



# Examiners' Report

## June 2018

GCE Economics B 9EB0 01

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# Introduction

This is the second A level paper for the new specification (2015) which is marked using the new levels of response criteria.

Overall, many questions were answered well with candidates showing good awareness of the topics, suggesting that candidates on the whole had been well prepared for the paper. Apart from the 'Discuss' question it was encouraging to see that candidates appeared to have a good understanding of the command words with two sided arguments presented for the 'assess' and 'evaluation' questions.

The 20 mark questions allowed many candidates to take advantage of the wide-ranging data provided to them as well as to use prior-learning to produce balanced and coherent answers. Unfortunately, once again, those candidates that failed to use the data provided to them gave generic answers with many responses relying heavily on assertion which meant they were unable to access the high levels in the mark scheme.

A wide mix of topics was provided to the candidates and the questions provided differentiation with a wide variety of responses provided.

Whilst it was disappointing to see that some candidates still confuse supply and demand factors and are unable to distinguish between profitability and liquidity, other topics such as barriers to entry and demand-side policies were well understood with some good answers provided.

## Question 1 (a)

This question was answered well with many candidates scoring the full 4 marks on this question. This was a relatively straightforward question which required the candidates to calculate a change in revenue. Some candidates did not get the full 4 marks because they failed to show the £ sign or show the answer in millions. For each of these omissions the candidate lost 1 mark.

- 1 *Candy Kittens'* sales revenue in 2016 was £1.5m. Jamie Laing is planning for an increase in sales revenue of 12% by 2019.

(a) Calculate the planned sales revenue for *Candy Kittens* in 2019. You are advised to show your working.

(4)

$$\left( \frac{1.5m}{100} \right) \times 12 = 180,000$$

$$1.5m + 180,000 = \pounds 1,680,000 \text{ or } \pounds 1.68 \text{ million}$$



**ResultsPlus**  
Examiner Comments

This response gained 4 marks. In the absence of any workings the candidate will be awarded full marks if the answer is correct.



**ResultsPlus**  
Examiner Tip

Quantitative skills are an important element on the new linear A level. It is advisable for candidates to show their workings, as candidates can gain marks for workings even if the final answer is incorrect.

## Question 1 (b)

Where candidates understood the term external cost, answers were generally good with many scoring full marks. However, some candidates instead wrote about private costs and the impact of sugar on the consumer and were awarded zero marks.

Many candidates started their answers with a definition, however there are no marks awarded for definitions in the 4 mark questions.

According to a new report, confectionery sales in the UK are predicted to grow, despite fears about the high levels of sugar in sweets. (Extract A)

(b) Explain **one** external cost caused by the consumption of sweets.

(4)

External cost relates to the cost that third parties encounter from the consumption and production of a particular product. These are not encountered for by private economic agents. The sweet market is expected to grow by 8.6% between 2016 and 2019. This can have a significant impact on the government as over consumption of sweets can significantly contribute to obesity problems especially in children. This cost the NHS billions due to health related issues of obesity including heart problems.



This response scored 4 marks for showing the impact on a third party (NHS) with good use of context followed by the consequence to the health service.



The AO allocation for a 4 mark explain question is 1 knowledge, 2 application and 1 analysis – so ensure you have enough context to gain the full 4 marks.

## Question 1 (c)

This question required the candidates to suggest one supply factor that may have caused fluctuation in the price of sugar. Whilst many candidates were awarded full marks on this question, it was surprising to observe that some candidates wrote about a variety of demand factors and gained no marks. Many candidates used the data provided in terms of sugar prices to contextualise their answers and gain the two application marks.

- (c) Using Extract B, explain **one** supply factor that may have caused fluctuations in the price of sugar.

(4)

The price of sugar rises from around 11 us cents at the end of 2008 to around 25 us cents at the end of 2009. This change could be the result of the recession and a short supply of sugar. Therefore, the price is driven upwards as a result of a short supply. The price of sugar is later recovered due to farmers being more certain of the future of the economy.



This answer scored no marks as its primary focus is on factors that impact demand, rather than supply.



Again, remember that 2 marks of the 4 marks are awarded for use of application. It is important that candidates get in the habit of using the data provided to them in the case study or use other relevant data to contextualise their answers.

