

Please check the examination details below before entering your candidate information

Candidate surname		Other names	
Pearson Edexcel		Centre Number	Candidate Number
Level 3 GCE			
Monday 8 June 2020			
Morning (Time: 2 hours)		Paper Reference 9EB0/03	
Economics B			
Advanced			
Paper 3: The economic environment and business			
You must have: Insert (enclosed)			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.*
- 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.

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Answer ALL questions.

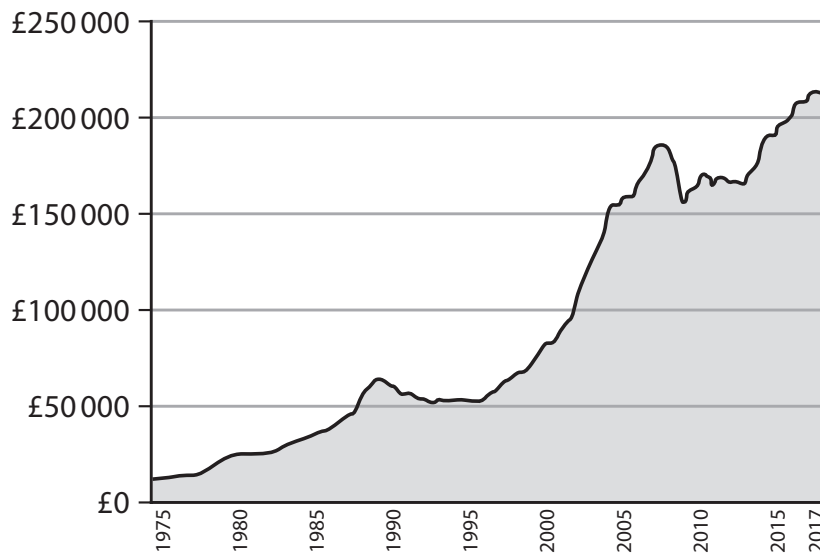
SECTION A

Read the following extracts (A to E) before answering Question 1.

Write your answers in the spaces provided.

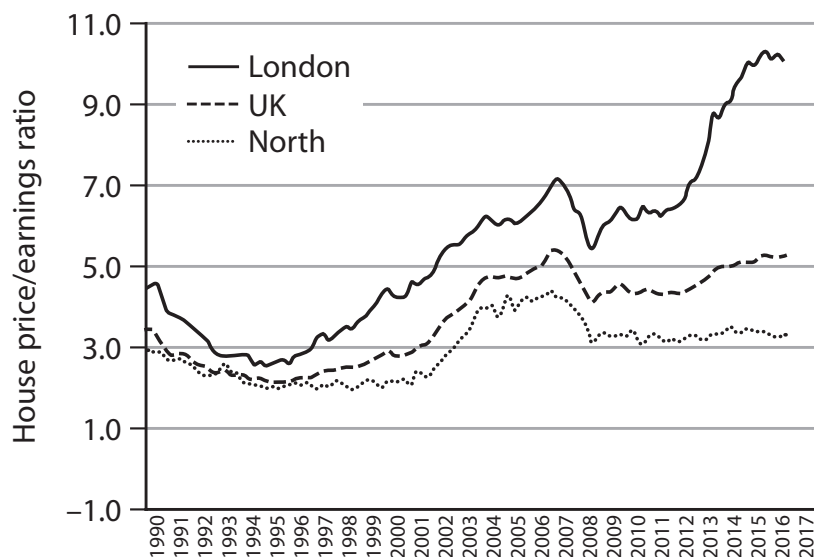
Extract A

UK average house prices



(Source: <https://www.economicshelp.org/blog/2197/housing/rising-house-prices/>)

UK house price to earnings ratio



(Source: adapted from <https://www.economicshelp.org/blog/2197/housing/rising-house-prices/>)

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Extract B**Skills shortages harming UK business, employers warn in 2018**

Britain's employers have warned that severe skills shortages are holding back the economy. The latest official figures showed the biggest fall in the number of workers from Eastern Europe since modern records began.

The British Chambers of Commerce (BCC) and the Federation of Small Businesses (FSB) urged the government to deliver a post-Brexit migration system to meet their needs amid signs that the fall in unemployment in recent years was putting upward pressure on wages.

5

Suren Thiru, head of economics at the BCC said: "There is clear evidence of a deep-rooted skills gap across the UK which is harming business growth."

