



Mark Scheme (Results)

Summer 2022

Pearson Edexcel GCE A Level in
Economics B (9EB0)
Paper 03 The Economic Environment and
Business

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General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

Question Number	Discuss the usefulness of GDP as an indicator of growth. 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"> • GDP measures the output of goods and services in an economy over a period of time • Increases in GDP can represent an increase in output showing increases in national income • This can show an increase in living standards for the population • A change in growth rates as measured by GDP can indicate the need for a change in economic policy • One country can compare its growth rate to other countries • However, inflation can distort GDP figures, a 3% increase in GDP with a 2% inflation rate is only a 1% growth rate in real terms • An increase in GDP may not represent an increase in income for many people if wealth distribution is inequitable • Economic activity may be unrecorded making GDP inaccurate • It does not measure qualitative aspects of life 	(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 the impact of exchange rate changes on economic growth. 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"> • A depreciation of a country's exchange rate can be of benefit if it is a major exporter such as China • These exports will appear cheaper in terms of other currencies and lead to an increase in demand • With more exports demanded, production will increase leading to more output and economic growth • Employment will increase and additional incomes earned will be spent further increasing AD, output and growth • An appreciation of a currency will make imports cheaper as less domestic currency is exchanged for the same amount of foreign currency • This can be a benefit if imports are a significant proportion of input costs such as energy or raw materials • A reduction in costs can feed through into a competitive advantage, more sales and a rise in output and growth • However, both appreciation and depreciation can have a negative impact on economic growth • If growth is too rapid it can start inflationary pressures leading the government to introduce contractionary policies to reduce inflation which in turn can reduce the rate of growth • The impact on both exports and imports depends on the relative changes involved in the exchange rate • And on their relative price elasticities of demand e.g. inelastic PED for exports will lessen the negative effects of appreciation 	(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	Using a suitable diagram, assess the use of fiscal policy to stimulate economic growth. Indicative content	Mark
1 (c)	<p>Knowledge/Understanding 2, Application 2, Analysis 4, Evaluation 4</p> <ul style="list-style-type: none"> Economic growth relies on an increase in output of either goods or services This can be caused by an increase in any of the components of AD ($C + I + G + (X-M)$) Fiscal policy focuses on the levels of government income and expenditure To stimulate economic growth an expansionary fiscal policy is used Taxes may be reduced and/or government expenditure increased – both would increase AD causing more output, employment and growth <div data-bbox="359 846 874 1272" data-label="Figure"> <p>The diagram is an AD/AS model. The vertical axis is labeled 'Price Level' and the horizontal axis is labeled 'Real GDP'. An upward-sloping curve is labeled 'AS'. Two downward-sloping curves are shown: the original 'AD' and a new 'AD₁' shifted to the right. An arrow points from AD to AD₁. The initial equilibrium is at the intersection of AD and AS, corresponding to price level 'PL' and real GDP 'Q'. The new equilibrium is at the intersection of AD₁ and AS, corresponding to a higher price level 'PL₁' and higher real GDP 'Q₁'. Dashed lines connect these points to the axes.</p> </div> <ul style="list-style-type: none"> In the above diagram, fiscal policy has shifted the AD curve to the right Output and real GDP have increased from Q to Q₁ and economic growth has been achieved However, the diagram shows that the price level has risen from PL to PL₁, this represents inflation, a danger that <i>Credit Suisse</i> is warning of in extract C Any further attempts to stimulate the economy will shift the AD even further to the right with greater inflation To avoid this the AS curve would also have to shift to the right to ensure sustainable growth, this would need supply-side policies to be implemented alongside the fiscal policies Fiscal policy will be most effective when the economy has spare capacity and unemployed resources as was the case in 2020 	(12)