## **Question 1 (d)**

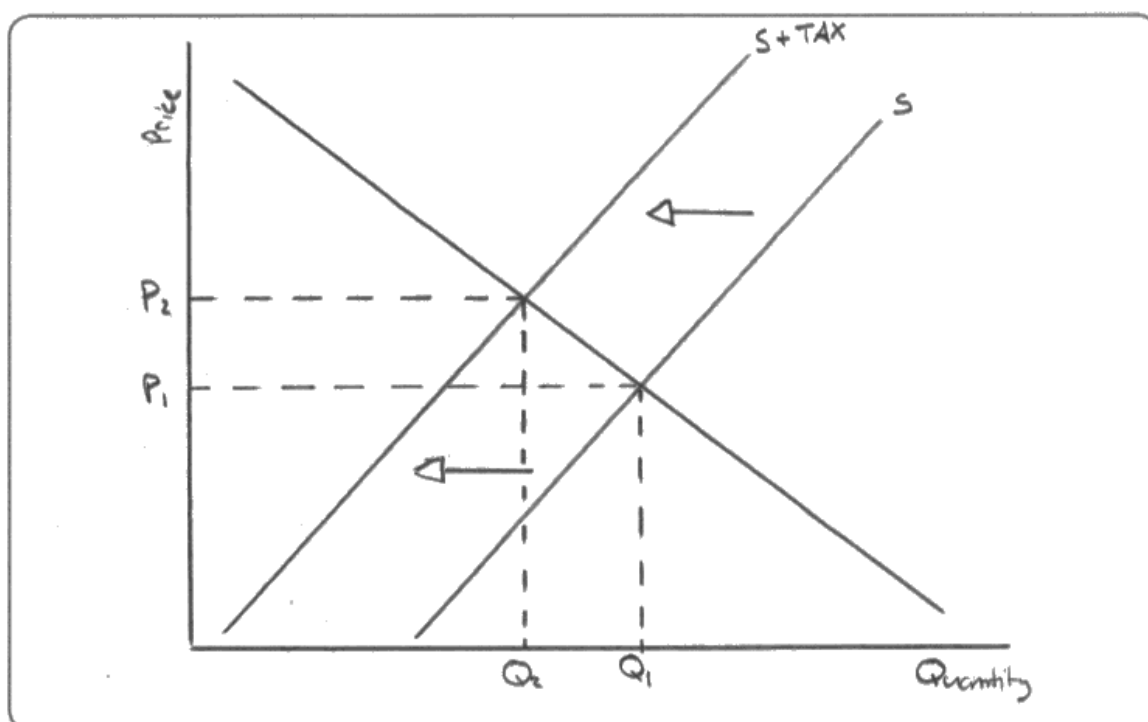
This is a 6 mark question which required candidates to explain, using a supply and demand diagram, an impact of indirect taxation on the confectionary market. Many candidates seemed familiar with drawing a supply and demand diagram and were able to access a minimum of two marks for drawing/labelling the diagram and showing the original equilibrium. However, some candidates showed a shift in demand or an outward shift in supply limiting scores to 2 marks. The written part of this question gave access to a further 2 marks, one for application and one mark for analysis.

Generally, the question was answered well although less able candidates did not understand the term indirect tax or assumed the tax would always be borne by the consumer.

(d) Research suggests that the biggest growth barrier for UK start-up firms is the UK tax system. (Extract C)

Using a supply and demand diagram, analyse the likely impact on the UK confectionery market of an increase in indirect taxes.

(6)



An indirect tax, such as VAT, is levied on a specific product. This is beneficial for the government as they can discourage use of demerit goods, such as confectionery. However, the addition of an indirect tax upon confectionery would negatively impact suppliers. The cost of each product becomes higher, due to the tax, and the consumer uses less as a result. This makes the contribution from each good sold greater, and makes it difficult for small firms to compete due to their higher costs (lack of economies of scale). This supports extract C, showing the UK tax system is bad for business.





This candidate scored 6 marks, 4 of which are for a fully labelled diagram which shows the correct shift and equilibrium points. A further 2 marks is awarded for application and analysis in the written section.



Don't forget to fully label the diagram, show the shift and equilibrium points. Do not show shifts to both supply and demand as this will not be awarded marks.

## **Question 1 (e)**

On the whole many candidates showed some understanding of the term and were able to access Level 2. However, it was surprising that many candidates presented a one-sided argument. Whilst a very good one-sided answer using relevant evidence can access Level 3 it was unlikely to fulfil a balanced awareness of competing arguments which is a Level 3 descriptor and requirement.

Many candidates understood how Candy Kittens were adding value and the benefits it brought them, but few answers explained the potential problems it may create for the firm.

(e) Discuss the benefit that adding value brings to Candy Kittens.

