



Mark Scheme (Results)

October 2020

Pearson Edexcel GCE
In Economics B (9EB0)
Paper 1: Markets and how they work

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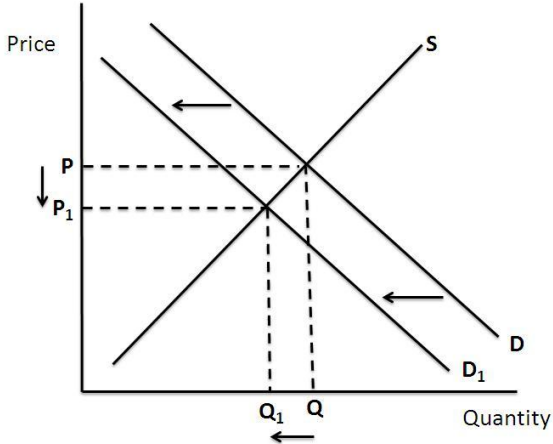
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General Marking Guidance

- 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 1, Application 3 Knowledge/Understanding: 1 mark for any suitable formula: Percentage decrease: Change in price/original price x 100 (1) Application: up to 3 marks for calculations \$3.89 - \$1.95 = \$1.94 (1) / \$3.89 (1) x 100 = 49.87% (1) NB if no working is shown award marks as below: If the answer given is 49.87% award 4 marks If the answer given is 49.87 award 3 marks If the answer given is 49.9% award 3 marks If the answer given is 49.9 award 2 marks	(4)

Question Number	Indicative content	Mark
1(b)	Knowledge/Understanding 1, Application 3 Knowledge/Understanding: 1 mark for formula: Marginal revenue = $\frac{\text{Change in total revenue}}{\text{Change in quantity}}$ (1) Application: up to 3 marks for calculations: £298 000 x 7 = £2 086 000 (1) £300 000 x 6 = £1 800 000 (1) £286 000 / 1 = £286 000 (1) NB if no working is shown award marks as below: If the answer given is £286 000 award 4 marks If the answer given is 286 000 award 3 marks	(4)

Question Number	Indicative content	Mark
1 (c)	Knowledge/Understanding², Application 1, Analysis 1  Knowledge/Understanding: up to 2 marks for: constructing supply and demand curves correctly and for labelling the axes with price and quantity (1) correctly showing original equilibrium price and quantity P and Q (1). Application: 1 mark for correctly interpreting the shift in the demand curve to the left (1) Analysis: 1 mark is available for showing new equilibrium and consequences on the quantity and price axes P_1 and Q_1. (1)	(4)

Question Number	Indicative content	Mark
1(d)	Knowledge/Understanding 2, Application 2, Analysis 2 Knowledge/Understanding: up to 2 marks for identifying the ways, e.g. Identify changes in trends in the market (1) Monitor prices of competitors (1). Application: up to 2 marks for contextualising the response, e.g. Data from the internet can be collected such as the number of people flying to different destinations (1) Prices of low-cost competitors such as <i>Ryanair</i> can be easily accessed online (1). Analysis: up to 2 marks for explaining consequence, e.g. Enables the airline to respond to changes in demand quickly for existing and new destinations resulting in higher sales (1) Being able to offer lower prices than competitors may help an airline to become more price competitive resulting in higher sales (1).	(6)

Question Number	Indicative content	Mark
1(e)	Knowledge/Understanding 2, Application 2, Analysis 2, Evaluation 2 • The objective of survival for a business is to remain viable and operational • <i>BA</i> is responding to the threat of competition from <i>EasyJet</i> and <i>Ryanair</i> by reducing its costs • <i>BA</i> is scrapping free meals and reducing legroom in its aircrafts • <i>BA</i> is planning to launch no frills fares on its long-haul flights • This suggests that <i>BA</i> feels threatened by competitors and is concerned about future survival and is implementing a strategy to prevent this happening • <i>BA</i> may pursue this objective, at the expense of profit maximisation, as it wants to survive against budget airlines such as <i>EasyJet</i> and <i>Ryanair</i> • There is evidence that survival is important as <i>BA</i> has lowered its prices to compete for customers and may even engage in predatory pricing to eliminate rivals • However, the extract says that the business is performing well financially • There is evidence of high profits and profit margins, which suggests profit maximisation may still be a priority for <i>BA</i> • Sales revenue increased by 7.3% and profit for the year increased to £1.4bn • This would indicate that <i>BA</i> is just being competitive rather than struggling to survive	(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:

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Question Number	Indicative content	Mark
1(f)	Knowledge/Understanding 2, Application 2, Analysis 3, Evaluation 3 • An indirect tax is a tax levied on goods and services rather than on income or profits • APD has been eliminated for all passengers under the age of 16 years old, which is a saving for families • The elimination of tax for younger people may encourage families to fly more frequently. This increase in demand may create spending in the economy and demand for goods and services in the airports • More demand for goods and services provided by the airlines may lead to the creation of more jobs and an increase in aggregate demand • However, the limiting factor is that the elimination of tax applies to under 16's only and therefore the impact may be minimal • The aviation vision is to connect UK firms to increase trading opportunities overseas, which will not be impacted by the reduction in ADP • The reduction in tax may be regarded as unethical as the purpose of the tax is to reduce environmental damage • The tax may be a small percentage of the cost of a family flight and not enough of an incentive to encourage more families to use the airlines	(10)

