



Pearson
Edexcel

Mark Scheme (Results)

Summer 2018

Pearson Edexcel GCE A Level
In Economics B (9EB0)
Paper 03 The economic environment and
business

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General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

Section A

Question Number	Indicative content	Mark
1(a)	<p data-bbox="339 353 1198 421">Using Extract A, discuss the use of HDI as an indicator of growth.</p> <p data-bbox="435 421 1161 495">Knowledge/understanding 2, Application 2, Analysis 2, Evaluation 2</p> <ul data-bbox="453 533 1182 1771" style="list-style-type: none"> • HDI provides a measure of development based on health care and education as well as national income. • It therefore includes qualitative as well as quantitative aspects of development. • The HDI can be useful because it ranks countries in relation to several aspects of development. • It has three strands: Income as measured by GNI per capita, Life expectancy, which gives an idea of the population's health. The time spent in schools, which gives an idea of the population's level of education. • The higher the HDI value, between .0 and 1.0, the more developed the country is. • India, which is a developing country, has a score of .609, by contrast, Australia, a developed country has a score of .935. • However, data from some developing countries may not be very reliable. • HDI does not take into account cultural differences such as political freedom and gender equality. • The GNI per capita figure takes no account of income distribution. • Saudi Arabia has a relatively high HDI score of .837 but gender inequality is high and wealth is concentrated in the hands of the few. • Argentina has a similar HDI score of .836 but is a very different society to Saudi Arabia. • Many argue that the HDI should be more human-centred and expanded to include other factors such as gender equity and environmental biodiversity. 	<p data-bbox="1321 1704 1370 1738">(8)</p>

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Level 2	3–5	Elements of knowledge and understanding, using limited relevant evidence. Arguments and chains of reasoning are developed. Judgements may be attempted.
Level 3	6–8	Accurate knowledge and understanding, supported throughout by use of relevant evidence which is well chosen. Arguments are developed, using logical, coherent chains of reasoning. A balanced awareness of competing arguments.

Demonstrating application (AO2) in responses

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Question Number	Indicative content	Mark
1(b)	<p data-bbox="341 282 1206 349">Assess the importance of transport and communication to the increase in globalisation over the last 50 years.</p> <p data-bbox="437 353 1158 421">Knowledge/understanding 2, Application 2, Analysis 3, Evaluation 3</p> <ul data-bbox="392 461 1235 1523" style="list-style-type: none"> • Transport and communications have improved over the last 50 years making trade much easier and in turn spreading globalisation. • Transport changes such as the container dramatically reduced the cost of shipping, making trade more viable and encouraging specialisation and further trade. • Air travel makes it much easier for business people to travel and expand their businesses. • The internet and digital economy speed up communications and allow access to global markets at all times, again spreading globalisation. • However, other factors have had an important role in spreading globalisation. • Trade liberalisation and the breaking down of trade barriers, particularly by the WTO. • Political change in previously isolated regions such as the breakdown of the Soviet Empire and the opening up of China have enabled more trade to take place. • The rise of MNCs with true global reach and influence such as <i>Walmart</i>, the world's biggest MNC. • Increased flows of FDI and capital market liberalisation have allowed economies to develop and trade. • Nevertheless, without improved transport and communication many of these other factors would not have had such an impact. 	(10)

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Level 3	5-7	Accurate knowledge and understanding, supported by use of relevant evidence to support the argument, clear chains of reasoning, with well-developed arguments. An awareness of the significance of competing arguments is present although this may lack balance.
Level 4	8-10	Accurate knowledge and understanding, supported throughout by use of relevant evidence which is well chosen, logical, coherent chains of reasoning, showing full understanding of the question. Arguments are developed and evaluated. A full and balanced awareness of the validity and significance of competing arguments.

