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Introduction

The Pearson Edexcel Level 3 Advanced Subsidiary GCE in Economics B is designed for use in schools and colleges. It is part of a suite of GCE qualifications offered by Pearson. These sample assessment materials have been developed to support this qualification and will be used as the benchmark to develop the assessment students will take.
General marking guidance

- All candidates must receive the same treatment. Examiners must mark the last candidate in exactly the same way as they mark the first.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than be penalised for omissions.
- Examiners should mark according to the mark scheme – not according to their perception of where the grade boundaries may lie.
- 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/indicative content will not be exhaustive.
- When examiners are in doubt regarding the application of the mark scheme to a candidate’s response, a senior examiner must be consulted before a mark is given.
- Crossed-out work should be marked unless the candidate has replaced it with an alternative response.
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 80.
- The marks for each question are shown in brackets – use this as a guide as to how much time to spend on each question.

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.
Answer ALL questions.

SECTION A

Read the following extract (A) before answering Question 1.

Write your answers in the spaces provided.

Extract A

Wedded to the idea of a castle business

In 2006, entrepreneur Chris Naylor bought a run-down, loss-making castle for £5m. Peckforton Castle is an impressive Victorian building, complete with many unique features and surrounded by 11 acres of woodland. Despite Peckforton Castle’s romantic appearance, the building was falling apart; however, Mr Naylor, the director of an architect’s business, had a vision to transform the castle.

He bought the castle when it was losing £700 000 a year and struggling to achieve sales revenue of £900 000. Apart from the 60 weddings held at the venue every year, the castle was closed.

Mr Naylor began full-scale renovation but in 2010 his dreams nearly went up in smoke. A fire caused £3m worth of damage to the building. No one was hurt but the castle's function rooms were out of action for more than six months, including 20 of the 48 bedrooms. “It was a pretty tough time” said Mr Naylor.

Since the blaze, business has bounced back. Financing from Santander bank enabled Peckforton Castle to be back in business by February 2011. Mr Naylor added value by turning the castle’s bell tower and west wing into a brasserie, treatment rooms and bridal suite. Today, the business boasts a prestigious AA three rosettes restaurant and a bird of prey centre.

It took more than £7m of investment to transform Peckforton Castle into a luxury hotel, wedding and conference venue that is open all-year round. In 2013, sales revenue was £6m, and the castle hosted 197 weddings. It is now one of the most popular wedding venues in the North West and the castle is now worth around £18m.

Planning permission should soon be granted for a full spa and activity centre in the castle’s “engine shed” outbuildings. A yurt village in the woodland is also planned, which should attract a new, nature-loving clientele. Once the latest building work is complete, the hotel will gain 12 more much-needed bedrooms. “It’s been so frustrating for the sales team to turn business away,” said Mr Naylor.

The wedding business is consistent both in good economic times and in bad. “A lot of parents have been saving for years for their children’s marriage and that money’s going on the wedding and nowhere else, despite all the negativity and uncertainty,” said Mr Naylor.

(Sources: http://www.imag1ne.com/peckforton-castle.htm; http://www.telegraph.co.uk/finance/businessclub/10554101/Wedded-to-the-idea-of-a-castle-business.html)
In 2006, entrepreneur Chris Naylor bought a run-down, loss-making castle for £5m. He bought the castle when it was losing £700 000 a year and struggling to achieve sales revenue of £900 000. Apart from the 60 weddings held at the venue every year, the castle was closed.

Peckforton Castle is an impressive Victorian building, complete with many unique features and surrounded by 11 acres of woodland. Despite Peckforton Castle’s romantic setting, the annual £500 000 running costs were out of action for more than six months, including 20 of the castle’s “engine shed” outbuildings. A yurt village in the woodland is also planned, which should attract a new, nature-loving clientele. Once the latest building work is complete, Peckforton Castle will host 50 weddings a year, up from 197 in 2005, and will have an £8m revenue. The rate of growth is expected to accelerate once the spa and activity centre are completed.

It took more than £7m of investment to transform Peckforton Castle into a luxury hotel, and the castle hosted 197 weddings. It is now one of the most popular wedding venues in the country. The castle will gain 12 more much-needed bedrooms. “It’s been so frustrating for the sales team to turn business away,” said Mr Naylor.

Planning permission should soon be granted for a full spa and activity centre in the castle’s bell tower and west wing. Turning the castle into a full-blown hotel has been a lightning-fast transition from the architect’s business, which was closed.

Mr Naylor was advised to show your working.

(b) Calculate the percentage change in sales revenue from 2006 to 2013. You are advised to show your working.

(a) What is meant by the term ‘entrepreneur’?
(c) Mr Naylor is considering spending £100 000 on advertising Peckforton Castle on local television.

Using a demand and supply diagram, illustrate the potential impact on Peckforton Castle’s sales.

(4)
(d) Discuss the possible benefits to Peckforton Castle of spending £100 000 on its advertising campaign. (8)
(e) Santander is going to increase all of its interest rates on commercial loans and savings by 2%.

Assess the potential effects on Peckforton Castle of this increase in interest rates. (12)
Assess the potential effects on Peckforton Castle of this increase in interest rates.
SECTION B

Read the following extracts (B and C) before answering Question 2.

