



Pearson

Mark Scheme (Results)

Summer 2017

Pearson Edexcel Level 3 Advanced GCE
in Economics B (9EB0)

Paper 03 The economic environment
and business

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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.

Section A

Question Number		Mark
1(a)	Knowledge/understanding 2, Application 2, Analysis 2, Evaluation 2 • Market failure occurs when there is an inefficient allocation of resources in a market. • This may be that not enough is provided of something such as education and the government then provides it in the form of a merit good. • It may be that too much is provided which is considered to be 'bad' for society (net social welfare loss) – these are de-merit goods such as alcohol. • There are many forms of market failure including the presence of externalities. • Extract A suggests that the burden on the UK economy amounts to £51bn a year or 3% of GDP. • These are external costs imposed on other people by obese people. • If obesity causes these externalities then it could be seen as a case of market failure. • It can be argued that the food industry is responsible because it provides too many cheap foods high in fat, salt and sugar. • But obesity itself is not produced by the food industry market, it is people who eat too much that cause the externalities. • Unlike drugs, tobacco or alcohol which are damaging to health, food is essential for survival. • The food industry market is actually very good and efficient at producing food which is healthy and nutritious. • It could be argued that obesity is not caused by market failure in the food industry. • Obesity is caused by human behaviour and a lifestyle involving labour-saving devices, motorised transport, lack of exercise and sedentary work.	(8)

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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

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Question Number	Indicative content	Mark
1(b)	Knowledge/understanding 2, Application 2, Analysis 3, Evaluation 3 • Extract B and Figures 2 and 3 appear to show a positive correlation between poverty and obesity. • Figure 2 shows that the highest income earners in the top quintile have the lowest obesity prevalence by percentage. • The two lowest quintiles show the highest obesity prevalence for women. • Figure 3 shows that the children from the most deprived areas (deprivation has a strong link to poverty and low incomes) in the top decile are nearly twice as likely to be obese as the lowest decile. • Reducing poverty should therefore reduce the number of obese adults and obese children. • The government should regard poverty reduction policies as a priority in reducing obesity. • However, Figure 2 is not quite a perfect correlation, the lowest quintile is actually less likely to be obese than the next two lowest quintiles. • There is a marked difference between obesity levels in men and women. • There is very little difference between the obesity rate for men of the lowest and highest quintiles, suggesting that there may be little correlation between poverty and obesity for men. • There are other factors that contribute to obesity that may also be worth pursuing as government policies. • These include encouraging more exercise, better education, more informative food labelling, restrictions on food advertising and healthy eating campaigns. • Nevertheless the evidence suggests that poverty reduction policies may be important as part of an overall package to reduce obesity.	(10)

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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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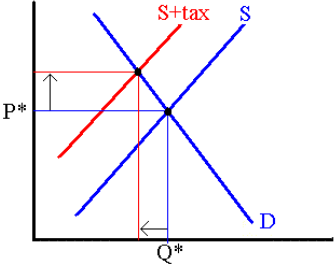
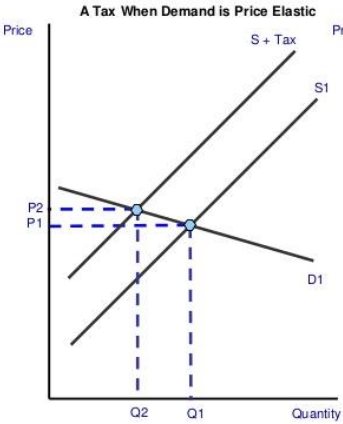
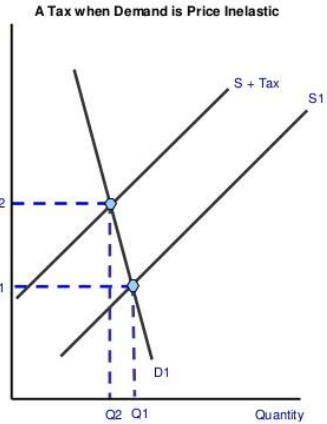
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Question Number	Indicative content	Mark
1 (c)	Knowledge/Understanding 2, Application 2, Analysis 4, Evaluation 4 - Extract C suggests that sugary foods and drinks are responsible for much of the obesity crisis. - An indirect tax on sugar would increase the costs (shifting the supply curve inwards) and therefore increase the price of such foods and drinks. - This should reduce their consumption and in turn, obesity levels.  - However, the reduction in Q and the effectiveness of the tax depends on the PED for sugary food and drinks A Tax When Demand is Price Elastic  A Tax when Demand is Price Inelastic  - If the PED is relatively price elastic it will have a greater impact on Q and a more effective impact on obesity reduction - By contrast, if the PED is relatively price inelastic there will only be a small reduction in Q and it will have little impact on obesity levels - In theory demand should be price elastic as there are many substitutes for foods and drinks with lots of sugar, so a sugar tax should be effective - However, for many consumers the substitutes are unpalatable – their demand is price inelastic - For many consumers an extra few pence on the price of a can of sugary drink will make little if any difference - Therefore, a tax may have little impact on consumption and obesity - Existing taxes on alcohol and tobacco suggests that they are more effective in raising revenue than in reducing consumption.	(12)

