

Examiners' Report  
June 2019

GCE Economics 9EB0 02

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# Introduction

This was the third sitting of Economics B 9EB0\_02 Advanced Paper 2: Competing in the global economy. The paper is split into three sections. Section A consists of five data extracts and then eight questions based upon these extracts. Section B consists of one data extract and one 20 mark essay question. Section C consists of two data extracts and one 20 mark question. Candidates have to answer all questions in the two hour time period.

As in the first two sittings, there was a wide variation in performance on the paper, both within the sections and across the paper as a whole. There were clearly many candidates who had thoroughly prepared for the examination by completing the sample assessment materials, past papers and engaging with the specific conceptual and theoretical demands of the specification. There were also those candidates who appeared to rely far more on their everyday knowledge and personal opinions to answer questions that, in fact, were formulated to test the understanding of concepts and theories from within Economics and Business Studies. This resulted in many unsupported assertions and judgements, often beginning with "I believe...", which lacked analysis and were not awarded higher levels.

A continuing concern was the number of candidates who do not seem to understand the levels of response marking on the 8, 12, and 20 mark items. There were many examples of candidates writing some strong analysis and application but failing to address competing arguments. Even on 20 mark items, there were many examples of one-sided responses where, if there was any awareness of competing arguments, these were only superficially addressed. Often this limited the level of response to Level 2, although there was clearly the potential for a higher level to be achieved. It is important that candidates understand both the command words and how the questions will be assessed. It might be very useful for candidates to become familiar with the level descriptors and with examiner reports showing how these levels can be attained. All of this material is available on the website.

The space and lines provided in the examination booklet are intended to guide candidates as to the suggested length of the response, given the number of marks allocated to the question. There were many cases where candidates left a 12 mark or, in some cases, a 20 mark question blank because they had clearly run out of time through writing too much for 8 and even 4 mark items. As a general rule, given the reading time required, it is probably best to think of the examination as requiring 'a mark a minute' over the two hours. This will then reduce the likelihood that candidates will run out of time on such a high-stakes examination. An idea perhaps, is to practice such 4 and 8 mark questions in timed conditions.

## Question 1 (a)

The paper begins with a calculation of market share, using the data taken from the stem of the question (\$4445bn) and from Extract C (\$45.39bn). It is worth remembering that 20% of the marks for the paper derive from quantitative skills. For a description of these please refer to the 9EB0 specification. Although essentially the question involved the calculation of a percentage after performing a simple division, there were many basic errors. The most common error seen was getting the formula incorrect, dividing total market value by the market share. This is basic knowledge that really should be known at this level. Another common error was to express the market share in US\$ rather than as a percentage.

Some candidates also unsuccessfully attempted to add together the data from Extract C to determine the total market size, even though this was given in the stem of the question.

Here we have an accurate and efficient response to the item.

This is a good response to the question, showing how marks can be achieved even if the final, correct answer is not reached.

### **Natura buys The Body Shop from L'Oréal for €1bn (£877m)**

*The Body Shop*, an ethical British cosmetics firm, operates in 66 countries and has more than 3,000 outlets, 133 of them in Brazil. Its turnover makes it about half the size of *Natura*. Together they would have net sales of about €3.15bn with 3,200 stores worldwide.

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*Natura*, founded in 1969 in São Paulo, is the largest Brazilian cosmetics company. In 2014, it became the first publicly traded company to be certified as meeting certain standards of social and environmental performance and transparency.

The co-chair of *Natura's* board said, "*Natura* and *The Body Shop* have always walked in parallel, and today their paths meet. The sustainable use of biodiversity in our products, a belief in ethics in management and fair relations with communities and a high degree of innovation constitute the pillars of the journey on which we are now embarking."

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(Source adapted from: L'Oréal to sell Body Shop to Brazil's Natura in €1bn deal, by Sarah Butler © The Guardian 2017)

1 Estimated global sales revenue in the cosmetics industry in 2016 was \$445bn.

(a) Using the data from Extract C, calculate the total global market share of L'Oréal.