Write your answers in the spaces provided.

Extract B

Online takeaways are good to go

With the introduction of the smartphone, companies have sprung up offering phone applications (apps) for ordering takeaway food online. The most popular of these apps is Just Eat, a company that links customers to local takeaways. Their free app has now been downloaded over two million times across 13 European countries.

In 2012, its UK division made operating profits of £9m on sales of £41.4m, up from £2.1m on sales of £21.6m in 2011. The business model is simple. Restaurants pay an initial membership fee on joining, and then a commission on every order. That commission is 11% in the UK. “We find that works brilliantly. It incentivises us to give them orders – so if we work hard, we get paid,” says Mr David Buttress, Chief Executive of Just Eat. Rivals, including Hungry House and Chow Now, operate a number of different pricing models, including monthly fees and annual subscriptions.

“In the UK alone, there are tens of thousands of takeaways which can’t build their own e-commerce platform,” he says. “And there’s a huge untapped potential of customers, who want to transact online, just as they do with everything else they buy.” With those market conditions, Just Eat looks set for strong future growth.

(Source: ‘Online takeaways are good to go’ By James Quinn, 30 Nov 2013 c The Daily Telegraph)

Extract C

Ban takeaways near schools to combat obesity in children

Fast-food takeaway outlets could be banned from opening shops near schools. Councillors in Rochdale, a town in North West England, will consider the proposal in a bid to tackle rising child obesity in the town where one-in-five 10 and 11 year-olds are classed as obese. According to NHS figures, Rochdale has the highest level of obesity among children in the North West, and the third highest rate for England. Most councillors are now coming to the conclusion that there should be more restrictions about takeaway outlets near schools.

2. (a) What is meant by the term ‘market’?

(b) Calculate the Operating Profit Margin for Just Eat in 2012 (Extract B). You are advised to show your working.

(c) Explain one way product differentiation may have contributed to Just Eat’s success.
(d) Discuss the importance to Just Eat of using market research to understand consumer demand. (8)
(e) Assess the benefits of government intervention to restrict the location of takeaway outlets.

(12)
SECTION C

Read the following extract (D) before answering Question 3.

Write your answer in the spaces provided.

Extract D

From our kitchen table to London’s Covent Garden

Four years ago, Julie Deane’s business hopes rested on £600 and a list of 10 start-up ideas. Starting from her kitchen table, Julie Deane has turned the pick of those ideas into the Cambridge Satchel Company – a global digital success with £12m sales revenue, and now set to make its high street debut. The company will open its first physical store this month (February 2013), in London’s Covent Garden.

“We’re going in the opposite direction to most businesses – we started online and now we’ve got a bricks and mortar store,” she said. Julie Deane is hoping the humble beginnings of the company will draw in shoppers. The bags will be displayed on “kitchen table” style units, while the shelves are made of leather panels from the satchels.

Google summarised Julie Deane’s story in an advertisement for its Chrome browser as “London. New York. Our Kitchen” giving the company free TV advertising. “People like to get behind us, get in touch and tell us the ideas for their businesses. Our story has really opened a lot of doors,” she said.

Asked if the Covent Garden shop represents the beginnings of a UK retail empire, Julie Deane said: “One store is enough – for the next eight weeks, at least.”

Indeed, the Cambridge Satchel Company has recently been given a £12.7m cash injection by venture capital firm Index Ventures to support the company’s expansion and develop its digital offering. The funds will be used to hire a new senior management team and improve the website.

