Write your name here

Surname	Other names

Pearson Edexcel Level 3 GCE

Centre Number

Candidate Number

Economics B

Advanced

Paper 1: Markets and how they work

Tuesday 6 June 2017 – Afternoon
Time: 2 hours

Paper Reference
9EB0/01

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.*
- 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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Pearson

Answer ALL questions.

SECTION A

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

Write your answers in the spaces provided.

Extract A

Bright future for coffee shops

In 2014 the branded coffee chain segment recorded £2.9bn turnover from 5,781 outlets, with impressive sales growth of 11.9%. The number of branded coffee shops grew by 4.9%, with 271 stores added during the year.

Costa Coffee, Starbucks Coffee Company and *Caffè Nero* remain the UK's leading brands by outlet numbers. Market leader, *Costa,* added 151 UK outlets in 2014 and increased revenue from £807m in 2013 to £951m in 2014. Operating profits increased by 20% in 2014 from a figure of £110m in 2013.

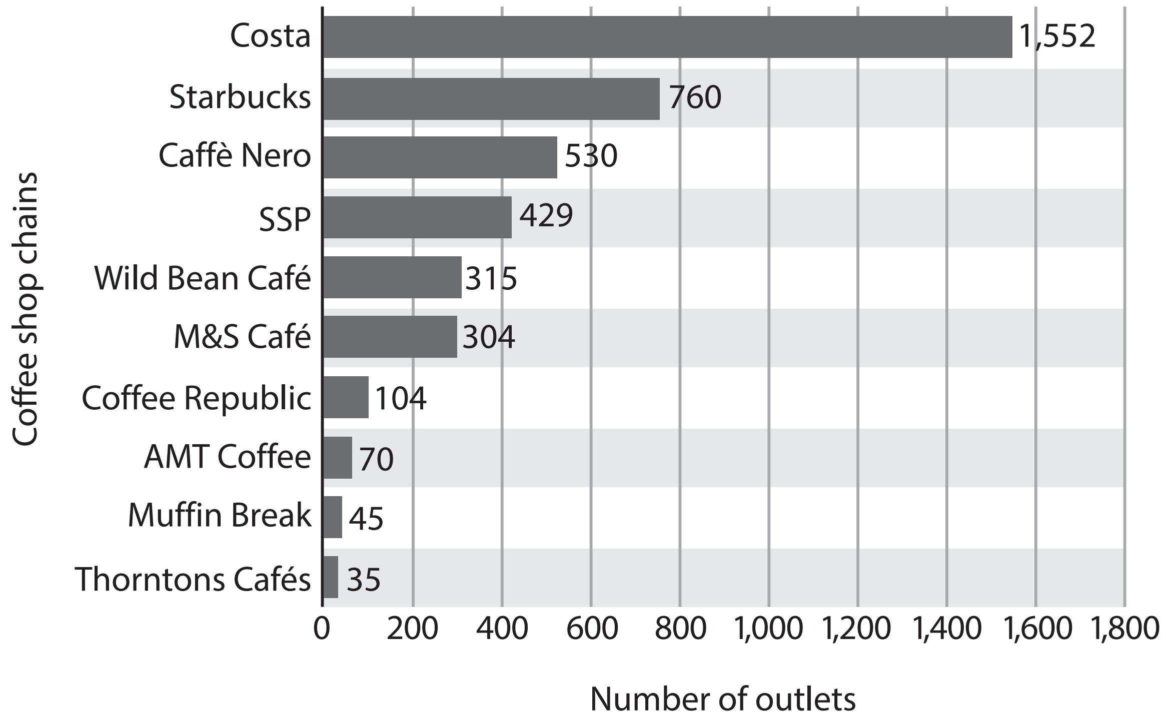
Increasing competition provides consumers with more choice of quality coffee at home, at work and a wider variety from the non-specialist sector, such as public houses, fast food operators, supermarkets, garden centres and bookshops. Consumer choice is driven by more criteria than ever before, including: habit, coffee shop brand, loyalty scheme and brand of coffee offered. Coffee shops increasingly play an important role, contributing to the social vibrancy of a community as well as being a large contributor to UK employment and the economy.