(4)

$$\text{Market share} = \frac{\text{Individual market share}}{\text{Total market share}} \times 100$$

$$= \frac{45.39 \text{ bn}}{315.45 + 37.49 + 45.39 + 18.25 + 12.02 + 11.57 + 9.33} \times 100$$

$$= \frac{45.39}{445} \times 100 = 10.2\%$$



There are potentially 3 marks here without the correct answer: 1 knowledge/understanding mark for the correct formula; 1 application mark for the correct dividend and 1 application mark for the correct divisor; 1; 1 application mark for the correct answer.



It is always a good idea to show working out as in this case 3 marks could have been achieved without the correct final answer.

## Question 1 (b)

This item was intended to test candidate understanding of the characteristics of developed and emerging markets. It also tested the ability of the candidate to apply this understanding to the case study material, with the cosmetics market being a product characterised by a huge volume mass market and growing niche markets. There was one knowledge/understanding mark for identifying a possible reason, two application marks for reference to the context and one analysis mark for further development of the explanation.

This response is typical, covering all of the marking points.

Look at the mark allocation for this item. There was only 1 knowledge/understanding mark for identifying a possible reason. This mark was not awarded for simply defining a niche market or a mass market. There are then 2 application marks for relating this reason to the context and using the data and then 1 analysis mark for developing the analysis.

(b) Using Extract D, explain **one** possible reason why the growth forecast for the niche market in North America is greater than for the mass market.

(4)

North America already has a very large mass market, compared to Asia-Pacific which has only recently fully engaged in international trade, so ~~the~~ North America's mass market is quite saturated and thus is only expected to grow by only \$2.7bn (compared to \$14.9bn for Asia-Pacific). Thus as the mass market is saturated, consumers are turning to niche markets to access products that meet their customer expectations of higher quality, or specific designs, so the niche market is expected to grow by \$5.7bn in North America, also helped by the dominance of the internet in ~~the~~ North America which allows niche markets to reach a larger audience, and sell more and hence grow in the North American market.



1 knowledge/understanding mark for identifying a reason - the saturation of the USA market. There is then an application mark for the comparison with the Asia-Pacific market and for the reference to changing customer expectations and how this may be satisfied by the niche market. Finally, there is an analysis mark for developing the explanation with reference to the internet and the positive effect upon the availability of niche products.



At this level do not assume that a simple definition will achieve a knowledge/understanding mark. It is the use of this knowledge to demonstrate understanding that is rewarded. Clearly, a knowledge of the characteristics of mass and niche markets were required to identify a possible reason for the different forecast growth rates. However, simply offering definitions would not be answering the question set.

## Question 1 (c)

This question was intended to assess understanding of the difference between absolute and relative poverty, specifically in the context of the use of foodbanks in the UK. Most candidates actively used the data by, for example, making reference to the rising foodbank use and absolute poverty, or the falling benefit levels and relative poverty. The less successful responses simply gave a definition of absolute poverty and/or relative poverty but did not go on to use the data to develop an explanation of the difference.

This is a good response, demonstrating a clear understanding of the difference between absolute and relative poverty and then going on to develop this explanation with reference to the context.

(c) Using Extract A, explain the difference between absolute and relative poverty.

(4)

Absolute poverty is when people cannot afford the basic necessities required whereas relative is when one has less ability to afford the same as those around them (to live off 60% of the median income). Therefore, those in absolute poverty may require an emergency food supply from the food bank and be part of the 1.3 million in 2018, due to not being able to afford. Whereas, in relative poverty people may be able to afford this or be able to spend elsewhere so require food banks and. For example, those in relative poverty may be able to spend money on non-necessities such as clothing and however they may only be able to afford comparatively less than the people around them, meaning their reliance on food banks is likely to be lower.





There is a clear identification of the difference for 1 knowledge/understanding mark. There are two valid references to the context for 2 application marks: increased emergency foodbank use as an indicator of absolute poverty and (comparatively less) foodbank use by those in relative poverty. There is then some development of the explanation with reference to spending by those in relative poverty for 1 analysis mark.



Keep a 4 marks response concise and read though your answer. Would it be possible to guess the question from the response? If not, then it is likely that the question has not been answered.

## **Question 1 (d)**

This question was intended to assess understanding of underemployment and of the likely causes of the gender pay gap. A surprising number of responses seemed to confuse underemployment with unemployment.

There were six marks available here, two for knowledge/understanding underemployment. Two application marks for development in the context of the gender pay gap and two analysis marks for reasons, causes and consequences of underemployment for the gender pay gap.

