



Mark Scheme (Results)

October 2020

Pearson Edexcel GCE
In Economics B (9EB0)
Paper 3: The Economic Environment and
Business

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Autumn 2020

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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	Indicative content	Mark
	Discuss the extent to which the UK housing market can be described as a market bubble.	
1(a)	Knowledge/understanding 2, Application 2, Analysis 2, Evaluation 2 • A market bubble occurs when rising demand, for whatever reason, drives prices beyond the level that might normally be expected • The speculative motive is all one way • Emotion and peer pressure appear to overcome rational analysis • As more buyers join in the price is forced higher and higher in an upward cycle and can then suddenly collapse • Recent examples include the dot.com bubble and the bitcoin bubble • Extract A shows steeply rising house prices that might be indicative of a bubble • House prices quadrupled between 1987 and 2015 • It also shows a sharp drop from 2006 to 2008 but this may be due to the financial crisis • However, the demand for housing is not really about speculation but a genuine need for shelter • Steeply rising prices may have been caused by supply lagging behind demand • The house price to earnings ratio shows that although the London area has signs of a bubble the North and UK are much less conclusive	(8)

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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	3–5	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 • Skills shortages occur when employers cannot find enough of a particular quality in the available labour force • Supply-side policies can be designed to improve the skills and quality of the labour force • The BCC is warning that the skills gap is constraining growth • Having to pay higher wages to recruit enough workers with the right skills is one problem leading to increased costs and lower profitability • It may also be that labour is simply unobtainable, which means a firm may be unable to increase output • Unemployment although low is at 4%, so some spare capacity is available although lacking in the skills demanded by employers • Government training schemes and apprenticeship schemes can be introduced to re-equip unemployed workers with the skills needed • Schools, colleges and universities can introduce more vocational or practical courses to provide the workforce of the future • However, these policies require both time and investment to implement • Geographical immobility is a limiting factor as workers may not be able to move to the employment • British employers are facing the problem now and do not have the time to wait • The current problem seems to be that the supply of labour has reduced by 154,000 workers from the former Soviet bloc countries and another 132,000 from the EU • Therefore traditional supply-side policies may be of limited effect in the short run without an addition to the total supply of labour	(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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Question Number	Indicative content	Mark
1 (c)	Knowledge/Understanding 2, Application 2, Analysis 4, Evaluation 4 • A trade-off is when an increase in one variable leads to a decrease in another connected variable • It is said that as unemployment falls inflationary pressures build up and as inflation reduces then unemployment rises • When there are fewer unemployed workers wage rates tend to rise (also mentioned in Extract B) increasing costs, which can lead to rising prices • When more people are employed AD begins to rise and if AS does not keep pace, inflation can occur • To counter inflation, contractionary fiscal or monetary policy may be used. This reduces AD meaning less production is needed and unemployment rises • In recent years the UK economy has seen falling unemployment, reaching its lowest level in 40 years in 2018 • This is clearly shown in Extract C as unemployment falls from 8% in 2013 to just 4% in 2018 • The trade-off would suggest that inflation should be increasing over the same period • However, this is not the case as the rate of inflation is reducing from 3% in 2013 to 0% in 2015, suggesting there is no trade-off • From 2015 inflation does increase reaching a high of 3% at the end of 2017 • This may indicate that the trade-off is more likely to happen beyond a certain level of unemployment • Or, it may be that other factors such as rising input costs fuelled inflation from 2015 onwards and the trade-off with unemployment is weak or non-existent	(12)

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Demonstrating application (A02) in responses

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Question Number	Indicative content	Mark
1(d)	Knowledge/understanding 4, Application 4, Analysis 6, Evaluation 6 • Central banks supervise the banking system, they communicate with each other and the IMF to keep the global economy as stable as possible • The Bank of England became an independent central bank in 1997 in order to produce better economic results without political interference • In general, the central bank has several key roles in maintaining economic stability • It determines monetary policy, provides banking and financial services to the government, acts as bankers to the banking system and regulates the banking system • The Bank of England sets monetary policy by the Monetary Policy Committee (MPC) • The MPC meets every month to determine the base rate to maintain economic stability. The base rate influences other interest rates and in turn the level of AD in the economy • It has a target rate of inflation as measured by the CPI of 2%, a deviation of 1% either side is permissible. Any more than this and the governor must write a letter to the chancellor explaining why • Since the Bank became independent inflation has not been a major problem • The Bank is also responsible for monetary policy in the form of Quantitative Easing (QE). This involves the Bank in buying bonds with created cash that the banks will then use to lend to businesses to stimulate economic growth • The Bank regulates the banking industry by the Financial Policy Committee (FPC). Extract E shows a warning from the FPC about increasing levels of high-risk loans • Extract E also indicates the growing powers given to the Bank to provide emergency funding to the financial system should another shock like the 2008 crisis occur • However, although inflation may not have been a serious problem in recent years it has not been smoothly controlled either. Extract D shows peaks of over 5% in 2008 and 2011 and deflation happened in 2015	

