



Mark Scheme (Results)

Summer 2019

Pearson Edexcel GCE AS Level
In Economics B (8EB0)
Paper 02 The wider economic environment

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General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

Section A

| Question Number | | Mark |
|-----------------|--|------------|
| 1(a) | <p style="text-align: center;">Knowledge/understanding 2</p> <p>Knowledge/understanding: 2 marks for</p> <ul style="list-style-type: none"> Unique name/design/sign/symbol that identifies a product (1) and differentiates it from its competitors (1) <p>NB accept any other suitable alternative. Do not award marks for examples</p> | (2) |

| Question Number | | Mark |
|-----------------|---|------------|
| 1(b) | <p style="text-align: center;">Knowledge/understanding 1, Application 3</p> <p>Knowledge/understanding: 1 mark for the Formula for YED:</p> <p><u>% Change in Quantity Demanded</u> (1) % Change in Income</p> <p>Application:</p> <p>$\frac{8\%}{2.3\%} = (1) = 3.48 (1)$</p> <p>NB if no working is shown award marks as below:</p> <ul style="list-style-type: none"> If the answer given is 3.48 award 4 marks If the answer given is 3.47/3.49 award 3 marks If the answer given is 3.5 award 3 marks If the answer given is 3.48% award 3 marks | (4) |

| Question Number | | Mark |
|-----------------|---|------------|
| 1(c) | <p align="center">Knowledge/understanding 1, Application 2, Analysis 1</p> <p>Knowledge/understanding: 1 mark for giving one impact e.g. Lower cost of production (1)</p> <p>Application: up to 2 marks are available for contextualised answers, e.g. Cocoa is used in the production of chocolate (1) Cocoa has fallen to \$2 000 per ton (1)</p> <p>Analysis: 1 mark available for developing the impact, e.g. chocolate manufacturers may be able to increase profit margins if they do not pass on the cost savings to consumers (1)</p> | (4) |

| Question Number | | Mark |
|-----------------|--|------------|
| 1(d) | <p align="center">Knowledge 2, Application 2, Analysis 2, Evaluation 2</p> <ul style="list-style-type: none"> • The economic cycle is when national or global economic activity fluctuates between boom, downturn, recession and recovery • During a period of recovery or boom, incomes rise and unemployment falls within an economy • Normal luxury goods where YED exceeds +1; as incomes rise, the proportion of a consumer's income spent on that product will rise • Premium chocolate manufacturers such as <i>Hotel Chocolat</i> may be classed as a luxury good and may see sales increase as consumers switch from cheaper brands of chocolate during times of economic growth • However, during a downturn or a recession, businesses making premium and luxury goods are often hit hard, especially if the YED for premium chocolate is calculated to be 3.48 • Customers often cut back on income elastic and non-essentials first • However, extract B indicates that <i>Hotel Chocolat</i> has been relatively unaffected by difficult economic conditions and has seen sales and profits increase in 2017 • Depends whether consumers see chocolate as a normal good and therefore <i>Hotel Chocolat</i> may not be affected that much by the economic cycle | (8) |

| Level | Mark | Descriptor |
|---------|------|---|
| | 0 | A completely inaccurate response. |
| Level 1 | 1-2 | Isolated elements of knowledge and understanding, using little or no relevant evidence. Arguments and chains of reasoning may be attempted. Limited attempt to address the question. |
| Level 2 | 3-5 | Elements of knowledge and understanding, using limited relevant evidence. Arguments and chains of reasoning are developed. Judgements may be attempted. |
| Level 3 | 6-8 | Accurate knowledge and understanding, supported throughout by use of relevant evidence which is well chosen. Arguments are developed, using logical, coherent chains of reasoning. A balanced awareness of competing arguments. |

Demonstrating application (AO2) in responses

Where questions specifically stipulate the use of data or information provided in a stimulus, students:

- must directly reference, interpret or analyse the information provided in the stimulus
- in addition, may select examples from their own knowledge but these must be relevant and directly connected to the context/issues set out in the stimulus.

