

Pearson Edexcel Level 3 GCE

Economics B

Advanced

**Paper 3: The economic environment
and business**

Pre-release

Sample assessment materials for first teaching
September 2015

Paper Reference

9EB0/03

You do not need any other materials.

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Investigating the Economic Environment and Business

Context

This year the context is the **Indian economy**.

Research

To prepare for this year's context, you should research:

- growth indicators, such as GDP and GDP per capita over the last ten years
- macro-economic indicators, such as employment and investment over the last ten years
- changes in interest rates and exchange rates over the last ten years
- structural change in the Indian economy and key growth sectors
- the business environment and the ease of doing business, including political and cultural factors.

You **cannot** take any of your research or investigation data carried out as part of the pre-release into the examination.

Write your name here

Surname	Other names
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**Pearson Edexcel
Level 3 GCE**

Centre Number

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Candidate Number

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Economics B

Advanced

Paper 3: The economic environment and business

Sample assessment material for first teaching
September 2015

Time: 2 hours

Paper Reference
9EB0/03

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 100.
- The marks for **each** question are shown in brackets – *use this as a guide as to how much time to spend on each question.*

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.

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Answer ALL questions.

SECTION A

Read the following extracts (A to C) and Figures 1 and 2 before answering Question 1.

Write your answers in the spaces provided.

Extract A

What is wrong with India's economy?

For the financial year that ended on 31 March 2013, India's GDP grew by less than 5% – the slowest in a decade. In an attempt to boost the economy, the government has reduced restrictions on foreign direct investment (FDI) in various sectors, especially telecommunications.

In two other areas – economic inequality and the international exchange rate of the Indian rupee – India's economy appears to be worse off than where it was two decades earlier. 5

India's current account deficit reached \$33bn (£22bn) in the quarter ending December 2012, a record level of 6.7% of GDP. The deficit is also the principal reason why the Indian rupee has dipped to an all-time low against the US dollar over the last month. 10

(Source: <http://www.brameshotechnanalysis.com/2013/07/what-is-wrong-with-indias-economy/>)



(Source: <http://www.thehindubusinessline.com/economy/weak-manufacturing-saps-economic-growth/article5665204.ece>)

Figure 1

GDP Growth 2006–2013

Extract B

The biggest losers in India’s economic slowdown

One of the big successes of India’s economic growth has been its positive impact on poverty reduction. The percentage of the country’s population living below the poverty line declined from 37.2% in 2005 to 29.8% in 2010 (the last year when exact numbers were available). That equates to 52 million Indians who have been lifted above the poverty line. Encouraging as those gains are, the country still counts over 320 million poor among its citizens.

5

Poverty reduction in India is sensitive to economic growth. That is why the current slowdown is troubling – India’s growth trend over the next few years will have a direct impact on how many people can be raised from extreme poverty.

Economic growth in itself doesn’t guarantee poverty reduction; growth must also be evenly distributed to raise incomes at every level. As the country’s economy has grown, so has income inequality. In India, the Gini coefficient increased from 0.34 in 1994 to 0.39 in 2011.

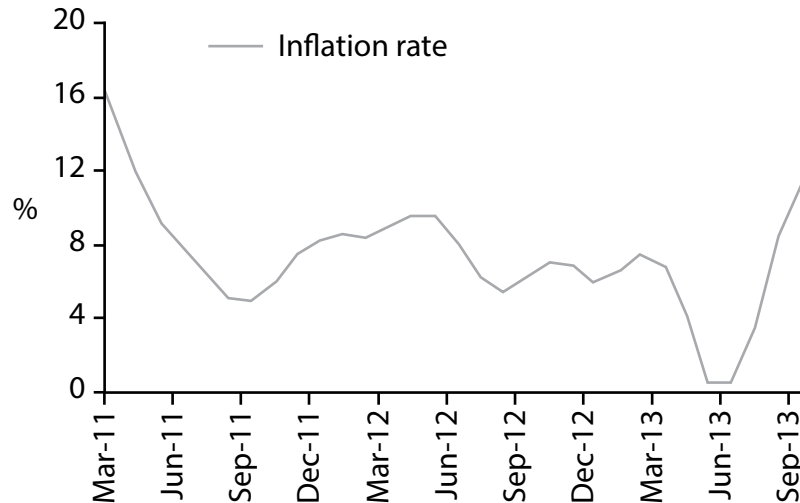
10

(Source: <http://blogs.reuters.com/india/2013/06/06/the-biggest-losers-in-indias-economic-slowdown/>)

Extract C

Food and fuel prices push Indian inflation higher

Inflation has remained a primary concern for the central bank, the Reserve Bank of India, over the last few months. The bank raised its benchmark interest rate again to 7.75% from 7.5% late last month in an effort to control rapidly rising inflationary pressures.



