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Candidate surname					Other names				
Pearson Edexcel		Centre Number				Candidate Number			
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Monday 13 May 2019									
Morning (Time: 1 hour 30 minutes)					Paper Reference 8EB0/01				
Economics B									
Advanced Subsidiary									
Paper 1: Markets, consumers and firms									
You do not need any other materials.								Total Marks	
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Instructions

- Use **black** ink or ball-point pen.
- **Fill in the boxes** at the top of this page with your name, centre number and candidate number.
- Answer **all** questions in Sections A, B and C.
- Answer the questions in the spaces provided
– *there may be more space than you need.*

Information

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

Advice

- Read each question carefully before you start to answer it.
- Try to answer every question.
- Check your answers if you have time at the end.

Turn over ►

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Pearson

Answer ALL questions

SECTION A

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

Write your answers in the spaces provided.

Extract A

Float-ology: Ultimate relaxation at *The Sanctuary*

Floatation is a way of achieving deep physical and mental relaxation as well as having other benefits such as relief from chronic pain. When you float, you lie in a specially designed 2.5 m x 1.5 m pod filled with a 30 cm deep salt water solution. The 1,000 litres of water and the air inside the tank are heated to skin temperature and, with over 500 kg of Epsom salt dissolved in the water, you are able to float effortlessly without the burden of gravity acting on your body. Current publicity is very favourable regarding the mental and physical health benefits of floatation.

5

Donna and Danny set up a small business, *The Sanctuary*, more than five years ago. It is currently the only one of its kind in the county of West Yorkshire. The partners have been very successful, even paying off the full purchase costs of the pod. They are now planning to purchase a second pod, which will cost £20 020, despite the risk of losing business during installation.

10

The Sanctuary is open long hours; 10 am - 10 pm daily. Sometimes it opens as early as 6 am in order to provide greater flexibility for clients. Installing a second pod would increase its capacity. Variable costs are very low, at only £1 per client for a one hour session. The atmosphere in the pod must be maintained throughout the day but the initial set-up is expensive.

15

(Source: adapted from © Float-ology 2018)

Extract B

Selected financial data from *The Sanctuary*

	£
Fixed costs	34 720
Variable costs per one hour session	1
Price per one hour session	36

(Source: based on © Sanctuary Group 2018)



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

(2)

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(b) Using Extract B, calculate the break-even point for *The Sanctuary*. You are advised to show your working.

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Instead of purchasing the second pod outright, *The Sanctuary* is considering leasing the pod.

(c) Explain **one** likely benefit of leasing for *The Sanctuary*.

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(d) Using Extracts A and B, discuss whether the decision to open *The Sanctuary* for long hours was based on financial reasons.

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(e) Assess the potential benefits for *The Sanctuary* of purchasing a second pod.

(12)

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(Total for Question 1 = 30 marks)

TOTAL FOR SECTION A = 30 MARKS



SECTION B

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

Write your answers in the spaces provided.

Extract C

House prices rise at fastest rate since January, says Halifax bank

Halifax reported that UK house prices continued to rise, with data showing an increase of 2.3% from the second to third quarter of 2017. On an annual basis, this makes property prices 4.5% higher than the previous year. The average house price in November 2017 of £225 826 is the highest on record. This is an increase of £5 000 since the start of the year. 5

Halifax said the price increases were due to a lack in the supply of houses in the market because there is a shortage of land. The high employment rate has increased the demand for houses. At the same time homelessness is on the rise, 255,000 people were recorded without a home at the last count. 10

The Bank of England raised interest rates in November 2017 for the first time in 10 years in order to reduce the high inflation affecting UK households. The base rate increased from 0.25% to 0.5%, with many mortgage lenders reacting by immediately increasing the rates on their mortgage repayments. This prompted fears that homeowners could face significantly higher bills, which could also put off potential first-time buyers. 15

(Source: House prices rise at fastest rate since January, says Halifax - By Sophie Christie © The Telegraph, November 2017)

Extract D

£10bn new funding for Help to Buy Loan scheme

The government will invest a further £10bn in the Help to Buy Loan scheme, due to its popularity across the country. It works by the government providing a loan of up to 20%, which is repaid when the home is sold, or after 25 years, whichever comes first.

The Help to Buy Loan can be used by first-time buyers to purchase a new build property up to the value of £600 000, with a maximum loan of £120 000 (20%). It helps people buy a new build home with only a 5% deposit who would otherwise have been unable to afford to get on the property ladder. 5

