



Mark Scheme (Result)

November 2021

Pearson Edexcel GCE

In Business (9EB0)

Paper 3: The economic environment and
business

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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.

Question Number	Indicative content	Mark
1(a)	Knowledge/understanding 2, Application 2, Analysis 2, Evaluation 2 • The UK exists in a global economy and must compete with other countries • Increases in productivity nearly always lead to falling costs of production because fewer resources are used to make more output • The <i>Nissan</i> car plant in Sunderland is one of most productive in Europe and has expanded significantly boosting the UK economy • As costs fall then it is possible to cut price without reducing profit margins • For UK businesses that compete on price this will increase competitiveness • Alternatively, price can be maintained leading to larger profits which can be invested for long term growth • Either way, there is a clear link between productivity and competitiveness • However, productivity is not the only factor that leads to competitiveness • Quality of the product or service may be more important than price • Brand image of UK goods and services may be a deciding factor, UK fashion brands such as <i>Stella McCartney</i> are globally important • Innovation, technology and discoveries can lead to successful new UK industries, the development of uses for graphene	(8)

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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

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1(b)	Knowledge/understanding 2, Application 2, Analysis 3, Evaluation 3 • Extract A states that UK workers produce, on average, 16% less than their European counterparts • For the UK economy to grow and to catch up with other economies it must be able to produce more goods and services • This means an expansion in total output or AS • As long as there are spare resources in the UK economy output can be increased by using them up • Once all resources are fully employed output cannot be increased without causing inflationary pressures to build up • This can be shown on the AS curve diagram, shown on the diagram as OY2 on the original AS1 curve The diagram is an AS curve graph. The vertical axis is labeled 'Price Level' and the horizontal axis is labeled 'GDP'. Two upward-sloping curves are shown: AS1 and AS2. AS2 is shifted to the right of AS1. A horizontal line is drawn from the origin, passing through a point on AS1 labeled Y1 and a point on AS2 labeled Y2. Dashed vertical lines connect Y1 and Y2 to the horizontal axis. The text 'ibEconomist.com' is written on the horizontal axis between the origin and Y1. • The only way to increase output is to shift the AS curve to the right • This can be done by increasing productivity and supplying more goods and services with the same inputs • This means that the economy can now produce at OY2 and beyond without increasing the price level because increased productivity has moved the AS curve to the right, AS1 – AS2 • However, increases in productivity are not the only way of increasing output • The discovery of more resources such as oil and gas reserves will boost AS	(10)

	• Migration and increases in the working population can increase the supply of labour and increase production • Reform or removal of imperfections in the markets such as trade unions, professional bodies or excessive regulation can also improve supply	
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Level 4	8–10	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.

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Question Number	Indicative content	Mark
1 (c)	Knowledge/Understanding 2, Application 2, Analysis 4, Evaluation 4 • Productivity measures the amount of output for a given amount of input e.g. labour productivity measures the amount of output per worker • Advances in technology usually lead to more efficient production and greater productivity • Automation and computers have enabled workers to produce more output • In some cases, technology has replaced much labour, such as on a car production line • On a modern farm, food production and productivity have increased due to mechanisation, improvements in veterinary medicines, breeding and genetic modification • Complex supply chains and distribution networks are needed for the production and consumption of goods and services, these rely on ever more sophisticated computer systems • Modern trends in technology such as AI or 3D printing will undoubtedly contribute to increasing productivity in the UK economy • The government could encourage firms to increase R&D to improve technology • This could be by subsidies, grants and tax-breaks • However, it is not the only factor that is important • The quality of human capital is crucial and without suitable education and training the UK economy is unlikely to be able to improve and innovate new technology, or to take full advantage of it • Extract A shows that the UK has a relatively high proportion of low-skilled young labour • 28% of all 16 – 24-year olds in the UK have low numeracy and literacy skills. The OECD average is just 18% • Such a large proportion of low-skilled workers will slow future productivity • Policies to improve the skills of the existing labour force should be introduced such as apprenticeships and more vocational training • Management is crucial, the poor productivity of the UK has often been blamed on outdated and inefficient management practices	(12)

