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Surname	Other names
Pearson Edexcel	Centre Number
Level 3 GCE	Candidate Number
Economics B	
Advanced	
Paper 1: Markets and how they work	
Tuesday 5 June 2018 – Afternoon	Paper Reference
Time: 2 hours	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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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

The gourmet confectionery brand launched by Made in Chelsea star Jamie Laing

Having dreamed of becoming a real-life Willy Wonka since he was a boy, it was almost inevitable that Jamie Laing's first entrepreneurial endeavour and start-up firm would be in the confectionery market. Jamie is related to Sir Alexander Grant, the man credited with creating the first ever digestive biscuit when an employee of *McVitie's* in 1892.

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Looking for a gap in the sweet market, Jamie saw an opportunity in the industry and started *Candy Kittens*, a producer of gourmet, premium priced, real fruit-based, gluten free sweets.

Candy Kittens was launched in February 2014 using £500 000 in loans from family and friends. Sales revenue was £700 000 in 2015 and £1.5m in 2016. It then launched a crowdfunding campaign to raise £300 000 for expansion.

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Candy Kittens is currently stocked in more than 1,700 stores across the UK. Its range of natural sweets is now available in *Tesco*, *Waitrose*, *Sainsbury's*, *Topshop* and *Selfridges*, as well as several independent retailers and via its website.

There were nearly two billion packs of sweets sold in the UK last year, the top selling brands being *Haribo* and *Maynards*. According to a new report, confectionery sales in the UK, which include chocolate and sweets, are predicted to grow 8.6% between 2016 and 2019, despite fears about the high levels of sugar in sweets.

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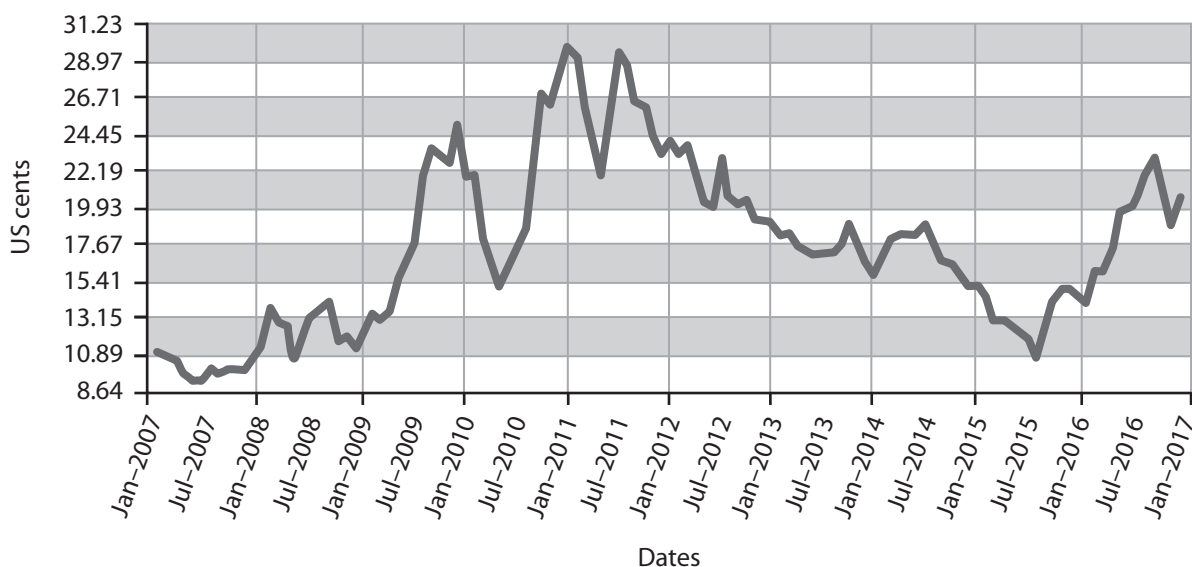
(Source: adapted from © William Reed Business Media Ltd 2017)

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Extract B**Sugar price – US cents per pound of sugar**

(Source: © 2017 - IndexMundi)

Extract C**Half of UK start-ups fail within five years**

Research suggests that survival rates for start-up firms are lower than before the 2008 financial crisis. A start-up is a young firm that is just beginning to develop. It is usually small and initially financed by a limited number of founders or one individual.