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Level 3	6–9	Accurate knowledge and understanding, supported by use of relevant evidence to support the argument, clear chains of reasoning, with well-developed 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(d)	Knowledge/understanding 4, Application 4, Analysis 6, Evaluation 6 • Market failure occurs whenever social costs exceed social benefits, meaning that there are negative externalities. • Resources are not being allocated efficiently because consumers do not have to pay for the external costs associated with the goods and services they consume. Someone else pays. • In order to correct market failure, the government intervenes and it may do this for various reasons, including to reduce the impact of externalities, to encourage the production of goods and services that the free market under provides and to reduce consumption of those that it over provides. • For example the UK Environment Agency sets out regulations that affect the environment in the UK. Ranging from fishing rod licences to the rules for disposing of hazardous waste. • For example, education and health care are regarded as merit goods as they would not be provided in sufficient quantities without government intervention. • For example, drugs are considered to be demerit goods and the government regulates/legislates to reduce their use and negative impacts. • However, the extent to which this intervention 'solves' market failure is debatable, pollution still happens, drugs are ever-present and there are many who criticise aspects of healthcare and education provision. • There are also cases of government failure where attempts to solve market failure result in either a worsening of the problem or creating another problem in its place – law of unintended consequences. • For example, help to buy scheme led to higher house prices, NHS targets can lead to a fall in standard of care, regulatory bodies can suffer from regulatory capture, windfall taxes can discourage investment, increased taxation of de-merit goods such as cigarettes encourages smuggling and black markets. • Whilst it is highly unlikely that government intervention can fully solve market failure, there is a great deal to said in favour of government intervention to correct or reduce market failure, yet at the same time the intervention needs to be carefully thought through and correctly applied for it to be successful.	(20)

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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 questions. 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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Section B

Question Number	Indicative content	Mark
2(a)	Knowledge/understanding 2, Application 2, Analysis 2, Evaluation 2 • The minimum wage means that Whitbread will have to pay their employees more than the free market wage rate. • The quantity of labour employed by <i>Whitbread</i> is likely to fall. • Paying the minimum wage will increase costs and the firm may decide to cut the size of its workforce or abandon plans to take on more workers. • The business may decide to pass on the increase in labour costs by increasing prices to customers. • The success of this will depend on the PED for its products. • The business could absorb the increase but that will depend on the number of employees and the cost involved. • Firms may respond by increasing training leading to increased efficiency keeping employment level stable. • Previous experience suggests that increases in the minimum wage do not have a great impact on employment levels.	(8)

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Question Number	Indicative content	Mark
2(b)	Knowledge/Understanding 2, Application 2, Analysis 3, Evaluation 3 • According to Extract F this decision will cost <i>Lidl</i> £9m, they have also promised not to increase prices. • For the staff this represents an increase of, on average, £1 200 in pay. • This will have an immediate impact on <i>Lidl</i>'s profitability and may not please the shareholders/owners. • For many businesses raising wages is something that might be resisted. • However, <i>Lidl</i> may have decided to do this for several reasons. • Staff may well be more motivated by the extra rewards and work harder increasing productivity. • Staff turnover may fall, reducing recruitment and training costs. • As unemployment is falling it may make it easier for <i>Lidl</i> to find and recruit the right quality staff. • Customers may well find that staff are more welcoming and so shop more at <i>Lidl</i> increasing turnover. • From a PR/CSR point of view this may be seen as a positive move. • This puts pressure on the other supermarkets to follow suit. • Although £9m sounds a lot it is not that much from a turnover of over £4bn.	(10)

