

# Examiners' Report

## June 2019

GCE Economics B 9EB0 01

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# Introduction

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

On the whole, responses indicated that many candidates were prepared for the exam and demonstrated a good awareness of the topics.

It was encouraging to see that more candidates than in previous years showed good understanding of the command words. In the past 'Discuss' questions were not fully answered with candidates presenting a one sided argument. It is still of concern however that responses for the 20 mark questions are generally not of a high quality.

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

A wide mix of topics was provided to the candidates and the questions provided differentiation, with a wide variety of responses provided. Whilst it was disappointing to see that many candidates were unable to produce an excess demand diagram, some topics such as differentiation, value added and interest rates were well understood with some good answers provided.

## Question 1 (a)

This 4 mark question was generally well answered with most candidates successfully calculating the profit for the year margin. It is advisable for candidates to show their workings but this is not mandatory to gain full marks.

However some candidates didn't either show the percentage sign or round to two decimal places and lost one mark.

- 1 (a) Using Extract A, calculate, to 2 decimal places, Nike's profit for the year margin for 2016. You are advised to show your working.

(4)

$$\frac{\text{profit}}{\text{sales revenue}} \times 100$$

$$\frac{\$ 3.8 \text{ bn}}{\$ 32.4 \text{ bn}} \times 100 =$$

11.71



**ResultsPlus**  
Examiner Comments

This answer scored 3 marks because it failed to round to 2 decimal places, as instructed in the question.



**ResultsPlus**  
Examiner Tip

Don't lose marks by not rounding correctly or by missing the percentage sign. It is always advisable to show your working because even if the final answer is incorrect, marks can be awarded for formulas and correct workings.

## Question 1 (b)

This 4 mark question was generally well answered. Most candidates showed good understanding of differentiation and its impact on a business. A 4 mark explain question is point-marked. There is one point for showing knowledge, two marks for context and one mark for showing analysis.

*New Balance operates in a competitive market.*

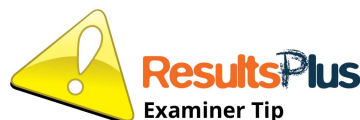
(b) Explain **one** reason why a business such as *New Balance* differentiates its products.

(4)

New balance differentiates its products in order to gain a competitive advantage. The case study explains that the market for shoes is highly competitive. Furthermore, using technical innovations like gel inserts will help the product stand out from competitors like adidas and Nike. This will then increase demand for Newbalance's products which could then lead to higher market share.



A well answered response which shows good knowledge and analysis which is applied well to New Balance. This response gained the full 4 marks.



Do not forget that for 4 mark explain questions, two points of application are required in order to get full marks.

## Question 1 (c)

This is a 4 mark calculation question. There was a mixture of responses for this question. Whilst many candidates scored full marks, others lost marks for not showing the currency or units. Also surprisingly, many candidates rounded to three decimal places rather than two.

- (c) Using Extract A, calculate, to 2 decimal places, Anta's total costs in 2016. You are advised to show your working.

(4)

$$\text{operating profit} = 2.7 \times 24\% = 0.648 \text{ bn}$$

$$\begin{aligned}\text{Total costs} &= \text{Sales revenue} - \text{operating profit} \\ &= 2.7 - 0.648 \\ &= 2.052 \\ &= 2.05 \text{ bn (2 d.p.)}\end{aligned}$$



This candidate scored 3 marks; 1 mark was lost for not showing the \$ sign.



Always check your calculations to ensure they show currency, units or a percentage sign where applicable.

