

Write your name here

Surname

Other names

**Pearson**  
**Edexcel GCE**

Centre Number

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Candidate Number

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# Economics and Business

## Advanced Subsidiary

### Unit 2B: Business Economics

Tuesday 24 May 2016 – Afternoon  
**Time: 1 hour 15 minutes**

Paper Reference  
**6EB02/01**

**You do not need any other materials.**

Total Marks

### Instructions

- Use **black** ink or ball-point pen.
- **Fill in the boxes** at the top of this page with your name, centre number and candidate number.
- Answer **all** questions in Section A and Section B.
- Answer the questions in the spaces provided – *there may be more space than you need.*

### Information

- The total mark for this paper is 70.
- The marks for **each** question are shown in brackets – *use this as a guide as to how much time to spend on each question.*
- Questions labelled with an **asterisk** (\*) are ones where the quality of your written communication will be assessed – *you should take particular care on these questions with your spelling, punctuation and grammar, as well as the clarity of expression.*
- Calculators may be used.

### Advice

- Read each question carefully before you start to answer it.
- Try to answer every question.
- Check your answers if you have time at the end.

Turn over ►

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**PEARSON**

**SECTION A**

**Answer ALL the questions in this section.**

**Write the letter of your chosen answer in the box and then explain your choice in the space provided.**

**You should spend 30 minutes on this section. Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.**

- 1** (a) London Wasps plays Rugby Union at Adams Park, a ground with a capacity of 10,000. All tickets are sold for every game.

If London Wasps raised the ticket price by 5%, its revenue is **most likely** to (1)

- A** increase, as demand is price inelastic
- B** increase, as demand is price elastic
- C** decrease, as demand is price inelastic
- D** decrease, as demand is price elastic

Answer

- (b) Explain your answer. (3)

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**(Total for Question 1 = 4 marks)**

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2 (a) Comparison websites such as Compare the Market have led to an increase in consumer knowledge.

An increase in consumer knowledge is **most likely** to see a decrease in

(1)

- A advertising
- B choice of products
- C price
- D quality

Answer

(b) Explain your answer.

(3)

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**(Total for Question 2 = 4 marks)**



- 3 (a) Domino's Pizza estimates that a 10% reduction in consumer income would result in a 15% increase in the demand for its meal deal range of pizzas.

The income elasticity of demand (YED) for Domino's meal deal range is

(1)

A + 0.67

B - 0.67

C - 1.5

D + 1.5

Answer

- (b) Explain your answer (show your workings).

(3)

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(Total for Question 3 = 4 marks)



4 (a) Virgin Trains has a monopoly on the route between Manchester Piccadilly and London Euston.

This is **most likely** to result in (1)

- A duplication of resources
- B an increase in profits
- C diseconomies of scale
- D low barriers to entry

Answer

(b) Explain your answer. (3)

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**(Total for Question 4 = 4 marks)**



- 5 (a) In the fast changing marketplace for smartphones, too much cash tied up in stock can be a problem.

All of the following would minimise this problem **except** (1)

- A JIT management
- B short product development lead times
- C using common components in each model
- D inadequate market research

Answer

- (b) Explain your answer. (3)

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**(Total for Question 5 = 4 marks)**



6 (a) In the UK confectionery market, over 90% of sales are dominated by mass market chocolate producers Cadbury's, Nestlé and Mars.

Which would be the **most appropriate** marketing strategy for these producers? (1)

- A Advertising in specialist magazines
- B High prices to skim the market
- C Selling in luxury retail outlets
- D National television advertising

Answer

(b) Explain your answer. (3)

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(Total for Question 6 = 4 marks)

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**TOTAL FOR SECTION A = 24 MARKS**



## SECTION B

Answer ALL questions in this section.

You should spend 45 minutes on this section.

### Evidence A

#### Halfords

The Halfords brand was established in 1902 and is now the UK's leading retailer of automotive and cycling products. Halfords operates from more than 460 retail stores and over 300 Autocentres throughout the UK. A local Halfords store is less than a 20-minute drive away for 90% of the UK population. The website, halfords.com, is supported by centralised distribution centres allowing fast dispatch to either customers' homes or direct to the store.