(Source: CEIC, Kotak Economic Research)

Figure 2

Rise in inflation momentum

India's inflation rate increased to 7% in October 2013, the highest in eight months, driven primarily by higher fuel and food prices. The Government reported that prices for fuel and power rose 10.3% in October while food prices were 18.2% higher than a year ago.

Higher inflation puts pressure on policy makers trying to battle slow growth in the economy. They are faced with a dilemma: raising interest rates may reduce inflation, but could further restrict growth. 5

"Inflation continues to accelerate, and food inflation is again at work, although food prices are likely to fall in the coming months as supply improves," said Leif Lybecker Eskesen, chief economist at HSBC Global Research.

India's inflation rate rose by more than was expected in recent months as a weaker currency brought higher import costs. 10

(Sources: <http://www.nytimes.com/2013/11/15/business/food-and-fuel-prices-push-indian-inflation-higher.html>; <http://blogs.ft.com/beyond-brics/2013/10/28/india-rates-what-has-rajan-in-store-in-round-2/>)

1 (a) Using a suitable diagram, discuss why 'food prices are likely to fall in the coming months' (Extract C, lines 7–8).

(8)

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(b) Assess the likely impact on the Indian economy of the change in the Gini coefficient between 1994 and 2011 (Extract B).

(10)

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(c) Assess the likely impact of further increases in interest rates on the level of inflation in India.

(12)

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(d) Evaluate the benefits for the Indian economy of allowing increased levels of foreign direct investment (FDI).

(20)

A large rectangular area with rounded corners, containing horizontal dotted lines for writing an answer.

Area with horizontal dotted lines for writing.

(Total for Question 1 = 50 marks)

TOTAL FOR SECTION A = 50 MARKS

SECTION B

Read the following extracts (D to F) and Figure 3 before answering Question 2.

Write your answers in the spaces provided.

Extract D

Big mover

Named after founder Lord Joseph Cyril Bamford, *JCB* is among the world's largest construction equipment makers with operations in close to 150 countries. It is currently investing to gain a bigger share of India's \$6.5bn construction market which is expected to be worth \$23bn by 2020. *JCB* is currently the biggest player in this market segment. "Anybody who needs to dig earth comes to us," says Vipin Sondhi, MD and CEO, *JCB* India. 5

In 2012, *JCB* accounted for close to half of the Indian market for backhoe loaders (pictured) – over 24 000 of the 49 000 sold were *JCB*. In India *JCB* already has three manufacturing facilities, two in Pune and one at Ballabgarh. One of the Pune factories just makes components for the 18 *JCB* factories across Asia, Europe, North America, and South America, where it recently expanded into Brazil. 10

While *JCB* is the market leader in India, it trails its rivals in other emerging markets. *JCB* faces immense competition from other international manufacturers, such as *Caterpillar*, *Case New Holland* and Chinese producer, *Sany*.

(Source: <http://www.businessworld.in/news/business/infrastructure/big-mover/1224297/page-1.html>)

Extract E

JCB's organic growth

Its bright yellow diggers have become one of Britain's most recognisable global brands. Lord Bamford, the chairman of privately owned *JCB* says the earthmoving equipment maker's achievements come from adopting a philosophy similar to Germany's *Mittelstand* – the network of family-owned small to medium sized businesses that are the backbone of the economy. 5

Lord Bamford, son of the founder of *JCB*, says the family influence over the company has been important. "In that respect, we're more like one of the *Mittelstand* businesses in Germany. We've concentrated on engineering and focusing on two or three industries. All our growth has been organic," he explains.