3 Evaluate the importance of credit for an entrepreneur such as Julie Deane of the Cambridge Satchel Company. 

(20)
<table>
<thead>
<tr>
<th>Question Number</th>
<th>Answer</th>
<th>Mark</th>
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<td>(2)</td>
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<tr>
<td>Knowledge/understanding 2</td>
<td></td>
<td></td>
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<tr>
<td>Knowledge/understanding 2 marks for:</td>
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<td></td>
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<tr>
<td>• an entrepreneur organises factors of production (1) with the aim of adding value in providing a product or service (1).</td>
<td></td>
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<tr>
<td>NB any other suitable alternative. Do not award marks for characteristics and skills of entrepreneurs.</td>
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<td></td>
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<tr>
<td>1(b)</td>
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<td>(4)</td>
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<tr>
<td>Knowledge/understanding 1, Application 3</td>
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<tr>
<td>Knowledge/understanding 1 mark for:</td>
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<tr>
<td>• formula for percentage change in sales revenue:</td>
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<tr>
<td>Latest Sales Revenue – Original Sales Revenue × 100</td>
<td>(1)</td>
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<tr>
<td>Original Sales Revenue</td>
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<td>Application up to 3 marks for:</td>
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<td>6 000 000 – 900 000</td>
<td>(1)</td>
<td>567% (1)</td>
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<tr>
<td>900 000</td>
<td>(1)</td>
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<td>NB if the answer given is 567% award 4 marks.</td>
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<td>Question Number</td>
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<tr>
<td>1(c)</td>
<td>Knowledge/understanding 2, Application 1, Analysis 1</td>
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<td></td>
<td><strong>Knowledge/understanding:</strong></td>
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<tr>
<td></td>
<td>• 1 mark for correctly showing supply and demand curves (1)</td>
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<td></td>
<td>• 1 mark for correctly labelling axes price and quantity (1).</td>
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<td></td>
<td><strong>Application:</strong> 1 mark is available for shifting the demand curve outwards (1).</td>
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<td></td>
<td><strong>Analysis:</strong> 1 mark is available for showing original and new equilibria and consequences on</td>
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<td>the sales axis (1).</td>
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![Diagram](link)
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<tr>
<th>Question Number</th>
<th>Indicative content</th>
<th>Mark</th>
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<tr>
<td>1(d)</td>
<td>Knowledge/understanding 2, Application 2, Analysis 2, Evaluation 2</td>
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<tr>
<td></td>
<td>• Advertising is used by a firm to raise consumer awareness of its products and services and increase the quantity sold (shift the demand curve to the right).</td>
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<td></td>
<td>• Advertising should raise awareness of the Castle in the local community and therefore lead to an increase in demand for bookings for both weddings and the use of other facilities.</td>
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<tr>
<td></td>
<td>• This may lead to higher sales revenue and therefore higher profits for Chris Naylor.</td>
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<td></td>
<td>• If the advertising campaign is successful it may allow the firm to charge a higher price.</td>
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<td></td>
<td>• Higher revenues and profits may allow the firm to invest in new or improved facilities.</td>
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<td></td>
<td>• The extent of the benefits may depend on:</td>
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<tr>
<td></td>
<td>o the appropriateness of the advertising media chosen for the local market</td>
<td></td>
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<td></td>
<td>o local competition (the availability of other venues)</td>
<td></td>
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<td></td>
<td>o whether the money might have been better spent on other areas of the Castle, such as renovation of the rooms, the bird of prey centre or the repayment of the external finance (opportunity cost).</td>
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<tr>
<td>Level</td>
<td>Mark</td>
<td>Descriptor</td>
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<tr>
<td>0</td>
<td></td>
<td>A completely inaccurate response.</td>
</tr>
<tr>
<td>Level 1</td>
<td>1–2</td>
<td>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.</td>
</tr>
<tr>
<td>Level 2</td>
<td>3–5</td>
<td>Elements of knowledge and understanding, using limited relevant evidence. Arguments and chains of reasoning are developed. Judgements may be attempted.</td>
</tr>
<tr>
<td>Level 3</td>
<td>6–8</td>
<td>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.</td>
</tr>
</tbody>
</table>

**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.

Where questions do not specifically stipulate the use of data or information provided in a stimulus, students:

- must select relevant examples from their own knowledge, these must be directly connected to the context/issues set out in the question, and
- may directly reference, interpret or analyse the information provided in any relevant stimulus.
<table>
<thead>
<tr>
<th>Question Number</th>
<th>Indicative content</th>
<th>Mark</th>
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<tbody>
<tr>
<td>1(e)</td>
<td>Knowledge/understanding 2, Application 2, Analysis 4, Evaluation 4</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• The interest rate is the yearly price charged by a lender to a borrower in order for the borrower to obtain a loan.</td>
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<td></td>
<td>• This is usually expressed as a percentage of the total amount loaned.</td>
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<td></td>
<td>• A rise in Santander’s interest rates might affect Peckforton Castle in a negative way because the business has borrowed external finance to help fund the renovation of Peckforton Castle to add new features such as the brasserie.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• This may lead to an increase in the amount of interest which has to be repaid to Santander, resulting in less operating profit for Chris Naylor.</td>
<td></td>
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<tr>
<td></td>
<td>• Many couples who want to get married may have to borrow money in order to fund the wedding. This may lead to a reduction in the number of weddings at Peckforton Castle because of an increase in the cost of borrowing for customers who bank with Santander as it will be more expensive to get a bank loan.</td>
<td></td>
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<tr>
<td></td>
<td>• An increase in Santander’s interest rates may have no or a limited impact on Peckforton Castle.</td>
<td></td>
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<tr>
<td></td>
<td>• Extract A states that many weddings are paid for by parents who have saved up for many years, therefore an increase in interest rates will not impact on demand as they are not borrowing money to finance the wedding.</td>
<td></td>
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<tr>
<td></td>
<td>• The impact on Peckforton Castle may depend on the extent and duration of the increase in interest rates.</td>
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<td></td>
<td>• For some customers, weddings can be considered to be price inelastic and therefore demand will not suffer as much as those who see a wedding as price elastic.</td>
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<td></td>
<td>• A change in interest rates may reflect a change in economic policies which may have an impact on real incomes and consumer confidence; this could affect the overall demand for expensive weddings.</td>
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(12)
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<thead>
<tr>
<th>Level</th>
<th>Mark</th>
<th>Descriptor</th>
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<tr>
<td>0</td>
<td>0</td>
<td>A completely inaccurate response.</td>
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<tr>
<td>Level 1</td>
<td>1–2</td>
<td>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.</td>
</tr>
<tr>
<td>Level 2</td>
<td>3–5</td>
<td>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.</td>
</tr>
<tr>
<td>Level 3</td>
<td>6–9</td>
<td>Accurate knowledge and understanding, supported by use of relevant evidence to support the argument, clear chains of reasoning, with arguments well developed. An awareness of the significance of competing arguments is present although this may lack balance.</td>
</tr>
<tr>
<td>Level 4</td>
<td>10–12</td>
<td>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.</td>
</tr>
</tbody>
</table>

