



Mark Scheme (Results)

Summer 2024

Pearson Edexcel GCE

In Economics B (9EB0)

Paper 03: The Economic Environment and
Business

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Question Paper Log P75862A

Publications Code 9EB0_03_2406_MS*

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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	Using Extract A and an appropriate calculation, discuss the implications of September's production figures for Tesla. Indicative content	Mark
1(a)	<p style="text-align: center;">Knowledge/understanding 2, Application 2, Analysis 2, Evaluation 2</p> <ul style="list-style-type: none"> • September's figure of 83,135 EVs is near the capacity of the factory which is 88,000 • <i>Tesla's</i> capacity utilisation is therefore • $\frac{83,135}{88,000} \times 100 = 94.5\% (94.47\%)$ • For <i>Tesla</i> the nearer it gets to 100% capacity utilisation the more efficient the factory becomes as all resources are being used and average costs should reduce • Under-utilisation of 5.5% means that some resources such as machinery or employees are not being fully occupied • It can still increase production beyond the output for September • However, despite the recent upgrades <i>Tesla</i> does not have much spare capacity if sales rise and output has to increase • This might mean that bottlenecks or problems arise such as machinery not being maintained and breaking down • Staff absence could halt production if there is no-one else available to step in • If the trend continues, <i>Tesla</i> may have to upgrade the factory yet again, or ultimately, build another plant • Either way, the implications for <i>Tesla</i> are that it has to make plans for the future now, if it hasn't already done so 	(8)

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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	Assess whether investment in the labour force is the best way for a firm to increase productivity. Indicative content	Mark
1 (b)	<p style="text-align: center;">Knowledge/Understanding 2, Application 2, Analysis 3, Evaluation 3</p> <ul style="list-style-type: none"> • Increasing productivity will lead to greater output per unit in a given time • This will lower average costs and give firms a competitive advantage • By investing \$1bn in the wellbeing of its workforce <i>Starbucks</i> believes that it will result in 'long term growth' • Higher wages and improved benefits may attract more motivated employees • Employees who are more contented will reduce employee turnover • In turn this will reduce the cost of recruiting and training employees thus lowering costs and increasing competitiveness • Better training may increase efficiency and give consumers a better experience • For a consumer-oriented business such as <i>Starbucks</i> it makes sense to focus on their workforce in order to increase productivity and enhance their competitiveness • However, not all firms rely on their labour force to such a great extent, some are capital intensive such as <i>Tesla</i> • They have a greater reliance on machines and physical equipment • In order to be competitive and grow they have to take advantage of the latest advances in technology • It may be more beneficial to invest in capital equipment rather than labour, particularly if production is fully automated and the labour force is small • Many businesses will need to find a balance between investing in labour or capital depending on their needs and the nature of their business 	(10)

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Question Number	Assess whether a firm should expand during a recession. Indicative content	Mark
1(c)	<p style="text-align: center;">Knowledge/understanding 2, Application 2, Analysis 4, Evaluation 4</p> <ul style="list-style-type: none"> • A recession is when an economy experiences prolonged negative economic growth (in the UK it is defined as two consecutive quarters) • During this time aggregate demand (AD) is likely to fall and unemployment to rise • Many firms will face falling demand for their output such as travel firms and business confidence will fall • In the short run, production may be cut to reduce the cost of holding inventory • Demand for inputs fall and those firms that supply them will also face falling demand • Employees may have reduced working hours and even be laid off causing less consumption and so AD falls and the cycle repeats • However, not all firms will face falling demand, those that produce income inelastic goods such as <i>Apple</i> and services may not be badly affected • Firms that produce inferior goods such as budget supermarkets may well see an increase in demand and increase production, perhaps even expanding their facilities • Recessions do not last forever; some firms may decide it is a good time to expand in order to be prepared for the economic recovery that will follow • During a recession, resources are more readily available, prices of land, machinery and raw materials are likely to be lower • Labour will be more plentiful with no upward pressure on wages • Therefore, the costs of investment for expansion are cheaper than at other times during the economic cycle • For those firms that can take advantage, it may be a good time to expand • Much will depend on the nature of the firm, its products/services and its financial position 	(12)