Common mistakes here were for candidates to produce generic responses with no reference to the context. In some cases, a generic discussion of the role of women in society or the perceived "different" skills and abilities of men were presented. This was not answering the question set.

The first paragraph here is clear and concise, identifying the 2 types of underemployment and how these may relate to the gender pay gap. There is the under-utilisation of skills, as well as the preponderance of part-time work. This is then given context with reference to Extract B and the explanation is further developed in the remaining sentence.

The second paragraph then continues to answer the question with reference to differential pay, again with reference to Extract B. There is then further development of this point.

(d) With reference to Extract B, analyse how underemployment might contribute to the gender pay gap.

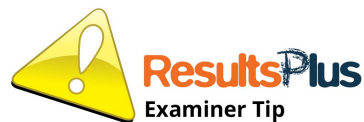
(6)

It could strongly be argued that underemployment might ~~be~~ have a large contribution to the gender pay gap as women are unable to fully utilise their skills to obtain more pay. As Extract B suggests that "women working part-time is one of the possible reasons for this gender pay gap." This therefore may be due to the fact that they aren't working long enough hours to obtain more income to close the pay gap or ~~they~~ their current job may not be fully utilising their skills they have and so are being underpaid.

However, it could potentially be argued to a weaker extent that underemployment may not contribute to the gender pay gap as even full-time <sup>women</sup> workers earn less than men. As Extract B suggests that "full-time primary and nursery school teachers, where five out of six are women, there is still a pay gap." This therefore showing that even women working full-time are earning less than men in the same job.



1 knowledge/understanding mark for identifying "unable to fully utilise their skills" and 1 knowledge/understanding mark for identifying the part-time nature of paid female labour. There is then 1 application mark for reference to Extract B and 1 analysis mark for the remaining development of the explanation. Finally there is an additional application mark for a reference to Extract B and another analysis mark for the further development of the explanation.



Look at the number of marks available for the question and try to ensure that there are sufficient points to achieve the full 6 marks.

## **Question 1 (e)**

This question was intended to test the understanding of the likely impact of emerging markets on multinational firms, in this case a cosmetics producer. What was surprising was that while many responses discussed the possible benefits of forecast market growth, fewer responses talked about some of the possible costs or risks of focusing upon an emerging market.

The best responses used the data to demonstrate an awareness of competing arguments, highlighting that *L'Oréal* is not the only firm and will have to compete with other large multinational firms, as well as local firms. Very few candidates discussed the likely barriers to growth, including government trade policy.

This is a good response and is Level 3, demonstrating an awareness of competing arguments. It is clearly structured and looks at both side of the argument.

By 2021, total sales of cosmetic products in the Asia Pacific region are forecast to increase by \$23.5bn.

(e) Discuss the likely effects on a firm such as L'Oréal of this projected rise in sales.

(8)

The forecast for increased sales by \$23.5bn is beneficial for firms like L'Oréal as they are market leaders in the market for cosmetic products, accounting for \$45.39bn sales in 2016. By 2021, ~~sales increase~~, demand for L'Oréal's products will increase, sales increase, leading to increased revenue and profits. This means firms such as L'Oréal will be able to use profits to help expand further into the emerging market ~~of~~ for cosmetics in Asia, and further increase market share.

However, this also means that competition will increase from rivals e.g. Unilever and Natura who have bought the Body Shop from L'Oréal. With projected sales to increase, these firms will also look to expand into the Asian Pacific market and ~~drive up~~ <sup>drive up</sup> competition, threatening leading firms such as L'Oréal. Although this benefits consumers, the firms will need to invest in ~~costs~~ <sup>e.g. Body Shop's ethical image</sup> maintaining their competitive advantage as they ~~will see~~ <sup>projected</sup> ~~rise in sales~~ <sup>rise in sales</sup> could help the firms gain significant market share and power if successful.



There is accurate knowledge and understanding, supported throughout by use of relevant evidence which is well chosen. Their arguments are developed, using logical, coherent chains of reasoning. There is a balanced awareness of competing arguments, although this could have been improved by an additional comment such as the data only shows the growth and not the total size of the existing market.



Always ensure that when the command word "discuss" is used; an awareness of competing arguments is demonstrated. The response should not be one-sided.