**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.

Where questions do not specifically stipulate the use of data or information provided in a stimulus, students:

- must select relevant examples from their own knowledge, these must be directly connected to the context/issues set out in the question, and
- may directly reference, interpret or analyse the information provided in any relevant stimulus.
<table>
<thead>
<tr>
<th>Question Number</th>
<th>Answer</th>
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<tbody>
<tr>
<td>2(a)</td>
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<tr>
<td><strong>Knowledge/understanding 2</strong></td>
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<tr>
<td>Knowledge/understanding 2 marks for:</td>
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<tr>
<td>• Any medium in which buyers and sellers interact (1) to exchange goods and services (1)</td>
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<tr>
<td>NB accept any other suitable alternative.</td>
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<td>(2)</td>
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<td>2(b)</td>
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<tr>
<td><strong>Knowledge/understanding 1, Application 3</strong></td>
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<tr>
<td>Knowledge: 1 mark for:</td>
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<tr>
<td>• formula of Operating Profit Margin: (1)</td>
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<tr>
<td>Operating Profit  x  100</td>
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<td></td>
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<tr>
<td>Revenue</td>
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<tr>
<td>Application:</td>
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<tr>
<td>£9m  (1) x  100 = 21.7% (1)</td>
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<tr>
<td>41.4m (1)</td>
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<tr>
<td>NB if the answer given is 21.7% award 4 marks.</td>
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<td>Question Number</td>
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| 2(c)            | **Knowledge/understanding**: 1 mark for understanding of ‘product differentiation’ as a concept, e.g. non-price factors distinguishing your product or service (1).  
**Application**: up to 2 marks are available for contextualised answers, e.g. 2m downloads/free app (1); quality of app/quality of service/range of options/speed of response/convenience (1).  
**Analysis**: 1 mark is available for linked development, e.g. by being different it enables them to charge 11% commission and increase sales (1). | (4)  |
<table>
<thead>
<tr>
<th>Question Number</th>
<th>Indicative content</th>
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<tbody>
<tr>
<td>2(d)</td>
<td><strong>Knowledge/understanding 2, Application 2, Analysis 2, Evaluation 2</strong></td>
</tr>
<tr>
<td></td>
<td>- Market research consists of finding out what consumers want about a product or service, ensuring that the product is designed to match consumer preferences.</td>
</tr>
<tr>
<td></td>
<td>- Market research could help Just Eat to evaluate the nature of competing apps (substitutes) and identify the features that customers value.</td>
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<td></td>
<td>- It can be carried out using two methods – primary and secondary market research.</td>
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<tr>
<td></td>
<td>- It is important to use these methods to find out what restaurants and consumers want from their Just Eat app. For example, what type of food is available in a certain area and what customers are prepared to pay for using the service.</td>
</tr>
<tr>
<td></td>
<td>- Just Eat can find out if restaurants are happy with the service they provide and how they can look to improve it.</td>
</tr>
<tr>
<td></td>
<td>- Market research can be very costly and time consuming for a firm to carry out.</td>
</tr>
<tr>
<td></td>
<td>- Data collected from the research may be out of date or inaccurate.</td>
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<tr>
<td></td>
<td>- Although market research is important, Just Eat should also consider:</td>
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<tr>
<td></td>
<td>- the wider economic environment</td>
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<td></td>
<td>- its market positioning</td>
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<td>- competition from other firms.</td>
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<td>Level</td>
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<tr>
<td>Level 1</td>
<td>1–2</td>
</tr>
<tr>
<td>Level 2</td>
<td>3–5</td>
</tr>
<tr>
<td>Level 3</td>
<td>6–8</td>
</tr>
</tbody>
</table>

**Demonstrating application (AO2) in responses**

Where questions specifically stipulate the use of data or information provided in a stimulus, students:

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<tr>
<th>Question Number</th>
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<tbody>
<tr>
<td>2(e)</td>
<td><strong>Knowledge/understanding 2, Application 2, Analysis 4, Evaluation 4</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Takeaway foods can be over-produced and over-consumed (by children) leading to obesity.</td>
<td></td>
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<tr>
<td></td>
<td>• Takeaway outlets near schools impose external costs on society.</td>
<td></td>
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<tr>
<td></td>
<td>• This is an example of market failure where the free market misallocates resources.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Government intervention is intended to correct market failure.</td>
<td></td>
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<tr>
<td></td>
<td>• Quantity supplied and demanded is at a level that includes external costs.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• External cost = cost to third parties not directly involved in the production or consumption of the takeaway food.</td>
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<tr>
<td></td>
<td>• External costs of obesity – creates costs to NHS through preventable diseases associated with obesity.</td>
<td></td>
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<tr>
<td></td>
<td>• External costs also include absence from school and/or work (costs to society as a whole).</td>
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<tr>
<td></td>
<td>• Social costs may also include litter and pollution in area of takeaway.</td>
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</tr>
<tr>
<td></td>
<td>• Direct government intervention is intended to reduce the production and consumption of takeaway food to reduce the associated social costs.</td>
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</tr>
<tr>
<td></td>
<td>• The government restricting the location of takeaway restaurants is an example of government intervention in order to try and reduce the problem of children becoming obese.</td>
<td></td>
</tr>
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<td></td>
<td>• Government failure and unintended consequences may include: children travelling further to takeaways and thus put at risk; increased school truancy; derelict/empty properties around schools; increasing unemployment as takeaways close down.</td>
<td></td>
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<tr>
<td></td>
<td>• Reduced sales and profits for the restaurant owner.</td>
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<tr>
<td></td>
<td>• The restriction may have no impact if the majority of customers are not schoolchildren or if their parents use the restaurant and give the takeaway food to their children.</td>
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<tr>
<td></td>
<td>• This may apply only to new restaurants opening up near to schools and it might be very difficult/costly to the local council to close down takeaways that have been in business for many years.</td>
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<tr>
<td></td>
<td>• Some school children may use takeaway restaurants and are not obese so this will reduce choice for them. However, school children may still use the restaurants and may even use technology such as Just Eat to get takeaway food delivered (to school).</td>
<td>12(1)</td>
</tr>
<tr>
<td>Level</td>
<td>Mark</td>
<td>Descriptor</td>
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<td>-------</td>
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<td>Level 0</td>
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<td>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.</td>
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<td>3–5</td>
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<tr>
<td>Level 3</td>
<td>6–9</td>
<td>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.</td>
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<tr>
<td>Level 4</td>
<td>10–12</td>
<td>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.</td>
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**Demonstrating application (AO2) in responses**

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<td>3</td>
<td><strong>Knowledge/understanding 4, Application 4, Analysis 6, Evaluation 6</strong></td>
<td>(20)</td>
</tr>
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</table>

- Credit allows an entrepreneur to bring an idea to market by paying for the initial capital investment before the enterprise is able to generate revenues.
- Credit allows an entrepreneur to pay for factors of production before the sale of the output generates any revenue.
- Credit will be needed if there are no internal sources of funds. Using retained profit from the £12m of sales would mean that the Cambridge Satchel Company (CSC) would not need credit such as bank loans/mortgages and would therefore save on interest.
- Credit is raised from outside the business such as bank loans, mortgages, venture capital, crowd funding.
- CSC is currently expanding from online to a high-street shop in Covent Garden and will need access to credit or other type of finance.
- Using credit from a bank would enable CSC to borrow a large amount of finance to fund the retail expansion and repay it over a number of years.
- The rate of interest may depend on the amount of collateral and paying interest incurs an opportunity cost.
- It is unclear how much retained profit CSC has or if this will, in fact, be sufficient to fund a large-scale retail expansion.
- CSC could use a combination of retained profits and external sources such as a bank loan to fund the expansion in order to minimise the risk involved in using all of the company’s retained profit.
- It depends on the amount of retained profit CSC has and the amount of retail outlets CSC wants to open as well as the current rate of interest as to which would be the most suitable source of finance for the retail expansion.
- CSC has used venture capital rather than credit to inject more finance and this has the advantage of not only gaining finance but the expertise of the venture capitalist.
- However, the use of venture capital will dilute ownership.
<table>
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<td>0</td>
<td>0</td>
<td>A completely inaccurate response.</td>
</tr>
<tr>
<td>Level 1</td>
<td>1–4</td>
<td>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.</td>
</tr>
<tr>
<td>Level 2</td>
<td>5–9</td>
<td>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.</td>
</tr>
<tr>
<td>Level 3</td>
<td>10–15</td>
<td>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 partially evaluated. An awareness of the significance of competing arguments is present although this may lack balance. A conclusion may be attempted but may not show awareness of the significance of competing arguments.</td>
</tr>
<tr>
<td>Level 4</td>
<td>16–20</td>
<td>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.</td>
</tr>
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Demonstrating application (AO2) in responses
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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 80.
- The marks for each question are shown in brackets – use this as a guide as to how much time to spend on each question.

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.
A rise in the interest rate has been made more likely by a higher-than-expected drop in the UK's unemployment rate.

The number of people out of work is now 7.4%, the lowest level since 2009, according to figures released by the Office for National Statistics (ONS). It says the number of people out of work fell by 99,000 to 2.39 million in the three months to October.

While the unemployment figure suggests the recovery is gaining momentum, it may have an effect on monetary policy. The Bank of England has cited a 7% unemployment rate as the point at which it will consider interest rate rises.

The announcement of the unemployment rate also caused the pound to appreciate. The currency rose by almost a cent against the dollar to $1.635. Total pay rose at an annual rate of 0.9% in October, the ONS said. Given that the inflation rate for the same month was 2.2% it seems that living standards in the UK are continuing to fall.

(Source: http://www.theweek.co.uk/uk-news/56572/sharp-fall-jobless-rate-raises-spectre-rate-rises)
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out of work fell by 99 000 to 2.39 million in the three months to October.

A rise in the interest rate has been made more likely by a higher-than-expected drop in

1 (a) What is meant by the term ‘monetary policy’?

(b) Calculate the percentage change in real wages for October (Extract A). You are advised to show your working.

(c) Using Extract A, explain how the change in real wages may affect an individual.

