



Examiners' Report

Principal Examiner Feedback

October 2020

Pearson Edexcel GCE

In Economics B (9EB0)

Paper 1: Markets and how they work

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October 2020

Publications Code 9EB0_01_2010_ER

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Introduction

This paper was sat by a very small cohort of students. As usual there was a wide range of marks awarded for all questions. Some candidates demonstrated detailed knowledge of economic concepts and thereby accessed the higher levels and marks. At the same time some candidates were unable to demonstrate any economic knowledge and consequently scored very little, particularly on the levels-based questions.

Question 1 (a)

This question was generally well answered with most candidates successfully calculating the percentage decrease in the price of jet fuel. It is advisable for candidates to show their workings but this is not mandatory to gain full marks. However, some candidates did not either show the percentage sign or did not round to two decimal places and consequently could not be awarded all 4 marks.

This response scored 4 marks.

1 In July 2008 the jet fuel price per gallon was \$3.89. In January 2018 it was \$1.95.

(a) Calculate, to two decimal places, the percentage decrease in the price of jet fuel between July 2008 and January 2018. You are advised to show your working.

(4)

$$\frac{1.95 - 3.89}{3.89} \times 100 = -0.49871 \times 100 = \underline{49.87\%}$$

new-original
original $\times 100$

Question 1 (b)

This question was poorly answered with many of the candidates unable to calculate the marginal revenue gained from the decrease in price for refitting an aircraft. Again, marks can be awarded for showing working even with an incorrect answer.

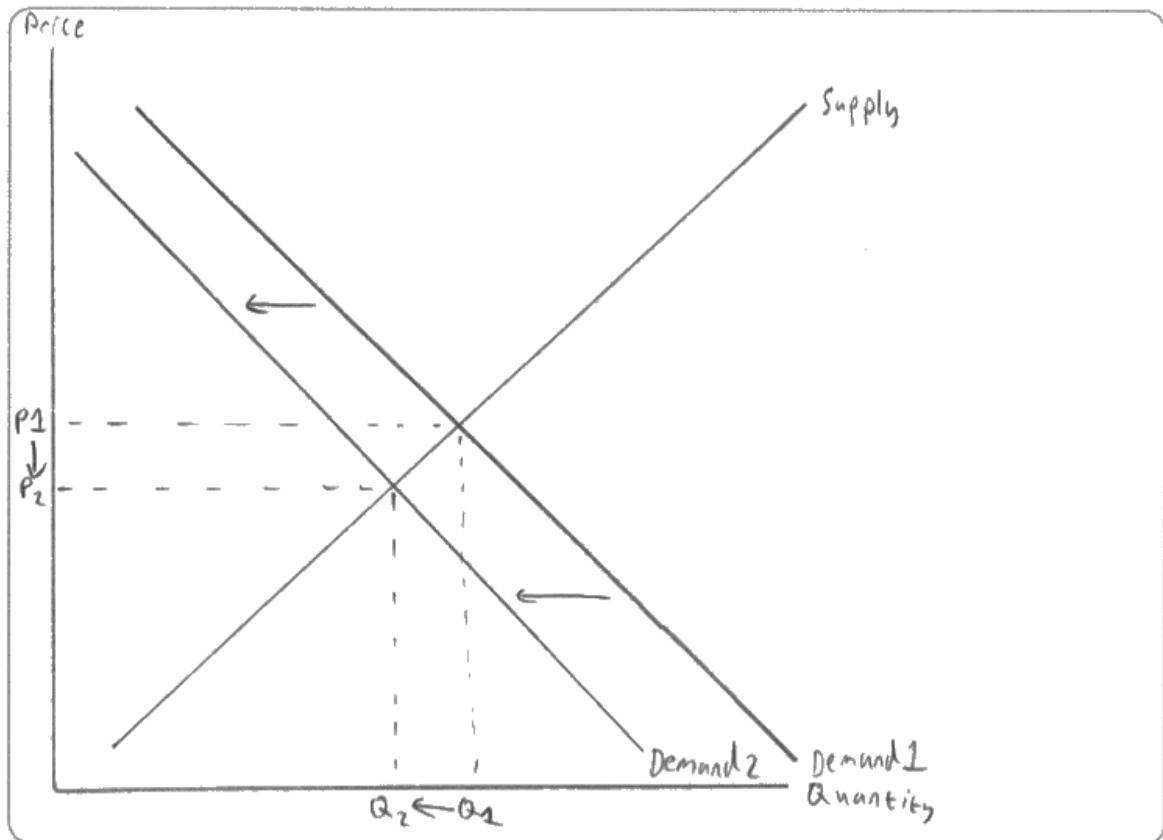
This response scored 4 marks.