## **Question 1 (f)**

This question was intended to test the understanding of pricing strategies available to cosmetics firms when entering an emerging market. There were lots of opportunities to gain high Level 3 marks here, provided the answer focused on the potential costs and benefits of a given pricing strategy. As with many of the longer levels of response questions, there was a tendency to make unsupported assertions or offer lots of unexplained points, rather than following through coherent chains of reasoning. This led to many Level 2 scores. Quality of arguments rather than quantity is far more important with these questions.

There was a common tendency to focus on the characteristics of an emerging market or the likely PED for cosmetics. However, this was not always linked to the strengths or weaknesses of a given pricing strategy.

The response included here is an example of a Level 4 response which does make an good effort to answer the question.

This is a Level 4 response, which directly addresses the question set. Each paragraph either begins or ends with a return to the question. In this case, it would certainly be possible to guess the question by reading the response.



(f) Assess the factors that determine the pricing strategy for a cosmetic firm such as L'Oréal when entering an emerging market.

(10)

There are many different pricing strategies that could be used by L'Oréal such as competitive, predatory, price skimming and penetration.

When L'Oréal is entering an emerging market there may be competition within the market.

This may mean that L'Oréal may need to use price to ensure that they make sales, so they might use competitive pricing ~~more~~ and price their goods lower than competition in order to increase sales and make a profit.

Emerging Market usually has people with lower incomes, not as low as developing markets but still lower than developed markets, so L'Oréal may want to lower prices so that ~~more~~ the people in emerging markets such as India and China are able to afford it and so that L'Oréal sales increase.

This will allow them to eventually increase prices after they have gained brand loyalty. The form of pricing strategy is price skimming.

Because it is going into an Emerging Market  
Local may not ~~want~~ want to use price  
or competitive pricing as a way to compete  
because this may potentially cause them to lose  
out on sales as people may associate low  
prices with bad quality.

Local may not ~~want~~ want to use pricing  
strategies ~~when~~ to compete when entering an  
emerging market as it ~~may~~ they might  
want to compete using non price competition  
such as differentiation, or added value. This  
will increase sales as it will make people  
want to buy the product and will increase  
demand, overall, increasing sales.

Overall it is important to compete with price  
in an emerging market because local might  
want to make it affordable, but it is important  
to ~~compete~~ compete using non price  
methods well because there is a lot of competition.  
By competing using non price methods it may  
allow the good to be price insensitive. For example  
if the quality is really good people will want to buy  
and this increases demand, and eventually brand  
loyalty. If consumers are satisfied, so local can increase  
price and demand won't change so they make more profit.



There is accurate knowledge and understanding here, supported in most cases by use of relevant evidence which is well chosen. There are logical, coherent chains of reasoning, showing a full understanding of the demands of the question. Arguments are developed and evaluated. For example, the contention that non-price competition may also be important is a valid point. There is a balanced awareness of the validity and significance of competing arguments and the conclusion is well-developed and based upon the prior analysis and evaluation.



Try to evaluate as the responses progresses. Do not make competing arguments less significant by locating them just at the end of the response. Try to base a conclusion upon previous analysis and evaluation, rather than introducing new points in the conclusion.

## **Question 1 (g)**

This question was generally not answered very well and suggested a gap in knowledge and understanding of how quotas impact upon supply and demand. Responses ranged from those where no diagram was produced, a normal supply and demand diagram presented just showing an outward shift in demand or supply, to accurate diagrams well explained and used in analysis and evaluation.

The question asks about the impact of quotas on cosmetics producers on Indian firms and consumers. The best responses produced an accurate diagram and then referred to this diagram in the written answer. Some really good responses developed analysis to look at the possibility of retaliation by other governments and the possible negative impact upon the efficiency of Indian firms.

This is an excellent, Level 4 response. It includes an accurate, if technically limited, diagram. The response does, however, fully address the question set. It concentrates upon the likely impact on Indian firms and consumers. It is clear and well-structured.