(d) With reference to Extract A, discuss the significance of changes in unemployment for UK firms. (8)
(e) Assess the impact on UK firms of the appreciation of the pound (£).
(Total for Question 1 = 30 marks)

TOTAL FOR SECTION A = 30 MARKS
SECTION B

Read the following extract (B) before answering Question 2.

Write your answers in the spaces provided.

Extract B

Since 1984, there has been a notable turnaround in the popularity of the cinema, with annual attendances increasing to 180 million despite the recent recession. It is still a long way from the 1940s, but it is evidence that new technology doesn’t have to mean the end of ‘traditional old media’.

Several reasons help to explain this, including the growth of multiplex cinemas which offer a wider choice of films and are easily accessible by car, new technology such as digital cinema screens and 3D screens. Cinemas have also benefited from the growth in the wider movie market in DVD sales and online sales.

The combined UK and Irish cinema market continues to be dominated by three major UK exhibitors, Cineworld Cinemas, Odeon UCI and Vue, who enjoy a market share of over 70%. The remaining 30% is represented by smaller independent cinemas which tend to operate non-multiplex cinemas (fewer than five screens).

2012 saw considerable inorganic growth and consolidation in the UK cinema market with Odeon acquiring the BFI Southbank and a site from AMC, Vue acquiring the Apollo cinema chain and Cineworld acquiring Picturehouse.

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Average household income</td>
<td>£29,968</td>
<td>£33,444</td>
</tr>
<tr>
<td>Annual attendance at a cinema</td>
<td>150 million</td>
<td>180 million</td>
</tr>
</tbody>
</table>

NB all figures are rounded, income expressed at current prices (source ONS).

(Source: http://www.economicshelp.org/blog/6693/business/cinema-attendance-in-uk/)
2 (a) What is meant by the term ‘market share’?

(b) Calculate the Income Elasticity of Demand (YED) for cinema tickets between 2000–2001 and 2010–2011 (Extract B). You are advised to show your working.

(c) Explain how a recession might impact on a cinema chain such as Cineworld.
(d) Discuss the benefits for small, independent cinemas of operating in a niche market.
(e) Assess the advantages of inorganic growth for a firm such as Cineworld.
(Total for Question 2 = 30 marks)

TOTAL FOR SECTION B = 30 MARKS
SECTION C

Read the following extract (C) before answering Question 3.

Write your answer in the spaces provided.

Extract C

Digital economy needs 750 000 workers

Britain needs 750 000 additional, digitally-skilled workers by 2017, if it is to take advantage of a £12bn economic opportunity, a new report claimed today. The report also said existing government initiatives designed to accelerate the growth of the digital economy were expected to generate economic output worth £7bn per year by 2017, and claimed a further £4bn per year could be found if government and business worked more closely to improve digital education in schools.

More than 2 million people already work in the digital economy, but failure to find more could cost the UK economy £2bn per year. Nearly 200 000 of the new jobs are particularly suited to young workers, many of whom are currently unemployed.

Ronan Dunne, chief executive of O2, who funded the report, said that “Businesses must proactively seek out opportunities to collaborate to maximise the digital growth opportunity and harness the potential of the next generation.”

3 Evaluate the impact of the digital economy on UK firms. (20)

[Answer space]

[Please provide your answer here.]
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<tr>
<td>1(a)</td>
<td>Knowledge/understanding 2</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Knowledge/understanding:</strong> 2 marks for:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• monetary policy involves changes in the base rate of interest (1)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• to influence the rate of growth of aggregate demand (1).</td>
<td></td>
</tr>
<tr>
<td></td>
<td>NB accept any other suitable alternative.</td>
<td>(2)</td>
</tr>
<tr>
<td>1(b)</td>
<td>Knowledge/understanding 1, Application 3</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Knowledge/understanding:</strong> 1 mark for</td>
<td></td>
</tr>
<tr>
<td></td>
<td>% change in real wages = % change in pay – % rate of inflation (1).</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Application</strong></td>
<td></td>
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<tr>
<td></td>
<td>% change in real wages = 0.9% (1) – 2.2% (1)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>change in real wages = -1.1% (1)</td>
<td></td>
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<tr>
<td></td>
<td>NB if the answer given is -1.1% give 4 marks.</td>
<td>(4)</td>
</tr>
<tr>
<td>Question Number</td>
<td>Answer</td>
<td>Mark</td>
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<td>-----------------</td>
<td>----------------------------------------------------------------------</td>
<td>------</td>
</tr>
<tr>
<td>1(c)</td>
<td><strong>Knowledge/understanding 1, Application 2, Analysis 1</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Knowledge/understanding:</strong> 1 mark for understanding of ‘real wages’ as a concept, e.g. the actual amount of goods and services that a given level of wages can buy/purchasing power of wages after adjusting for inflation (1).</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Application:</strong> up to 2 marks are available for contextualised answers, e.g. living standards are continuing to fall (1); total pay is not going up as fast as inflation (1).</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Analysis:</strong> 1 mark available for developing the effect, e.g. the same amount of income will buy fewer goods (1.1% less) and so in real terms purchasing power has declined and the individual is worse off (1).</td>
<td>(4)</td>
</tr>
<tr>
<td>Question Number</td>
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<tr>
<td>-----------------</td>
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<td>------</td>
</tr>
<tr>
<td>1(d)</td>
<td><strong>Knowledge/understanding 2, Application 2, Analysis 2, Evaluation 2</strong></td>
<td>8</td>
</tr>
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</table>