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Question Number	Evaluate the extent of the trade-off between economic growth and negative externalities. Indicative content	Mark
1(d)	<p style="text-align: center;">Knowledge/understanding 4, Application 4, Analysis 6, Evaluation 6</p> <ul style="list-style-type: none"> • Economic growth results from increased output of goods and services • Negative externalities are costs that are imposed on a third party that is independent of the original economic transaction • By its nature growth means increased output which means increased inputs • Some inputs such as carbon-based energy sources and raw materials are in finite supply • They are not sustainable and consumption of them now implies a shortage in the future • Using materials such as coal to generate power produces pollution in the form of greenhouse gases which causes damaging climate change • Flooding or rising sea levels caused by climate change has a negative impact on food production and living conditions • Air pollution causes health problems which in turn require extra resources to fund healthcare and this is in addition to the human cost • Globalisation is increasing meaning more trade, output and more transportation of goods across the globe leading to more external costs • Extract D suggests that these costs could be as much as \$25tn • In short it appears that increased growth does have a trade-off with negative externalities • However, it is the extent of the trade-off that is important and to what degree it is acceptable to society • Economic growth has lifted millions of people out of poverty in China and continues to do so in other areas of the world • The quality of life for many is better than it has ever been, life expectancy has increased, death rates have decreased, previously untreatable diseases can now be treated and even eradicated • All of this is due to economic growth and positive externalities that perhaps partly reduce the trade-off • Nevertheless, these negative externalities can be reduced and many economies are now taking this seriously • As Extract E shows with Germany's energiewende policies, renewable energy is replacing polluting and unsustainable sources 	(20)

	<ul style="list-style-type: none">• Some resources, such as timber, are now sustainable in many areas as more trees are planted than consumed• Electric vehicles are replacing petrol ones, re-cycling is saving many resources and global treaties such as the Paris Accord show some progress• The trade-off remains and the degree to which it will be reduced or even disappear is a moot point.	
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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	Discuss the possible impact of economic growth on employment patterns in a country such as Vietnam. Indicative content	Mark
2(a)	<p>Knowledge/understanding 2, Application 2, Analysis 2, Evaluation 2</p> <ul style="list-style-type: none"> • Employment patterns refers to the way the population of a country is distributed across different occupations and sectors • It will change over time as economic growth takes place • Countries such as Vietnam are classed as emerging economies with rapid growth rates • Vietnam is predicted to experience growth of 8.5% in 2021 • Many people will move out of the agricultural sector and into the newly industrialised sectors • FDI from foreign firms such as <i>Toyota</i> and <i>Honda</i> has created many jobs in the expanding secondary sector which includes manufacturing • In turn these jobs with their incomes creates a demand for more housing as cities grow and better infrastructure • This growth in construction and engineering expands the secondary sector further • As growth continues, labour saving investment increases and some in the secondary sector move into services and the tertiary sector expands • However, not all economies will follow the same path • Some economies maintain large primary sectors because they have a competitive advantage in that area such as Indonesia with palm oil • Others become very good at manufacturing and maintain a large secondary sector as their economies grow such as China or Germany 	(8)

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Question Number	Assess the benefits of membership of a trade bloc for a country such as Vietnam. Indicative content	Mark
2(b)	<p>Knowledge/understanding 2, Application 2, Analysis 3, Evaluation 3</p> <ul style="list-style-type: none"> • A trading bloc is a group of countries with free trade or some form of preferential trading agreement and reduced protectionism • RCEP will become the world's largest trading bloc with an output of \$26.2tn, reducing trade barriers for nearly a third of the global population • Firms within such a trading bloc should find it easier to access other member's markets as trade restrictions are eased thus increasing potential sales and revenues • Firms may be able to import raw materials/components/products and services more cheaply from fellow members, thus reducing their costs which may give them a competitive advantage • Free trade or fewer trade restrictions should cause economic growth as prices fall (reflecting reduced costs), this increases disposable income and increases overall demand for local firms and leads to more economic growth • However, domestic industries will have lost some or all of their protective tariffs and barriers, meaning they are now relatively more expensive and less competitive • Low-cost manufacturing bases in other countries may find it easier to penetrate home markets and provide competition for domestic firms • China is a member of RCEP and may cause problems for its smaller neighbours as it exploits its considerable competitive advantages • Increased competition for domestic producers may mean a drop in sales causing a drop in profits • Nevertheless, many countries are in trading blocs and the formation of new trading blocs such as the RCEP suggests that for many countries the advantages outweigh any drawbacks. 	(10)