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Question Number	Indicative content	Mark
1 (c)	<p data-bbox="341 322 1249 383" style="text-align: center;">Knowledge/Understanding 2, Application 2, Analysis 4, Evaluation 4</p> <ul data-bbox="392 427 1185 1771" style="list-style-type: none"> • Demographic change is the way the structure and make-up of the population changes over time. • Extract C shows that the age structure of the human population is changing. • People are living longer, by 2050 average life expectancy will have increased by seven years. • By 2030 the percentage of workers over 55 in the global labour force will have increased from 14% to 22%. • In both developed and developing economies the percentage of 65+ is increasing, most of whom will be retired. • If these trends continue the productive global labour force will shrink, this may lead to falling global output and skills shortages. • Countries such as Germany that rely to a large extent on manufacturing are facing a 33% reduction in working age population by 2060. • Such trends will call for increased migration between countries, although this currently faces political obstacles. • Labour is a derived demand and with an increasingly aged population demand for health care workers will increase. • However, some countries such as India have an increasing population, 65% under 35, 50% under 25. If migration is allowed to take place, it may mitigate the global problem. • Some countries such as the UK are raising the retirement age to maintain/increase the productive population. • Technology may compensate for falling productivity caused by lack of labour. • Extract C shows increasing productivity in the 1990s despite falling employment. • The overall impact may depend on how individual countries react to the challenges of these demographic changes. 	(12)

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Level 2	3-5	Elements of knowledge and understanding, using limited relevant evidence. Arguments and chains of reasoning are presented but with limited attempt to address the question. Comparisons and judgements may be attempted.
Level 3	6-9	Accurate knowledge and understanding, supported by use of relevant evidence to support the argument, clear chains of reasoning, with well-developed arguments. An awareness of the significance of competing arguments is present although this may lack balance.
Level 4	10-12	Accurate knowledge and understanding, supported throughout by use of relevant evidence which is well chosen, logical, coherent chains of reasoning, showing full understanding of the question. Arguments are developed and evaluated. A full and balanced awareness of the validity and significance of competing arguments.

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Question Number	Indicative content	Mark
1(d)	<p style="text-align: center;">Knowledge/understanding 4, Application 4, Analysis 6, Evaluation 6</p> <ul style="list-style-type: none"> • An emerging economy or market is likely to see sustained increases in % change GDP. • GDP per capita in emerging markets is increasing at a faster rate than many established or developed economies – by 2025, emerging economies will grow 75% faster than developed nations. • Emerging economies are expected to have a 50% share of the world economy by 2025 up from 33% in 2016. • GDP of Tianjin will more than quadruple by 2025. This creates demand for many European businesses who may supply materials/services to projects financed by the increasing amount of FDI. • Increasing numbers of consumers with disposable income – 150% increase between 2010 and 2030 • Consumers will spend more to improve their standard of living often on goods with income elastic demand such as luxury/fashion/hi-tech goods • This provides an opportunity for businesses to explore new markets and increase sales and profits. • Western businesses may see opportunities not just from increased sales and profitability but extension of product life cycle, escape from saturated markets. • However, economic growth in emerging markets leads to the growth of their own businesses. • Consumers therefore have more choice, more innovative goods and services, lower prices • Western businesses may face increased competition from emerging market MNCs as they expand and grow and may lose market share. • This applies to Western markets as well and not just in the emerging markets. • The number of large businesses with their headquarters in emerging markets has increased from 5% in 2000 to 50% by 2025. • Examples include in China, <i>Huawei, Haier and Lenovo</i>, in India <i>Infosys, Ranbaxy, Satyam</i>, and the <i>Tata Group</i>. • By 2025 China will be home to more large businesses than the US or Europe. • Western businesses that do not follow the trends and move, may get left behind. • Businesses that are based in emerging economies may have an advantage as they understand the market better and are best placed to take advantage of it. 	(20)

