

'A' level: Economics B

Paper 2 practice papers

Competing in the global economy

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Contents

These three Paper 2 practice papers have the following key features:

1. They are laid out in the general format of the Paper 2 examination, and so help students to become familiar with the approach which they will face when they sit the Paper.
2. Accompanying each test is a mark scheme, based around Edexcel's own mark schemes. These both assist the teacher in marking students' work, and helps students understand what they need to do to improve their mark.
3. Also accompanying each test is a set of suggested answers. These are rather longer than most students would have time to produce in an examination setting, and also contain more analysis and detail than students would be expected to know. They inevitably contain some points of view personal to the author. They should therefore be seen as an example of how the questions might be tackled rather than as definitive responses.
4. Pagination has been organised so that Question 1 can easily be photocopied separately from Questions 2 and 3. This is also true of the mark schemes and suggested answers.

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Economics B

Advanced

Paper 2: competing in the global economy

Time: 2 hours

You do not need any other materials

ECONOMICS B, PAPER 2: FIRST PRACTICE PAPER

Instructions

Write in black

Fill in the boxes at the top of this page

Answer all questions in the spaces provided

Information

Total marks: 100

This gives you one minute per mark plus 20 minutes reading time

Use this to time your answers

Calculators are permitted

Advice

Read each question very carefully

Try to answer every question

Check over your answers if you have time at the end

Answer ALL questions

SECTION A

Read the following extracts (A to D) before answering Question 1.

Extract A

Carrier Corporation moves jobs from USA to Mexico

Carrier Corporation manufactures, among other things, air-conditioning units. These are standard household appliances that attach to the back of buildings in every warm country in the world. Carrier Corporation has had manufacturing plants in Indiana, USA since 1915.

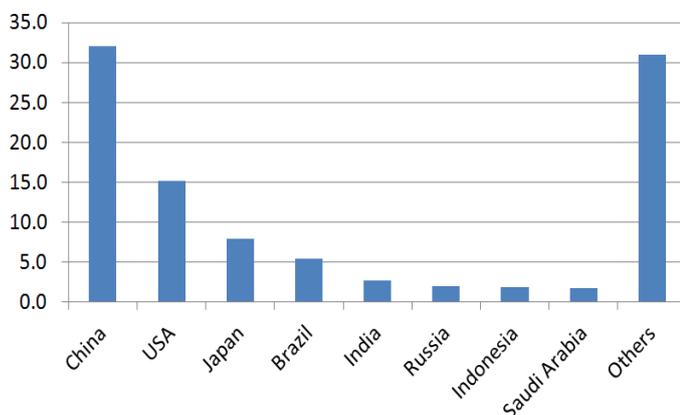
On February 10th 2016, it announced that it was going to close these plants and move production to its plant in Monterrey, Mexico. Both countries are within the North American Free Trade Association – but there’s a key difference. Wages in Indiana are \$22 an hour; in Monterrey they are just \$3 an hour. With the presidential election coming that November, candidate Donald Trump campaigned on the basis that he would help keep these, and other, jobs in the United States, “We have to stop our companies from leaving the United States and, with it, firing all of their people,” he said. “All you have to do is take a look at Carrier air-conditioning They left - fired fourteen hundred people. They’re going to Mexico.”

A week after the election, Donald announced a deal with Carrier whereby they agreed to keep 800 of the 1400 jobs at risk in Indiana for the next ten years, in return for training grants and tax deductions worth \$7 million. The other 600 jobs have since moved to Mexico. There is some doubt as to whether Carrier will honour the deal. A union official said, “I don't think they built that facility in Monterrey, Mexico, just to have [a few] departments in there. It's a little too large for that.”