(8)

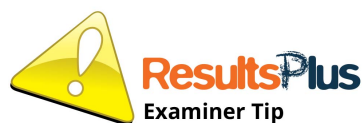
Added value is the difference between the cost of inputs of a product, and its selling price. One way that Jamie Laing's brand 'Candy Kittens' does that is through its branding of being 'gourmet' and 'natural'. As opposed to many other confectionary brands, for instance market leaders Mondelez and Mars, Laing ~~is~~ emphasises the idea of its natural and 'real-fruit based' recipe. As a result, it may therefore appeal to a wider or different market segment who hold significance to health and natural food. Not only this, but its 'gluten free' recipe will also appeal to ~~the~~ ~~some~~ coeliacs or those on a gluten-free diet. This would be a benefit as it would allow the brand to charge higher prices and increase revenue as it is tapping into a market niche.

The 'premium pricing' of Candy Kittens ~~would~~ <sup>could</sup> also make consumers perceive it to be of higher quality, due to its added perks such as 'gluten free'. Its prices may <sup>therefore</sup> actually increase its attractiveness to consumers, which would be increased by it being stocked in trendy, popular shops like Topshop. This added value of being a premium brand could also be key, as there are many confectionary brands and therefore it is highly competitive, and would therefore differentiate the product into being premium.

At the same time, it is important to note that there may be limitations to the benefits. For instance, the cost of high quality, natural and real-fruit ingredients is likely to be high and therefore possibly eat into confectionery makers' profits. The high prices may also deter some consumers who ~~are~~ have less disposable income to spend on confectionery.



This is a good Level 3 response which shows accurate knowledge and understanding with logical and coherent chains of reasoning, and balance.



Whilst the 8 mark discuss question does not need a conclusion, you must ensure there is balance in the response.

## **Question 1 (f)**

This question focussed on loans as a source of finance for new start-ups and the case study advised how Candy Kittens used a loan from family and friends. Many answers to this question were generic in nature and candidates took the opportunity to write about a variety of sources of finance rather than focussing on loans. Many answers failed to apply the theory to Candy Kittens or any other business the candidates were aware of. Unlike 1(e) which has 3 levels, this question has 4 levels of response in the mark scheme, however few candidates achieved level 4 due to the lack of relevant evidence and well-developed arguments.

Jamie Laing used loans to start his firm. (Extract A)

(f) Assess the benefits of this source of finance for a new firm such as *Candy Kittens*.

(10)

A source of finance is where a business received its money from. As shown in Extract A, ~~Candy Kittens~~ <sup>Laing</sup> used loans from family and friends to start-up Candy Kittens. This is a beneficial source of finance, as it holds less risk. If the business failed, Laing wouldn't be at risk of losing any personal assets. Whereas, if he had sourced the money through a bank loan, for example, he ~~could~~ <sup>would</sup> be at risk of losing personal assets, if he's unable to pay the loan. Also, ~~loans~~ <sup>loans</sup> from friends and family mean that Laing will still have control over the business. Whereas, if Laing had sourced money through ~~people~~ <sup>the</sup> stock exchange, he could have lost control over the business.

\*

Nevertheless, there is some drawbacks of seeking loans from friends ~~of~~ and family.

One disadvantage is that it puts personal relationships at risk. If the business was to fail, and family or friends couldn't be paid back, many of them may be unhappy. This could ruin personal relationships.

Overall, using loans from friends and family would be very beneficial to a new firm, like Candy Kittens, as it offers no interest and doesn't put personal assets at risk. Nevertheless, ~~it doesn't put~~ <sup>if the business</sup> fails, Laing must be prepared <sup>for</sup> ~~the~~ the fact that friends and family could lose the money they allowed him to borrow.

\*A third benefit, is that Laing won't have to pay interest on the loan.





This response was judged to be a Level 3 response, 6 marks. Knowledge is shown and some evidence used with balance attempted. The answer is quite generic, makes lots of assumptions, and does not provide a full and balanced awareness of the validity and significance of competing arguments.



Remember if the question allows you to write about other firms, as this question does, take the opportunity to write about firms you have covered in the classroom.



## **Question 1 (g)**

This is the first of the 12 mark questions and has 4 levels of response. This question was generally answered well with candidates showing good understanding of barriers to entry and using the data provided in the case study effectively. Many candidates used the data provided on market leaders in the confectionary market to identify the market structure and contextualise their answers.

Balance was generally evident with more able candidates showing a full and balanced awareness of the validity and significance of competing arguments.