$$\begin{aligned} \text{marginal revenue for a } \pounds 300,000 \text{ refit} &= 300,000 \times 6 \\ &= \pounds 1,800,000 \\ \text{mr for a } \pounds 298,000 \text{ refit} &= \pounds 298,000 \times 7 \\ &= \pounds 2,086,000 \\ \pounds 2,086,000 - \pounds 1,800,000 &= \underline{\pounds 286,000} \text{ extra revenue gained} \end{aligned}$$

Question 1 (c)

This question required candidates to construct a supply and demand diagram to illustrate the likely impact on BA of further bad publicity. There was a mixture of responses for this question. Whilst many candidates scored full marks, others lost marks for not correctly labelling the axes or the curves. It is disappointing to see that candidates are still incorrectly labelling the x axis as Quantity Demanded. It is essential these micro diagrams are accurate in order to achieve all 4 marks.

This response scored 4 marks.



Question 1 (d)

This question was marked using a points based mark scheme with marks awarded for Knowledge, Application and Analysis. The command word was **Analyse** but some candidates did try to evaluate the use of secondary market research which was not required. Again, some candidates gave a definition of secondary market research. Knowledge marks are not available for definitions at A level and the Knowledge marks are only available for giving two 'ways'. In addition, many candidates failed to achieve any marks for this question because they focused on primary market research methods rather than secondary. Sufficient context was often lacking in the responses that did understand secondary market research and each 'way' required a separate piece of context for Application marks to be awarded.

This response scored all 6 marks.

(d) Analyse **two** ways secondary market research may be used by airlines, such as BA, to help increase sales.

(6)

British Airways (BA) can use secondary market research such as the layout of seats on rival planes such as Norwegian airlines. ~~The~~ As a consequence this will help them to effectively achieve their goal of reconfiguring the short-haul planes to maximise the number of passengers on each flight. This may mean they can achieve economies of scale on their flights and afford to reduce prices to attract more customers. Also, they can use secondary market research to identify the prices that rival budget airlines such as EasyJet and Ryanair are changing. As a consequence they will be able to charge a price ~~or~~ for their new budget flights when adapting to the market so that their services will have a higher chance of being successful. This may mean that they can make more sales to achieve a higher market share in the budget airline market to try and achieve monopoly power.

Question 1 (e)

This 8 mark question was poorly answered by the majority of candidates. There were a limited number of excellent responses which showed a clear understanding of business objectives. The better answers showed good use of relevant evidence and an understanding of the importance of survival as a business objective and were able to contrast with other business objectives.

This response scored 7 marks (Level 3).

(e) Discuss the importance to BA of survival as a business objective.

(8)

In this case, survival is important to BA due to ~~bad~~ low demand from bad publicity from charging re-inventing the brand and having a role in a price-fixing scandal. This is because many loyal customers may have stop using their service as they are seen as 'untrustworthy' and not caring for their customers. As a consequence, consumers may choose to switch to firms such as Norwegian or firms not involved in the cartel as they are seen to have the customers best interest at heart. This may mean that BA uses survival as a business objective for the short term whilst it recovers from the bad publicity and lower demand.

However, survival may not be as important to BA as profit maximisation as they cut costs ^{and reduced seats} on. This is because BA have added more seats to aircraft and removed free meals on short-haul flights, reducing quality for lower costs. As a consequence, BA can become more profitable as more people can fit into one aircraft, with cut costs per leading to economies of scale and further reducing costs. This may mean that BA favour profit maximising with a 7.3% increase in sale revenues in 2017.

Question 1 (f)

The majority of candidates did not understand the impact of the government's decision to reduce air passenger duty and consequently scored Level 1 and Level 2 at most. To reach the higher levels, evaluation was required to assess how reducing air passenger duty might or might not create spending in the economy and increase demand for goods and services in the airports. Some candidates did consider the negative impact on the environment from this reduction in taxation.

This response scored 7 marks (Level 3).

Air passenger duty is a form of indirect taxation which is passed onto the consumer, increasing the cost of flights. Eliminating this will reduce the cost for consumers without impacting the revenues of airlines. This will increase demand, and therefore sales and revenue, without negatively impacting the customer ~~of~~ or the business, which will help grow the aviation industry.

