



Mark Scheme (Results)

Summer 2019

Pearson Edexcel GCE A Level
in Business (9EB0)
Paper 01 Markets and how they work

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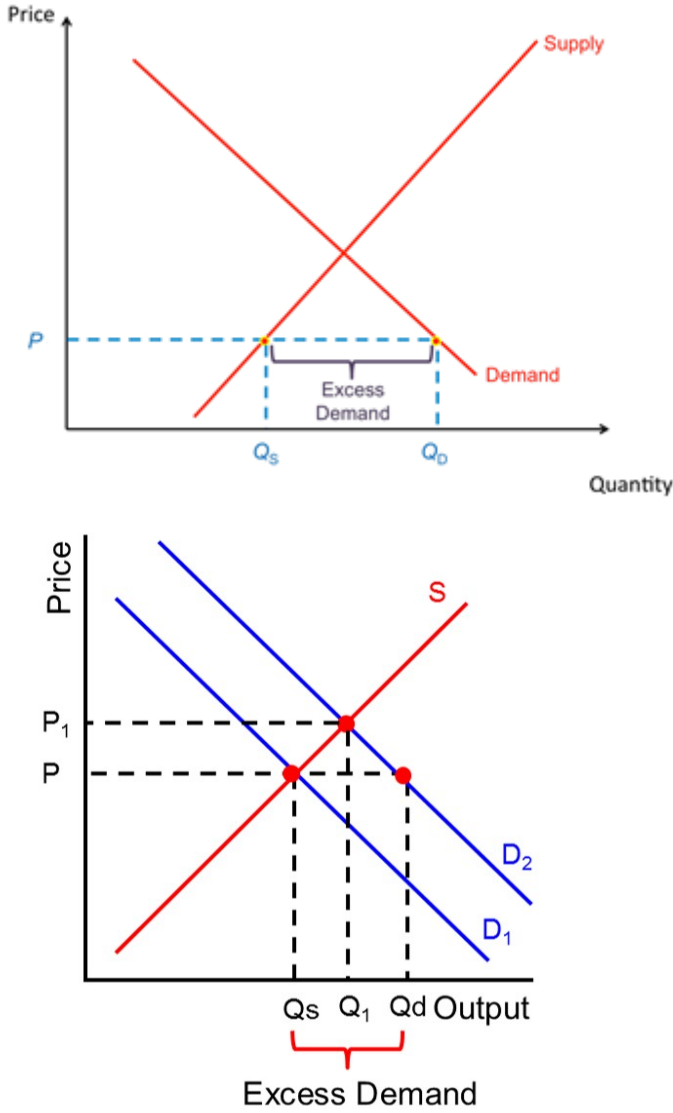
General Marking Guidance

- 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	Answer	Mark
1(a)	Knowledge/Understanding1, Application 3, Knowledge/Understanding: 1 mark for formula <u>Profit for the year (net profit)</u> x 100% (1) Revenue Application: Up to 3 marks for calculations \$3.8bn (1) / \$32.4bn (1) X 100 = 11.73% (1) NB: if no working is shown award marks as below • If the answer given is 11.73% award 4 marks. • If the answer given is 11.7% award 3 marks. • If the answer given is 11.73 award 3 marks. • If the answer given is 11.7 award 2 marks	(4)

Question Number	Answer	Mark
1(b)	Knowledge/Understanding 1, Application 2, Analysis 1 Knowledge/understanding: up to 1 mark for explaining the reason e.g. To gain market share (1) Application: up to 2 marks are available for contextualised answers, e.g. technical innovations such as gel inserts (1) manufacturing shoes in a wide range of widths and sizes (1) Analysis: Up to 1 marks available for developing the connection. This may lead to brand loyalty from consumers and increase sales/profits for <i>New Balance</i> (1)	(4)

Question Number	Answer	Mark
1 (c)	Knowledge/Understanding 1, Application 3, Knowledge/Understanding: 1 mark for any suitable formula e.g. Total costs = Sales Revenue – operating profit (1) Application: Up to 3 marks for calculations Profit: \$2.7bn x 24% = \$0.648bn (1) Total costs: \$2.7bn - \$0.648bn (1) = \$2.05bn (1) NB if no working is shown award marks as below: If the answer given is \$2.05bn award 4 marks. If the answer given is 2.05bn award 3 marks. If the answer given is \$2.05 award 3 marks. If the answer given is 2.05 award 2 marks	(4)