Independent coffee shops are becoming far more wide spread and successful than ever before. Some of these independents are now expanding, following the success of leading small chains such as *Taylor St Baristas* and *Timberyard*.

(Sources: adapted from Coffee shops key to growth in market spend, Kathy Bowry at Catering Insight © Promedia Publishing Ltd; Allegra announces 2014 European Coffee Award winners in Istanbul © lunchbusiness.co.uk; and whitbread.co.uk)

Extract B

Leading 10 coffee shop chains ranked by number of outlets in the UK in 2014



(Source: adapted from http://www.statista.com/statistics/297863/leading-coffee-shop-chains-in-the-united-kingdom-uk-store-number/)

Extract C

Tea, Coffee, Work and Play. Reimagined

Timberyard is a dynamic, independent creative workspace fused with speciality tea and coffee. A challenge to the traditional coffee shop, we are a new and exciting environment that aims to provide products and services that are conducive to the evolving needs of life in London.

We encourage creative people to come together for a variety of reasons and provide a place in which they are comfortable to stay as long as they like. With our range of food and drink from high quality local producers changing daily, it's easy to keep yourself fuelled all day long.

At the 2014 European Coffee Awards, *Timberyard* was announced as 'Best Independent Coffee Shop in Europe'.

***Timberyard* Soho**

Timberyard Soho provides a new creative hub in the heart of London. In an area known for colourful ingenuity and innovation, this new space welcomes our familiar speciality tea and coffee coupled with vibrant workspace. The members' floor offers a beautiful central brew bar plus 104 seats in 2,000 square feet of open plan workspace.

(Source: adapted from https://tyuk.com/)

Extract D

Wholesale Coffee prices, US cents per pound of coffee, October 2014 to September 2015

Month	Price	Change
Oct 2014	109.39	–
Nov 2014	106.81	–2.36%
Dec 2014	103.51	–3.09%
Jan 2015	102.33	–1.14%
Feb 2015	103.74	1.38%
Mar 2015	98.07	–5.47%
Apr 2015	98.73	0.67%
May 2015	94.35	–4.44%
Jun 2015	96.89	2.69%
July 2015	92.71	–4.31%
Aug 2015	91.94	–0.83%
Sep 2015	87.98	–4.31%

(Source: adapted from http://www.indexmundi.com/commodities)

1 (a) Using Extract A, calculate to 2 decimal places the operating profit margin for *Costa* for 2014. You are advised to show your working.

(4)

(b) Using Extract D, calculate to 2 decimal places the percentage change in the coffee price from October 2014 to September 2015. You are advised to show your working.

(4)

(c) Using a supply and demand diagram, illustrate the impact on the coffee shop market of the change in taste and fashion. (Extracts A and C)

(4)

(d) *Costa Coffee*, *Starbucks Coffee Company* and *Caffè Nero* are the UK's leading coffee shop chains. (Extract B)

Analyse **one** possible impact of the market structure on the pricing strategy of these firms.

(6)

(e) Discuss whether market share is the most important business objective to a coffee shop chain, such as *Timberyard*.

(8)

(f) Extract D shows a fall in the wholesale price of coffee during 2015.

Assess the impact this might have on prices charged in coffee shops.

(10)

(g) Assess the importance of non-price competition in the UK coffee market.

(12)

(h) Assess whether the UK coffee shop market could be considered contestable.

(12)

(Total for Question 1 = 60 marks)

TOTAL FOR SECTION A = 60 MARKS

SECTION B

Read the following extract (E) and Figures 1 and 2 before answering Question 2.

Write your answer in the space provided.

Extract E

Trends and Fluctuations in fuel prices

Fluctuations in fuel prices are a common occurrence. For the most part an upward change in the price of petrol, diesel and other fuels is caused by a variety of factors, such as market forces, global events and new technology.

