Please check the examination details below before entering your candidate information

Candidate surname	Other names

Pearson Edexcel Level 3 GCE

Centre Number | Candidate Number

Monday 20 May 2019

Morning (Time: 2 hours) | Paper Reference **9EB0/01**

Economics B

Advanced

Paper 1: Markets and how they work

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 C) before answering Question 1.

Write your answers in the spaces provided.

Extract A

The growth of sportswear sales

According to research, the global market for sportswear is forecast to reach $231bn by 2024. Growth in the market is driven by healthier lifestyles and technological developments designed to improve comfort and performance of sportswear. Sports clothing and footwear is a highly popular style statement and fashion trend.

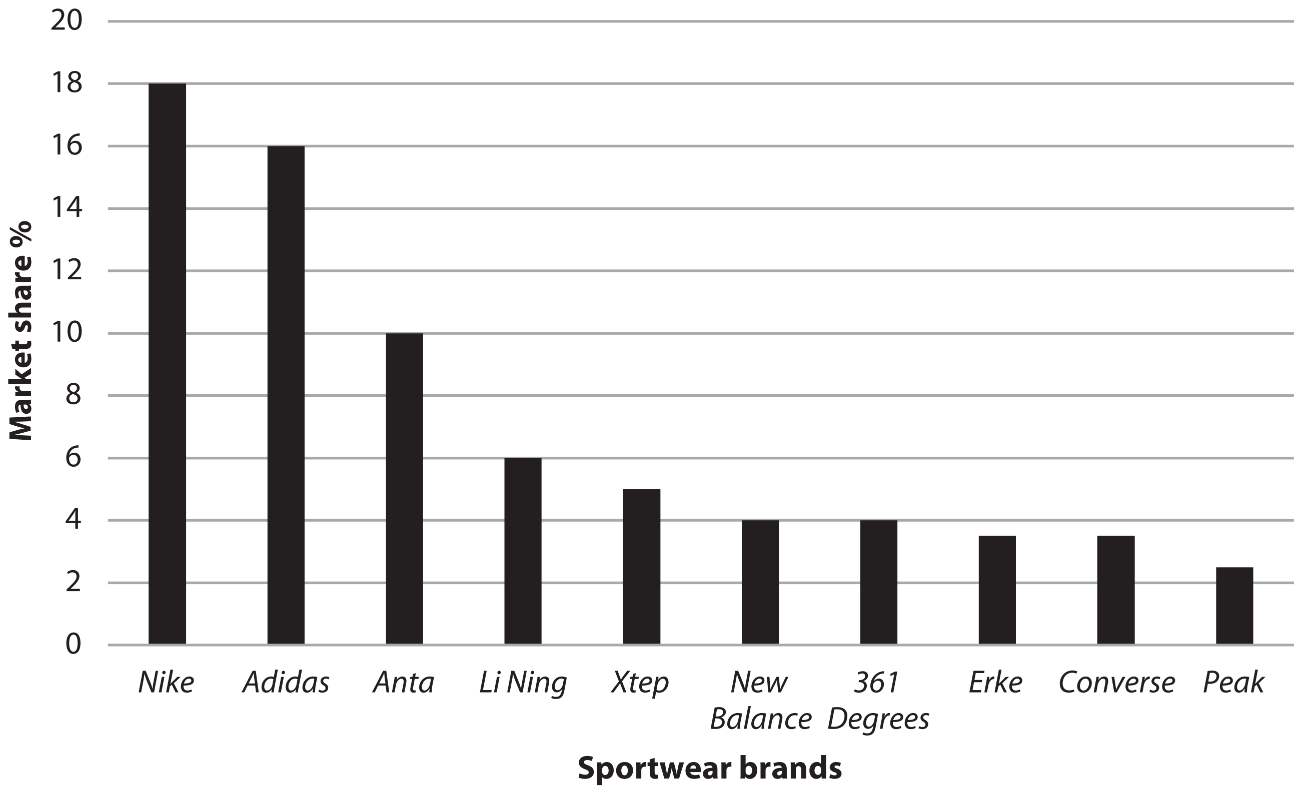
Nike remains the global market leader and is amongst the top 20 most valuable global brands. In 2016, *Nike*'s sales revenue was $32.4bn (an increase of 6% from 2015) and in the same period, net profit increased by 15% to $3.8bn. Whilst *Nike* still has the largest market share it is losing ground to *Adidas, New Balance* and *Under Armour*.