Where questions do not specifically stipulate the use of data or information provided in a stimulus, students:

- must select relevant examples from their own knowledge, these must be directly connected to the context/issues set out in the question, and
- may directly reference, interpret or analyse the information provided in any relevant stimulus.

| Question Number | | Mark |
|-----------------|--|-------------|
| 1(e) | <p>Knowledge 2, Application 2, Analysis 4, Evaluation 4</p> <ul style="list-style-type: none"> • Organic growth means the expansion of a single firm by extending its own operations rather than by merger or takeover • Organic growth can be a safer option than inorganic growth as it relies on a tried and trusted business model which is clearly working for <i>Hotel Chocolat</i> • The growth does not require <i>Hotel Chocolat</i> to fund the takeover of a rival chocolate firm through external finance • Expansion of combined shop and cafes can be financed through internal sources such as using its £11.2m profits • Avoids culture clashes with a takeover of a rival chocolate firm which often happens when inorganic growth occurs • Avoids the loss of jobs in the shop and cafes which often happens when there is a duplication of resources due to a merger or takeover • Creates more sustainable growth which builds on a firm's existing strengths – Thirlwell has been quoted as saying that <i>Hotel Chocolat</i> has made excellent progress and has a strong brand image • However, growth achieved may be dependent on the growth of the overall niche market • <i>Hotel Chocolat</i> seems to be a leader in the premium chocolate market and it might be hard to build further market share due to this • Organic growth often is a very slow way to grow and shareholders may prefer more rapid growth of revenues and profits • Organic growth can also lead to a lack of new ideas from outside of the business which often happens with inorganic growth | (12) |

| Level | Mark | Descriptor |
|---------|-------|---|
| | 0 | A completely inaccurate response. |
| Level 1 | 1-2 | Isolated elements of knowledge and understanding, using little or no relevant evidence. Arguments and chains of reasoning may be attempted. Limited attempt to address the question. |
| Level 2 | 3-5 | Elements of knowledge and understanding, using limited relevant evidence. Arguments and chains of reasoning are presented but with limited attempt to address the question. Comparisons and judgements may be attempted. |
| Level 3 | 6-9 | Accurate knowledge and understanding, supported by use of relevant evidence to support the argument, clear chains of reasoning, with well developed arguments. An awareness of the significance of competing arguments is present although this may lack balance. |
| Level 4 | 10-12 | Accurate knowledge and understanding, supported throughout by use of relevant evidence which is well chosen, logical, coherent chains of reasoning, showing full understanding of the question. Arguments are developed and evaluated. A full and balanced awareness of the validity and significance of competing arguments. |

Demonstrating application (AO2) in responses

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Where questions do not specifically stipulate the use of data or information provided in a stimulus, students:

- must select relevant examples from their own knowledge, these must be directly connected to the context/issues set out in the question, and
- may directly reference, interpret or analyse the information provided in any relevant stimulus.

Section B

| Question Number | | Mark |
|-----------------|---|------------|
| 2(a) | <p style="text-align: center;">Knowledge/understanding 2</p> <p>Knowledge/understanding: 2 marks for</p> <ul style="list-style-type: none"> • Goods or services produced in one country (1) and then sold to another country (1) <p>NB accept any other suitable alternative. Do not award marks for examples</p> | (2) |

| Question Number | | Mark |
|-----------------|---|------------|
| 2(b) | <p style="text-align: center;">Knowledge/understanding 1, Application 3</p> <p>Knowledge/understanding: 1 mark for formula for calculating percentage change in FDI e.g.</p> $\frac{\text{New} - \text{Original}}{\text{Original}} \times 100 \quad \mathbf{(1)}$ <p>Application:</p> $\frac{84.6 - 96.9}{96.9} \mathbf{(1)} \times 100 = -12.69\% \mathbf{(1)}$ <p>OR</p> $\frac{-12.3}{96.9} \mathbf{(1)} \times 100 = -12.69\% \mathbf{(1)}$ <p>NB If no working is shown award marks as below:</p> <ul style="list-style-type: none"> • If the answer given is -12.69% award 4 marks • If the answer given is -12.69 award 3 marks • If the answer given is -12.7% award 3 marks • If the answer given is -12.7 award 2 marks • If the answer given is 12.69% award 0 marks | (4) |

| Question Number | | Mark |
|-----------------|---|------------|
| 2(c) | <p data-bbox="416 280 1203 315" style="text-align: center;">Knowledge/understanding 1, Application 2, Analysis 1</p> <p data-bbox="363 356 1267 432">Knowledge/understanding: 1 mark for identifying an impact e.g. less tax revenue (1)</p> <p data-bbox="363 477 1267 629">Application: up to 2 marks are available for contextualised answers, e.g. The unemployment rate has increased each year (1) the data shows it has increased from 6.8% in 2014 to 13.2% in 2017 (1)</p> <p data-bbox="363 674 1278 790">Analysis: 1 mark available for developing the impact, e.g. with less revenue from income tax, the Brazilian government will have less to spend on public services (1)</p> | (4) |