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Question Number	Indicative content	Mark
1(d)	Knowledge/understanding 4, Application 4, Analysis 6, Evaluation 6 • Demand side policies are designed to affect the level of aggregate demand (AD) within the economy • To stimulate economic growth an expansionary fiscal or monetary policy is needed • By using a fiscal policy of cutting taxation, consumers would have more disposable income • This is likely to lead to a rise in consumption which is one of the components of AD • Firms would respond by increasing output and so increasing economic growth • Government expenditure could also be increased which would create more jobs, more income and more demand • Monetary policy could also be used via the Bank of England • A reduction in interest rates to stimulate consumer borrowing and investment thus increasing AD and growth • Quantitative easing, where the central bank buys assets from the commercial banks to increase their liquidity could also be increased • However, inflation is still above target and any stimulation of AD might increase inflation and prevent the target rate of 2% being reached in 2020 • The labour market is described as tight, this means that suitable labour is hard to find, unemployment has fallen to 4% with just over 79% of the population in work • As firms try to expand output labour becomes scarce and wages may need to rise, this may push up costs and lead to inflation • Reducing interest rates may not be effective as although they have risen slightly to 0.75% in 2019, they are still historically at a very low level • QE also has its critics who worry about too much liquidity in the economy. • An increase in AD is likely to bring in more imports and worsen the current account deficit which reached 5.6% in 2019, the fifth highest on record. • It may be that using demand side policies is too risky given the present financial state of the UK economy • It may be better to increase the supply side of the economy as well, to minimise inflationary pressures • To a large extent, future growth in the UK economy is dependent on global trading conditions which is beyond the control of the government	(20)

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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 competing arguments are 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 questions. 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.

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Question Number		Mark
2(a)	Knowledge/understanding 2, Application 2, Analysis 2, Evaluation 2 • An oligopoly is a market dominated by several large firms with high barriers to entry • The fuel market is dominated by the big fuel companies, <i>BP</i>, <i>Shell</i> and <i>Esso</i> as well as the big supermarkets, <i>Tesco</i>, <i>Sainsbury's</i>, <i>Morrisons</i> and <i>Asda</i> • A concentration ratio measures the market share of the largest firms • A four firm concentration ratio for the fuel market is 56.5% • Entering the fuel market would be difficult given the infrastructure needed • There are also likely to be many smaller firms, Extract C shows many smaller firms • Non-price competition, such as product differentiation and branding, is likely to be present and price competition avoided • The UK fuel market is an oligopoly • However, it is not as strong an oligopoly as some, e.g. the UK grocery market has a four firm concentration ratio of 71% • Price competition seems to be key, probably because fuel is almost a homogenous product • Prices amongst supermarkets are very similar but lower than the other fuel retailers who also have similar prices • The UK fuel market does not show all the signs of an oligopoly	(8)

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Question Number	Indicative content	Mark
2(b)	Knowledge/Understanding 2, Application 2, Analysis 3, Evaluation 3 • The CMA was formed in 2014, its brief is to promote competition for the benefit of the consumer • The CMA aims to prevent restrictive practices and control mergers and takeovers • Restrictive practices disadvantage consumers and reduce allocative and technical efficiency • Extract D gives an example of this with the CMA preventing a takeover of <i>Farelogix</i> by <i>Sabre</i> • The CMA prevented a merger between <i>Sainsbury's</i> and <i>Asda</i> which they said was against the public interest • <i>Fender guitars</i> was fined by the CMA for restricting online discounting of its guitars • Mergers and takeovers reduce competition in the market and increase monopoly power • The CMA estimates that the direct financial benefit to consumers from its work is a return of more than £10 for every £1 of its running costs • However, the CMA is not the only body that helps to promote competition in the UK • The EU competition commission has a similar role on EU matters that also affects the UK • Extract G states that there are 90 regulators in the UK • Many are regulators for services that the UK consumer uses such as Ofcom, Ofel, the FCA and HSE • These also act to benefit the interests of the UK consumer.	(10)

