candidates had a good general knowledge of marketing strategies in terms of ethnocentric, polycentric and geocentric approaches but frequently failed to apply this to Hero Cycles or to the evidence. Candidates referring to the 4P's were in the minority, which, given the depth of evidence available in the extracts, was a little surprising.

When it came to adapting marketing strategies, candidates struggled to identify specifics, particularly in relation to the evidence, and often came up with generic answers. Lots of candidates concentrated on the possible cultural issues involved in doing business in other countries. Good responses did manage to answer in context and it was gratifying to see examples being used from wider reading to illustrate arguments. Timing seemed to be an issue here for some candidates, with some very limited responses and even answer spaces left totally blank.

This response reached Level 4 and scored 16 marks.

(d) Evaluate the extent to which Hero Cycles should adapt its marketing strategy for global markets.

(20)

When selling products globally, there can be significant cultural barriers. For example, Pepsi used the slogan 'Pepsi brings you back to life' which in Chinese read 'Pepsi brings your ancestors back from the grave'. As an Indian company selling to European countries, some practices may be different, and so Hero could use a polycentric strategy to market its products, creating a new campaign for every market. This may ensure that gaffes such as Pepsi's do not happen and can also help to embed the brand locally, as marketing is tailored to individual markets. This may increase sales, increasing revenues. However, this approach is very costly, requiring marketing professionals for each country. The product is sold into be most effective, making decisions on what kind of promotion is best - e.g. sponsorships or TV ads. This increase in costs may be more than the increased sales generated from the campaigns.

Due to the nature of the product, Hero could also adopt a single global strategy. As bikes are relatively unobtrusive, morally, socially or culturally, Hero could adopt a single marketing strategy world wide, marketing all of its products in the same way. For example, it could sponsor the Giro d'Italia or the Tour de France, of global events watched by cyclists, and advertise in the same way as a company such as Apple, selling the experience, not the product. This may mean that costs are

cut significantly, allowing those who were already likely to find the product (cyclists) find it, and providing high profits due to low costs. However, this strategy may undercut the product, and may ignore the secrets already created by Hero's brands through its acquisitions. This may cause reputational damage, and a small marketing team may miss an advert that may cause otherwise, risking further reputational damage.

In conclusion, I would suggest that as Hero Cycles, through its acquisitions of Hoco and Firebox, already has a regional market and multiple brands. I would suggest a brand based strategy, with a global outlook but individual country or regional adjustments, for the most impact. For example, in the Netherlands, with a € 914 average price the luxury brands in Hero's roster could be emphasized, and in Croatia, Malta, Latvia, or Slovenia where the average price is 12% of the Netherlands, of €110, the mass market utility brands could be emphasized. This approach may give the best of both worlds - being a lower cost global strategy, with room for local adjustments. Over the long term this approach may work better, with local understanding of these brands, and trust in them. However, in the short term this may be costly as a strategy must be created for each brand, emphasizing its importance and uniqueness.





A good response that uses the evidence and wider examples to build logical chains of reasoning, although these are not as fully developed as they might be. There is balance and a worthwhile conclusion.

## Paper Summary

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

- The case study should be thoroughly prepared for, and real-life examples researched to reinforce discussion.
- QS skills account for 20% of available marks, more details in the specification.
- Practice and preparation of key diagrams is crucial.
- It is well worth looking carefully at the level descriptors and taking time to understand what they mean.
- There is a lot of data in this paper, take the time to read through it all carefully before starting your answers.
- Watch your timing and do not spend too long on the shorter questions.

## 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>