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Halfords is the UK market leader with an estimated 20-25% of the cycling market. It has sales of over a million cycles a year and holds a 15% share of the cycling parts, accessories and clothing market. The UK cycling market is estimated by Mintel to be growing by 5% per annum in recent years with further growth anticipated.

(Source: adapted from: <http://www.halfordscompany.com/media-centre/key-facts>)

### Evidence B

#### Chris Boardman sells cycle business to Halfords for £20m

Chris Boardman and his business partners have received around £20m from Halfords for the sale of the bicycle brand he created. Mr Boardman, who shot to fame winning a gold medal in the 1992 Olympics and success in the Tour de France, will remain as its Chairman and Design Director. Halfords already sells about 50,000 bikes a year in the Boardman performance series – a range of road, mountain and hybrid bikes priced between £500-£1 800. "This step will take the brand to the next level and their backing will allow us to further develop our research and development and extend our award-winning cycling ranges," said Mr Boardman.

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June 2014 saw Halfords post a 6.5% increase in sales, driven by cycling sales, with pre-tax profits increasing 2.3% to £72.6m. Owning the Boardman brand outright will help the company strengthen its presence in the high end of the bicycle retail market. "Our investment in Boardman Bikes, which have been ridden by multiple Olympic and world champions, demonstrates our growing position as a specialist cycling retailer," said Matt Davies, Chief Executive of Halfords.

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Cycling has hugely expanded as a recreation activity in the UK since the recent Olympic success of the British team and the yellow jersey winning success of Sir Bradley Wiggins and Chris Froome at the Tour de France. Halfords is expecting a further sales boost from a summer of UK events including the Tour de France in Yorkshire, and the Commonwealth

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Games in Glasgow. According to a recent study by the London School of Economics, cycling contributes about £2.9bn to the economy.

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(Source: adapted from <http://www.theguardian.com/business/2014/jun/04/boardman-bikes-halford-acquisition> and <http://www.telegraph.co.uk/finance/newsbysector/retailandconsumer/10875521/Chris-Boardman-sells-cycle-business-to-Halfords-for-20m.html>)

**Evidence C**

**Key UK Macroeconomic Indicators June 2014**

- The Consumer Prices Index (CPI) grew to 1.9%, up from 1.5% in May
- Unemployment rate was 6.4% (April–June 2014), down 0.4% from January–March 2014
- Gross Domestic Product (GDP) increased by 0.8% in Q2 2014 compared with Q1 2014

(Source: adapted from: <http://www.ons.gov.uk/ons/index.html>)

**7** Explain **one** likely reason why Halfords use centralised distribution centres.

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**(Total for Question 7 = 4 marks)**



8 Explain **one** benefit to Boardman Bikes of using research and development (R&D) when designing new cycling ranges.

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**(Total for Question 8 = 4 marks)**

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- 9 Using a fully labelled supply and demand diagram, explain the possible impact on the cycle market of the increase in the number of people cycling.



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**(Total for Question 9 = 8 marks)**



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10 Explain **two** reasons why rising inflation might be a problem for Halfords.

Handwriting practice lines consisting of a solid top line, a dashed middle line, and a solid bottom line, repeated down the page.

**(Total for Question 10 = 6 marks)**



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11 Assess how useful macroeconomic indicators might be in helping Halfords to reduce uncertainty.

(10)

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(Total for Question 11 = 10 marks)



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**\*12** Evaluate the likely impact on **two** stakeholder groups of the takeover of Boardman Bikes by Halfords.

(a) Stakeholder 1

(7)

Area with horizontal dotted lines for writing.



P 4 3 2 8 2 A 0 1 5 1 6

(b) Stakeholder 2

(7)

Area with horizontal dotted lines for writing.

**(Total for Question 12 = 14 marks)**

**TOTAL FOR SECTION B = 46 MARKS  
TOTAL FOR PAPER = 70 MARKS**

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