(g) Assess the extent to which barriers to entry may restrict the growth of Candy Kittens.

(12)

Barriers to entry are factors which prevent a business from entering the market. The Sweet Industry is an Imperfect market which exhibits characteristics of an oligopoly and therefore market failure.

One barrier to entry that may restrict the growth of Candy Kittens is Internal Economies of Scale. This is referring to the fact that large firms such as Haribo and Maynards probably benefit from bulk buying from suppliers in the purchase of their fruits for example that go into their sweets. This will restrict the growth of Candy Kittens because their costs are likely to be much higher than that of their competitors. This will restrict profits for the business and therefore prevent them from increasing their market share.

A second barrier to entry that may restrict the growth of Candy Kittens is the excessive branding and marketing campaigns by the larger firms in the market. For example, Haribo has very recognisable packaging for different flavours eg: Blue = Star Mix and Orange = Tangfastics. This will create a barrier to entry for smaller firms such as Candy Kittens because they will not be able to attract customers from larger brands due to the brand loyalties the larger firms have built up. This will lead to firms such as Candy Kittens having to create their own USP's for their products which can be very expensive and result in high sunk costs.

With no guarantee that the new strategy will work. This can be detrimental for smaller businesses because many of them cannot afford to invest heavily in areas such as advertising.

However, barriers to entry have not impacted upon Candy Kittens' growth significantly because their sales revenue in 2016 was £1.5m and they are now stocked in more than 1700 stores across the UK. This indicates to us that barriers to entry has not hindered their growth because they are still performing at a good level in the market for a relatively new business.

Overall, barriers to entry have hindered the growth of Candy Kittens to a large extent because they are unable to compete with the larger businesses in the market. They are currently performing well in the market but have little opportunity to grow further in the market due to barriers to entry.



**ResultsPlus**  
Examiner Comments

This is a good Level 4 response (10 marks) which is well written with coherent chains of reasoning. Whilst a conclusion was provided it would have been nice to see more balance in terms of counter-arguments.



**ResultsPlus**  
Examiner Tip

Try to balance your response in terms of positives and negatives and ensure you don't just repeat yourself in the conclusion.

## **Question 1 (h)**

This question, on the whole, was not answered well at all. Candidates appeared to find it difficult to distinguish between cash and profits, and liquidity and profitability. This is obviously a topic that needs reinforcing with candidates. Whilst a cash flow forecast was not given to the candidates there was evidence in the case study to help discuss its importance in terms of survival for new firms. Many answers were generic or vague with many candidates only achieving Level 1 or 2.

liquidity when may require Financing Not always correct  
(h) Using Extract C, assess the extent to which cash flow forecasting is important to the survival of a new start-up business such as Candy Kittens. out of date

(12)

A cash flow forecast shows when money flows in to and out of a business.

A positive cash flow forecast is likely to help a start up business achieve financing and attract share holders give share holders a positive view of the business, however 61% of 160 businesses didn't believe they could achieve 2 years of consecutive growth. This indicates how important it is that a firm can prove it will grow. However cash flow forecasts aren't always correct as they are only estimates, and factors such as costs can increase depending on the economic environment such as increased inflation rates.

New businesses also tend to face liquidity issues - as they have more money leaving the business than they have entering as profit. So by using cash flow forecasts if they see a period of time in which they may have a liquidity issue they can apply for external finance such as a loan from the bank to cover the difference; as a firm can be profitable in the long run but will

go out of business if lacks cash in the short term. However factors such as UK tax system causes uncertainty for 44% of firms, as it makes it difficult to correctly predict cash as costs are rising so makes less profit.

Overall, cash flow forecast is extremely crucial for a start up as it gives shareholders confidence and allows to spot times when extra finance is required. However they must remember it is only a prediction so is ever changing.



**ResultsPlus**  
Examiner Comments

This response was awarded 5 marks and represents a Level 2 response. There are elements of understanding using limited relevant evidence. Arguments are present but with limited attempt to address the question.



**ResultsPlus**  
Examiner Tip

It is important that the candidate fully answers the question and identifies which economic agents they are being asked to write about.

## **Question 2**

This question produced a wide variety of responses and discriminated well between candidates. Examiners were looking for the positive and negative effects of the government's walking and cycling schemes on the economy.

Many candidates failed to answer the question in full as they did not specifically write about the impact on the economy but instead wrote about the impact on health and UK citizens. More able candidates were able to use the evidence provided as well as their own knowledge to write a well-balanced and coherent response. Some candidates gave perceptive conclusions which made links to the feasibility of people using bicycles to commute to work and how other measures may also contribute to a reduction in congestion and pollution levels.



active workforce = good.