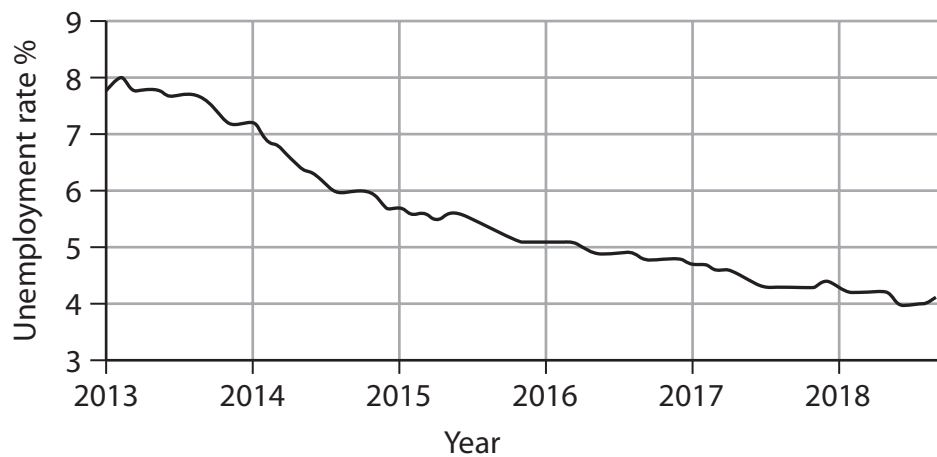
In its latest update on the state of the labour market, the Office for National Statistics revealed that during 2018, the number of workers in the UK from former Soviet bloc countries had fallen by 154,000 to 881,000.

10

The additional 132,000 fall in the number of workers from the EU as a whole was also unprecedented. Employment from the rest of the world grew by 34,000.

(Source: adapted from <https://www.theguardian.com/business/2018/nov/13/workers-eastern-europe-uk-eu-employment-pay-growth>)



Extract C**UK unemployment rate 2013–2018**

(Source: tradingeconomics.com
Office For National Statistics)

UK inflation rate 2013–2018

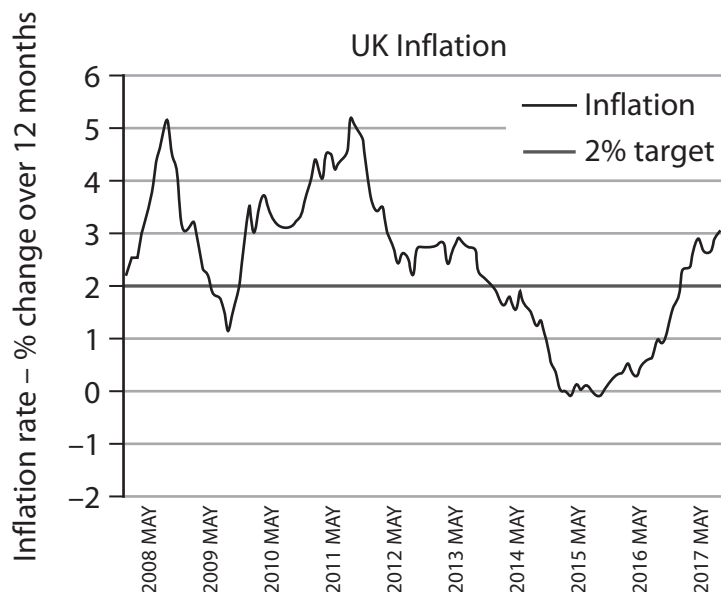
(Source: tradingeconomics.com
Office For National Statistics)

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Extract D(Source: www.economicshelp.org)

Office For National Statistics – D7G7 – 17 October 2017)

Extract E**Bank of England raises alarm over surge in high-risk lending**

The Bank of England has issued a stark warning over the rapid growth in high-risk lending to indebted companies around the world. It draws parallels with the US sub-prime mortgage market that triggered the 2008 financial crisis. The US market for such loans has more than doubled since 2010 to surpass \$1tn (£763bn). Though far from the scale of the US market, the total of high-risk loans to UK companies reached a record £38bn in 2017, while a further £30bn has been issued so far this year.

5

The rapid growth in high-risk lending comes as investors search for higher returns as a result of rock-bottom interest rates and billions of pounds of quantitative easing from central banks, used to stimulate their economies during the great recession that followed the 2008 financial crisis.