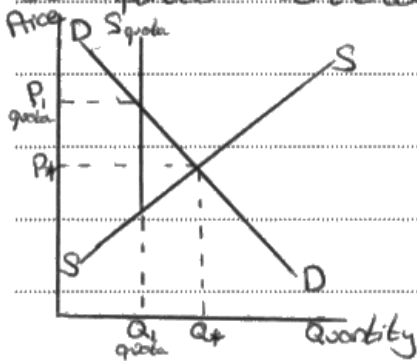
FIRM:  $\downarrow$  LESS comp.  $\uparrow$  Retaliation

India imposes quotas on imported cosmetics. CONSUMER:  $\downarrow$  employment?  $\uparrow$  prices

(g) Using a suitable diagram, assess the likely impact of quotas on Indian cosmetics producers and consumers.

(12)

A quota is a limit on the amount of a good or service that can be imported into the country.



As my diagram shows, the imposition of a quota on goods and services means that the price ( $P_i$ ) is higher than equilibrium ( $P_*$ ) and the quantity ( $Q_i$ ) is less than the equilibrium ( $Q_*$ ). As a result, fewer imported goods will

be consumed, and the price of the imported goods will be higher.

For firms, the impact of a quota is likely to be a positive one.

By increasing the price of foreign cosmetics, it will make Indian cosmetics ~~more~~ cheaper, and more competitive by comparison, to Indian consumers. As a result, consumers are likely to increase demand for Indian cosmetics and so they will see a rise in ~~the~~ sales revenue and potentially increased profits, which can either be retained for further investment or used for increasing shareholder dividends.

However, as is usually the case with protectionist policies like quotas, there is usually retaliation from affected countries. This could mean tariffs or quotas on Indian cosmetics being exported to other countries. As a result, their prices will be less competitive abroad and so demand from abroad may fall. This could mean fewer opportunities to increase sales revenue from foreign markets. This is ~~particular~~ particularly important given the context of the cosmetics market - sales growth is forecasted in all regions around the world, and Indian

Firms may miss out on being able to capitalise on this.

For consumers, the likely impact of quotas is negative. It will mean that prices of imported cosmetics rise and so they may be able to purchase less, meaning a loss in consumer welfare. As many of the major cosmetics brands like L'Oréal and Unilever are not Indian, it is likely that a large proportion of cosmetics available to Indian consumers will be subject to quotas, thus meaning higher prices and less choice.

To conclude, the overall impact of quota imposition on cosmetics in India is likely to be a negative one. Firms, whilst may experience a rise in domestic demand, may struggle to capitalise on the rising global demand ~~free~~ for cosmetics due to retaliation. Although, this of course, depends on the objective of the business. For those smaller firms who only wish to target the domestic market, quotas will allow them to see increased demand. For consumers, however, the impact will be negative - less choice and increased prices reduces consumer welfare and may result in rising inflation depending on the level of the quota and the proportion of Indian spending on cosmetics.



There is accurate knowledge and understanding, supported throughout by use of relevant evidence, including a diagram. This evidence is well chosen. There are logical and coherent chains of reasoning, showing a full understanding of the demands of the question. Arguments are developed and evaluated. A full and balanced awareness of the validity and significance of competing arguments is demonstrated and emphasised in the conclusion, where possible retaliation by other governments is related to the impact on Indian firms.



If the question asks for a diagram, always try to provide a relevant diagram. The tariff and quota diagrams are in the specification and should therefore be learned and understood.

## Question 1 (h)

This question was intended to test the understanding of the inorganic growth, specifically the benefits and costs of inorganic growth for a multinational firm, in this case *Natura*. What was surprising was the number of responses which focused upon the benefits and failed to identify any costs or risks associated with such a takeover.

As with the previous question, there were lots of opportunities to gain high Level 3 marks here, provided the answer correctly focused on the context and showed an awareness of competing arguments. As with many of the longer levels based questions, there was a tendency to make unsupported assertions or offer lots of unexplained points, rather than following through coherent chains of reasoning which led to many Level 2 or even Level 1 scores. Quality of argument was vital in answering this question within the allocated time.

The response included here is an example of a Level 4 response which does make a good effort to answer the question.

The structure of the response to this question is important. It is not necessary to begin by defining terms. Rather, begin by answering the question straight away and relate this to the context. Then proceed with arguments (benefits) and counter-arguments (costs) as the answer continues. Provide a conclusion that is based upon this previous analysis.



## Locations

(h) Using Extract E, assess the likely benefits to *Natura* of purchasing *The Body Shop*.