2 Evaluate the extent to which the government's cycling and walking strategy may impact the UK economy.

(20)

The government's cycling and walking strategy aims to increase the frequency of people who are walking and cycling ~~to work~~ on short journeys. Through increasing activity and decreasing carbon emissions, the government will hope to decrease the short and long term negative externalities which currently exist.

The strategy would decrease the <sup>existing</sup> negative externalities, in turn improving the UK economy. Existing means of transport are highly damaging to the environment due to the carbon and other greenhouse gas emissions which are produced, ~~more~~ negatively acting to destroy local and global environments and climates. Moreover, congestion is likely to cost the UK government £300bn over the next 16 years, money which could otherwise be spent ~~on economic~~ to increase economic growth or ~~to~~ pay towards paying the national deficit.

The scheme would also help to reduce the negative externalities associated with lack of exercise, such as obesity, heart disease and early deaths. Currently, the effect of 20% of the UK's ~~adult~~ population not engaging in a 20 minute walk once a week along with 65% not riding a bike highlights a hugely inactive population. This poses a significant strain on the NHS, with obesity costing billions of pounds each year.

Moreover, this will also lead to an inactive workforce should people die young or become too ill to work. Such negative



externalities would also be improved through the government's scheme of making walking and cycling a natural choice by 2040. This would ensure a healthier lifestyle decreasing the cost on the NHS as well as increasing <sup>the size</sup> and improving the health of the active workforce, who can actively contribute to growth of the UK economy. Furthermore, subsidies increase the accessibility of the scheme to even those on low incomes, with 1.1 million participants since 1999.

Despite this, opposition has been met due to the potential cost of such ~~an~~ a strategy, with the high cost not backed by a certainty of success. This highlights the risk of such a scheme. The proposed subsidies to aid the purchasing of bicycles may not ~~not~~ be used correctly, people may just purchase bicycles because they want to receive the benefit. Moreover, as stated by Olympian Chris Boardman, the UK for success comparable to countries such as Holland, ~~are~~ significant money would be necessary. This money would be needed to make cycling and walking more accessible, through improving and expanding bike lanes and walking routes. The success of the scheme may not be viable for the cost that such expansion would entail. This could potentially provide a significant loss for the UK economy which is not viable when considering the proposed positive externalities which may be related.

The impact of on the UK's economy of the cycling and walking scheme is largely dependent of the commitment of individuals. Although ~~more~~ less people taking cars would decrease the ~~ex~~ estimated cost of congestion (£21 billion by 2030) the scheme only considers short distances, whilst people will always require long distance travel. Moreover the ~~in~~ necessary investment is unlikely to be repaid through the potential reduction in negative externalities such as health issues. ~~This suggests~~ For this, the scheme is unlikely to have significant, immediate effect on the UK economy. Greater success could come through increasing public transport to reduce congestion, as well as services not being 'door to door' also increasing the general activity levels of the population.



This response was awarded high Level 4 marks. Accurate knowledge was shown with good coherent chains of reasoning throughout with a perceptive conclusion.

### **Question 3**

This is the second of the 20 mark questions and the last question on the paper. Unlike last year, most candidates seemed to have attempted this question indicating better time management this year.

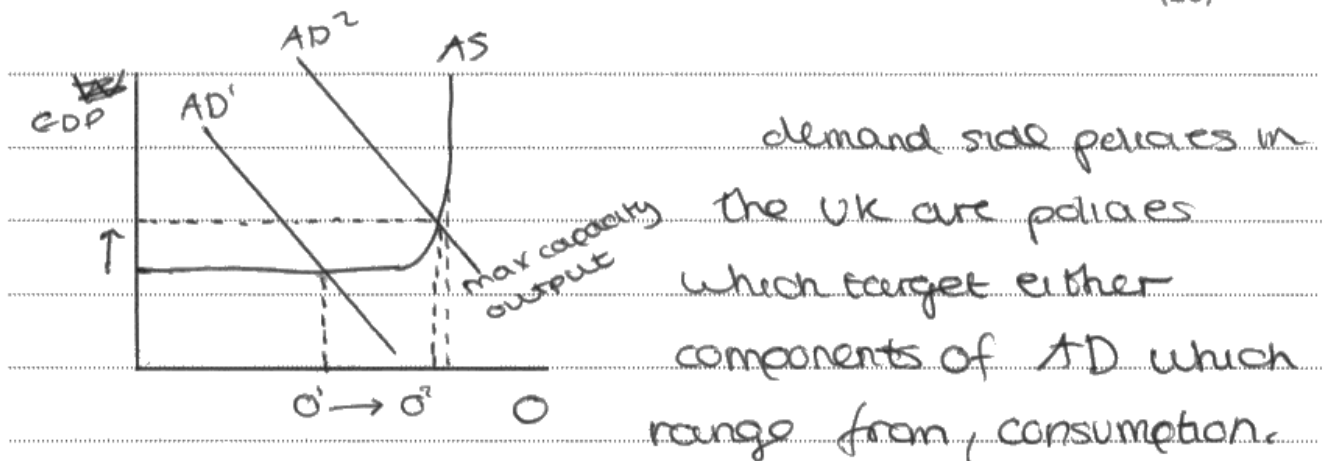
As with question 2 there was a wide variety of responses and the question proved to discriminate well between the more and the less able candidates, however average scores were a little disappointing.