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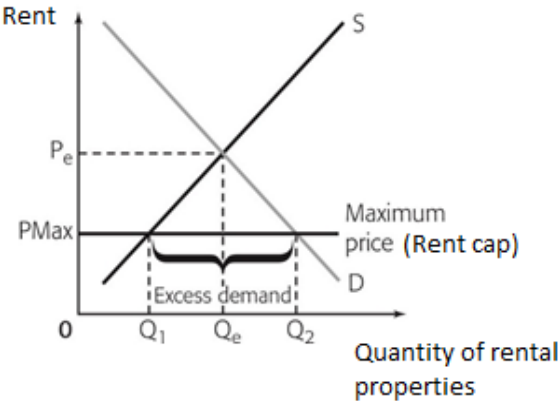
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Question Number	Indicative content	Mark
2(c)	Knowledge/understanding 2, Application 2, Analysis 4, Evaluation 4  • A rent cap would reduce the cost of rental housing from P_e to P_{Max} and make living in London more affordable for low income earners. • It would alleviate the hardship many lower paid workers face and prevent future rent increases. • Tenants would in effect see a rise in their disposable income which would increase their standard of living. • Local businesses would benefit from the increased spending as households spend less on rent. • Public services would find it easier to recruit key personnel such as nurses and teachers who are currently unable to find affordable housing. • Rent control works in other countries like Switzerland, the Netherlands and Germany. • However, a rent cap would reduce the profitability for investors who buy to let. • The rent cap may reduce the supply of rented accommodation from Q_e to Q_1 creating excess demand of Q_1 to Q_2. • This could reduce the amount of housing available to would-be tenants. • There is a danger that the quality of the rental housing stock might fall as landlords neglect maintenance to preserve margins. • There are more effective solutions to high rents than crude manipulation of the market. • High rents are caused by excess demand and not enough supply. • The government could relax planning laws and building controls to increase the supply of housing. • The government could subsidise the building of rental accommodation. • This should bring down the price of new housing and rents would then reflect this.	(12)

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2(d)	Knowledge/understanding 4, Application 4, Analysis 6, Evaluation 6 • Variations exist in unemployment rates between different areas of the UK. • These areas may be large, such as the NW in figures 4 and 5 or may be small as with Eden in figure 5. • The regions are almost certain to have different rates of unemployment compared to the overall average – in figure 5 the UK claimant rate is 1.9%, the NW is 2.5% and Eden is only 0.6%. • Rates vary for a number of reasons but mainly due to structural change where traditional industries have lost competitiveness and closed down leaving declining areas with high unemployment rates. • Other areas such as Northern Ireland have suffered from political problems that deter investment and job creation. • The government has used a wide variety of supply-side policies to reduce such regional disparities. • These include both market-based and interventionist policies such as reforming the labour market, improving the skills of the labour force, subsidising new businesses, regional grants and so on. • These all help to give unemployed people new skills and attract new business to the regions to create jobs. • Figure 4 shows some success with the NW, SW, Wales and E Midlands all significantly increasing employment rates on the previous year. • Of the 12 regions in figure 4, 8 have improved. • However, it is arguably almost impossible to eradicate regional unemployment, the geographical and occupational immobility of labour are major obstacles. • These are the main reasons for areas such as the NE, NW, Wales and W Midlands having relatively low employment rates as in figure 4. • These areas also have long-term unemployment problems which are difficult to shift. • Supply side policies are often costly and long-term such as education and so it is difficult to assess the effectiveness in the short term. • Improvements in regional areas may be due to national factors such as the economic recovery rather than the government's regional policies. • It is probably fair to say though, that without such policies the regional disparities would be much greater.	(20)

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