More than half of new firms don't survive beyond five years. The top reasons given for failure include the UK tax system, a lack of bank lending and the cost of running a firm.

The biggest barrier to growth is the UK tax system, with 44% of firms citing it as their main concern; taxes include corporation tax and business rates. A further 38% stated a lack of bank lending. Other major concerns included late payments and cash flow problems.

Once their firms are up and running, owners are also struggling to plan for the long term. Some 61% of the 160 business owners surveyed said they lack confidence in their ability to achieve three years' consecutive growth.

(Source: adapted from © Copyright of Telegraph Media Group Limited 2017)

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Extract D**Top five confectionery manufacturers in the UK 2015-2016**

Confectionery manufacturer	Sales revenue (£)
<i>Mondelēz</i>	1 043.1m
<i>Mars</i>	648.1m
<i>Nestlé</i>	567.4m
<i>Lindt & Sprüngli</i>	127.9m
<i>Ferrero</i>	121.0m

(Source: © William Reed Business Media Ltd 2017)

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1 *Candy Kittens'* sales revenue in 2016 was £1.5m. Jamie Laing is planning for an increase in sales revenue of 12% by 2019.

(a) Calculate the planned sales revenue for *Candy Kittens* in 2019. You are advised to show your working.

(4)

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According to a new report, confectionery sales in the UK are predicted to grow, despite fears about the high levels of sugar in sweets. (Extract A)

(b) Explain **one** external cost caused by the consumption of sweets.

(4)



- (c) Using Extract B, explain **one** supply factor that may have caused fluctuations in the price of sugar.

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- (d) Research suggests that the biggest growth barrier for UK start-up firms is the UK tax system. (Extract C)

Using a supply and demand diagram, analyse the likely impact on the UK confectionery market of an increase in indirect taxes.

(6)



(e) Discuss the benefit that adding value brings to *Candy Kittens*.

(8)

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Jamie Laing used loans to start his firm. (Extract A)

(f) Assess the benefits of this source of finance for a new firm such as *Candy Kittens*.

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- (g) Assess the extent to which barriers to entry may restrict the growth of *Candy Kittens*.

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- (h) Using Extract C, assess the extent to which cash flow forecasting is important to the survival of a new start-up business such as *Candy Kittens*.

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TOTAL FOR SECTION A = 60 MARKS



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SECTION B**Read the following extracts (E and F) before answering Question 2.****Write your answer in the space provided.****Extract E****Cycling and walking investment strategy**

The government's cycling and walking strategy aims to encourage people to cycle and walk more. The long-term goal, up to 2040, is that cycling and walking should be the natural choice for shorter journeys such as the commute to school, college or work. It aims to tackle congestion and improve physical and mental health.

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According to a study, traffic congestion is a negative externality and could cost the UK economy more than £300bn over the next 16 years. It predicts the annual cost of congestion in the UK will rise 63% by 2030 to £21bn, with serious consequences for national and local economies, businesses and citizens. The findings from this study anticipate a significant increase in the demand for road travel across the country over the next 16 years and advises that cities need to be more innovative in their approach to tackling the gridlock.

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Chris Boardman, the 1992 Olympic champion and policy adviser for British Cycling, said "far more ambition" was needed if the UK was to create a cycling and walking culture to rival countries like Denmark and Holland. Mr Boardman said: "The truth is that without sustained funding, this strategy won't be worth the paper it's written on."

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Government strategy includes the ambition of doubling the number of people using bikes by 2025. To promote healthier journeys to work, the government introduced the cycle-to-work scheme in 1999, which allows employers to subsidise the purchase of bicycles by employees as a tax-free benefit. Since its introduction, over 1.1 million individuals have participated in the scheme. 2014 saw an 11.6% increase in uptake compared with 2013.