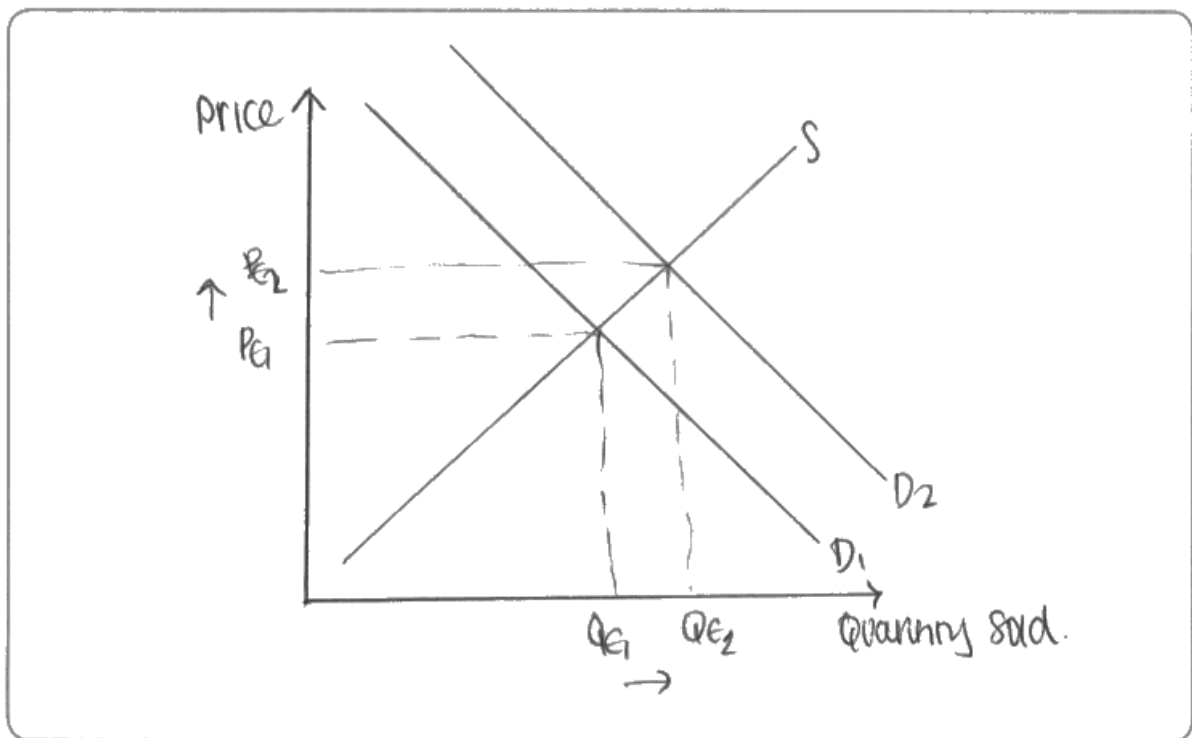
## Question 1 (d)

This is a 6 mark question which requires a diagram to be provided. It was disappointing that the majority of candidates did not provide an excess demand diagram as instructed. Whilst many candidates understood that excess demand would likely lead to a price increased by New Balance, they were unable to use a diagram to explain this fully.

Pictures of the singer Rihanna wearing *New Balance's* white leather training shoes appeared in newspapers. This style of shoe temporarily sold out. However people were still trying to buy them in stores and online, leading to excess demand.

- (d) Using a supply and demand diagram to show excess demand, analyse how this may affect the future price of these shoes.

(6)



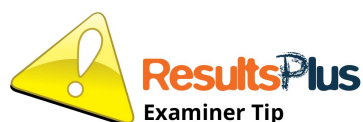
Excess demand means that there is a consumer surplus as consumers may pay more for the shoe. This means New Balance could increase their prices in the future to make more profit. ~~that~~ Due to high demand, price can move from  $P_1$  to  $P_2$ .



This was typical of the responses seen for this question. Candidates provided a demand and supply diagram and showed a shift in demand.

This response scored 3 marks; one for correctly constructing the demand and supply curves and 1 mark for explaining that the price would likely increase.

Candidates should be able to draw a range of diagrams as directed in the specification.



It is important in an excess demand diagram to label  $Q_s$  and  $Q_d$  and label excess demand to pick up full marks for the diagram.



## Question 1 (e)

This is an 8 mark discuss question. There was a marked improvement with the discuss questions this year, with most candidates providing counterbalance within their responses. However there was a limited number of excellent responses which showed a clear understanding of business objectives. The best answers showed good understanding of sales maximisation which was applied well to New Balance and which provided clear counterarguments.

(e) Discuss the extent to which sales maximisation is the main objective for a business such as *New Balance*.

(8)

Sales maximisation is when a firm tries to increase its sales in order to increase market share. In order to do so, New Balance might charge lower prices to gain customers and market share, and might increase them in the long run once they have a loyal customer base or considerable market share. However, I don't think sales maximisation is an objective as Extract C claims they use "premium raw materials" which most likely means that they will charge premium prices in order to appear more high standard. This is a contrast from sales maximisation.

I believe New Balance's main objective is customer satisfaction. They want to guarantee their customers the best product in order to gain a comparative advantage in brand loyalty and be able to charge higher prices due to inelastic demand. They do this by "offering shoes in a wide range of width and sizes" and using "superior craftsmanship". However, all firms' objectives are sales and profit maximization in the long run, so it could be one of their main goals.



A good response which showed good knowledge, context and clear chains of reasoning. This response scored 7 marks, whilst the evaluation points were excellent, analysis could have been a little more thorough although it gets full marks.



Many candidates still confuse sales maximisation and profit maximisation, which led to low marks for some candidates.