	• QE has its critics who worry about too much liquidity in the economy. Extract E notes that the increase in high-risk lending is partly caused by QE • Although the FPC is monitoring the high-risk lending it cannot stop or control it • Although the Bank conducts stress tests and has increased powers it is not certain that the economy will cope with another global financial crisis • Nevertheless the Bank does have considerable influence over economic stability and does much to reduce risk and uncertainty	(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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Question Number	<i>Walkers</i> buys 350,000 tons of potatoes each year. Discuss the benefits to <i>Walkers</i> of using forward markets to buy potatoes.	Mark
2(a)	Knowledge/understanding 2, Application 2, Analysis 2, Evaluation 2 • A forward market enables buyers to agree a fixed price well in advance of purchasing a commodity • This is particularly useful in commodity markets such as potatoes where prices vary constantly over a time period– as shown in Extract E • This means that <i>Walkers</i> can know in advance what its expenditure and costs will be • It is protected if there is a sudden rise in the price of potatoes as it will still pay the agreed 'forward' price. • For example, the potato price index increased by 36% in the year up to September 2017, by buying forward <i>Walkers</i> could have avoided this • However, if the price goes down, then <i>Walkers</i> still has to pay the higher previously agreed price • There is a charge for using forward markets adding to the cost	(8)

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Question Number	Indicative content	Mark
2(b)	Knowledge/Understanding 2, Application 2, Analysis 3, Evaluation 3 • A high price for potatoes may encourage more farmers to grow potatoes rather than other crops such as cereals • This will increase the supply of potatoes in the market • This will shift the supply curve to the right as the industry supply expands • This should decrease equilibrium price from P to P1 with an increase in the quantity traded from Q to Q1 • However, the extent to which this may happen depends on other factors • Not all farmers can grow potatoes, which require a certain soil type and climate • Farmers may be reluctant to invest in any specialist machinery given the volatile nature of potato prices • If farmers do increase potato output other crops such as cereals may fall in supply and the following year higher cereal prices may result • The increase in potato prices may have been caused by supply factors such as poor weather, rather than an increase in demand, in which case the supply of potatoes is likely to return to previous levels in the following season without more being planted	(10)

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Question Number	Indicative content Assess the extent to which rising input costs are a problem for food and drink firms.	Mark
2(c)	Knowledge/understanding 2, Application 2, Analysis 4, Evaluation 4 • Input costs are the costs involved in producing a good or service • They include raw materials, labour, power and overheads • Ingredients for food and drink production have increased, along with packaging and energy costs • Extract H shows how some inputs have increased • Increased costs mean that profit margins are reduced or even disappear and become a loss unless price is increased • If increasing price is not possible or only to a limited extent, firms may experience financial difficulties and ultimately cease trading • It may be possible to find cheaper ingredients although this may not be possible or quality may suffer, which may be crucial to some types of food and drink • It may be possible to develop more energy efficient means of production but this may take time and require considerable investment • It may be possible to increase prices but this depends on the PED for the particular foodstuffs and whether competitors do the same • However, if all food and drink manufacturers are facing similar cost difficulties they will all have to raise prices • There are other ways to maintain competitiveness, extract I refers to increased investment and product development • Food and drink manufacturers have in the past just reduced the size of the product and maintained price • <i>Walkers</i>, for example, is developing new flavours and types of snack to increase sales • If real wages increase, then increased prices may not be a problem	(12)

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Question Number	Indicative content	Mark
2(d)	Knowledge/understanding 4, Application 4, Analysis 6, Evaluation 6 • An exchange rate is the price of one currency in terms of another • When international trade takes place, currencies need to be exchanged • Exchange rate volatility means that the prices of traded goods and services can not always be predicted accurately • A relatively strong or appreciating currency, such as the euro against the pound, means that firms that export may find their products more expensive than competitors and see lower sales • <i>McDonald Mushrooms</i> in Tipperary reportedly lost an average of €11,000 a week from adverse currency movements. • Other Irish firms such as <i>Codd Mushrooms Ltd</i> and <i>Kepak Group</i> have moved production to avoid costly exchange rates • By contrast, importers have to give up fewer euros to buy the same amount of goods • They can then lower the price of goods and maintain profit margins or maintain price levels and experience greater profitability • If imports are cheaper because of a strong currency, domestic firms may face increased competition and lose sales • A relatively weak or depreciating currency, such as the pound against the euro, means that firms that export may find their products more competitive than competitors and see increased sales • Importers have to give up more pounds to buy the same amount of goods • They can increase the price of goods and maintain profit margins but may lose sales or maintain price levels and face reduced profitability • The extent to which exporting and importing firms are affected by exchange rate movements depends on PED • Consumers in the UK may continue to buy <i>BMW</i> cars and <i>Samsung</i> televisions despite higher prices • This may mean less disposable income is available for expenditure on UK produced goods	

	• UK firms also face problems in rising costs for commodities such as oil, which is priced in dollars • Food and drink manufacturers report increased energy costs and other rising costs • This can lead to cost-push inflation, which creates uncertainty for firms. Consumers may experience falling real incomes, in the UK real wages have lagged behind • Much of the impact depends on the size of the exchange rate movements and the length of time they last before moving back	(20)
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