In 2011, the company had a turnover of £2.75bn and made an operating profit of £355m. In 2012, turnover was down slightly at £2.7bn and operating profit was £365m. 10

(Source: <http://www.ft.com/cms/s/0/4acbcbea-63ef-11e3-b70d-00144feabdc0.html#axzz2spmu3eNx>)

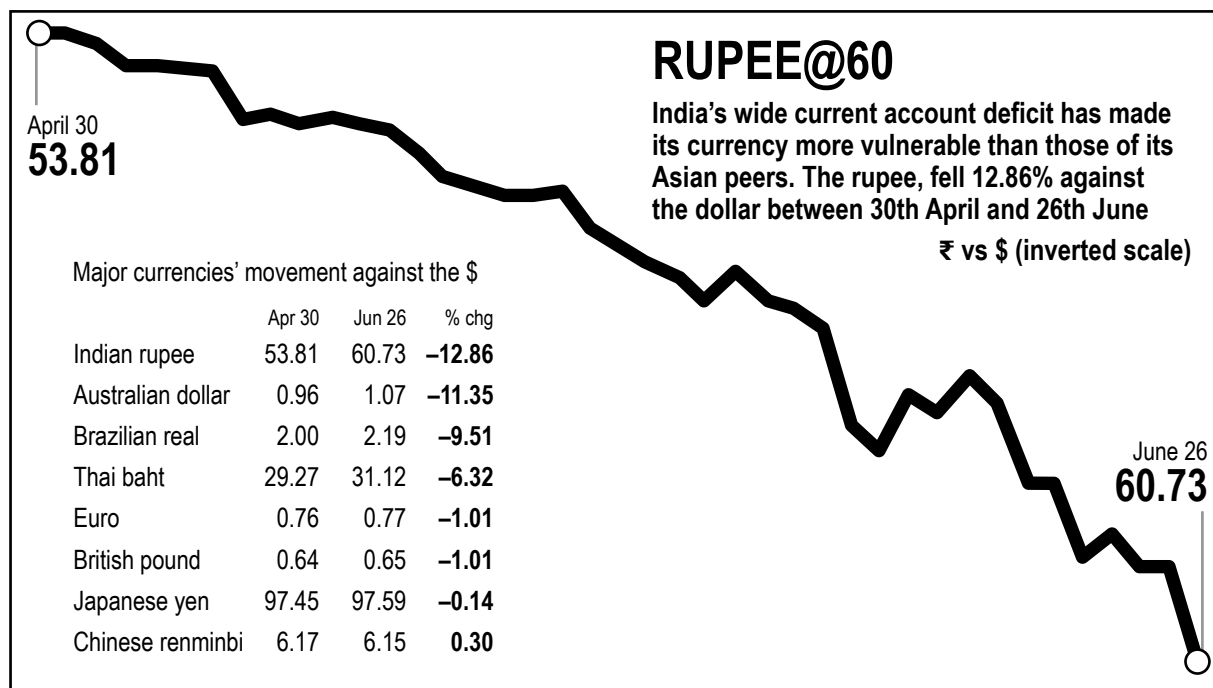
Extract F

Collapsing Asian currencies

The Indian rupee reached an all-time low of 68.85 against the US dollar on August 28, 2013. The rupee plunged by 3.7% on the day in its biggest single-day percentage fall in more than two decades. Since January 2013, the rupee has lost more than 20% of its value, the biggest loser among the Asian currencies.

Several emerging market currencies are also experiencing sharp decline. The South African Rand and the Brazilian *Real* touched four-year lows against the US dollar in June 2013. Except the Chinese Yuan (Renminbi) and Bangladeshi Taka, most Asian currencies have witnessed sharp depreciation since the beginning of 2013.

5



(Sources: <http://www.globalresearch.ca/collapsing-asian-currencies-why-is-the-indian-rupee-depreciating/5350017>; http://www.business-standard.com/article/finance/rupee-slips-below-60-113062600451_1.htm)

Figure 3

2 (a) Using an appropriate calculation, discuss the implications for JCB of the change in their operating profit margins for 2011 and 2012 (Extract E).

(8)

(c) Assess JCB's decision to grow organically.

(12)

A series of horizontal dotted lines for writing the answer.

Area with horizontal dotted lines for writing.

(Total for Question 2 = 50 marks)

TOTAL FOR SECTION B = 50 MARKS
TOTAL FOR PAPER = 100 MARKS

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