## Question 1 (f)

This is a 10 mark question with 4 levels of response. To achieve level 4 candidates should demonstrate knowledge and understanding as well as provide coherent chains of reasoning. There should be balanced arguments which demonstrates validity and significance of competing arguments. The majority of candidates had a good understanding of interest rates and applied it well to New Balance and its customers. However, some candidates failed to provide a coherent counterbalance as to why New Balance may not be significantly impacted by changes in interest rates.

Increased interest  
→ more saving → less sales ✓  
→ less loans → less growth ✓

Interest rates in the UK were stable between 2007 and 2017.

(f) Assess the possible impact of an increase in interest rates on New Balance's UK operations.

(10)

Interest rates refer to the cost of borrowing money and the reward for saving, expressed in percentage terms. An increase of UK interest rates could negatively affect New Balance's UK operations due to a reduction in the marginal propensity to consume and borrow.

An increase in interest rates means that the reward for saving money increases, therefore increasing the marginal propensity to save. This means that consumption for luxury goods, such as premium sportswear offered by New Balance will decline, as people have less disposable income. This may cause New Balance's sales of premium sport shoes to fall, causing a decline in profit, which will negatively impact their cash flow.

Furthermore, an increase in UK interest rates will ~~reduce~~ New Balance's increase the costs of taking out a loan, meaning that New Balance will not have the finance to expand and grow further. This will reduce their opportunities to reach new markets and customers, therefore negatively impacting their business operations in the UK.

However, if interest rates only increase by a small percentage, it may not affect New Balance's operations as much as anticipated. as the gain from saving and the loss from borrowing will be much smaller and people may still continue to consume the ~~goods~~ sportswear from New Balance.

In conclusion, an increase of UK interest rates can negatively impact New Balance as consumers will be more likely to save as opposed to consume luxury sportswear. However, this depends on the amount the interest rates increase by, as if the interest increases by a very small percentage, there will not be a major impact on the UK operations of New Balance.



This response was awarded level 4 (8 marks). This candidate understood how interest rates may impact customers and the likely effect on investment by the business. Whilst there was balance, the counterargument was limited and the conclusion somewhat repetitive.



Try and show some perception in your conclusions and do not simply just repeat the points already given in your answer.



## Question 1 (g)

The 10 mark question has 4 levels of response. Knowledge of economies of scale was often quite limited with most candidates only showing understanding of purchasing economies of scale.

The level of counterargument in this response was rather poor. Most candidates wrongly evaluated their response by stating that the business may face diseconomies of scale, rather than focussing on the importance of other factors that might impact the success of Nike.

8 Right F M T M D

(g) Assess the importance of economies of scale to the success of firms such as Nike.

(12)

Economies of Scale are of great importance to a firm such as Nike. especially the internal ~~econ~~ economies of scales such as Risk, Financial, managerial, technical, marketing and purchasing economies of scale. This is because for Nike which is a ~~stb~~ global market leader in the ~~sports~~ sportswear market by having marketing economies of scale through having ethnocentric marketing ~~to~~ strategy around the global this would ~~be~~ mean that due to the high output and sales revenue to Nike, the firm could spread marketing fixed costs ~~of~~ over a number of sportswear goods ~~to~~ while still being the market leader by having the most though marketing campaign thanks to internal economies of scale.

Furthermore for a firm such as Nike which has the largest market share of any ~~for~~ company in the ~~sport~~ sportswear market it is likely that due to the size and scale of the firm these economies of scale may become diseconomies of scale. meaning that Nike should not expand to much to gain economies of scale as they may result in diseconomies of scale which would damage the success of a firm such as Nike allowing under Armour or Adidas to ~~increase~~ <sup>overtake</sup> the Nike's market share

To conclude for a firm such as Nike economies of scale may be highly beneficial as it can ~~increase~~ <sup>decrease</sup> their average total costs. However the extent to which this is important is somewhat limited as due to the size and scale of Nike it would be unbeneficial to be too close to the minimum efficient scale as this would mean that certain aspects of Nike ~~is~~ is close to ~~not~~ having diseconomies of scale.



**ResultsPlus**  
Examiner Comments

Whilst this answer showed reasonable knowledge of economies of scale, it did not apply the theory well to Nike. Also it did not provide suitable counterbalance. It therefore achieved the bottom of level 3 and 6 marks.

## Question 1 (h)

Many candidates showed a good understanding of different stakeholders and applied it well to New Balance. Some candidates lost marks as they didn't focus on conflicts and simply listed the needs of different stakeholders.