China is expected to be the fastest growing region for sales of sportswear and is attracting new entrants to the market. Total sales in China rose in 2016 to $27bn.

Chinese brand *Anta* sponsored the 2016 Chinese Olympic team and achieved 10% market share with a total revenue of $2.7bn. The operating profit margin was 24%.

Extract B

Market share (%) of sportswear brands in China, 2016



Extract C

New Balance

New Balance was founded in 1906 in Boston, US and today manufactures shoes and sports clothes in America, Europe and Asia. *New Balance* differentiates its products with technical innovations such as gel inserts in its sports shoes, and is one of the few manufacturers to offer the shoes in a wide range of widths and sizes.

The *New Balance* premium range of sports shoes is manufactured in the US and UK. This represents a proud tradition of craftsmanship and domestic manufacture using skilled workers and superior raw materials. It is currently the only major sports company to manufacture athletic footwear in the US, where it produces around 4 million pairs per year, which represents a quarter of its sales.

New Balance has expanded its UK operations over the last 30 years and now employs over 200 people in its factory in Cumbria. It produces over 13,000 pairs of premium priced shoes a week for domestic and overseas markets.

New Balance is most well known for its running shoes but now manufactures shoes and sportswear for a wide range of sports including tennis, golf, football, cricket and skateboarding.

1 (a) Using Extract A, calculate, to 2 decimal places, *Nike*'s profit for the year margin for 2016. You are advised to show your working.

(4)

New Balance operates in a competitive market.

(b) Explain **one** reason why a business such as *New Balance* differentiates its products.

(4)

(c) Using Extract A, calculate, to 2 decimal places, *Anta*'s total costs in 2016. You are advised to show your working.

(4)

Pictures of the singer Rihanna wearing *New Balance*'s white leather training shoes appeared in newspapers. This style of shoe temporarily sold out. However people were still trying to buy them in stores and online, leading to excess demand.

(d) Using a supply and demand diagram to show excess demand, analyse how this may affect the future price of these shoes.

(6)

(e) Discuss the extent to which sales maximisation is the main objective for a business such as *New Balance*.

(8)

Interest rates in the UK were stable between 2007 and 2017.

(f) Assess the possible impact of an increase in interest rates on *New Balance*'s UK operations.

(10)

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(g) Assess the importance of economies of scale to the success of firms such as *Nike*.

(12)

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New Balance has chosen to manufacture its premium shoes in the US and UK rather than in cheaper locations.

(h) Assess the extent to which this may cause stakeholder conflict.

(12)

(Total for Question 1 = 60 marks)

TOTAL FOR SECTION A = 60 MARKS

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SECTION B

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

Write your answer in the space provided.

Extract D

Office of Gas and Electricity Markets (Ofgem)

The principal objective of Ofgem is to protect the interests of electricity and gas consumers by promoting value for money to consumers. Ofgem regulates the energy industry and is funded by the firms it regulates, who pay an annual licence fee.

In 2016 Ofgem investigated Scottish Power and concluded it had failed to treat its customers fairly. Customer service was found to be inadequate. Scottish Power agreed to pay £18m to its vulnerable customers who were affected by customer service issues.

Competition and Markets Authority (CMA)

Ofgem referred the energy sector to the CMA, after concluding customers were failing to switch to cheaper alternative suppliers and were paying too much.

The CMA investigated why the 'Big-Six' energy suppliers – *British Gas, SSE, ScottishPower, E.ON, EDF* and *npower* – continued to dominate the supply market, more than 14 years after privatisation of the energy market. The CMA investigated whether suppliers were exploiting loyal customers and tacitly colluding over energy price rises.

The CMA concluded its investigation in 2016 and measures were recommended to drive down costs by increasing competition between suppliers and helping more customers switch to better deals.