10

The Bank's financial policy committee (FPC) noted that lending standards were falling and that it would more closely monitor the risks to Britain.

Philip Hammond hands Bank of England new powers

The Bank of England will be allowed to provide more than £500bn in lending to the economy without seeking the Treasury's permission, in a move that reinforces the strength of the UK financial system.

15

Philip Hammond, the chancellor, said the changes would help to improve the resilience of the central bank. It would also help with its "ability to meet its monetary and financial policy objectives in the future", he said.

The move also gives the Bank of England greater autonomy in lowering interest rates to zero and providing more money to commercial banks during times of need, without requiring Treasury permission.

20

(Source: adapted from <https://www.theguardian.com/business/2018/oct/17/bank-of-england-high-risk-lending-leveraged-loans>

and <https://www.theguardian.com/business/2018/jun/21/philip-hammond-hands-bank-of-england-new-powers>)



- 1 (a) Discuss the extent to which the UK housing market can be described as a market bubble.

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(b) Assess the effectiveness of supply-side policies to ease skills shortages in the labour market.

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(c) Using Extract C, assess the extent of the trade-off between unemployment and inflation.

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(d) Evaluate the role of the central bank in reducing economic risk and uncertainty.

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(Total for Question 1 = 50 marks)

TOTAL FOR SECTION A = 50 MARKS



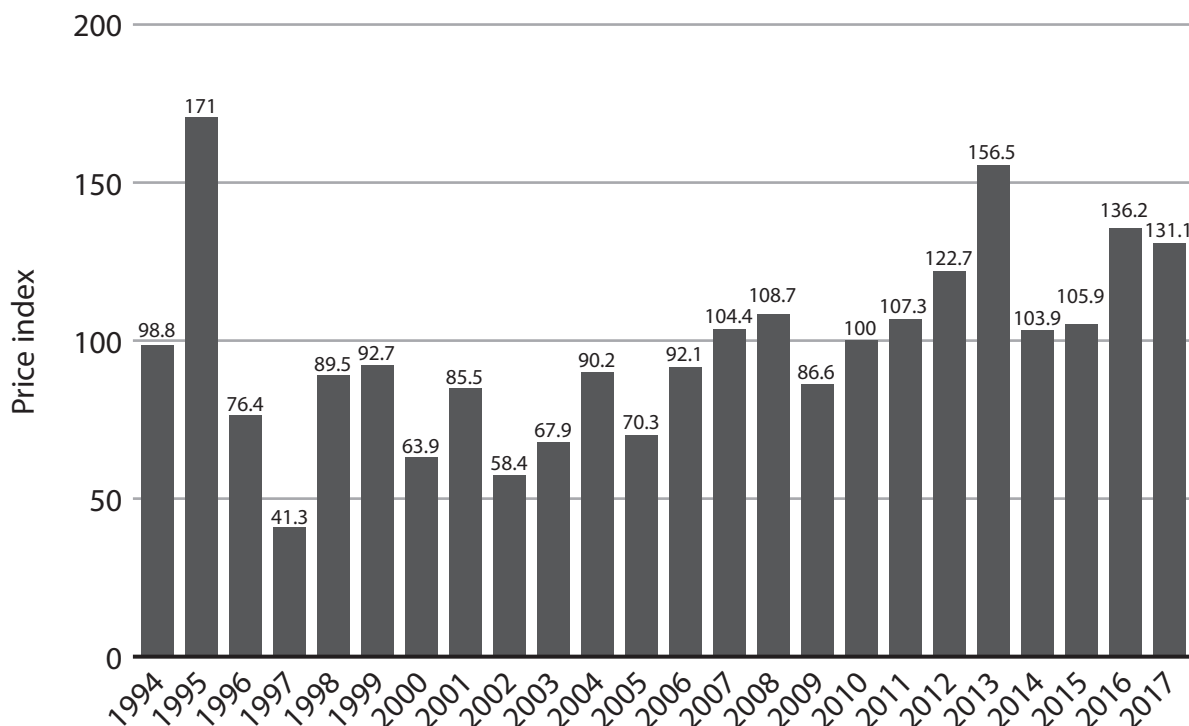
SECTION B

Read the following extracts (F to J) before answering Question 2.

Write your answers in the spaces provided.