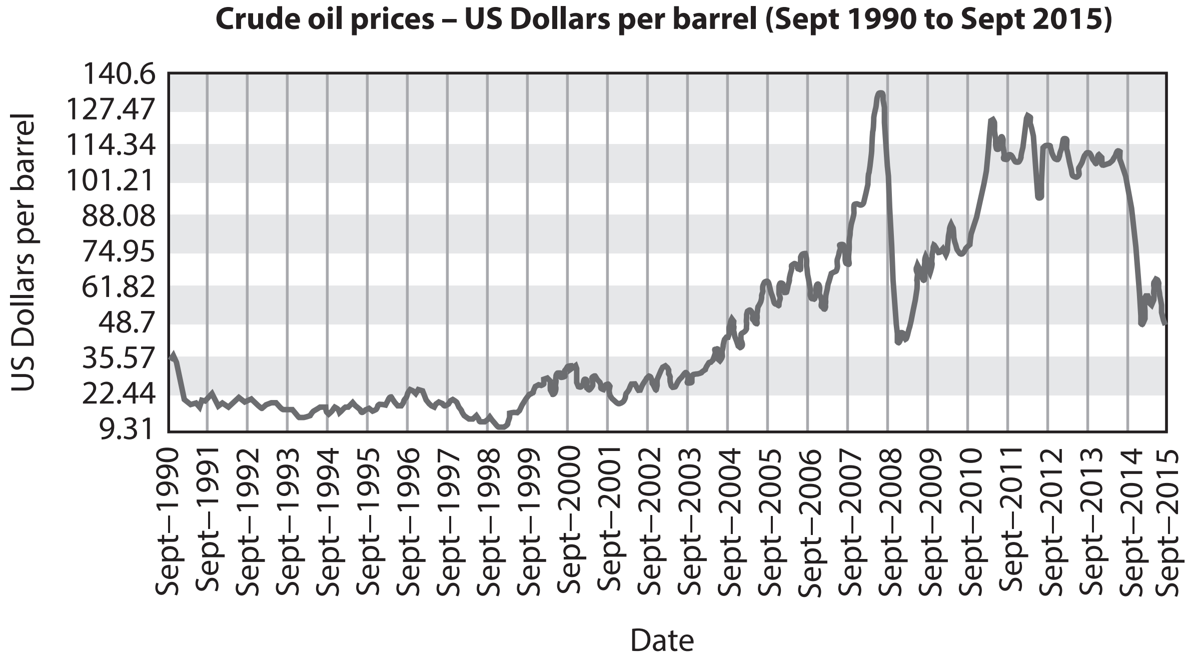
Changes in the oil industry have significant effects all around the world. Crude oil, which is refined to form different fuels and many other products, including plastics, fertilisers and man-made fabrics, is the world's most actively traded commodity.

The UK Fuel Industry

The UK's fuel industry is home to some of the world's biggest fuel companies such as *BP* and *Shell* whose products and services are used around the globe. As such the importation and refining of crude oil and its production into petroleum and other petrochemicals are a major part of the fuel industry in the UK.