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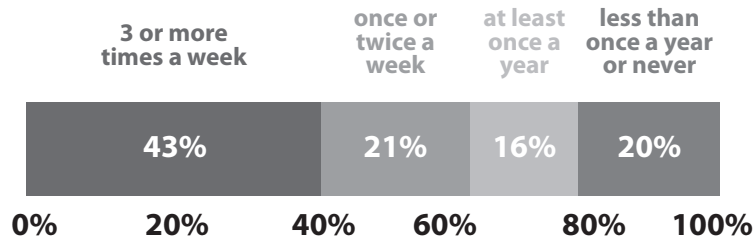
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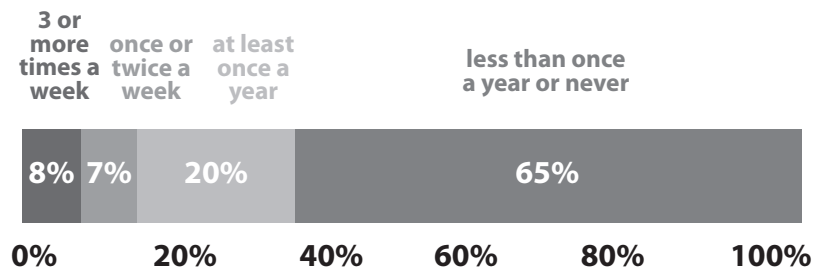


Extract F**Cycling and walking statistics (National Travel Survey, 2015)****Frequency of walking**

**64% of people aged 2+ walk for
20 minutes at least once a week.**

**Frequency of cycling**

**65% of people aged 5+ use a bicycle
less than once a year or never.**



(Source: © Crown copyright)



- 2 Evaluate the extent to which the government's cycling and walking strategy may impact the UK economy.

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TOTAL FOR SECTION B = 20 MARKS



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SECTION C

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

Write your answer in the space provided.

Extract G

Brexit and the UK economy

When the first economic data following the June 2016 Brexit referendum was published, it showed no immediate signs of an economic collapse and the data was reassuring.

Britain's retail sales increased throughout 2016, which helped support growth and reassure businesses that were worried by the referendum result.

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The pattern of growth continued to be broadly unaffected throughout 2016 but whilst service industries increased by 0.8%, in contrast output decreased in the other three main industrial groups of construction, agriculture and manufacturing.

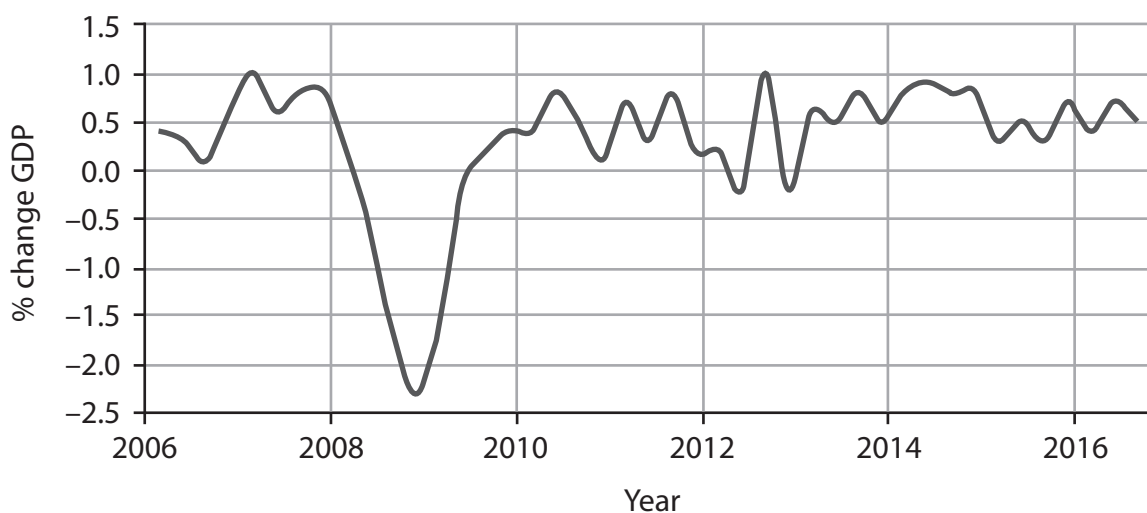
"Uncertainty around the future of the UK economy outside the European Union will continue to dampen business investment and consumer spending, as businesses hold back on hiring and making long-term investments, and as consumers postpone large spending decisions," said senior analyst Madhavi Bokil.