Extract F

Average output price of potatoes in the United Kingdom (UK)



This statistic shows the average annual output price of potatoes in the United Kingdom from 1994 to 2017 in an index format (2010 = 100 index points).

(Source: adapted from <https://www.statista.com/statistics/314505/potatoes-price-index-of-in-the-united-kingdom-uk/>)

Extract G

Inside Walkers – the biggest crisp factory in the world

Walkers, a subsidiary of *Pepsico*, is the most popular crisp manufacturer in the United Kingdom. It makes different varieties of potato and maize-based snacks, selling about 60 million bags every week. *Walkers* produces over 120 different products with new products being developed regularly, such as the six new flavours launched in 2018 to celebrate its 70th anniversary.

5

The firm has six manufacturing sites around the UK, employing 4,000 people. The biggest plant is in Leicester, where 1,100 people work in two enormous factories and a huge, fully-automated warehouse where enough crisps are stored to sustain a small country.

(Source: adapted from <https://www.potatopro.com/news/2017/inside-walkers-biggest-crisp-factory-world>)



Extract H**Excerpt from the Agricultural Price Index (API) – September 2018**

Item	Yearly change from September 2017	Monthly change from August 2018
Crop products	+ 19%	+ 7.1%
Cereals	+ 24%	+ 4.5%
Potatoes	+ 36%	– 8.6%
Fresh fruit	+ 24%	+ 46%
Fresh vegetables	+ 26%	+ 5.2%
Forage plants	+ 19%	+ 1.8%
Animals and animal products	+ 0.6%	+ 0.3%

The Agricultural Price Index (API) is an index of the price of agricultural outputs and inputs for the UK used to show change over time.

(Source: adapted from https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/757515/api-statsnotice-20nov18.pdf)

Extract I**Competitiveness of food and drink manufacturers hindered by rising costs**

The Food and Drink Federation (FDF) recently published a survey, which reveals that more than three quarters of manufacturers expect input prices to continue to rise throughout 2018. Increased ingredient costs and exchange rate volatility remain a concern for food and drink businesses over 2018.

More than half of those polled had cited increased ingredient costs, increased packaging costs and increased energy costs as having the biggest impact on their businesses.

5

Despite this, respondents felt general business confidence had remained static during the first half of 2018. Looking to the second half of the year, many companies said they were still hoping to invest, with investment in new machinery and product launches.

(Source: adapted from <https://www.newfoodmagazine.com/news/72673/competitiveness-of-food-and-drink-manufacturers-hindered-by-rising-costs-says-fdf-survey/>)

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Extract J**Currency risk**

Prior to the Brexit referendum in 2016, sterling was trading at €1.30. In the first half of 2018, the average rate has been about £1 to €1.12, close to post-2008 crisis lows.

Weak sterling is a major concern for Irish companies exporting their goods and services to the UK, including Northern Ireland. The total value of Irish goods destined for the UK in 2017 was €14bn (or 11.5% of total exports). The UK remains Ireland's single largest trading partner for the agrifood sector, which exported €5.2bn worth of goods to Britain last year. That leaves the sector highly exposed to currency risk. 5

Sterling's depreciation has devastated the Irish mushroom industry, forcing many producers out of business. The casualties include *McDonald Mushrooms* in Tipperary, which reportedly lost an average of €11 000 a week from adverse currency movements. 10

In contrast, Irish importers have been enjoying a "Brexit boom" – evidenced in the construction and automotive industries – as spending on "bargain" imports from Britain has soared since 2017.

In response to sterling's weakness, Irish producer *Codd Mushrooms Ltd* plans to expand operations into the UK to take advantage of lower production costs. Similarly, *Kepak Group*, one of Ireland's largest meat processors, has acquired four production sites in Britain. These operational moves offset sterling costs and revenues thus mitigating currency exposure. 15

(Source: adapted from <https://www.irishtimes.com/business/work/hedging-your-bets-how-smes-can-manage-currency-risk-1.3635929>)



2 *Walkers* buys 350,000 tons of potatoes each year.

(a) Discuss the benefits to *Walkers* of using forward markets to buy potatoes.

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In 2017 the potato price index rose by 36%.

- (b) Using an appropriate diagram, assess the possible impact of this on the potato market in 2018.

(10)



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(c) Assess the extent to which rising input costs are a problem for food and drink firms.

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(d) Evaluate the implications of exchange rate volatility for firms.

(20)



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(Total for Question 2 = 50 marks)

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



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