Unfortunately, many candidates ignored the instruction to use a diagram or produced an inaccurate one. Where candidates had provided a suitable diagram many then failed to use and refer to the diagram in their written work.

Candidates were given a wide range of data but again many candidates failed to take the opportunity to utilise this data in their answers and so produced a generic, textbook answer about fiscal and monetary policy. More able candidates were able to interpret and link the data to make a judgement regarding the importance of demand-side policies in stimulating growth.

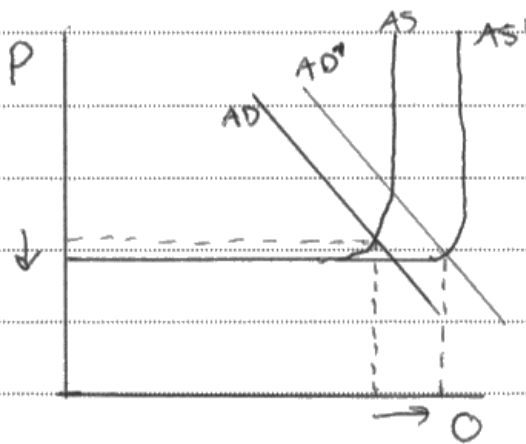
3 Using a suitable diagram, evaluate the importance of demand side policies in stimulating growth in the UK.

(20)



investment, consumer spending, exports and imports. The diagram above is showing that when AD increases, GDP in the UK also increases. After the Brexit vote, the UK has been suffering from low consumer and business confidence due to the uncertainty produced by Brexit. As a result, the consumption and investment in the UK is low. Additionally, the government is currently employing austerity policies which means that <sup>gov spending</sup> investment in the UK is also low which has greatly reduced economic growth. //  $AD = C + I + G(x - m)$  is the formula for the components of AD. An increase in AD translates over to an increase in GDP. Demand side policies such as increasing the ~~the~~ national minimum wage would increase the disposable <sup>income</sup> ~~wealth~~ of consumers. This would increase the consumption in the economy of more normal goods which would ease AD.

to rise. ~~an~~ although raising the minimum wage ~~may result in~~ may result in businesses not being able to pay this extra cost which would lead to increase in redundancies so unemployment would go increase. As a result, the consumption within the UK economy may further decrease which would ~~have~~ <sup>be</sup> ~~the~~ <sup>the</sup> opposite intended effect. Demand side policies may cause a rise in AD but if AD continues to rise above the maximum capacity output of the economy then that may lead to demand-pull inflation which is where the output of the economy is not ~~increasing~~ keeping up with the demand.



Through the increase of AS which can be done through supply-side policies, high levels of economic growth can be supported by the UK economy

therefore showing that supply-side policies go hand-in-hand with demand side policies when it comes to economic growth.





This was awarded 7 marks in Level 2. Whilst the candidate shows knowledge and understanding, judgements are unsupported and generic.



Use the evidence provided in the case study otherwise your answer is likely to be generic in nature and not reach the higher levels of response in the mark scheme.

## Paper Summary

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

- Do not forego marks by not showing currency and units in the calculate questions.
- Read the questions carefully. It was evident in 1(b) that many candidates wrote about private costs rather than external costs.
- The command word 'discuss' requires candidates to provide both sides of the economic argument.
- The exam paper provided many extracts to enable the candidates to provide a contextualised response. Many candidates are not using this data well and producing generic responses.
- When instructed to do so, a diagram should be provided by the candidate which should then be used to support written arguments.

## Grade Boundaries

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