Question Number	Answer	Mark
1(d)	Knowledge/Understanding 2, Application 2, Analysis 2  Knowledge/Understanding: up to 2 marks for correctly constructing the diagram e.g. correctly constructing supply and demand curves and showing original price P (1) correctly labelling Q_s and Q_d (1) Application: up to 2 marks for contextualised answers e.g. correctly labelling excess demand (1) <i>New Balance</i> did not have enough stock of the trainers worn by the singer to meet demand (1) Analysis: up to 2 marks for developing the connection e.g. excess demand will be a signal to <i>New Balance</i> to increase the price and quantity of this type of sports shoe (1) this will cause a movement along both curves until the new higher equilibrium is reached (1)	(6)

Question Number	Indicative content	Mark
1(e)	Knowledge/Understanding 2, Application 2, Analysis 2, Evaluation 2 • Sales maximisation is concentrating on increasing the amount of products sold in a given time period. • Extract B shows that the sportswear market is very competitive. • Market share is important because it creates strong brands and opportunities to increase revenue. • Sales maximisation helps achieve economies of scale and take full advantage of new technology such as gel implants. • Larger market share increases consumer awareness leading to more sales and future growth. • However, if sales maximisation is the main objective, this may impact upon profit levels. • High profits may be more important given the need to invest in products that keep up with changing fashion and trends. • Customer satisfaction may also be important to <i>New Balance</i> in meeting customer needs e.g. customer shoe widths.	(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.

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Question Number	Indicative content	Mark
1(f)	Knowledge/Understanding 2, Application 2, Analysis 3, Evaluation 3 • Interest rate is the percentage rate charged on a loan or paid on savings. • <i>New Balance</i> has expanded in the UK, and now employs 200 people to produce their premium ranges. • An increase in interest rates will increase the cost of borrowing which discourages people from borrowing and spending. People who have mortgages may have less disposable income for luxury goods and non-necessities. • <i>New Balance</i> may see an increase in costs if they have loans outstanding for the expansion programme. If this leads to an increase in the price of its sportswear, sales may suffer in this very competitive market. • Higher interest rates increase the value of a currency. A stronger pound makes UK exports less competitive which may impact the exports of its premium priced training shoes. • However, it depends on the rate of increase. The change may have no impact on the spending on sportswear, especially if the target audience is younger consumers with few outstanding loans. • Fashion items may be price inelastic in nature and consumers may be brand loyal, and so the increase in interest rates may have little impact on <i>New Balance</i>. • It depends if loans used to develop <i>New Balance</i> are financed by UK banks. It may be that the loans have been sourced from US financial institutions.	(10)

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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	3-4	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.

Demonstrating application (AO2) in responses

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Question Number	Indicative content	Mark
1(g)	Knowledge/Understanding 2, Application 2, Analysis 4, Evaluation 4 - Economies of scale arise when long run average costs fall as output rises. <i>Nike</i> can benefit from purchasing economies. Due to their size and global dominance in the sports market they can buy leather, material etc in bulk and achieve purchasing discounts to reduce average manufacturing costs. Reduced average costs may be reflected in lower prices to attract more customers. <i>Nike</i> may benefit from technical economies from the increased use of large scale mechanical processes and machinery used in its US and UK plants to produce the premium range of footwear. This should improve quality of its premium ranges. <i>Nike</i> may benefit from risk bearing economies more effectively than the smaller firms such as <i>Anta</i> because they have a wider range of products and a wider range of markets. - Economies of scale may cause barriers to entry for new entrants into the Chinese market and help maintain the dominance of <i>Nike</i>. - However, economies of scale may not be as important to the success of <i>Nike</i> because they produce top of the range products which sell for high prices. - Success will be determined by many other factors. Sportswear is a style statement and fashion trend and <i>Nike</i> must maintain the appeal of its clothing and footwear to remain dominant. - The industry is being driven by technological developments and <i>Nike</i> must meet changing customer requirements to remain competitive. - Whilst <i>Nike</i> still has the largest market share they are losing ground to <i>Adidas</i>, <i>New Balance</i> and <i>Under Armour</i>. Its success may depend on many factors such as leadership, financial management, and marketing strategies.	(12)

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 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.