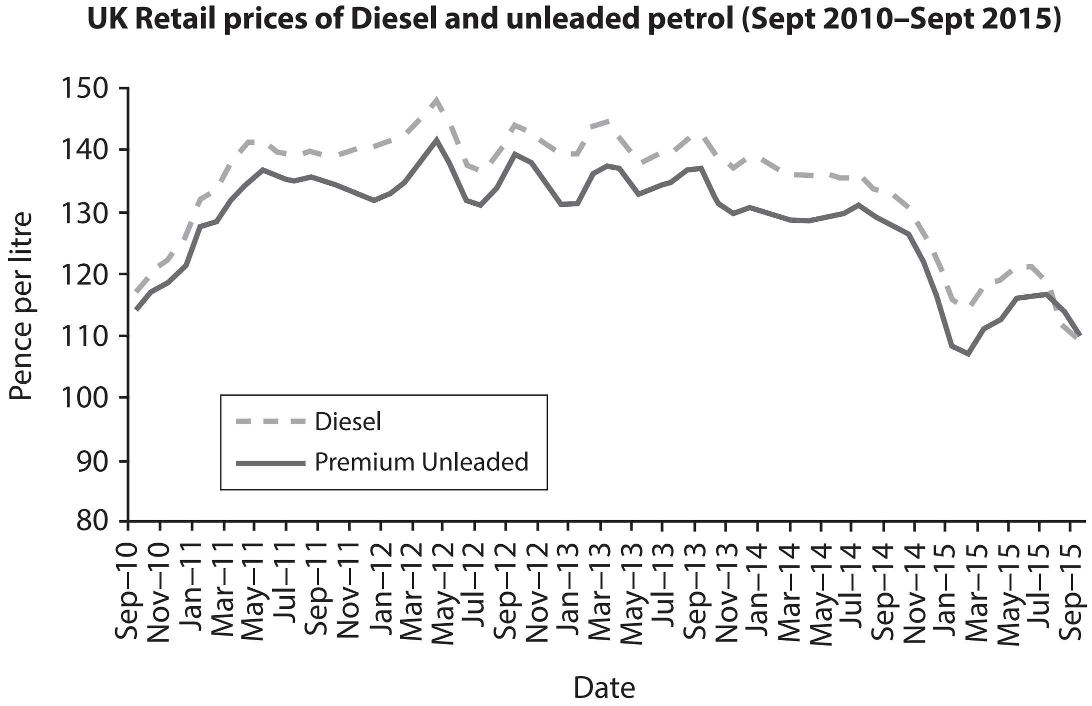
Hydraulic fracturing or fracking has made America increasingly energy independent and has broken its reliance on the volatile Middle East. Experts have warned that a rush to start fracking for oil across Britain may already be over before it has even begun. The slump in global crude oil prices makes this controversial method look increasingly uneconomic.

(Source: adapted from UK fracking faces bust amid Opec oil price war, Andrew Critchlow © Telegraph Media Group Limited)



(Source: adapted from © Crown copyright)

Figure 1



(Source: adapted from © Crown copyright)

Figure 2

2 Using Extract E, evaluate the likely impact of falling crude oil prices on the UK economy.

(20)

(Total for Question 2 = 20 marks)

TOTAL FOR SECTION B = 20 MARKS

SECTION C

Read the following extracts (F and G) before answering Question 3.

Write your answer in the space provided.

Extract F

Banking Regulations and fines

The Financial Conduct Authority (FCA) fined the *Royal Bank of Scotland plc, National Westminster Bank plc* and *Ulster Bank Ltd* £42m for IT failures which meant that their customers could not access banking services.

The IT failure affected over 6.5 million customers in the UK for several weeks. Over the course of that period customers could not use online banking facilities to access their accounts or obtain accurate account balances from ATMs; customers were unable to make mortgage payments; customers were left without cash in foreign countries. The three banks applied incorrect credit and debit interest to customers' accounts and produced inaccurate bank statements. Some organisations were unable to meet their payroll commitments or finalise their audited accounts.

The FCA has also published new remuneration rules aimed at further aligning risk and reward in the banking sector. The rules, on pay and bonus payments for banking staff, are intended to discourage irresponsible risk-taking and short-termism, and to encourage more effective risk management.

(Sources: adapted from FCA fines RBS, NatWest and Ulster Bank Ltd £42 million for IT failures © FCA and FCA and PRA publish new remuneration rules © 2015 Compliancy Services Ltd)

Extract G

Too big to fail

If the financial crisis (2008) had a catchphrase, it was "too big to fail".

September 2008 saw the collapse of *Lehman Brothers*, the original "too big to fail" event that highlighted to the world exactly what the failure of a major financial institution would entail. Since *Lehman's* bankruptcy, reforms have been put in place aimed at making big banks safer.

The financial crisis had an unprecedented impact on the financial system. A number of firms that were considered "too big to fail" were bailed out by the state. This resulted in a perception that such firms in effect benefit from a state guarantee.

At EU level, new rules allow governments and regulators in Europe to intervene when financial institutions have not prepared appropriately for potential failure. The initiative aims to minimise the need for tax payer bailouts when financial institutions face difficulties.

(Sources: adapted from Banks will carry on being 'too big to fail' © The Telegraph 2014)

3 Evaluate the likely impact on the UK of increased regulation of the UK banking industry.

(20)

(Total for Question 3 = 20 marks)

TOTAL FOR SECTION C = 20 MARKS
TOTAL FOR PAPER = 100 MARKS