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Question Number	Assess the impact of Multinational Corporations (MNCs) on the national economy of a country such as Vietnam. Indicative content	Mark
2(c)	<p>Knowledge/understanding 2, Application 2, Analysis 4, Evaluation 4</p> <ul style="list-style-type: none"> • Vietnam has received investment from MNCs worth \$17bn in 2020 and continues to attract more • Investment in new production plants by global firms such as <i>Toyota</i> and <i>Canon</i> creates jobs and incomes for local inhabitants which increases the GDP of Vietnam • Local businesses are involved in the construction and supply for the new plants, creating further employment and income and further economic growth • Spending of the extra income creates a positive multiplier effect and leads to a rise in both GDP and living standards • Technology transfer may take place improving the prospects for local businesses which will further contribute to Vietnamese economic growth • The Vietnamese Government will receive extra tax revenue which can be used to improve healthcare/education/infrastructure • Vietnam's exports are likely to increase which will have a positive impact on the balance of trade • However, not all MNCs will pay fair wages and some may impose poor working conditions. Businesses such as <i>Nike</i> and <i>Apple</i> have been accused of this in the past • Some large MNCs such as <i>Amazon</i> and <i>Google</i> have been accused of transfer pricing and tax avoidance which does not help government revenue or growth • Technology transfer may not occur if MNCs just uses cheap labour for basic production • MNCs may cause damage to the environment or use unsustainable resources which will ultimately harm growth • Some MNCs are footloose and may move on to other more desirable locations, Vietnam is attracting many firms previously located in China 	(12)

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Question Number	Evaluate the impact on European firms of the growing economic power of emerging economies in South East Asia. Indicative content	Mark
2(d)	<p>Knowledge/understanding 4, Application 4, Analysis 6, Evaluation 6</p> <ul style="list-style-type: none"> • Many countries in South East Asia are expected to grow more rapidly than the rest of the world, with an average growth rate in GDP of 6% • Vietnam is forecast to be the fastest growing with 8.5%, closely followed by the Philippines and Malaysia with 8.4% and 7.1% • As economic growth rises, disposable incomes rise, thus increasing the demand for goods and services • This means a huge and growing potential consumer market for many European firms and this is likely to lead to increased sales and profitability • As developing economies grow they are likely to need not just goods such as fashions and consumer goods but services as well • Infrastructure will need input from engineering and transport businesses. Communications systems and equipment will be needed. Established European firms have an opportunity here • European businesses may be able to move away from saturated western markets where growth may be limited, or difficult and move to the new developing markets in South East Asia • Product life cycles can be extended as models developed in European markets can be introduced to the developing markets • However, economic growth can mean that the developing economies begin to develop their own industries • Some Chinese (<i>Haier, Lenovo</i>) and Indian (<i>Tata, Infosys</i>) companies are amongst the biggest in the world and more than capable of innovation and competing with European businesses on a global level • Vietnam is now capable of high-tech manufacturing thanks to the influx of MNCs and technology transfer and can compete with Europe • The RCEP will help its members to reduce costs as protectionism decreases, making their goods and services more competitive • Extract G shows that economies such as Vietnam are likely to benefit from the RCEP and become more able to export to large consumer markets such as those in Europe • Many of these exports may be cheaper than their European competitors • This increases pressure on European firms that may lose market share 	(20)

	<ul style="list-style-type: none">• European businesses that are innovative, or compete on quality, or have strong brands should continue to thrive as the expanding South East Asian economies become more consumer orientated• Those that perhaps just compete on price, or do not adapt and change, may not.	
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