| Question Number | | Mark |
|-----------------|--|------------|
| 2(d) | <p>Knowledge 2, Application 2, Analysis 2, Evaluation 2</p> <ul style="list-style-type: none"> • A trading bloc is a group of countries with preferential trading agreements between its members • Being a member of the Mercosur trading bloc will make trading easier and cheaper for Brazil due to lower tariffs and bureaucracy • Brazil will have easier access to the other 3-member countries' markets and this will encourage the much-needed growth as they have recently experienced negative and low GDP growth • Other countries such as the US or UK, who want to access the countries in the Mercosur trading bloc, will be more likely to invest in Brazil creating employment and increasing GDP • Fewer trade restrictions give Brazilian consumers access to more products and services • However, reduced trade barriers in trading blocs also means extra competition for Brazilian producers from cheaper imports from Argentina • This may lead to a decline in Brazilian output and an increase in unemployment | (8) |

| Level | Mark | Descriptor |
|---------|------|---|
| | 0 | A completely inaccurate response. |
| Level 1 | 1-2 | Isolated elements of knowledge and understanding, using little or no relevant evidence. Arguments and chains of reasoning may be attempted. Limited attempt to address the question. |
| Level 2 | 3-5 | Elements of knowledge and understanding, using limited relevant evidence. Arguments and chains of reasoning are developed. Judgements may be attempted. |
| Level 3 | 6-8 | Accurate knowledge and understanding, supported throughout by use of relevant evidence which is well chosen. Arguments are developed, using logical, coherent chains of reasoning. A balanced awareness of competing arguments. |

Demonstrating application (AO2) in responses

Where questions specifically stipulate the use of data or information provided in a stimulus, students:

- must directly reference, interpret or analyse the information provided in the stimulus
- in addition, may select examples from their own knowledge but these must be relevant and directly connected to the context/issues set out in the stimulus.

Where questions do not specifically stipulate the use of data or information provided in a stimulus, students:

- must select relevant examples from their own knowledge, these must be directly connected to the context/issues set out in the question, and
- may directly reference, interpret or analyse the information provided in any relevant stimulus.

| Question Number | | Mark |
|-----------------|--|------|
| 2(e) | <p data-bbox="432 239 1187 271">Knowledge 2, Application 2, Analysis 4, Evaluation 4</p> <ul data-bbox="411 320 1315 1256" style="list-style-type: none"> <li data-bbox="411 320 1126 389">• FDI is the value of inward investment from other countries/firm into a country <li data-bbox="411 398 1315 512">• FDI can bring in capital investment to Brazil as MNCs will need buildings, equipment and infrastructure to operate within the country <li data-bbox="411 521 1251 591">• Jobs are created by MNCs such as <i>Renault</i> and <i>Zara</i> which reduces unemployment and increases disposable income <li data-bbox="411 600 1299 669">• There may be increased demand for the products or services of local Brazilian firms who supply MNCs such as <i>Renault</i> <li data-bbox="411 678 1315 792">• MNCs may train up the local workforce who may acquire useful skills in car production factories. MNCs often bring new technologies, techniques and methods <li data-bbox="411 801 1275 871">• Increased employment and wages should lead to increased tax and government revenue <li data-bbox="411 880 1243 949">• Exports may increase therefore improving the balance of payments <li data-bbox="411 958 1291 1072">• However, wages can be low and working conditions poor as many MNCs locate in Brazil due to lower costs of production or lack of regulation <li data-bbox="411 1081 1235 1151">• MNCs such as <i>Renault</i> may bring their own management rather than training local workers <li data-bbox="411 1160 1299 1256">• Many of the key sectors attracting FDI in Brazil have potential to damage the environment or have significant negative externalities such as mining and tobacco | (12) |

| Level | Mark | Descriptor |
|---------|-------|---|
| | 0 | A completely inaccurate response. |
| Level 1 | 1–2 | Isolated elements of knowledge and understanding, using little or no relevant evidence. Arguments and chains of reasoning may be attempted. Limited attempt to address the question. |
| Level 2 | 3–5 | Elements of knowledge and understanding, using limited relevant evidence. Arguments and chains of reasoning are presented but with limited attempt to address the question. Comparisons and judgements may be attempted. |
| Level 3 | 6–9 | Accurate knowledge and understanding, supported by use of relevant evidence to support the argument, clear chains of reasoning, with well developed arguments. An awareness of the significance of competing arguments is present although this may lack balance. |
| Level 4 | 10–12 | Accurate knowledge and understanding, supported throughout by use of relevant evidence which is well chosen, logical, coherent chains of reasoning, showing full understanding of the question. Arguments are developed and evaluated. A full and balanced awareness of the validity and significance of competing arguments. |