Extract E

Market share of gas and electricity supply (UK), 2016

Gas

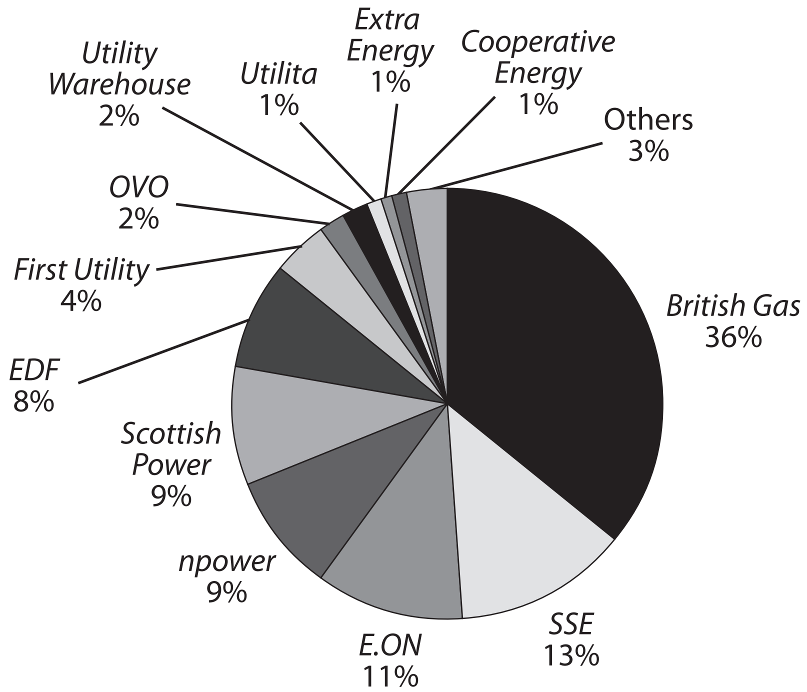


Figure 1

Electricity

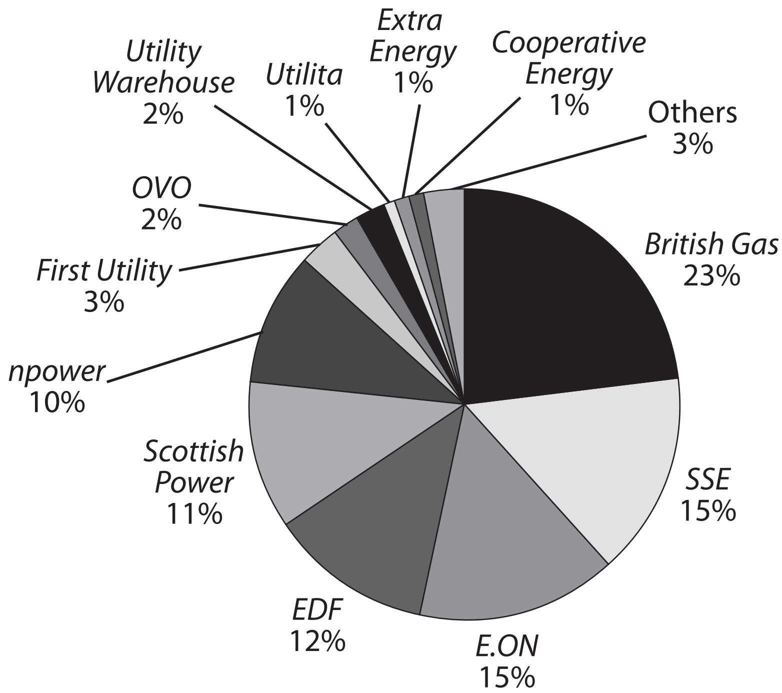
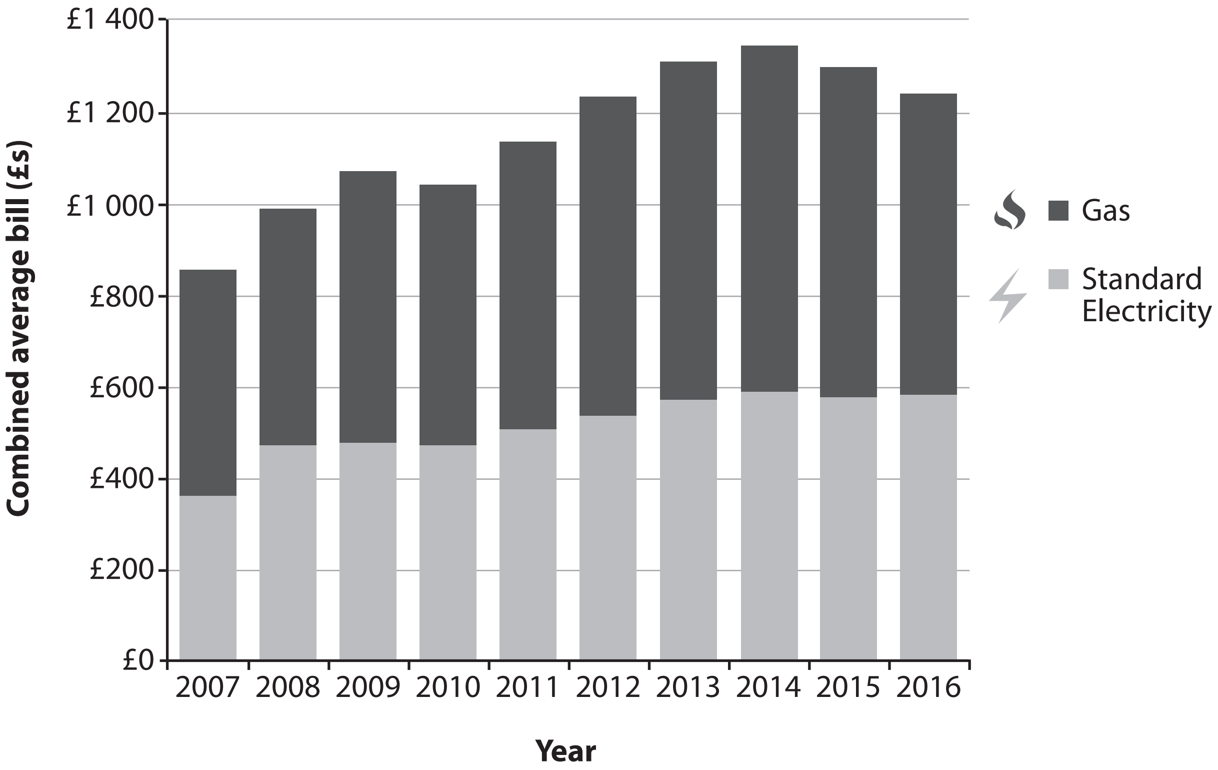