- The overall trend is declining unemployment.
- Unemployment has reached the lowest level since 2009, but a fall of 99,000 is a drop of only 0.4% in the number of people out of work and may not be significant.
- Falling unemployment means that more people have jobs and therefore a higher level of disposable income.
- As unemployment falls, the demand should rise for many goods and services.
- At the same time it becomes harder to fill job vacancies.
- In the UK the recent global downturn and recession has been hard for many firms with reduced sales causing problems with profitability and even survival.
- As more people get jobs, incomes rise and this boosts firms’ turnover.
- Firms such as Aldi that have done well in the recession may see a downturn in trade as consumers revert to more expensive substitutes.
- Areas such as the south east with lower starting levels of unemployment may find it hard to recruit suitable staff. This may lead to employers offering higher wages to attract staff, increasing costs and possibly reducing profitability.
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- An appreciation of the pound means that more foreign currency can be ‘bought’ for the same number of pounds.
- This should mean that imports become cheaper as fewer pounds have to be exchanged for the same number of dollars, for example.
- This will mean a reduction in costs for firms who import raw materials, semi-finished or finished goods from abroad.
- This could lead to a rise in profits or a chance to decrease prices to gain a competitive advantage.
- Exporters will not be pleased because foreign countries will have to give up more of their currency to buy the same number of pounds.
- This may mean that demand will fall or prices in sterling may need to be reduced to maintain demand. This may cause a loss of profitability.
- The pound rose against the dollar – other currencies may be different.
- The rise was only just over a cent and may have little significance.
- Much may depend on the extent and duration of the appreciation and the type of good or service involved.
- Exports that are price inelastic will not suffer as much as those that are price elastic. Firms not involved in international trade may not be affected at all.

(12)
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<td>(2)</td>
</tr>
<tr>
<td><strong>Knowledge/understanding</strong>: 2 marks for:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• the percentage of total sales (1)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• in a market held by a brand/s, product/s or company/ies (1).</td>
<td></td>
<td></td>
</tr>
<tr>
<td>NB accept any other suitable alternative.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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<tr>
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<tbody>
<tr>
<td><strong>2(b)</strong></td>
<td><strong>Knowledge/understanding 1, Application 3</strong></td>
<td>(4)</td>
</tr>
<tr>
<td><strong>Knowledge/understanding</strong>: 1 mark for:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>defines YED = % change in Q ÷ % change in Y (1)</td>
<td></td>
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</tr>
<tr>
<td><strong>Application</strong> up to 3 marks for:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>% change in Q = 20% (1), % change in Y = 11.6% (1)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>YED = 1.7 OR 1.72 (1)</td>
<td></td>
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</tr>
<tr>
<td>NB if the answer given is 1.7 OR 1.72 give 4 marks.</td>
<td></td>
<td></td>
</tr>
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</tr>
<tr>
<td>2(c)</td>
<td><strong>Knowledge/understanding 1, Application 2, Analysis 1</strong></td>
<td>(4)</td>
</tr>
</tbody>
</table>

**Knowledge/understanding:** 1 mark for
- an understanding of recession, e.g. a stage in the economic or business cycle/two consecutive quarters of negative GDP growth (1).

**Application:** up to 2 marks are available for contextualised answers, e.g. household incomes fall/stagnate/rise more slowly (1) which might be expected to reduce spending on luxuries such as visiting the cinema (1).

**Analysis:** 1 mark is available for developing the significance, e.g. sales have increased but not as quickly as they may have done if there had been no recession (1), or changing technology has allowed cinemas to offer a better product/experience, maintaining or increasing attendance despite the recession (1).
<table>
<thead>
<tr>
<th>Question Number</th>
<th>Indicative content</th>
<th>Mark</th>
</tr>
</thead>
<tbody>
<tr>
<td>2(d)</td>
<td><strong>Knowledge/understanding 2, Application 2, Analysis 2, Evaluation 2</strong></td>
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<td></td>
<td>• A niche market is a small section of a larger market that has certain special characteristics, e.g. specialised product or service, close relations with consumers, and is often able to charge a premium price.</td>
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<td></td>
<td>• Typically, demand in a niche market is more price inelastic than in a mass market and this may allow small, independent cinemas to compete on non-price factors.</td>
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<td></td>
<td>• Small, independent cinemas cater for a niche market and do not compete directly with the big chains.</td>
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<td></td>
<td>• Not everyone wants to see the big Hollywood blockbuster movies.</td>
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<td></td>
<td>• By providing niche products, such as foreign or classic films, they are likely to attract customers whose demands are not satisfied by the mass market chains.</td>
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<td></td>
<td>• These customers are likely to be loyal and even willing to pay premium prices, leading to increased sales revenue, profitability and survival in the market.</td>
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<td></td>
<td>• The extent of the benefits may depend on:</td>
<td>8</td>
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<tr>
<td></td>
<td>o whether tastes change</td>
<td></td>
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<tr>
<td></td>
<td>o the availability of substitutes, such as DVDs, the launch of Netflix and on-demand films</td>
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<tr>
<td></td>
<td>o the sophistication of substitutes such as home cinema equipment</td>
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<td></td>
<td>o whether or not large firms enter the market.</td>
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<tr>
<td>Level</td>
<td>Mark</td>
<td>Descriptor</td>
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<td>---------------------------------------------------------------------------</td>
</tr>
<tr>
<td>0</td>
<td>0</td>
<td>A completely inaccurate response.</td>
</tr>
<tr>
<td>Level 1</td>
<td>1–2</td>
<td>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.</td>
</tr>
<tr>
<td>Level 2</td>
<td>3–5</td>
<td>Elements of knowledge and understanding, using limited relevant evidence. Arguments and chains of reasoning are developed. Judgements may be attempted.</td>
</tr>
<tr>
<td>Level 3</td>
<td>6–8</td>
<td>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.</td>
</tr>
</tbody>
</table>