Source: press reports, 2016-2017

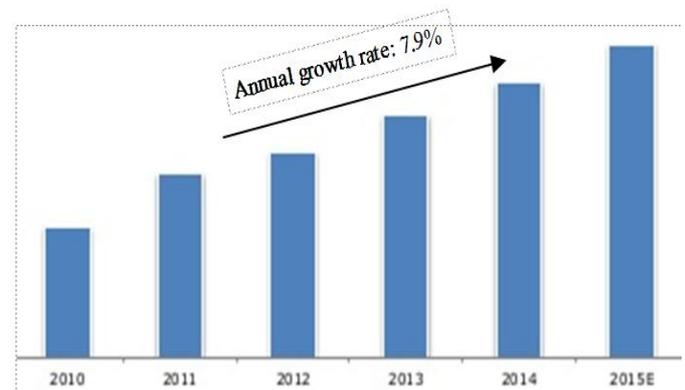
Extract B

Market shares of air conditioning units, 2013 sales



Extract C

Global sales of air conditioning units



Extract D**The competitive landscape in air conditioning units**

The global market for air conditioning units has a number of global, regional, and local manufacturers. The market is therefore exceptionally competitive. Local manufacturers have dominant market shares in many developing countries. However, as the multinationals are looking for growth opportunities, their local rivals are under severe pressure, finding it increasingly difficult to compete in terms of either price or technical features. The multinationals have made huge investments in research and development, and so can offer ever more innovative products. Meanwhile, mergers between the biggest players enable them to access yet more economies of scale.

Source: press reports, 2016-2017

1a The world economy is forecast to grow at 3.6% pa.

Using data from Extract C, calculate the YED for air conditioning units to two decimal places. **(4)**

1b Explain **one** way that a small producer of air conditioning units might effectively compete with its much larger rivals, such as Carrier. **(4)**

1c Using data from Extract B, explain **one** feature apart from income that could explain the demand for air conditioning units in different countries. **(4)**

1d Analyse **one** economy of scale that would benefit the manufacturers of air conditioning units. **(6)**

1e Using a suitable diagram, discuss the impact of global warming on the market for air conditioning units. **(8)**

1f Assess what is likely to happen to wages of production workers in Mexico **and** in America as a result of more American companies moving their manufacturing facilities to Mexico. **(10)**

***** SAMPLE *****

Mark scheme for Economics B, Paper 2: First practice paper

Q		Mark
	The world economy is forecast to grow at 3.6% pa. Using data from Extract C, calculate the YED for air conditioning units to two decimal places.	
1a	<p>Knowledge/understanding 1, Application 3</p> <p>Knowledge: For formula: $YED = \% \text{ change in demand} / \% \text{ change in income}$ (1)</p> <p>Application: up to 3 marks for calculations = 7.9% / 3.6% (1) = 2.19 (2)</p> <p>If no working is shown: 2.19 scores 4; 2.19% scores zero; 2.2 or 2.1 scores 1</p>	4

Q		Mark
	Explain one way that a small producer of air conditioning units might effectively compete with its much larger rivals, such as Carrier.	
1b	<p>Knowledge/understanding 1, Application 3</p> <p>Knowledge: Identifying a method e.g. product differentiation, customer service and relationships, niche markets (1).</p> <p>Application: e.g. a small company might work on customer relationships by offering same-day call-outs to repair units; send greetings cards; always send the same employee to the same installation. Difficult to compete on 'price or technical features' (Extract D), so focus on personal relationships instead.</p> <p>If more than one way explained, then only credit the best part of the answer.</p>	4

Q		Mark
	Using data from Extract B, explain one feature apart from income that could explain the demand for air conditioning units in different countries.	
1c	<p>Knowledge/understanding 2, Application 1, Analysis 1</p> <p>Knowledge/understanding: Identifying feature (1); relationship to demand (1) e.g. the larger the population (1) the larger the demand (1) e.g. the hotter the climate (1) the greater the demand (1).</p> <p>Application: e.g. seven countries with the greatest demand (China to Indonesia) all have populations over 100 million (1) e.g. China has the world's largest population and also the largest demand for air conditioning units. (1)</p> <p>Analysis: Explains the link e.g. a population twice the size will, other things equal, demand twice as much of everything (1); e.g. the hotter the climate the harder it will be to keep cool without air conditioning (1).</p>	4

Demonstrating application:

1. Where the question specifically stipulates use of an Extract, students
 - a) must directly reference or analyse information in the relevant Extract
 - b) may, in addition, use their own knowledge provided it is directly relevant to the context of the question.
2. Where the question does not specifically stipulate use of an Extract, students
 - a. must use their own knowledge which is relevant to the context
 - b.** may, in addition, reference an Extract provided it is directly relevant to the context of the question.