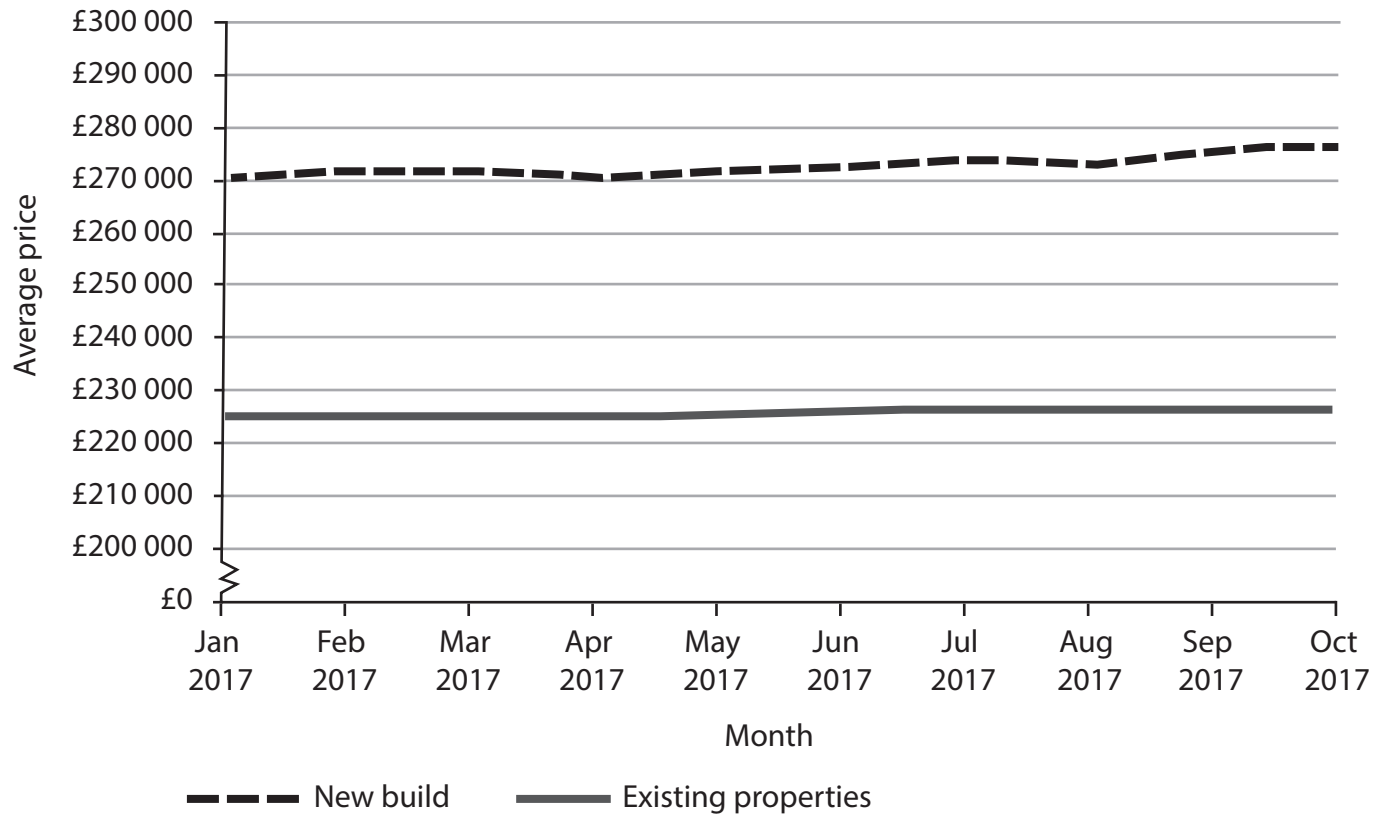
The new funding means that the Help to Buy Loan scheme could help around 135,000 more first-time buyers to buy homes by 2021. This would bring the total number of households supported through the scheme since it began in 2013 to around 360,000. 10

(Source: © Crown Copyright)



Extract E

Average price by property in the UK



(Source: © Crown Copyright)

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2 (a) What is meant by the term 'supply'?

(2)

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The market for housing is not currently in equilibrium.

(b) Using a supply and demand diagram, illustrate the excess supply or demand created by the housing shortage.

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(c) Using Extract C, explain the problem of scarcity.

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Help to Buy Loans are a type of government intervention.

(d) Using the data in Extracts D and E, discuss the merits of this type of government intervention in dealing with market failure in the housing market.

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(e) Assess whether a shortage of land is the main reason for rising house prices.

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(Total for Question 2 = 30 marks)

TOTAL FOR SECTION B = 30 MARKS



SECTION C

Read the following extract (F) before answering Question 3.

Write your answer in the space provided.

Extract F

Yet more growth in the coffee shop market

Costa Coffee, Starbucks Coffee Company and Caffè Nero remain the UK's leading chains in the coffee shop market. They added 445 new shops in 2016 to reach 6,940 branded outlets between them.

There is an estimated total of 22,845 coffee shop outlets in the UK, a growth of 6% in 2016, with an annual turnover of £3.7bn. 5

The UK has become a nation of coffee drinkers, with coffee shop visitors purchasing an estimated 2.3bn cups of coffee per year. Consumers are more knowledgeable and empowered with choice than ever before. Leading chains continue to respond to this trend with improved store experiences and products. The desire for premium quality and speciality coffee allows for higher prices. 10

With new coffee shops opening almost weekly, it is predicted the total UK coffee shop market will exceed 32,000 outlets and a turnover of £16bn by 2025, with an annual outlet growth of 6%.

After 18 years of considerable continued growth, the coffee shop market is one of the most successful in the UK economy. 15

(Source: adapted from © World Coffee Portal Ltd 2018)



3 The functions of the price mechanism to allocate resources are rationing, incentives and signalling.

Evaluate which of these functions is likely to have had the biggest impact on the coffee shop market in the UK.

(20)

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(Total for Question 3 = 20 marks)

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

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