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Question Number	Using a suitable diagram, evaluate the importance of supply-side policies in promoting economic expansion.	Mark
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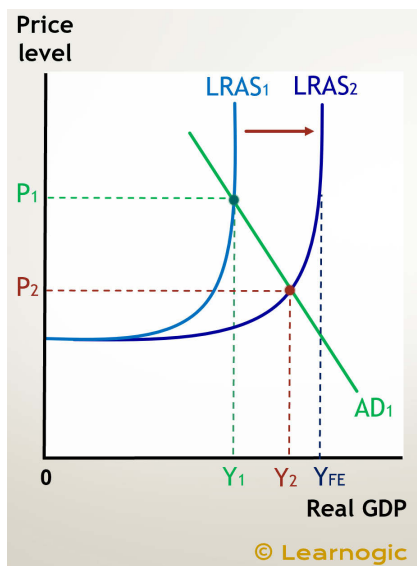
Indicative content

1(d)

Knowledge/Understanding 4, Application 4, Analysis 6, Evaluation 6

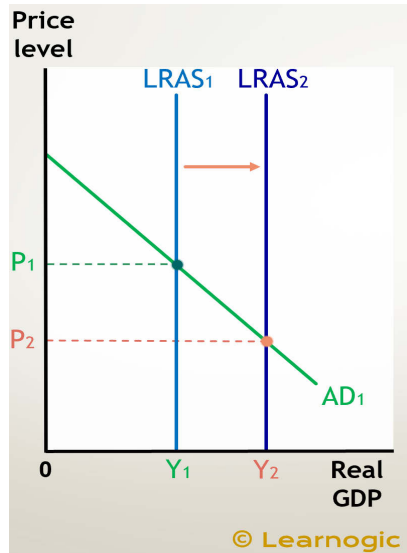
- Economic growth relies on an increase in output of either goods or services
- Supply-side policies are designed to increase the productive capacity of the economy
- By increasing the amount of goods/services that can be made using existing factors of production the economy expands and grows
- Italy intends to use a mix of interventionist and market-based policies to improve its growth rate
- Interventionist policies are focused on more training and education, the digital economy and infrastructure, which will help the workforce to be more productive and the economy to be more efficient
- Market based policies such as reforming the tax, legal and administrative areas are designed to reduce market imperfections and allow businesses to operate more freely and efficiently
- These combined policies should help the economy to grow as shown below

(20)



- At Y1 the economy was operating at full capacity. The increase in LRAS (LRAS1 to LRAS2) has moved the economy to an equilibrium that is now less than the new full employment rate of the economy (YFE)
- This causes an increase in real GDP (Y1 to Y2) and a reduction in the price level (P1 to P2), more resources are used with falling unemployment rates and rising incomes
- The economy is able to expand

OR



- Supply-side policies cause an increase in long run aggregate supply (LRAS1 to LRAS2). This causes an increase in real GDP (Y1 to Y2) and a reduction in the price level (P1 to P2)
- The economy is able to expand and grow
- However, these policies require both time and investment to implement
- Training and education may take years before benefits appear in the workplace and economy
- Infrastructure projects take time and have an opportunity cost in terms of government support which may be more effectively used elsewhere
- Government spending on supply-side policies may mean reductions in spending in other areas
- Interventionist policies may have unintended consequences, for example, tax reforms may create incentives for firms to invest but reduce tax revenues to fund infrastructure projects
- Other measures such as expansionary fiscal policies may have a more immediate effect on economic growth
- The best thing may be for an economy to use a mixture of demand side and supply side policies

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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	Discuss the use of venture capital as a source of finance for a firm such as <i>Moko</i> . Indicative content	Mark
2(a)	<p style="text-align: center;">Knowledge/understanding 2, Application 2, Analysis 2, Evaluation 2</p> <ul style="list-style-type: none"> • Venture capitalists specialise in providing funds for small and medium size businesses • It can be a useful source of finance when more conventional lenders such as banks, deem the business expansion to be too risky • Finance is provided in return for a stake in the firm which gives them some control and they are entitled to a share in any profits • They can provide advice and expertise which may be useful to <i>Moko</i> as it expands at home and into new foreign markets • <i>Moko</i> will gain the KES 786.6m immediately with no need to start repayments or pay interest which it would have to do on other forms of finance such as a loan • The owners of <i>Moko</i> will not need to pledge any assets as security • However, there are some disadvantages to using venture capital • The owners of <i>Moko</i> will have to give up some control of the business and this may cause conflict as the venture capitalists demand a say in how the business is run • It can be expensive to repay if the business expands and becomes more valuable and the proportionate equity stake has also risen in value 	(8)