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Extract H

UK GDP growth rate



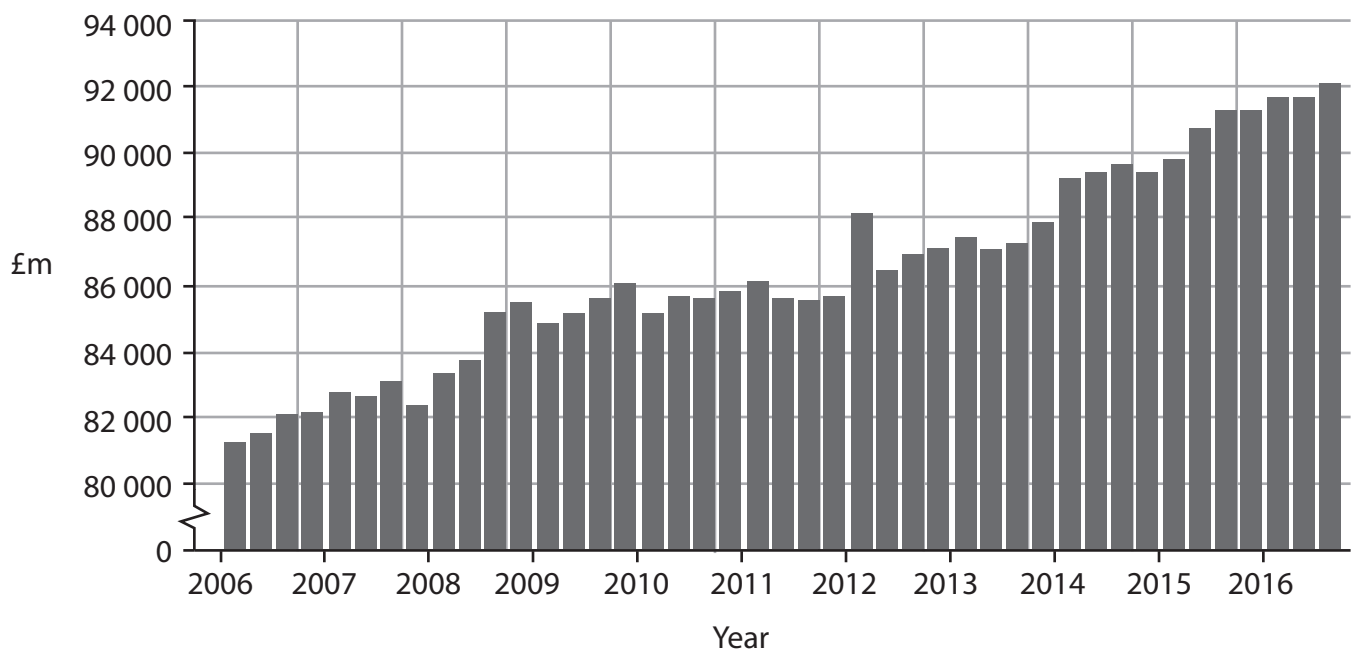
(Source: © 2017 TRADING ECONOMICS)



Extract I**UK Bank of England interest (base) rates 2006-2016**

Year	Interest (base) rate at end of year %
2006	5.0
2008	2.0
2010	0.5
2012	0.5
2014	0.5
2016	0.25

(Source: adapted from <http://www.bankofengland.co.uk/boeapps/iadb/Repo.asp>)

Extract J**UK government spending**

(Source: © 2017 TRADING ECONOMICS)



- 3 Using a suitable diagram, evaluate the importance of demand side policies in stimulating growth in the UK.

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(Total for Question 3 = 20 marks)**TOTAL FOR SECTION C = 20 MARKS
TOTAL FOR PAPER = 100 MARKS**

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