Demonstrating application (AO2) in responses

Where questions specifically stipulate the use of data or information provided in a stimulus, students:

- must directly reference, interpret or analyse the information provided in the stimulus
- in addition, may select examples from their own knowledge but these must be relevant and directly connected to the context/issues set out in the stimulus.

Where questions do not specifically stipulate the use of data or information provided in a stimulus, students:

- must select relevant examples from their own knowledge, these must be directly connected to the context/issues set out in the question, and
- may directly reference, interpret or analyse the information provided in any relevant stimulus.

Section C

| Question Number | Answer | Mark |
|-----------------|--|------|
| 3 | <p>Knowledge 4, Application 4, Analysis 6, Evaluation 6</p> <ul style="list-style-type: none"> • Economic growth involves an increase in real GDP and taxation is a payment to the government • A reduction in taxation can affect both AD and AS • A reduction in income tax may increase the disposable income of households which may result in a rise in consumer spending • An increase in the personal allowance of £1850 (Extract G) may give UK consumers more disposable income boosting AD • A decrease in corporate tax rates as indicated by the cut in corporation tax from 35% to 20% in the US may increase the ability and willingness of firms to invest • Higher investment may increase both AD and AS. Higher AD and AS may raise real GDP and potential economic growth • Lower rates of income tax may increase the incentive to work as less is taken in the form of income tax and so increases output and reduces unemployment • The resulting increase in AD may lead to a rise in real GDP/actual economic growth • Lower rates of corporation tax in the US of 20% and 17% in the UK may also shift out the AS curve by attracting FDI • However, a reduction in income tax may have little impact on consumer expenditure and on AD if workers are pessimistic about the future and save the extra disposable income • Higher consumer spending resulting from a reduction in taxation may go on imports which would be a leakage from the circular flow • Increased spending could result in demand-pull inflation • Lower taxes may reduce government expenditure/increases the US budget deficit to \$1 trillion due to less tax revenue, so AD may decrease reducing real GDP • If less taxation results in less spending on public services such as education and health care, AD may decrease and so potential economic growth may be reduced and inequality increases • A combination of government policies might be needed alongside a reduction in taxation to increase the rate of economic growth • The overall impact would be dependent on the state of the economy, the amount of the reduction in taxation and whether the reduction was for indirect or direct taxation | (20) |

| Level | Mark | Descriptor |
|---------|-------|---|
| | 0 | A completely inaccurate response. |
| Level 1 | 1-4 | Isolated elements of knowledge and understanding, using little or no relevant evidence. Arguments and chains of reasoning may be attempted, but fail to connect causes and consequences. Limited attempt to address the question. |
| Level 2 | 5-9 | Elements of knowledge and understanding, using limited relevant evidence. Arguments and chains of reasoning are presented, but connections between causes and consequences are incomplete. Limited attempt to address the question. Comparisons, judgements or conclusions may be attempted, but are unsupported or generic. |
| Level 3 | 10-15 | Accurate knowledge and understanding, supported by use of relevant evidence to support the argument, developed chains of reasoning, showing understanding of connections between causes and consequences. Arguments are well developed and partially evaluated. An awareness of the significance of competing arguments is present although this may lack balance. A conclusion may be attempted but may not show awareness of the significance of competing arguments. |
| Level 4 | 16-20 | Accurate knowledge and understanding, supported throughout by use of relevant evidence which is well chosen and fully integrated to support the argument, well developed and logical, coherent chains of reasoning, showing full understanding of the question. Arguments are fully developed and evaluated. A full awareness of the validity and significance of competing arguments, leading to nuanced and balanced comparisons, judgements or conclusions. |

Demonstrating application (AO2) in responses

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- must select relevant examples from their own knowledge, these must be directly connected to the context/issues set out in the question, and
- may directly reference, interpret or analyse the information provided in any relevant stimulus.