(12)

Purchasing *The Body Shop* is likely to help ~~to~~ give *Natura* economies of scale. They will be able to use their methods of production, such as innovative technology, which could therefore help to decrease average costs and increase profits for the company. As a result, they will be able to invest more and become even more efficient. The combined resources of both companies could lead to greater synergy, therefore improving efficiency and lowering costs. However, it could also cause difficulties in communication across the larger business. Therefore, information may be passed less efficiently and creating diseconomies of scale. This could consequently decrease profits.

*Natura* will also be expanding into new markets. They currently have around 200 stores, far fewer than the 200 that *The Body Shop* have. As a result, they will have operations in far more locations around the world and consequently will have a much wider market for their cosmetics. This means that they may be able to increase their total sales and gain a greater market share. This could lead to greater

Competition against rivals like Unilever.

However, there is no guarantee that products popular in Brazil will also be in other countries such as France. Therefore, if Natura promote more of their own products in 'The Body Shop' stores, they may have to increase their research and development to create more suitable products. Therefore, this could cause lower profits.

To conclude, I think that the economies of scale ~~that Natura~~ from which Natura could benefit are the biggest benefit of the takeover. Getting access to new resources and suppliers will help to give Natura more power of prices, and could aid greater efficiency in production. There is the risk of communication issues, but if the firm is well managed it can be avoided.

Natura must be careful when entering new markets as they may need to diversify their products too, and their high environmental standards could boost price. However, a wider target market is likely to have financial benefits if managed well.



There is certainly accurate knowledge and understanding here, supported throughout by use of relevant evidence. The evidence is well chosen, relevant and logical. Paragraph 2 shows coherent chains of reasoning, demonstrating a full understanding of the question. Arguments are developed and evaluated. A full and balanced awareness of the validity and significance of competing arguments is present and is exemplified in the conclusion (the final paragraph).



If a question asks for an assessment of the benefits of an action or decision, then the response also needs to cover potential costs.

## **Question 2**

There were some very good responses to this question that really did address the issues and demonstrated good knowledge and understanding, which was pleasing. However, some responses just went through the *Starbucks* and the "cup tax" case study and remained largely descriptive. While the question referred to *Starbucks* in the UK, this did not mean that this was the only firm or country that could be addressed in the essay.

A common error was to provide a generic discussion of indirect taxation and then not cover any other ways in which the environmental impact of multinational firms might be controlled by governments.

The response here is very good and was awarded mid-Level 4.

2 Evaluate the extent to which the environmental impact of multinational firms, such as Starbucks, can be controlled by governments.

(20)

Governments can control the environmental impact of MNCs through regulation and legislation. Introducing laws forces MNCs to comply, for example if the UK government brought in a 25p 'litter' tax, firms like Starbucks are legally obliged to comply. There is also a plan to ban plastic straws in the UK by 2020, which Starbucks and other firms would have to follow. This legal obligation is effective as it immediately deters the use of plastics that can ~~impact the~~ ~~over~~ damage the environment, ~~and to~~ ~~indirect~~ ~~taxes~~ This legislation can deter the use of plastic cups to reduce the 2.5 billion cups thrown away each year. However, governments may be reluctant to introduce these laws as it may deter further FDI from MNCs. For example a 25p litter tax increases the costs of coffee firms which may prevent them from employing more workers. So MNCs like Starbucks can also lobby the government and persuade them to not introduce legislation for these reasons. The government may rely on MNCs too much for improving economic performance, reducing the ~~press~~ extent to which they can control MNCs. This was the case in Brazil in 2014, when FIFA and Budweiser forced the government to revoke their ban of beer in stadiums by threatening ~~them~~ cancelling the World Cup, which would have been detrimental to the Brazilian economy.

Governments can also use financial incentives to prevent MNCs damaging the environment. The UK government has planned to ban plastic cups by 2023 if they are not made recyclable. Governments could encourage MNCs to be more environmentally friendly by offering subsidies for the research and development of recyclable cups, or by offering tax breaks if office firms meet this goal. These incentives may encourage MNCs to comply as it can lead to them increasing profits, usually the main incentive for MNCs. Therefore governments can control MNCs by making it worthwhile for them to follow the wishes of the government. However it is only likely MNCs will comply if the increase in profits they gain from tax breaks is larger than the increased costs of researching plastic recyclable plastic. This is unlikely to be the case due to high R&D costs, so it may be cheaper for MNCs to break rules and pay fines rather than adhere to the law.

