Write your name here

Surname	Other names

Pearson Edexcel Level 3 GCE

Centre Number | Candidate Number

Economics B

Advanced Subsidiary
Paper 2: The wider economic environment

Monday 22 May 2017 – Morning
Time: 1 hour 30 minutes

Paper Reference
8EB0/02

You do not need any other materials.

Total Marks

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 in Sections A, B and C.
- 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.*
- Calculators may be used.

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.

Turn over ▶

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Answer ALL questions.

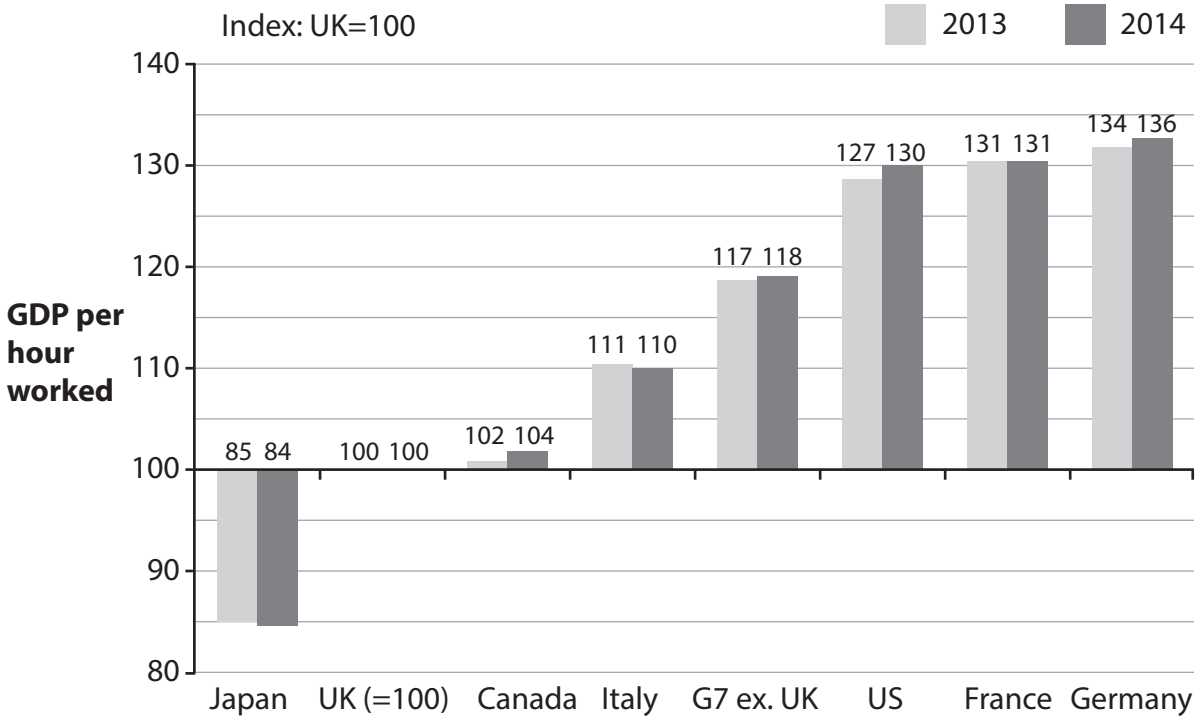
SECTION A

Read the following extracts (A and B) before answering Question 1.

Write your answers in the spaces provided.

Extract A

International Comparisons of Productivity – Final Estimates for 2014



(Source: adapted from © Office for National Statistics / Crown Copyright)

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Extract B

UK's poor productivity figures show challenge for government

Britain's productivity gap against the other G7 nations has widened to its largest since estimates began in 1991 according to official figures. Only Japan in the G7 performed worse than the UK in 2014 in terms of output per hour worked. Employment in the UK is at a record high and inflation at a record low, but the challenge for policymakers and businesses is getting more output out of each hour worked.

A spokeswoman for the Department for Business, Innovation and Skills said the government was "committed to delivering a return to productivity growth which is the route to raising living standards for everyone in the UK. The reforms set out in our productivity plan will deliver a change that will increase long term investment in people, capital and ideas and help to realise the ambitions of hard working people." In July 2015, the Business Secretary, Sajid Javid, announced a mix of deregulation and government intervention across housing, apprenticeships, skills, universities, transport and finance in an effort to address "the economic challenge of our age" – the UK's poor productivity performance.

Responding to the latest figures, general secretary of the Trade Union Congress (TUC) Frances O'Grady said, "We need a better economic plan focused on higher public investment in modern infrastructure and workforce skills. A new round of severe public service cuts and pay freezes will keep the UK in the slow lane."

To help tackle the UK's productivity problem, *Jaguar Land Rover (JLR)*, which exports 80% of all vehicles it manufactures in the UK, has teamed up with Warwick Manufacturing Group to launch its own Jaguar Land Rover Academy. It will offer training for all employees from new recruits to more experienced employees. Welcoming the new academy, Skills Minister Nick Boles said: "Companies like *JLR* are encouraging talented people to build life long careers and in turn boost the country's productivity and competitiveness."