	<ul style="list-style-type: none"> • Even well established brands such as <i>Apple</i> have suffered at the hands of locally based competitors. • Much depends on the individual business and how it responds to these opportunities/threats. 	
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Level 1	1-4	Isolated elements of knowledge and understanding, using little or no relevant evidence. Arguments and chains of reasoning may be attempted, but fail to connect causes and consequences. Limited attempt to address the question.
Level 2	5-9	Elements of knowledge and understanding, using limited relevant evidence. Arguments and chains of reasoning are presented, but connections between causes and consequences are incomplete. Limited attempt to address the question. Comparisons, judgements or conclusions may be attempted, but are unsupported or generic.
Level 3	10-15	Accurate knowledge and understanding, supported by use of relevant evidence to support the argument, developed chains of reasoning, showing understanding of connections between causes and consequences. Arguments are well developed and competing arguments are present although this may lack balance. A conclusion may be attempted but may not show awareness of the significance of competing arguments.
Level 4	16-20	Accurate knowledge and understanding, supported throughout by use of relevant evidence which is well chosen and fully integrated to support the argument, well developed and logical, coherent chains of reasoning, showing full understanding of the questions. Arguments are fully developed and evaluated. A full awareness of the validity and significance of competing arguments, leading to nuanced and balanced comparisons, judgements or conclusions.

Demonstrating application (AO2) in responses

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Section B

Question Number	Indicative content	Mark
2(a)	<p data-bbox="347 327 1203 394">The European Union (EU) imposes a tariff of 14% on bicycles entering the EU from outside Europe. (Extract F)</p> <p data-bbox="347 421 1203 488">Using a suitable diagram, discuss the impact of this tariff on sales of Indian bicycles imported into the EU.</p> <p data-bbox="435 510 1161 577">Knowledge/understanding 2, Application 2, Analysis 2, Evaluation 2</p> <div data-bbox="501 600 1007 987" style="text-align: center;"> <p>The diagram is a standard supply and demand graph. The vertical axis is labeled 'Price' and the horizontal axis is labeled 'Quantity of Goods'. There are two downward-sloping demand curves, both labeled D_0. There are two upward-sloping supply curves, the lower one labeled S_0 and the upper one labeled S_t. The initial equilibrium is at the intersection of S_0 and D_0, with price P_0 and quantity Q_0. The new equilibrium after the tariff is at the intersection of S_t and D_0, with a higher price P_t and a lower quantity Q_t. Dashed lines indicate these equilibrium points on the axes.</p> </div> <ul data-bbox="392 1010 1182 1397" style="list-style-type: none"> • The tariff shifts the S curve to the left increasing the price of the product. • This will reduce the quantity demanded for the imported bicycles. • However, the impact depends on the PED. • It may be that 14% makes little difference to potential customers as imported bicycles may still be cheaper. • Majority sold in Europe are imported - 13,000,000 out of 20,751,000 – so maybe not that effective. 	<p data-bbox="1321 1361 1374 1397">(8)</p>

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Level 3	6–8	Accurate knowledge and understanding, supported throughout by use of relevant evidence which is well chosen. Arguments are developed, using logical, coherent chains of reasoning. A balanced awareness of competing arguments.

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Question Number	Indicative content	Mark
2(b)	<p data-bbox="344 241 1206 309">Assess the benefits of market segmentation for the global bicycle manufacturer <i>Avocet</i>.</p> <p data-bbox="435 320 1161 387">Knowledge/understanding 2, Application 2, Analysis 3, Evaluation 3</p> <ul data-bbox="456 427 1185 1592" style="list-style-type: none"> • Market segmentation is dividing the market up into groups of customers with similar characteristics such as age, gender, interests, income etc. • <i>Hero Cycles</i> and <i>Avocet</i> segment the market by the type of bicycle needed by the consumer. • These segments include mountain bikes, children’s bikes, electric bikes, women’s roadsters and tandems. • By designing a bicycle specifically targeted at the needs of the user <i>Hero</i> and <i>Avocet</i> are more likely to please the customer and make the sale. • It is possible to build up good customer relationships and brand loyalty. • This may increase revenues and profits. • The more precisely the segment is defined the greater the scope for premium pricing. • However, segmenting the market in this way makes economies of scale more difficult to achieve. • Different bikes need different components that are used in smaller quantities. • Advertising and promotion need to be specially tailored for these segments, mass market advertising is expensive and wasteful. • Market research has to be tailored to each individual market segment and kept up to date, this can be costly. • <i>Hero</i> and <i>Avocet</i> do make mass market bikes as well but without market segmentation they are unlikely to be as successful. 	(10)