New Balance has chosen to manufacture its premium shoes in the US and UK rather than in cheaper locations.

(h) Assess the extent to which this may cause stakeholder conflict.

(12)

Stakeholders are anyone who ~~has~~ has a legitimate interest in the success of the firm.

A stakeholder conflict will arise between employees and shareholders. This is because NB's <sup>200</sup> employees in its Cumbria factory want production in the UK as it provides them with jobs. As a result they have an increased standard of living than if they were jobless due to a higher income. However shareholders want maximum profits to increase their dividend yield. Manufacturing in the US and UK is more expensive than in China which has far lower labour costs. This means ~~average~~ unit wage costs are higher therefore average total costs are higher which leads to lower profit margins and therefore lower <sup>net</sup> profits and dividends.

However, shareholders may be happy with this decision since it protects NB's authenticity of 'a proud tradition of craftsmanship'. This is because US and UK manufacturing is likely to involve higher levels of skilled labour crafting the shoes, as opposed to machines and low-skilled labour in places like China. This improves the brand image of NB and their products are seen as high known quality. As a result, PED of their football boots for example is lower, since there are



fewer effective substitutes - Nike uses unskilled labour in China leading to lower quality production. As a result they can charge a premium, boosting profits and increasing dividends.

In conclusion, it depends on the consumers' awareness and perception of the decision. This is because if consumers are not aware they will likely buy the cheapest ~~product~~ shoe which is likely to be Nike or Adidas, even though they may be compromising quality. As a result they are not really decreasing the PED by a significant amount and the premium price will lead to lower demand and a reduction in sales and profit. As a result there is very much a stakeholder conflict between share holders <sup>who want dividends</sup> and ~~consumers~~ <sup>employees</sup> who want their jobs.



**ResultsPlus**  
Examiner Comments

This is an example of a level 3 response (9 marks) which shows understanding of stakeholder conflict and shows reasonable chains of reasoning with balance. It fails to reach level 4 as it is a little generic in parts. It is a little repetitive and refers only to employee v shareholder conflict throughout the answer.

## Question 2

This is the first of two 20 mark questions.

As pointed out in previous years, it is a shame that candidates do not make good use of the extracts in the paper to provide contextualised balanced arguments.

Strong responses answered the question by explaining how regulation by OFGEM may positively or indeed negatively impact gas and electricity consumers.

Far too many responses were generic, did not use the data provided or did not focus on the impact on consumers as instructed in the question.

### 2 Evaluate the extent to which regulation of the energy market may benefit consumers. (20)

Regulation is ~~not~~ when the government enforces ~~rules~~ rules that firms have to follow when conducting business. Greater regulation of the energy market can help benefit consumers. One way to ~~do this~~ ~~could~~ be by ~~increasing competition~~ that regulation can help ~~in~~ consumers is by making sure that they are not exploited. This can be seen in the extract in which "customer service" failed to be adequate" by Scottish power. This resulted in consumers gaining compensation of £18 million. Therefore, regulation increases consumer welfare because firms are fearful of high ~~taxation~~ fees they could pay if they do. Therefore, firms will be incentivised to ~~ensure~~ behave well which means consumers won't be exploited. However, many richer energy companies may still exploit consumers to gain longer revenues as they would be able to pay only fees.

Additionally, regulation can benefit consumers by decreasing asymmetric knowledge. This is when one economic agent has more information than the other which they use to benefit themselves, in this case energy firms having more knowledge than consumers. Therefore, the extract shows that Ofgem is trying to help customers

"reach better deals." This can be seen when Ofgem created a website ~~is~~ ~~that~~ that allowed consumers to see the different energy alternatives that is available to them. This is beneficial to consumers because they can find the cheapest alternatives. Additionally, since energy is such an ~~important~~ a high percentage of income, this could help consumers increase the amount of disposable income they have available. However, ~~even with a provision~~ Additionally, firms would then try to be more competitive ~~as~~ to lower their prices as consumers know more about the market. This would ensure fairer prices for consumers to choose from. ~~on the other hand~~ However, ~~as the extract shows~~ However, as Extract F shows, the overall trend in pricing has still increased, remaining over £100 since 2012. This shows that even with information, consumers have not all benefited.