~~However~~, that negative impact ^{could now be} ~~has now been~~ passed onto the government, as they ~~are~~ are reducing their tax revenue. However, it is ^{possible} ~~likely~~ that they will make this ~~back~~ money back in the long run, because as airlines' profits increase, ~~so~~ does their taxable income, ~~therefore~~ where the government will make back that money. Therefore this change will ~~not~~ positively affect all parties involved.

However, the extent of this positive impact is likely limited. For starters, it only applies to children under 16, which is going to be a small percentage of total customers. Also, these children will almost never be paying for the flights themselves, their parents will, and they will probably be going on holiday as a family. This means that a small saving on the cost of flights is ~~the~~ likely going to be lost on customers with all of the other costs of a holiday that

are staying at a fixed price, such as hotel prices. The demand for flights is based not just on their price, but the price of other services outside of the airlines' control, so it's likely that it won't make a large impact.

In conclusion, this charge will very possibly ~~the~~ ~~grow~~ help to grow the aviation industry, but it ~~won't~~ won't do so by much at all, and when this plan from the government is supposed to benefit airlines for decades, it seems like a very small change.

Question 1 (g)

This response was on the whole poorly tackled. Knowledge of the possible impact of rising fuel prices on an airline business was often quite limited with only a few candidates showing understanding of how this could affect the costs of running airline businesses. Most candidates could explain the negative impact in terms of costs and the impact on ticket prices but the standard of the counter argument in this response was rather poor.

This response scored 8 marks (Level 3).

(g) Assess the possible impact of rising fuel prices on an airline business.

(12)

Rising fuel prices may have a significant impact on the airline business because it may increase their costs of production, forcing them to either raise prices, ~~and~~ which will negatively impact their sales as flights are relatively price elastic or accept lower profit margins. As a consequence, firms such as EasyJet and Ryan Air which focus on delivering lower quality services for a reduced cost may experience a ~~the~~ significant fall in ~~sales~~ ^{profit} as ~~knows~~ they are making far less money due to the smaller profit margins. This may mean that they have to cut costs in other areas such as reducing wages or even making employees redundant which will reduce families disposable income and lower the standard of living in the UK as they may have to turn to inferior products.

employees redundant which will reduce families disposable income and lower the standard of living in the UK as they may have to turn to inferior products.

However, the rise in fuel prices may not have a significant impact because large aviation businesses such as British Airways and Norwegian Airlines a large MNC'S and may be able to absorb the increase in price due to their economies in scale and the government's removal of APD tax. As a consequence they may be able to offer the same standard of quality ~~and~~ without a large change in price, unlike some other rival firms who may lose customers if they do not have a

strong brand loyalty. This may mean that for larger companies with a higher retained profit, they may see an opportunity to increase ~~profit~~ sales by stealing customers away from their struggling competitors.

In judgement, the increase in fuel prices may ~~not~~ have a significant impact because firms may struggle to maintain the same amount of consumer interest in airline travel due to increased costs, however this depends on whether airlines purchase fuel on forward markets. Because of this, firms may be protected from an increase in fuel prices by having a prearranged fixed ~~on~~ price for their supplies.

Question 1 (h)

Many candidates showed a good understanding of the extent to which BA being fined for its involvement in a cartel would be negatively affected or not. There was good evaluation and use of relevant evidence from the Extracts to support the chains of reasoning. Marks awarded for this 12 mark question were better than the marks awarded for Question 1 (g).

This response scored 10 marks (Level 4).

The European Commission has fined BA for its involvement in a cartel.

(h) Assess the extent to which this may negatively impact BA.

(12)

A cartel is when multiple companies collude together to influence prices in a market.

~~This will~~ The news that BA was involved in this scandal will be bad publicity for them. However, ten other airlines were also fined, so whether this will severely impact just BA's demand is questionable, because even if they are angry with BA, they ~~are~~ will also be angry at all their competition, so who will these customers go to instead? There may be other airlines out there who weren't involved, but due to the nature of price fixing they will likely be a more expensive option, ~~which~~ so it might just not be worth it for consumers.

They also will probably depend too much on air travel to just stop using it in protest. So all in all, this won't have a huge impact on demand.