In conclusion, governments can control MNCs to some extent. The extent to which MNCs can be controlled depends on the ~~economy~~ country, and how developed economies are more likely to be effective in controlling MNCs than developing African economies like Nigeria. These developing economies are likely to rely on MNCs for employment and are therefore less likely to impose laws that may lead to the MNC moving operations elsewhere. There may be more

effective ways to control MNCs such as public opinion and consumer sovereignty. Environmental change is a huge concern for the public, which has been escalated by the prediction that by 2060 there will be more plastic in the sea than fish. Consumers could boycott firms that refuse to cut down plastic use, reducing the profits of MNCs. A reduction in profits is the most effective way of encouraging them to change their ways. MNCs that self regulate are also more likely to be controlled by governments. Ethical MNCs like innocent, who care more about environmental impacts, are likely to have the same interest as the government so may even work together with them to reduce plastic usage.



There is accurate knowledge and understanding on the first page and an awareness of the validity and significance of competing arguments. This is supported by use of relevant evidence which is well chosen and fully integrated to support the argument. There are well-developed, logical and coherent chains of reasoning, showing full understanding of the question. On page 2, for example, the argument about tax incentives is very clearly developed. Arguments are fully developed and evaluated. Again, where the relative costs and benefits to the firm of a tax break is discussed. A full awareness of the validity and significance of competing arguments leads to balanced conclusion on the final 2 pages. The conclusion here is good but would have been improved by development of the final point which on its own is more of an assertion than a judgement.



For 20 marks response it is a good idea to create a simple plan at the top of the available space. This can help to ensure that the response is equally balanced and is not one-sided.



### **Question 3**

The final question was generally not answered as well as the previous one. Often the best responses to this question were able to refer to quality specifically in the context of car manufacturing, as well the benefits in terms of revenue and costs arising from improved quality; as opportunity cost and fair trade. The less successful responses provided a generic discussion of quality control methods, even stock control methods, without relating this to car manufacturing.

Although *Toyota* and *Tesla* are referred to in the question, this does not mean examples had to relate to these specific firms. Candidates who used their own examples to support analysis were rewarded and were often able to show an awareness of competing arguments by doing so.

The response here is typical of a Low Level 4 response.

This is a good response which shows an awareness of competing arguments, with factors other than quality discussed in relation to car manufacturing. The idea that price, resulting from costs, are equally if not more important than quality to car manufacturers is developed with the use of some relevant examples.

This was awarded Level 4 and would have been improved by a more balanced approach, linking efficiency and lower costs to increased quality.

3 Evaluate the extent to which quality is important for car manufacturers such as Toyota and Tesla.

(20)

Quality is a greatly important factor to car manufacturers. Cars such as those made by Tesla are well-known for their high quality, therefore this helps to boost their brand image. As a result, customers associate the brands with quality and are likely to be willing to pay a higher price for their cars. Therefore, they are able to adopt a premium pricing strategy for their ~~cars~~ cars and maximise their profits on each sale.

However, this is likely to only apply to a niche market. Many households don't have lots of income to spend on flashy and expensive cars, therefore they may be focused on price. As a result, quality may be less important to them and they could buy cars such as Renaults or Toyotas. This means that Tesla will lose out on sales.

Efficient production methods will also be key for manufacturers. Toyota use a system of Kaizen in their factories, advocating for continuous improvement and efficiency in producing and assembling each car. They have managed to use a system of just-in-time supply, which therefore decreases the need to

be holding lots of buffer stocks and potential wastage. As a result, Toyota will drive their average total costs down which consequently allows a lower price to be charged to consumers. Therefore, this could help to boost their sales and their subsequent growth.

However, this is only important if there is sufficient demand. A company like Rolls Royce has a much smaller target market than Ford or Toyota, therefore lean production could ~~may~~ lead to an excess in supply. This would mean that they would need to lower the prices of their vehicles and consequently could lead to them losing profit.

Health and safety could also be a paramount concern for car manufacturers. The machinery in production facilities has the potential to be very dangerous, therefore it could be easy for an employee to get injured by these. As a result, ~~these~~ workers like assembly line staff may have to take time off if they are injured and Tesla or another company may have to hire more staff. This will therefore increase their costs and also damage their reputation, leading to more loss in profits.