However, regulation may not benefit consumers. The CMA has tried to increase competition, however firms may be ~~trying~~ using tacit collusion. This is because the energy sector is an oligopoly, and due to the interdependence, they are more likely to collude. This would increase pricing for consumers, and since tacit collusion is very hard to prove, firms can get away with it. Additionally, even though the CMA tried to promote competition, ~~the~~ larger firms such as BP ~~or~~ would still have the largest market share which still allows them to set prices high. Additionally

Additionally, excessive regulation may be detrimental to consumers. If there is greater regulation, firms may not have incentive to ~~comp~~ compete or gain market share. This can lead to a worsening of resources being allocated which means ~~cost~~ prices could even rise for consumers. ~~Addit~~ Furthermore, regulation can ~~mean~~ lead to unintended consequences. ~~An increase in regulation means~~ ~~that's there could be~~

Regulation can be positive as it enhances competition, this would mean smaller firms such as OVO and first utility can increase their market share as bigger firms won't be able to abuse their powers. Increased competition will lead to greater dynamic efficiency, resulting in more cost efficient methods that benefits consumers. This can be seen in Extract F, where prices have been falling slightly since 2014, which could be due to Ofgem's regulation.

To conclude, regulation can be beneficial to consumers because it provides them with greater knowledge of the market and increases competition which lowers prices. Additionally, in 2019, the UK government issued a price cap on the energy markets which ensures firms can't set a higher price. This immensely benefits consumers as they cannot be exploited over such high prices. Additionally, the emergence of more sustainable energy may mean some consumers don't get affected by these regulations as they have switched to different alternatives.



An example of a good response which just gets into the top level (level 4). Knowledge is good, application is evident and the candidate is clearly writing about the impact on consumers, rather than the impact on the firm. The conclusion is limited and shows no perception or significance of competing arguments.



Before you start writing be clear about which economic agent you are being asked to address.



### Question 3

This is the last 20 mark question. Most candidates attempted this question which indicated that candidates did not run out of time.

A mixture of responses were provided by candidates for this question. Whilst the case study provided lots of examples of changes in the education sector, many candidates failed to use the extracts provided. Some however did focus on the impact of the Government providing more nursery places and were able to provide good counterbalance including time lags and opportunity costs for the Government. Many candidates simply wrote about the value of education in a generic fashion. Some however did use examples of their own, for example increases in apprenticeships, to add to the context which was good to see and duly rewarded.

The question required the candidates to write about the impact of changes in education on the economy, yet many did not do this and instead focussed on the impact on individuals or firms.

3 The UK government intervenes in the education sector. Education is considered a merit good.

Evaluate the likely impact on the UK economy of government intervention in the education sector.

Education is one of the infrastructures that <sup>in</sup> government's spending. It is also a merit good ~~which~~ which will ~~benefit~~ benefit ~~the~~ people in the long-run and in the future. Government intervention ~~means~~ means governments intervene into ~~the sector~~ the issues in order to benefit the public society more. (20)

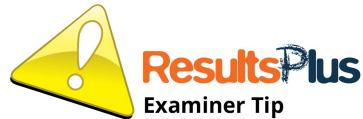
~~More~~ More children get early education can help them be good at studying in the future. As from Extract I it shows all 3 to 4 year olds in England get 15 ~~h~~ hours a week of free early education or child care and is funded by the government. ~~This~~ When this will build a good basic knowledge of education to children or a ~~good~~ habit of study is taught to time, it will mostly help their future study which mean

more ~~few~~ young people will achieve higher level of education ~~and~~ and go to university. This brings them more skills and knowledge which will help them get good jobs and good salaries, as ~~the~~ all the research shows that the wages earning is positive proportional to the education level. These help them usually get better living standards. Also when there are more skilled and knowledgeable people, they can help with the special ~~the~~ areas such as technology or ~~medical~~ medicine. These will benefit more people in the future. More people are able to start businesses when they have enough knowledge also, and there will be more jobs created which will help ~~the~~ reduce the unemployment level. More people have earnings they are likely to consume more. ~~The~~ Businesses get more sales revenue when this also gives the government more tax revenues. The government spending ~~is~~ hence ~~it~~ may increase. Investors may also invest more when they see a profitable future and ~~these~~ ~~then~~ these could all boost the aggregate demand and lead to an economic growth.

When young parents don't need to ~~to~~ spend so much time looking after their children, they can continue their jobs which will not ~~influence~~ influence the production and productivity. They can also keep getting wages so to look after their families. This ~~helps~~ help the economy keeps working efficiently when people don't need to spend time looking after children and not working.



This is typical of a level 2 response. This shows a generic answer which does not fully address the impact on the economy or provide a counterbalance.



Leave enough time on the 20 mark questions for a good conclusion. The conclusion should show awareness of the validity and significance of competing arguments leading to a judgment. It should not simply repeat or summarise points previously given in your answer.

## Paper Summary

Based on their 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.
- Read the questions carefully. It was evident that many candidates wrote about profit maximisation rather than sales maximisation.
- 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.



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