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Question Number	Indicative content	Mark
2(c)	Knowledge/understanding 2, Application 2, Analysis 4, Evaluation 4 • Perfect competition is a theoretical model to show just how efficient a market can be and represents the ultimate in technical and allocative efficiency • Certain assumptions are made such as many buyers and sellers, homogenous products, perfect knowledge, freedom of entry and exit and perfect factor mobility • In reality it cannot be obtained but it serves as a useful model for looking at how markets and the market mechanism work • Clearly, the fuel and retail markets are different, yet each shows some characteristics of perfect competition • The individual petrol firms are competing with each other for market share • Petrol is basically homogenous and consumers will look for the cheapest price if possible • Shops are entering the market as new fashions and trends such as barbershops, vaping stores and beauty shops change consumer demands • Shops also exit the market such as banks, pubs and estate agents in response to changing demand • Resources that are no longer needed are re-allocated either from one retail outlet to another or from the physical retail environment to an online one • However, both these markets have considerable imperfections • There are huge barriers to entry in the fuel market and while it may be relatively easy to open a small vaping shop or nail bar it is much harder to create a new chain of shops or restaurants • Even with a homogenous product such as petrol, price differences exist and branding and advertising prevent consumers from always making rational decisions • Consumers do not have perfect knowledge although price comparison websites do help • Perfect competition by itself cannot tell us a great deal about the fuel and retail markets but it does enable us to see the degree of imperfections that exist and perhaps intervene to increase competition and efficiency	(12)

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2(d)	Knowledge/understanding 4, Application 4, Analysis 6, Evaluation 6 • If markets are not regulated it is very likely that the firms involved would act against consumer interests • This may be in the form of higher prices, reduced choice, poorer quality and possibly dangerous or unsafe goods and services • To prevent this the UK government intervenes in various ways to regulate otherwise free markets • There are over 90 regulatory bodies in the UK spending over £4bn per annum • There are two main kinds of regulators • The economic regulators include Ofcom, Ofgem and the CAA, they are responsible for promoting competitive forces in industries which would otherwise be natural monopolies due to high network or infrastructure costs. • Other regulators are responsible for competition in general, particularly the CMA. Other examples include the FCA, HSE and FSA • Regulation is needed to prevent market failure and disadvantages to consumers and firms • For example, small grocery suppliers have some protection against the monopsony power of the big supermarkets • For example, the HSE exists to prevent injury, death and ill-health to those at work • As markets change the need for more regulation occurs. The government plans to introduce more online regulation in Extract F is an example • Globalisation and the rise of global MNCs increases the need for cross border regulation and more far reaching regulatory measures • There are still many areas where consumers feel the need for more regulation, despite existing regulatory bodies, such as excessive train fares and energy prices • However, regulation is expensive, the cost of compliance for UK firms is around £100bn annually • More regulation means that firms need to spend more to implement and monitor their regulatory requirements	

	• This adds to costs and reduces profitability, prices may increase and exporting firms may lose competitiveness • 49% of businesses already see regulation as an obstacle to success • Some see more regulation as an interference and symptomatic of the 'nanny state' • Regulation can be ineffective and even misguided, government failure can add to market failure making it worse • For example, the blocked merger between <i>Sainsbury's</i> and <i>Asda</i> may have led to economies of scale for the new larger firm making it better able to compete with <i>Tesco</i>, thus benefitting consumers • Getting the balance right between too much and not enough regulation is difficult. • If regulation is increased, it needs to be justified and efficiently implemented and monitored, otherwise it may negatively affect economic growth	(20)
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