

Please check the examination details below before entering your candidate information

Candidate surname

Other names

**Pearson Edexcel
Level 3 GCE**

Centre Number

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Candidate Number

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Thursday 16 May 2019

Morning (Time: 1 hour 30 minutes)

Paper Reference **8EB0/02**

Economics B

Advanced Subsidiary

Paper 2: The wider economic environment

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.
- Answer the questions in the spaces provided – *there may be more space than you need.*

Information

- The total mark for this paper is 80.
- The marks for **each** question are shown in brackets – *use this as a guide as to how much time to spend on each question.*
- 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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Answer ALL questions.

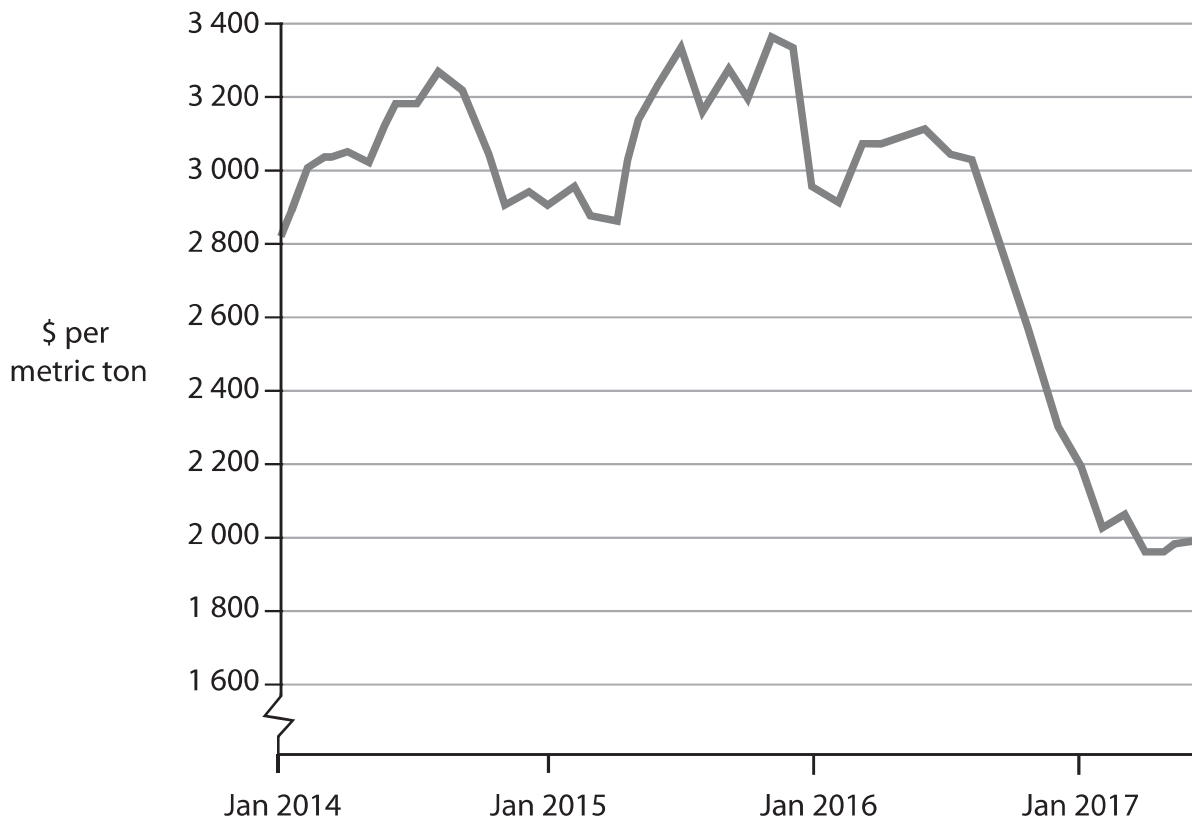
SECTION A

Read the following extracts (A and B) before answering Question 1.

Write your answers in the spaces provided.

Extract A

Cocoa beans: International Cocoa Organization cash price 2014–2017



(Source based on: www.ons.gov.uk/economy/inflationandpriceindices/articles/shrinkflationandthechangingcostofchocolate/2017-07-24)

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Extract B

***Hotel Chocolat* full of beans after doubling profits**

Hotel Chocolat's recipe of opening combined shop and café stores and expanding online appears to be working as the British chocolatier doubled its profits last year. In 2017, *Hotel Chocolat's* pre-tax profit had increased by 100% to £11.2m, up from £5.6m in 2016. The revenue was £105.2m with a 12% year-on-year growth. 5

Angus Thirlwell, co-founder and chief executive, said that the results showed the strength of the brand, which is known for the high cocoa content in its premium chocolates. After an expansion drive, the retailer has 94 stores in the UK and abroad. Its combined shop and café stores, where customers can buy boxes of chocolates and consume hot chocolate drinks, have proved popular. 10

"There is no sign of people trading down," he said. "The average order value is creeping up. Once you get a taste for *Hotel Chocolat* with more cocoa and less sugar, you don't want to buy cheaper chocolate again. You may defer a big extension to your home or a new car, but our security is we offer affordable luxury."

Mr Thirlwell said that despite an environment where commodity prices were rising and consumer demand was volatile, *Hotel Chocolat* had made 'excellent progress' with its three strategic priorities: to invest further in its manufacturing operations, increase its number of stores and develop its digital business. 15

Hotel Chocolat said it has also arranged six commercial wholesale deals so its chocolates could be sold more widely. These include gaining contracts with the internet groups *Amazon* and *Ocado*, as well as the department store *Fenwick*. 20

"Despite the challenges and uncertainties in the wider economy, trading since the end of the financial period has been encouraging," said Mr Thirlwell.