There is also the direct cost of the fine itself. BA were fined £90m for their involvement. However, this is relatively a very small amount of money in comparison to the £1.4bn in profits that they made in the same year, so the actual cost of the fine hasn't really impacted their operations at all.

These fines could potentially benefit BA. If any of the other ten airlines were in worse financial condition, or were a lot

smaller to begin with, the fine could have a much bigger impact on them. It could force them to increase prices to stay profitable, which could actually end up ~~driving~~ driving customers towards BA since they ~~are~~ have turned themselves into a low cost airline.

In conclusion, this fine ~~probably~~ will most likely have little to no impact on BA overall, in terms of publicity or direct costs, as they are still making billions in revenue.

Question 2

As pointed out in previous series, it is a shame that candidates do not make use of the Extracts in the paper to provide contextualised balanced arguments. Far too many responses were generic, did not use the data provided or did not focus on the impact on the UK economy from the construction of the HS2. Better responses answered the question by using the data in the Extracts to support chains of reasoning and to consider the extent to which the positive externalities would in fact benefit the UK economy.

This response scored 14 marks (Level 3).

HS2 is likely to create positive externalities.

2 Evaluate the extent to which these externalities are likely to benefit the UK economy.

(20)

In this case positive externalities occur when social benefits are greater than social costs. In this case, positive externalities will benefit the UK economy by removing the issue of geographical immobility. This is because the HS2 will connect London, Birmingham, Manchester and Leeds meaning that people are able to commute easier for work. As a consequence, unemployment rates ~~will~~ ^{may} fall in the UK as a greater number of people have access to work ^{quicker such as a reduction of 49 minutes to Leeds}. This may mean that the ~~UK~~ ^{UK} economy benefits from an increase in tax, increasing government revenue.

However, it may not benefit the UK economy due to a greater economic divide. This is because it may increase economic activity in London as it ~~makes~~ the HS2 makes it more accessible. As a consequence, rather than returning the level of expenditure to major urban areas, it may actually take it away as economic activity increases in London. This may mean that the gap North and South divide remains and London grows. Additionally, the HS2 may not benefit the UK economy due to land and houses being ~~cleared~~ cleared to build it. This is because many may lose their quality of life from an increase in infrastructure, particularly

in the North where there are a lot of rural areas. As a consequence the HS2 may negatively impact the environment and the standards of living for those close to it. This may mean that the positive externalities of being more beneficial to the environment may be less ~~impact~~ offset by the 345 miles of track being built.

However, the positive externalities of HS2 may be likely to benefit the UK economy due to reduced congestion. This is because less people ~~will~~ ^{may} drive to work as it may be quicker to take the HS2 such as from ~~York~~ Leeds to London where it only takes 1 hour 24 minutes. As a consequence, less people may be late for work, increasing productivity and therefore output. This may

increasing productivity and therefore output. This may mean that the UK economy benefits as firms may receive greater revenue from an increase in profitability, allowing them to grow and further increase employment.

In judgement, the positive externalities will benefit the UK economy because, despite some train journeys being only marginally different from car journeys, the fact that the new railway there are estimates that for every £1 invested in the HS2, the UK will receive £2-30 in benefits. This depends on if the government goes over their budget of £56bn as the amount if they do, the amount benefits may fall.

This response scored 15 marks (Level 3) and was a borderline Level 4 response.

HS2 is likely to create positive externalities.

2 Evaluate the extent to which these externalities are likely to benefit the UK economy.

(20)

The HS2 is a new railway aimed to improve Britain's transport network.

The positive externalities will include public and private benefits.

Public benefits will include the creation of jobs in the UK economy. It is forecast that 22,000 jobs will be created for constructing and operating the railway. This is beneficial after the huge loss of employment as a result of the pandemic.

low unemployment contributes to higher AD in the economy which is beneficial for UK growth. Furthermore, ^{new skills} skills training will be acquired by workers which will improve LRAS of the UK economy by having a ~~no~~ larger, more ^{skilled} productive workforce. Private benefits will be for all those who wish to use the service. Connecting Birmingham, Leeds, Manchester and London will have huge benefits for reducing structural unemployment and geographical immobility in the UK economy. ~~the~~ Consumers of the HS2 will be able to travel to areas with high job prospects in record time without having to, for example, purchase an expensive house in London.