Figure 2

(Sources: Crown Copyright - https://www.ofgem.gov.uk/data-portal/gas-supply-market-shares-company-domestic-gb and https://www.ofgem.gov.uk/system/files/docs/2016/08/retail_energy_markets_in_2016.pdf)

Extract F

Average household electricity and gas bills (annual cost)



(Source: © Crown Copyright)

2 Evaluate the extent to which regulation of the energy market may benefit consumers.

(20)

(Total for Question 2 = 20 marks)

TOTAL FOR SECTION B = 20 MARKS

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SECTION C

Read the following extracts (G to I) before answering Question 3.

Write your answer in the space provided.

Extract G

The cost of going to university

University tuition fees of £1 000 were first introduced by the government in 1998. The cost of going to university in England is now amongst the highest in the world. The average cost for UK university tuition fees is over £9 000 and is set to increase over the next few years. In addition to tuition fees, the UK student has accommodation and living costs to pay, which increases the average cost to £21 000 per year. Average graduates may owe £60 000 when they finish university.

Belgium, France, Germany, Italy and Austria charge tuition fees of less than £1 000 per year, whilst Scotland and much of Scandinavia do not charge any fees at all. A Department for Education spokesperson said: "We are determined to make sure that everyone with the potential to benefit from higher education has the opportunity to do so. The UK has some of the best universities in the world. Our reforms will drive up the standard of teaching at universities, so students get the best return for their investment".

(Source: University tuition fees in England now the highest in the world, new analysis suggests, by Benjamin Kentish)

Extract H

World University Rankings 2016-2017: top 10

2016-17 rank	2015-16 rank	Institution	Country
1	2	University of Oxford	United Kingdom
2	1	California Institute of Technology	United States
3	3	Stanford University	United States
4	4	University of Cambridge	United Kingdom
5	5	Massachusetts Institute of Technology	United States
6	6	Harvard University	United States
7	7	Princeton University	United States
8	8	Imperial College London	United Kingdom
9	9	ETH Zurich – Swiss Federal Institute of Technology Zurich	Switzerland
10	13	University of California, Berkeley	United States

(Source adapted from: https://www.timeshighereducation.com/news/world-university-rankings-2016-2017-results-announced)

Extract I

Government launches 30 hours a week of free early education and childcare

All 3 to 4 year olds in England get 15 hours a week of free early education or childcare, which is funded by the government. Early education is provided by nurseries, play schemes and registered childminders.

From 2018 a limited number of parents will be eligible to claim 30 hours a week of free early education, which will benefit up to 15,000 families. Education Secretary Justine Greening said: "Early education and high-quality childcare not only helps our children get the best start in life, it benefits their future education and it supports many parents who need to work".

(Source: © Crown Copyright)

3 The UK government intervenes in the education sector. Education is considered a merit good.

Evaluate the likely impact on the UK economy of government intervention in the education sector.

(20)

(Total for Question 3 = 20 marks)

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