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	3-4	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	5-7	Accurate knowledge and understanding, supported by use of relevant evidence to support the argument, clear chains of reasoning, well developed with arguments. An awareness of the significance of competing arguments is present although this may lack balance.
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(g)	Knowledge/Understanding 2, Application 2, Analysis 4, Evaluation 4 - Fuel is a major input cost for airlines along with other costs such as staff expenses and airport costs - Between 2008 and 2018 the price fluctuated regularly with a peak of \$4 in 2008 and a low of under \$1 in 2016. Since 2016 there has been a steady rise in price - Increases in fuel prices may impact the profitability of the airlines particularly the budget airlines, which may be operating at low margins. This may force some airlines out of the industry. Others may decrease supply - The airlines may be forced to increase prices for flights, which may lead to lower demand and lower capacity utilisation. This could lead to unemployment in the industry - The industry may be forced to cut costs elsewhere, which may reduce the quality of the service provided to consumers - The fluctuating prices may cause uncertainty in the industry and may discourage new entrants - However, whilst prices have risen steadily from 2016 to 2018 they are still significantly lower than in some previous years and airline companies may be experiencing reasonable profit margins - Increases in fuel prices impact all airlines and they may be encouraged to seek other ways to compete. The airline companies may resort to competing on non-price factors to increase market share - The airline industry is growing with the number of passengers expected to rise. Demand may not be impacted significantly if airlines are forced to increase prices due to rising fuel costs - Fluctuations in fuel prices may be minimised by the use of forward markets when buying fuel	(12)

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	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, well developed with 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.

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Question Number	Indicative content	Mark
1(h)	Knowledge/Understanding 2, Application 2, Analysis 4, Evaluation 4 • A cartel is a group of firms whose goal is to increase their collective profits by means of price fixing, limiting supply, or other restrictive practices • <i>BA</i>, along with other airlines, has been fined for fixing prices on fuel and security charges on flights within Europe • The cost of the fine, €104m, will impact the profitability of the company and may reduce dividends to investors and /or impact future investment plans • <i>BA</i> has already faced lots of criticism for the changes to its service. This bad publicity may further discourage customers from booking flights with them • The fine may lead to an increase in flight prices, which conflicts with <i>British Airway's</i> current strategy of reducing fares to compete with budget airlines such as <i>Easyjet</i> • However, £90m is a small percentage of its net profits of £1.4bn so the impact may be insignificant and have little effect on <i>BA's</i> operations • It may be that the benefits gained from the fixing of fuel and security charges by <i>BA</i> outweigh the fine charged by the European Commission • The public may be unaware of the scandal and customer loyalty and sales may be unaffected	(12)

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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, well developed with 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.

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Question Number	Indicative content	Mark
2	Knowledge/Understanding 4, Application 4, Analysis 6, Evaluation 6 • Externalities are third-party effects arising from the production and consumption of goods and services • Positive externality is a benefit that is enjoyed by a third-party because of an economic transaction. A negative externality is a cost that is suffered by a third-party • HS2 will transport almost 300 000 passengers a day, which may have a positive impact on firms involved in tourism. This will create jobs and spending in the tertiary sector of the economy • The connectivity should enable better access to new markets, which should benefit businesses in the North to grow and become more globally attractive. This may increase demand for these firms, adding to aggregate demand/increasing GDP • There should be fewer vehicles on the road and less congestion, which may improve productivity and reduce transportation time/costs for firms leading to improved global competitiveness • In Leeds and other towns hotels and offices are being built in anticipation of HS2. This will create jobs in the construction industry/other industries and reduce unemployment in the UK • However, some critics argue that the northern firms will not be positively affected due to the dominance of London and perhaps the north-south divide will not be bridged • A negative externality may be the environmental impact caused by the 345 miles of new high-speed track from London to the Midlands and the North of England • On some train journeys the amount of time saved (Nottingham reduced from 100 mins to 70 mins) may not be significant enough to positively impact some of the towns in the Midlands and the North of England • In conclusion, there is likely to be a wide range of positive impacts on third parties, which may create employment and spending in the economy. The extent of the impact depends on the efficiency/reliability of the service and whether the northern towns benefit to the same extent as London	(20)

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	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 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 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.

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Question Number	Indicative content	Mark
3	Knowledge/Understanding 4, Application 4, Analysis 6, Evaluation 6 • Market power is the ability of a firm to influence or control the terms and condition on which goods are bought and sold • Stakeholders are individuals/groups who are impacted by a firm • <i>Amazon</i> is the leading online retailer and may have the power to dictate prices for products such as books, which may lead to higher/lower prices for consumers • Suppliers may be exploited due to the buying power of <i>Amazon</i>. This may lead to lower profit margins reducing their opportunities to expand • Other firms, such as <i>Whole Foods</i> and <i>Zappos</i>, taken over by <i>Amazon</i> in its objective to grow may suffer from job losses and redundancies • Competitors of <i>Amazon</i> may struggle to compete and grow in the online industry where <i>Amazon</i> is dominant and sells a wide range of products • If competitors are forced to exit the market consumer choice will be reduced • However, <i>Amazon's</i> size will bring benefits of economies of scale, which may lead to lower prices for consumers • Suppliers to <i>Amazon</i> may enjoy high levels of revenue and profitability due to the vast amount of goods sold by <i>Amazon</i> • The firms acquired by <i>Amazon</i> may benefit from extra funding/expertise from <i>Amazon</i> to help the company grow and secure jobs in the company • Other non-e-commerce retailers may not be impacted significantly by <i>Amazon</i> as the online retail market currently only represents around 12% of the total global market • Employees at <i>Amazon</i> may benefit from the dominance of <i>Amazon</i> in the online retail market and benefit from job security, pay rises or promotions • In conclusion, although <i>Amazon</i> is not in the strictest sense a monopoly its dominance in the online retail market means it can to some extent influence the market. If it continues to grow at the current rate this dominance and market power are likely to increase	(20)

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