(Source adapted from: © Times Newspapers Limited 2018)



1 (a) What is meant by the term 'brand'?

(2)

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Estimates indicate that a 2.3% rise in incomes in the UK would result in an 8% increase in demand for premium chocolate.

(b) Calculate, to 2 decimal places, the income elasticity of demand (YED) for premium chocolate. You are advised to show your working.

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Hotel Chocolat imports all its cocoa from Saint Lucia.

(c) Using the trend shown in Extract A for the period 2016–2017, explain **one** possible impact on chocolate manufacturers, such as *Hotel Chocolat*.

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(d) Discuss how the economic cycle might affect manufacturers of premium chocolate, such as *Hotel Chocolat*.

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(e) Assess the benefits of organic growth for a firm such as *Hotel Chocolat*.

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(Total for Question 1 = 30 marks)

TOTAL FOR SECTION A = 30 MARKS



SECTION B

Read the following extracts (C, D and E) before answering Question 2.

Write your answers in the spaces provided.

Extract C

Selected data for Brazil 2014–2017

	2014	2015	2016	2017
Real GDP growth	0.5%	–3.8%	–3.6%	0.4%
Unemployment	6.8%	8.3%	11.3%	13.2%
Foreign Direct Investment (FDI)	\$96.9bn	\$74.7bn	\$78.9bn	\$84.6bn
Exports	\$225bn	\$191bn	\$185bn	\$197bn

(Source based on: <http://www.investexportbrasil.gov.br/investment-guide-brasil-2014-07-15-en>)

Extract D

Trade Talks between EU and Mercosur Trade Blocs

The members of the Mercosur trade bloc are Brazil, Argentina, Paraguay and Uruguay. Trade talks between Mercosur and the European Union (EU) on a trade deal are close to agreement at a World Trade Organisation conference in Buenos Aires.

Brazilian Foreign Minister Aloysio Nunes told reporters that Mercosur and the EU have exchanged notes on how far each side is willing to compromise to reach a free trade deal. Nunes said Mercosur is committed to removing tariffs from 90% of its trade with the EU. This is a positive move for the EU as Brazil imposes relatively high tariffs with an average of 8.8% compared to just 0.6% by Chile and 1.6% by the US.

5

Resistance to agricultural imports by some EU member states, such as Ireland and France, has delayed negotiation of the trade deal that seeks to liberalise trade and investment.

10

Mercosur members have pushed for an improvement on the EU offer of tariff-free imports for 70,000 tonnes of beef and 600,000 tonnes of ethanol a year.

(Source adapted from: EU, Mercosur approach a deal on sidelines of WTO meeting © REUTERS December 2017)

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Extract E

Brazil: A source of investment

Brazil is the largest recipient of FDI in Latin America and the eighth largest recipient in the world. The main investors in Brazil are the United States, Spain and Belgium.

Brazil is attractive for international investors due to several factors.

- Tax exemptions and infrastructure support. 5
- A domestic market of nearly 210 million inhabitants representing 3% of global consumers.
- Easy access to raw materials.
- A large pool of workers at all levels of education.
- A member of the Mercosur trade bloc. 10

Key sectors attracting FDI include finance, agriculture, tobacco, mining, pharmaceutical products, automobile, telecommunications, oil and gas.

The main foreign companies who have already heavily invested in Brazil include *Renault*, *General Motors*, *Carrefour*, *McDonalds* and *Zara*. The largest MNC in Brazil is *Shell*.

(Source adapted from: © Banco Santander, S.A - 2018)



(c) Using Extract C, explain **one** impact these unemployment rates may have on the Brazilian government.

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(d) Discuss the possible advantages for Brazil of being a member of a trading bloc.

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(e) Assess the benefits of inward foreign direct investment (FDI) flows to a country such as Brazil.

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(Total for Question 2 = 30 marks)

TOTAL FOR SECTION B = 30 MARKS



SECTION C

Read the following extracts (F and G) before answering Question 3.

Write your answer in the space provided.

Extract F

Tax cuts for firms and the rich as President Donald Trump wins major victory in US Senate

America has taken a dramatic step towards becoming more attractive to firms as it has cut corporation tax. US corporation tax will drop from 35% to 20% under Donald Trump's overhaul. The move puts pressure on Britain to increase its competitiveness as the country seeks business and investment after Brexit. America will have a corporation tax rate just 1% higher than Britain's 19% once the change is adopted. Britain's corporation tax is set to drop to 17% in April 2020. 5

Mr Trump predicted companies would continue to return to America as he heralded his 'historic' tax cuts. "We're going to grow the country, we're going to grow jobs, we're going to be growing everything," Mr Trump said. Other new tax changes include a reduction in top rates of income tax. 10

Supporters of the cuts argue the boost in growth will outweigh the increase to the US budget deficit from lost tax revenue and the changes have mainly benefited middle-income earners. However, the Joint Committee on Taxation estimated \$1 trillion will be added to the US budget deficit, even with extra growth, and analysis suggests corporations and high-earners will benefit most from the changes. 15

(Source adapted from: Tax cuts for businesses and rich as Donald Trump wins major 11th-hour victory in US Senate by Ben Riley-Smith © Telegraph December 2017)

Extract G

UK personal income tax allowances 2014–2019

The personal allowance is the amount of income a person can earn before they start to pay income tax at 20%.

	2014–15	2015–16	2016–17	2017–18	2018–19
Personal income tax allowance (£)	10 000	10 600	11 000	11 500	11 850

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3 Evaluate the extent to which a reduction in taxation will increase a country's rate of economic growth.

(20)

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(Total for Question 3 = 20 marks)

TOTAL FOR SECTION C = 20 MARKS
TOTAL FOR PAPER = 80 MARKS



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