Demonstrating application (AO2) in responses

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Question Number	Indicative content	Mark
1(h)	Knowledge/Understanding 2, Application 2, Analysis 4, Evaluation 4 - Stakeholders are individuals, groups or organisations that are affected by the activity of the business. - Since stakeholders have different interests in the business, it is possible that conflicts may arise between them. <i>New Balance</i> produce around 4 million pairs of premium range athletic footwear in America. Shareholders expect the business to make a profit and receive a return on their investment. - Shareholders may prefer a cheaper location in order to maximise profits and returns, this may be in conflict with current employees who may be at risk of losing their jobs. - Skilled workers producing the premium ranges of sports shoes want good working conditions and high wages which may reduce profit margins for the company or dividend payments for shareholders. - Higher costs may mean higher prices which may cause conflict with consumers who may be price conscious. - However, there may be little stakeholder conflict. Some shareholders may be in favour of maintaining domestic manufacture and supporting the economy. - It may mean, in the long run, that the USP of domestic manufacture creates more profit/dividends for shareholders. - The made in US training shoes may appeal to the ethical stance of some consumers who are willing to pay the higher price. - Loyal staff may lead to increased motivation and productivity which would lead to higher profit margins to satisfy owners and shareholders.	(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 • Regulation is a form of intervention in a market by a government or a regulatory body. • The role of Ofgem is to regulate the energy market to protect UK consumers. • Without intervention, unfair practices, such as ‘charging consumers too much’ may mean vulnerable people are less able to pay bills and may fall into debt. • Customers are failing to switch to cheaper suppliers. Therefore, regulation is important to inform consumers which would have a positive effect on household budgets and enable spending elsewhere. • Without intervention suspected ‘exploitation of consumers and price collusion’ of the ‘Big-6’ suppliers may continue which would push up consumer prices. • Measures were recommended by the CMA to drive down costs by increasing competition between suppliers. Fair competition and new entrants may help to bring down the average price in the market. • However, regulation may create an unnecessary burden of costs for the energy businesses. A large amount of red-tape may damage the competitiveness of businesses and in fact increase prices for customers. • Controls and fear of paying compensation, such as the case with <i>ScottishPower</i> may mean that there is an incentive for the energy firms to conceal problems and encourage price collusion. • The CMA may find it difficult to find evidence of anti-competitive behaviour due to lack of spoken or written evidence, and conflicting or asymmetric information. • Energy suppliers need to make profits to fund investment in future supplies. There is no evidence to suggest the prices charged are unreasonable and regulation is required to protect consumers. • Household bills have in fact decreased since 2014. This occurred before the CMA investigation which may indicate increased regulation is not required. • Even though Ofgem can provide consumers with options to switch to other energy suppliers, many consumers may not take the opportunity due to inertia. • In conclusion, regulation of the industry may be important to protect the most vulnerable consumers and those who need to be educated about the options available in the market. However, regulation could have an adverse effect	

	on the price of gas and electricity if regulatory costs and fines are too high.	(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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3	Knowledge/Understanding 4, Application 4, Analysis 6, Evaluation 6 • A merit good is a good when consumed provides external benefits. If the benefit is not fully recognised due to lack of information, or inability to pay, the good may be under-consumed, e.g. education and healthcare. • Consumption of merit goods should generate positive externalities and lead to external benefits for the UK economy. • The introduction of high tuition fees of £9 000 may lead to the under-consumption of higher education and the economy may suffer from a lack of skilled graduates and damage the long-term prospects of the UK economy. • Education leads to a better educated and productive workforce. Therefore, the UK may suffer in terms of competitiveness if educational standards fall. • The prospect of a £60 000 financial debt at the end of university may deter some students from studying in the UK. It may encourage more students to study and work outside of the UK leaving a potential skills gap. • However, if the government spent on free or subsidised university education, there is an opportunity cost of higher taxes or less spending elsewhere to benefit the economy. • The UK has some of the best universities in the world including Oxford and Cambridge. If universities can charge students, it may help maintain standards, quality of teaching and the reputation of UK universities. • Improved standards in higher education should improve innovation and productivity in the economy. • The change to the provision for early education for four-year olds should help parents to return to work and increase the supply of labour. • Whilst some students may be deterred from going to university they may choose a different option such as an apprenticeship which may arguably be of more benefit in terms of a skilled workforce. • In conclusion, people may underestimate the benefits of studying and undervalue higher education. This may in the long-term affect skill levels, productivity and competitiveness in the UK.	(20)

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