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| Candidate surname | | | | | Other names | | | |
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| Thursday 14 May 2020 | | | | | | | | |
| Morning (Time: 1 hour 30 minutes) | | | | | Paper Reference 8EB0/02 | | | |
| Economics B | | | | | | | | |
| Advanced Subsidiary | | | | | | | | |
| Paper 2: The wider economic environment | | | | | | | | |
| You do not need any other materials. | | | | | | | Total Marks | |
| | | | | | | | | |

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.
- 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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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

E-commerce not the reason for UK high street woes

A report by *CBRE*, a global property firm, indicates that while the growth of e-commerce is often cited as a key factor in the demise of high street retail outlets, it cannot be considered as the sole or even as a major cause of store closures.

The report said structural changes in the form of consumers' spending preferences and the growth of e-commerce have partly contributed to retailers' performance. However, economic factors have also challenged the retail sector. The retail sector had increased wage costs due to a decrease in unemployment and wage growth above inflation, combined with European Union (EU) workforce shortages. All of which have had major implications for the retail sector. 5

The growth in real disposable income for the whole economy has also been extremely weak over the last decade. Brexit-related uncertainty has also added extra pressure on consumer prices through imported inflation. Inflation in November 2018 was 2.2%, unchanged from October. The annual percentage change in average nominal earnings was 3.29% in October. 10

Government policies aimed at raising wages for low-paid workers have also had a large effect on the retail sector. The increase of the National Minimum Wage has added to these effects, forcing retailers to make tough decisions to manage the increased costs. 15

Rhodri Davies from *CBRE* said, "In many cases, retailers seem simply to have taken their eye off their customer. The evidence is clear that retailers with a good business model, that proactively close and open stores to follow consumer trends, have survived this 'perfect storm'. Until aggregate demand picks up, failure to adapt to structural change could be fatal." 20

(Source: adapted from <https://www.retailgazette.co.uk/blog/2018/12/cbre-ecommerce-not-reason-uk-high-street-woes>)

Extract B

UK labour market: December 2018

| | |
|--------------|------------|
| Labour force | 33,856,000 |
| Employed | 32,476,000 |

(Source: adapted from <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/december2018#unemployment>)

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1 (a) What is meant by the term 'aggregate demand'?

(2)

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(b) Using Extract B, calculate, to 2 decimal places, the rate of unemployment for the UK in December 2018. You are advised to show your working.

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(c) Using Extract A, calculate, to 2 decimal places, the change in real earnings for October 2018. You are advised to show your working.

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(d) Discuss the possible benefits of e-commerce for consumers.

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(e) Assess the likely impact on retailers of a fall in UK unemployment.

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TOTAL FOR SECTION A = 30 MARKS



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SECTION B

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

Write your answers in the spaces provided.

Extract C

The irresistible rise of alternative milks has dairy farmers worried

It is milk, but not as we know it. So-called 'alternative milks' made from plants, nuts and other ingredients are occupying our supermarket shelves and displacing traditional dairy products. Sales of UK plant-based milk increased by a third to £376m in 2017 while traditional milk sales rose by just over 5%. Almond milk has the largest market share of alternative milks and it keeps growing.

5

Many younger consumers are shifting away to alternative milks because of environmental concerns. In a study of the environmental impact of alternative milks in comparison to dairy, cow's milk came out as most harmful in terms of water usage and CO₂ emissions. Milk alternatives are big business, marketed as a more environmentally-conscious option for breakfast cereals and in coffee.

10

Swedish firm *Oatly* is one of the newcomers in the alternative milk world – even though it has been around for 25 years. *Oatly*, whose alternative milk is manufactured from oats, has increased sales from £15m in 2012 to £102.5m in 2018. Growth this year will be around 80%, thanks to distribution across 27 European countries and the US.

15

"Everyone's interested in health and sustainability," says *Oatly's* CEO Toni Peterson. *Oatly's* most popular product is the Barista Oat Drink, which typically retails for £1.80 for 1 litre compared to just 65p for a litre of cow's milk.

However, people are not quite willing to change their lifestyle completely and it is not the end of milk's product life cycle. According to recent research, two-thirds of people who use plant-based milks also keep dairy milk alongside them.