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Question Number	Indicative content	Mark
2(c)	<p data-bbox="339 282 1150 349">Assess <i>Hero Cycles'</i> decision to open its Global Design Centre in Manchester.</p> <p data-bbox="435 353 1161 421">Knowledge/understanding 2, Application 2, Analysis 4, Evaluation 4</p> <ul data-bbox="392 461 1190 2018" style="list-style-type: none"> • Hero chose Manchester above London, Amsterdam, Berlin and Copenhagen. • Choosing a UK location meant that it was in the same country as <i>Avocet</i> which it took over in 2016, it is also close to the National Velodrome. • <i>Avocet</i> wants to be the market leader in European bicycle distribution, the UK has strong trading and distribution links with Europe. • The UK has the second largest share of EU sales and is a proven market. • It may be that Manchester offered an incentive or a better incentive than its rivals to attract <i>Hero Cycles</i> to locate there. • Manchester has many students and may provide <i>Hero</i> with skilled graduates in design and technology. • English is India's second language making communication more straightforward. • However, the UK is about to leave the EU, it may be that there will be 14% tariffs imposed on UK manufactured bicycles as well as those from India. • This would increase the selling price of <i>Hero Cycles</i> in Europe and may reduce sales and/or profitability. • Berlin may have been a better choice because it has the largest share of sales (21%) in the EU, and is one of the largest producers of bicycles (2,186,000) in Europe. • It also has the largest market share (40%) for electric bikes which are a rapidly growing market segment (19.3% increase 2014 to 2015) and <i>Hero</i> and <i>Avocet</i> are developing their own brand Lectro. • Italy may have been a better choice because it is the market leader for parts and accessories producing nearly 14 times as much as the UK. • In terms of a lucrative market the Netherlands would be the best choice with the highest average sale price of €914. • At the moment it appears to be a good decision as <i>Hero Cycles</i> remains successful but the UK's long term relationship with Europe is yet to be determined. 	(12)

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Question Number	Indicative content	Mark
2(d)	<p data-bbox="341 277 1203 344">Evaluate the extent to which <i>Hero Cycles</i> should adapt its marketing strategy for global markets.</p> <p data-bbox="437 349 1161 421">Knowledge/understanding 4, Application 4, Analysis 6, Evaluation 6</p> <ul data-bbox="392 456 1251 2024" style="list-style-type: none"> • Marketing strategy is how a business approaches the successful selling of its products to its customers. • <i>Hero</i> started in the Indian market where a low price is likely to have been important in gaining market share. • The product is also likely to have been of a basic but rugged design. • <i>Hero Cycles</i> has since taken over <i>Avocet</i>, <i>Firefox Cycles</i> and <i>BSH Ventures</i>. • These businesses operate in different markets which may have different requirements, if the marketing strategy is not adjusted they may lose sales. • By joining with <i>Avocet</i> they have moved into the European market where consumers have higher incomes and already expect reasonably sophisticated bicycles and may be prepared to pay premium prices. • Even so there is considerable variation in the average price of bicycles in the EU ranging from €914 in the Netherlands to €110 in Slovenia, Malta, Latvia and Croatia. • <i>Hero</i> will have to adjust its pricing strategy accordingly in order to be competitive in the lower priced countries. • If it charges too low a price in countries such as the Netherlands it may be seen as cheap and of poor quality. • <i>Hero</i> may have to produce better quality bicycles for some markets. • Promotion will have to be carefully thought out, what sells a bicycle on the Indian sub-continent may not work in the EU due to cultural differences. • By adapting the marketing strategy to fit each market <i>Hero</i> cannot take full advantage of economies of scale and thus may experience higher average costs. • However, other bicycle manufacturers face the same situation. • <i>Hero</i> is already one of the world's biggest bicycle manufacturers and so may already have economies of scale in terms of buying components so it may be more important to carefully adapt the marketing strategy to maximise sales. • The extent to which a business needs to adapt its marketing strategy will depend on the market, the objectives and the nature of its products/services. 	(20)

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