However, negative externalities may also arise, ^{of} ~~Social~~ ^{External} costs and private costs. ~~These~~ ^{costs to} ~~Social~~ costs will include ~~all~~ those who live near the HS2 train line suffering from reduced house prices and reduced standards of living. Living next to the train line may be seen as undesirable and reduce house prices significantly for third parties, furthermore the train is likely to have environmental externalities as ~~now~~ much of HS2 goes through fields which have to be destroyed.

~~The environment~~ ~~has to be sacrificed~~ in order to build the line. There is risk of noise and pollution problems to those living nearby.

Private costs will include costs for producing the line for the government, which ~~is rising~~ ^{has risen} significantly from the time Extract D was released from £56bn to over £80bn.

Some argue that the multiplier created as stated in Extract D that ~~will equal~~ ^{will equal} of £1 invested to ~~£2.30~~ ^{£2.30} benefits in benefits for the UK will outweigh the costs.

~~So~~ The argument for whether the social costs exceed social benefits is

difficult to analyse as the predictions for cost and when the train will be open for operation is constantly changing.

Many argue that it may be better to invest in existing train lines that cause so much disruption to everyday lives and productivity of the UK economy. Others argue that the HS2 will be the way to combat the structural unemployment issue and train transportation is more beneficial to reducing green house gas emissions.

After the pandemic, patterns of work are changing, more people chose to work from home. The success of the HS2 and whether the $MSC > MSB$ will depend on the future of the UK economy, which at the moment is unknown.

(Total for Question 2 = 20 marks)

Question 3

This question was poorly attempted in comparison to Question 2. Some responses were very basic and just described who were the main stakeholder groups rather than evaluating the impact of Amazon's market power on these stakeholder groups. Some candidates only focused on shareholders and there was a very limited attempt to address the question set.

This response scored 10 marks (Level 3).

3 Evaluate the potential impact of Amazon's market power on its stakeholders.

(20)

Amazon are a huge corporation with significant market share and negotiating power, highlighted by the extract. Some of the parties that could be considered stakeholders include: the government, consumers, suppliers, and workers and their competitors, for example DHL, eBay and Alibaba.

One impact that Amazon's immense market power has ~~is the~~ on stakeholders would be the positive impact the company has on the economy and therefore the government as well. Extract F highlights the positive effect of Amazon's size on the UK's GDP as it states that Amazon sold £1.5 billion

over 120 million products in the UK alone. This benefits the government as the presence of Amazon has certainly increased the aggregate demand in the UK's economy which has also had a positive impact on the UK economy.

The extract F states that Amazon due to their immense size are able to negotiate low prices from suppliers and as a result sell their products at a lower price to consumers. The stakeholders that this feature of Amazon's market power concerns are their suppliers and their consumers. A negative effect of their market power could be suppliers feeling pressure to accept lower prices from Amazon for raw materials and goods as they are afraid to

lose their business. This could potentially become problematic as it could create a culture of big firms bullying smaller suppliers to sell ~~products~~ materials cheaper. This not only would be bad for suppliers but it would also be bad for the government as the suppliers may decide to close down or even leave the country in search of higher prices for their goods abroad, in turn reducing aggregate supply in the economy and having a negative impact on GDP.

Extract G shows the year on year change of the E-commerce sector, growing from ~~15.5%~~ 13.7% in 2019 to 15.5% in 2020, then a projected 17.5% in 2021.

This shows that a corporation like Amazon can expect to see even more growth and experience greater economies of scale, which would benefit consumers as they can purchase goods from Amazon at a cheaper price.

~~As a result the potential impact of Amazon~~

To conclude, the potential impact of Amazon's market power on the economy would be positive as greater expansion of operations would benefit the government and the economy, while satisfying the demand of consumers in the ~~the~~ economy. Although suppliers could suffer, it's just a result of a free market economy which allows Amazon to dictate the price they pay for their goods, a result of

their immense size and therefore negotiating power.

Paper Summary

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

- Do not forego marks by not rounding calculation answers to two decimal places or by not showing currency or percentage signs.
- Ensure that for the 4 mark explain question, two points of application are provided in order to gain full marks.
- Ensure the command words are fully understood and only evaluate on the levels-based questions.
- Knowledge marks are not for providing definitions so do not waste time giving definitions for any of the questions.
- Read the questions carefully. It was evident that many candidates wrote about shareholders rather than stakeholder groups for Question 3.
- The most important point is that candidates are still providing generic and assertive responses for the 20 mark questions. The exam paper provided many extracts to enable the candidates to provide a contextualised response. Many candidates are not using this data well and are producing generic responses.