20

(Source: adapted from <https://www.wired.co.uk/article/non-dairy-milk-alternatives-oatly-soy-oat-rice-vegan>)

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Extract D**Vegans rocked by oat milk shortage**

Coffee shops across the UK are in the grip of an oat milk shortage. Swedish oat milk brand *Oatly* is reported to have told coffee shops stock of the product is limited, with many coffee shops already running dry. James Penn, owner of the *Hackney Coffee Company*, said: "We have contacted all our suppliers and none of them have any stock."

5

Oatly is struggling to meet current demand for oat milk used in coffee shops, even though its production facilities for this product are working at 100% capacity. Ishen Paran, General Manager at *Oatly*, said: "We have recently produced and sold more oat drink than ever before. Unfortunately, there is not enough *Oatly* in supply to meet this extraordinary demand. We are looking for ways to increase production to keep up with the incredible response we have had in 2018."

10

Other lines of *Oatly* drinks that are not targeted at coffee shops are still available.

(Source: adapted from <https://www.plymouthherald.co.uk/news/plymouth-news/vegans-rocked-oat-milk-shortage-2252247>)

Extract E**Londoners, *Oatly* will pay for 80% of your coffee**

In many of London's craft coffee shops, *Oatly* is paying for (most) of the price of your cup of coffee. For one week only, *Oatly* will pay 80% of the price of an oat milk latte or an oat milk Americano. Why 80%? According to the niche brand, if we change from dairy to oats in our morning coffee, we can reduce CO₂ emissions by 80%.

Oatly are also launching a new range of alternative oat milk products into UK supermarkets with discounted prices. These include Skinny, Semi and Whole oat options.

5

(Source: adapted from <https://pebblemag.com/news/londoners-oatly-will-pay-for-80-of-your-coffee>)

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2 (a) What is meant by the term 'product life cycle'?

(2)

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Oatly has decreased the price of its oat drinks by 10%. This led to an 8% increase in sales.

(b) Calculate the price elasticity of demand (PED) for *Oatly's* oat drinks. You are advised to show your working.

(4)



(c) Explain **one** possible benefit for *Oatly* of operating in a niche market.

(4)

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(d) Discuss the implications of an over-utilisation of capacity for *Oatly*.

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(e) Assess the likely benefits for *Oatly* of using penetration pricing for the launch of its new products in the UK.

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TOTAL FOR SECTION B = 30 MARKS



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SECTION C

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

Write your answer in the space provided.

Extract F

Relaxed air quality targets are plaguing northern China with air pollution

Northern China is now suffering with increased air pollution after the authorities relaxed air quality targets to encourage economic growth. Air pollution made a reappearance after Chinese authorities announced that they were not going to renew cuts to steel production and coal use. The lower environmental standards, particularly the relaxed air quality targets, are part of a number of measures designed to support and increase the country's deteriorating economy. 5

According to the environmental pressure group Greenpeace, in the last quarter of 2017, levels of air pollution fell by 33% in many cities across China, while Beijing levels fell even more – by 54%. However, the pollution restrictions affected several small companies and state-owned enterprises, as authorities banned construction and the use of coal. The previous pollution restrictions also affected local residents after authorities seized coal heaters, leaving hundreds of thousands of households in the cold and without adequate heating supplies. 10

According to the US embassy in Beijing, recent levels of pollution went above 12 times the World Health Organization guidelines for outdoor air quality. The exposure to air pollution increases many adverse health risks and diseases, including cardiovascular, respiratory, pulmonary, and other health-related problems. 15

The economic and social harms of air pollution arising from its negative effects on public health have been widely discussed. However, the unprecedented growth and development in China has had a substantial cost on the environment. With the relaxed air quality targets, it is vital to weigh whether the risk of having an increased level of air pollution is worth the potential for a boost in economic growth. 20

(Source: adapted from <https://www.healtheuropa.eu/relaxed-air-targets-smog-air-pollution/89023/>)

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3 Evaluate the extent to which there is a trade-off between economic growth and negative externalities for a country such as China.

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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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