However, nowadays car production is very capital-intensive. Therefore apart from foreman,

there are likely to be few employees on the factory floor. As a result, there could be less risk of a serious injury happening. Consequently, lower health and safety spending could increase profits.

In conclusion, I would say that in general lean production is the most important factor for car manufacturers. This will help to minimise wastage whilst also maximising production, so sales can also be maximised whilst keeping costs low too. Of course for high quality, expensive cars there will be less demand, but lower unit costs for each car they make will contribute to higher profits. Quality is important for a company like Tesla, whose target market are concerned with new features such as a driverless mode, but for mass market producers this is likely to be less of an issue. As cars are such a big expense, price is likely to be the main factor in their decision. Health and safety is a big concern and could greatly damage reputation, however it is now a very capital-intensive industry with few staff who could potentially be harmed. Therefore, manufacturers can decrease costs in these areas with less risk. Looking at the markets of each manufacturer is **(Total for Question 3 = 20 marks)** ~~key to understanding their~~ biggest objective, but any decrease in costs will help firms greatly.

**TOTAL FOR SECTION C = 20 MARKS**  
**TOTAL FOR PAPER = 100 MARKS**



There is accurate knowledge and understanding, mostly supported by use of relevant evidence which is well chosen and fully integrated to support the argument. There are well-developed, logical and coherent chains of reasoning, showing full understanding of the question about the importance of quality. Arguments are mostly fully developed and evaluated. There is an awareness of the validity and significance of competing arguments, and a reasonably balanced conclusion.



Always ensure that examples used to support arguments are related to the context. In this case the question was about car manufacturing, so examples had to relate to this specific sector.

## Paper Summary

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

- Candidates must learn basic definitions and techniques. A good example of this is the use of a normal supply and demand diagram to analyse a context. A successful response to item 1(g) on this paper required both an understanding of the likely impact of a decrease in the supply of imports on the domestic price of cosmetics and the implications of this for Indian producers and consumers. A surprising number of candidates, although able to produce a simple diagram, did not seem to understand how a reduction in supply might cause excess demand and force up the price. Even less were able to develop analysis to suggest that the impact for both consumer and producer would depend upon PED for the imported cosmetics. Item 1(f) required an understanding of pricing strategies and the ability to apply this to the context of cosmetics in an emerging market. There were many responses which gave some general analysis of the characteristics of an emerging market but did not address the implications of this for a suitable pricing strategy.
- Where possible, candidates are encouraged to use the data provided in their responses. The use of data requires more than simply quoting figures or copying sections of text. It is the active use of the data that is rewarded. Item 1(b) required candidates to identify the difference between the mass and niche markets, either as a value in \$ or as a percentage, rather than simply copying out the forecast figures for each.
- In a similar way, simply copying out sections of the extracts for item 2, rather than using these to support analysis, does not really add anything to the level of responses. Examples of the active use of data are included in this report and should be used to help understand how items are marked.
- It is really important that candidates are familiar with the command words for the papers. If the question asks for the use of a specific data item, or extract, then this must be used in the response. Item 1(c) asked candidates to use data from Extract A. There were many generic responses to this question which made no reference to Extract A and therefore achieved, at best, two marks out of a possible four.
- If a question asks the candidate to 'discuss', 'assess' or 'evaluate', then an awareness of competing arguments must be demonstrated for higher levels to be attained. Alternatively, if the command words 'explain' or 'analyse' are used then a coherent chain of reasoning is expected but not an awareness of competing arguments.
- In the Section B and C questions, the essays can be supported by candidates' own examples arising from their study of the subject over the previous two years. However, if a question asks for a response relating to a specific context, for example car manufacturing in item 3, then it is expected that the answer will do just this. Item 2, by contrast, asked about the extent to which the environmental impact of multinationals can be controlled by governments. Many candidates simply discussed the likely effect of a latte tax on *Starbucks* and did not begin to examine other industries or even governments.

- Handwriting is important. It is vital that candidates practice written responses throughout the course of study and do not overly rely on word processed work. If a script is illegible, it simply cannot be awarded marks. Also, it is clearly important that subject specific terms are spelled correctly to demonstrate "accurate knowledge and understanding". This makes it more likely that the Level 3 descriptor is going to be achieved.

## 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>