Q	Analyse one economy of scale that would benefit the manufacturers of air conditioning units.	Mark
1d	<p>Knowledge/understanding 2, Application 2, Analysis 2</p> <p>Knowledge/understanding: Identifying (1) and briefly describing (1) an economy of scale. E.g. R&D economies (1); the bigger the firm gets, the more the fixed costs of R&D are spread out over many units, reducing average costs (1).</p> <p>Application: e.g. Extract D mentions that MNCs have made ‘huge investments’ in R&D; yet if the many £ millions invested is spread out over many millions of units then the cost per unit will be small. (up to 2)</p> <p>Analysis: e.g. this economy of scale may well be the game-changer that pushes out small local companies. If, because of R&D, you can buy an air conditioning unit that uses half as much electricity, is more reliable and better-looking - yet costs hardly any more then it will be difficult to turn it down in favour of a marginally cheaper local option. (up to 2)</p>	6

Q	Using a suitable diagram, discuss the impact of global warming on the market for air conditioning units.	Mark
1e	<p>Knowledge/understanding 2, Application 2, Analysis 2, Evaluation 2</p> <ul style="list-style-type: none"> • Diagram showing outward shift in D (2); all axes, curves and equilibrium prices and quantities labelled (2) • Explanation: warmer temperature lead to increased demand for cooling devices such as air conditioning – with reference to diagram. • But increasing incomes more important in increasing demand. • But global warming too slow to account for most of the 7.9% annual increase in demand (Extract C). • Advances in technology also relevant, reducing costs and so shifting the supply curve outwards and leading to a movement along the demand curve, again increasing quantity but this time reducing price. 	8

Level	Mark	Description for 1e
	0	Completely inaccurate.
L1	1-2	Elements of knowledge, little or no relevant evidence, limited attempt to address the question.
L2	3-5	Elements of knowledge, limited relevant evidence, developed chains of reasoning, judgements may be attempted.
L3	6-8	Accurate knowledge, well-chosen relevant evidence, developed arguments with balanced awareness of competing arguments.

***** **SAMPLE** *****

Suggested answers for Economics B, Paper 2: First practice paper

1a *The world economy is forecast to grow at 3.6% pa.*

Using data from Extract C, calculate the YED for air conditioning units to two decimal places. (4)

$$\text{YED} = \% \text{ change in demand} / \% \text{ change in income} = 7.9\% / 3.6\%$$

$$= 2.19$$

1b *Explain **one** way that a small producer of air conditioning units might effectively compete with its much larger rivals, such as Carrier. (4)*

A small producer is unlikely to be able to compete on 'price or technical features' – as Extract D makes clear. However, it could still shine on the basis of customer service. This might include free home visits to advise on the most appropriate type and location of the air conditioning units being considered, and excellent after-care. This could also include free servicing for the first five years of the unit's life, and ensuring that the same customer always got visited by the same technician. Obviously this would also entail building up long-term loyalty among their work-force, which requires considerable managerial skills. But it is this 'family firm' culture that its bigger rivals are likely to find hardest to replicate, and will therefore enable small firms to compete effectively in the long term.

1c *Using data from Extract B, explain **one** feature apart from income that could explain the demand for air conditioning units in different countries. (4)*

Extract B shows that the biggest buyers of air conditioning units are China and the USA, followed by Japan, Brazil, India, Russia and Indonesia. This list reads like a roll call of the world's most heavily populated countries – led by China, which has the world's largest population. This should not surprise us: other things equal, countries with double the population size of a neighbour will have double the demand for every good and service. Of course, other factors will be important too or else India, with the world's second-largest population, would be number two on the list. In this case, its relatively low GDP per head is likely to explain its lower ranking. The other relevant factor would be climate: Western European countries with their temperate climates are noticeably absent from this list.

1d *Analyse **one** economy of scale that would benefit the manufacturers of air conditioning units. (6)*

An economy of scale is any feature which reduces a firm's unit costs as it expands. In the case of high-to-medium tech manufacturing there will be substantial R&D economies of scale. As a company doubles in size, so the average research costs per unit sold of bringing a new product to market will halve. The fixed research cost will be divided by double the number of units.

So in Extract D we read that multinationals have made 'huge investments' in R&D. Yet these many millions of pounds spent will add little to the average costs of production if they are then able to sell many millions of units. It may well be this economy of scale that ultimately leads to the disappearance of small, local manufacturers in less developed countries. For if you only need to pay a tiny bit more for air conditioning that uses much less electricity, is more reliable and looks smarter – then that's what you are likely to do. In return for a marginally higher up-front cost the purchaser gets a much reduced total cost of ownership over the appliance's lifetime.

***** SAMPLE *****