**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.

Where questions do not specifically stipulate the use of data or information provided in a stimulus, students:

- must select relevant examples from their own knowledge, these must be directly connected to the context/issues set out in the question, and
- may directly reference, interpret or analyse the information provided in any relevant stimulus.
Inorganic growth means expanding by the joining together of two or more firms by merger or takeover. Growth can be rapid and this may be important in a dynamic market such as the film entertainment industry. By contrast, organic growth can take much longer. Inorganic growth also reduces competition at the same time as expanding market share. Other benefits include the acquisition of brand names and assets. By taking over existing cinemas, Cineworld does not have to gain planning permission or take the time to build new cinemas. It is a strong oligopoly: there is a three-firm concentration ratio of 70%. Increasing size can lead to economies of scale and increasing market power which might be useful in negotiating with film studios over rental fees for films. However, around 50 per cent of all mergers and acquisitions fail to yield the anticipated benefits. Culture clashes and communication problems may arise. Too much growth may bring about diseconomies of scale. Having 70 per cent of the market may attract the attention of the Competition and Markets Authority.
<table>
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<tr>
<td>1–2</td>
<td></td>
<td>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.</td>
</tr>
<tr>
<td>3–5</td>
<td></td>
<td>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.</td>
</tr>
<tr>
<td>6–9</td>
<td></td>
<td>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.</td>
</tr>
<tr>
<td>10–12</td>
<td></td>
<td>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.</td>
</tr>
</tbody>
</table>

**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.

Where questions do not specifically stipulate the use of data or information provided in a stimulus, students:
- must select relevant examples from their own knowledge, these must be directly connected to the context/issues set out in the question, and
- may directly reference, interpret or analyse the information provided in any relevant stimulus.
The digital economy is based on digital technologies and is also sometimes called the internet economy.

The development of the internet in particular has created another medium (virtual market) where exchange can take place.

Impact on firms’ demand for skilled labour (recruitment, training, wage rates and labour productivity).

Impact on firms’ distribution (reducing costs).

Impact on relationships with suppliers (costs and lean production).

Impact on consumers (ability to compare prices of substitutes, more information, e.g. ratings, more choice).

Impact on the competitor and consumer knowledge in the market (firms create websites and smartphones and other devices enable consumers to access them).

Impact on how firms define their market geographically (UK firms have access to national and international markets that would previously have been too costly to access, thereby gaining potential new and profitable sales).

Impact on costs (UK firms can find and access the most competitive sources for inputs; digital tools can improve efficiency and reduce costs).

Impact on the cost of communication (improved communications such as Skype, teleconferencing and emails are all part of the digital economy).

Impact on trading costs: credit-card fraud, privacy invasion and business security are all problems.

Impact on prices if market more competitive.

Impact on investment plans – need to upgrade technology regularly (firms may have to invest a great deal of money to remain digitally competitive).

Impact on innovation: piracy and copying of intellectual property rights (IPR) is more likely and needs to be guarded against.

Market entry: creates opportunities for new firm start-ups (many new firms have been created because of the rise and creation of the digital economy).

Increased competition: non-UK firms are likely to take advantage of the digital economy and therefore UK firms may face increased competition.

Market exit: some UK firms have suffered at the hands of the digital economy, for example bookshops and retailers such as HMV, Virgin and Comet.

Impact on the range of stock a firm can store/offer (the 'long tail', whereby many niches can create firms such as Amazon).
<table>
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<tr>
<th></th>
<th>In the long term, the economy can benefit from increased sales, resulting in increase in employment and growth, yielding higher tax revenues and reduced spending on benefits.</th>
<th>(20)</th>
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<tr>
<td>Level 1</td>
<td>1–4</td>
<td>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.</td>
</tr>
<tr>
<td>Level 2</td>
<td>5–9</td>
<td>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.</td>
</tr>
<tr>
<td>Level 3</td>
<td>10–15</td>
<td>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 partially evaluated. An awareness of the significance of competing arguments is present although this may lack balance. A conclusion may be attempted but may not show awareness of the significance of competing arguments.</td>
</tr>
<tr>
<td>Level 4</td>
<td>16–20</td>
<td>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.</td>
</tr>
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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.

Where questions do not specifically stipulate the use of data or information provided in a stimulus, students:
• must select relevant examples from their own knowledge, these must be directly connected to the context/issues set out in the question, and
• may directly reference, interpret or analyse the information provided in any relevant stimulus.