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Question Number	Assess the possible economic impact of specialisation in agriculture for a country such as Kenya. Indicative content	Mark
2(b)	<p style="text-align: center;">Knowledge/understanding 2, Application 2, Analysis 3, Evaluation 3</p> <ul style="list-style-type: none"> • Specialisation means economies or businesses concentrate their resources in the areas that they do best, excess output is then traded • Kenya specialises in agriculture, accounting for 65% of its export earnings or \$4.24bn • Specialisation leads to increased productivity and output; economies of scale may be gained as more resources are devoted to specialisation rather than spread out over many areas • Output rises and leads to economic growth, which benefits other firms in Kenya • Agriculture provides a living for a large number of people. 40% of all Kenyans are employed in agriculture, the figure is higher (70%) in rural areas • 60% of Kenya's GDP comes from agriculture, either directly or indirectly and contributes greatly to Kenya's economy • However, specialisation can lead to over reliance on just one area, if anything happens to this area Kenya could suffer • Agricultural exports such as tea, cut flowers and coffee are commodity products and the global price can be volatile • Risk and uncertainty are not spread. Should demand fall for Kenyan agricultural products, it could have a serious impact on the Kenyan economy • Unemployment would rise with repercussions for other businesses and the economic wellbeing of Kenya itself 	(10)

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Question Number	Assess how the depreciation of the shilling may affect Kenyan firms such as <i>Moko</i> . Indicative content	Mark
2(c)	<p style="text-align: center;">Knowledge/understanding 2, Application 2, Analysis 4, Evaluation 4</p> <ul style="list-style-type: none"> • An exchange rate is the price of one currency expressed in terms of another • The Kenyan shilling has been depreciating against the dollar for 16 months and has reached a record low • Depreciation of a currency is usually seen as being good for exporters and bad for importers • If <i>Moko</i> imports raw materials for its furniture, it is likely to see a rise in the costs of production • This may result in <i>Moko</i> raising prices to maintain profit margins • If the PED of <i>Moko's</i> furniture is relatively elastic this will have a larger and detrimental impact on sales because revenue will fall • Kenyan consumers are already experiencing rising costs of living and may be unwilling to buy new furniture as their real incomes decline • However, <i>Moko</i> is planning to enter new markets elsewhere in Africa and a depreciating shilling may effectively lower the price of their furniture when exported • Extract E states that the population and purchasing power of consumers is increasing in these intended markets • This could increase sales, making it easier to get established and gain competitive advantage • Purchasing power is increasing across the continent and the increase in export sales may offset problems in the domestic market • Much will depend on how much longer the Kenyan shilling continues to depreciate and its relative value compared to other African countries 	(12)

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Question Number	Evaluate how membership of the AfCFTA might benefit African countries such as Kenya. Indicative content	Mark
2(d)	<p style="text-align: center;">Knowledge/understanding 4, Application 4, Analysis 6, Evaluation 6</p> <ul style="list-style-type: none"> • AfCFTA aims to eliminate 97% of all tariffs on trade between African countries • Kenya will face fewer trade barriers for its exports making it easier for firms such as <i>Moko</i> to expand into other African countries • The agreement should make trading between African countries cheaper and easier, therefore increasing the amount of trade that takes place between them • At the moment this is low and is just 17% of their exports. By comparison, the figure for Asian countries is 59% and 68% for European countries • Increasing the amount of trade between AfCFTA members is called trade creation and it is expected that this will lead to benefits in terms of economic growth and individual prosperity • At the same time AfCFTA should see a reduction in imports because non-member countries will still face tariffs and it becomes cheaper to import these goods from fellow AfCFTA members • This is called trade diversion and once again benefits the member states of AfCFTA in terms of growth • However, the extent to which this takes place depends upon a range of factors • As Kenya reduces its trade barriers, domestic firms are less protected and face more competition • <i>Moko</i> may find itself having to compete more rigorously for its share of the Kenyan market as other African furniture manufacturers try to move in • Extract H mentions the negative external factors of the global health crisis and economic downturn, these are likely to delay or hamper the benefits of trade creation and trade diversion • In time these will pass but other external shocks may arise • The extent to which trade diversion happens depends upon the ability of African countries to produce acceptable substitutes for imports • Many countries in Africa lack the technological development to replace some imports • AfCFTA is relatively new and with 54 countries there may be teething troubles or some countries may find that the benefits become outweighed by problems and trade disputes may happen. This 	(20)

	has happened in all trading blocs including the EU and NAFTA	
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