(Source: adapted from UK's poor productivity figures show challenge for government, Katie Allen © GUARDIAN NEWS & MEDIA LIMITED and Jaguar Land Rover teams up with WMG to launch academy, Enda Mullen © Birmingham Post)

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1 (a) What is meant by the term 'inflation'?

(2)

In 2013, *JLR* produced 425,000 vehicles per year with 25,500 employees.

(b) Calculate *JLR's* labour productivity to 2 decimal places. You are advised to show your working.

(4)

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(c) Using Extract A, explain **one** effect of the productivity gap between the US and the UK.

(4)

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(d) Discuss the importance of increasing productivity to UK firms such as *JLR*.

(8)

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(e) Assess the importance of education and training to improve labour productivity in the UK.

(12)

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(Total for Question 1 = 30 marks)

TOTAL FOR SECTION A = 30 MARKS

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SECTION B

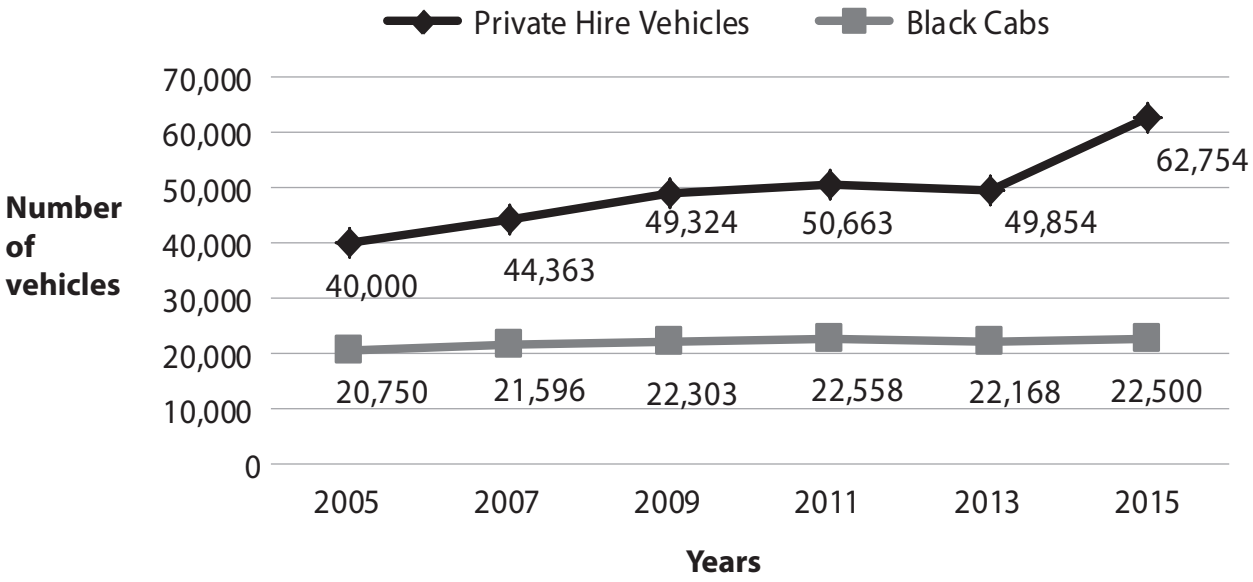
Read the following extracts (C and D) before answering Question 2.

Write your answers in the spaces provided.

Extract C

Total Number of Vehicles available for taxi journeys in London 2005–2015

The number of Private Hire Vehicles and Black Cabs in London



NB: Black Cabs are available for immediate hire and can be hailed in the street (known as 'plying for hire'). Black Cabs can also accept pre-bookings. Private Hire Vehicles (PHVs) must be pre-booked and cannot use taxi ranks. It is illegal for PHVs to ply for hire.

(Source: adapted from © Crown Copyright)

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Extract D

Taxi Wars: *Uber* and the rise of the App

For years black cabs and private hire vehicles (PHV) have only ever competed with each other but there is a new competitor *Uber* – a Californian technology giant – that's trying to take over the streets. Its smartphone app gives users the opportunity to book an *Uber* taxi at the touch of a button. The user can follow the taxi's journey via a GPS generated image and it allows the passenger to pay online so no physical cash needs to change hands.

Uber is attracting a large number of drivers with offers of flexible working hours, the ability to earn up to £900 a week in fares and cash incentives for recruiting other drivers. Tens of thousands of drivers have so far been recruited.

James Farrar, a union representative for *Uber* drivers, has disputed *Uber*'s claims that drivers can earn those amounts per week. He says its drivers are earning below the minimum wage after costs. James claims, "top drivers earn £5.68 an hour, that's the top driver."

With the UK taxi market worth £5bn, it is no wonder the established black cab taxi trade is worried. Steve McNamara from the London Taxi Drivers Association claims that black cab incomes are down 25% during the night and 10% during the day as *Uber* is using predatory pricing.

Uber is thriving, with UK profits last year of nearly £900 000 and global revenues of over £1bn. *Uber* claims to be up to 40% cheaper than a black cab journey and its popularity is clearly evident (currently number 65 on *Apple*'s free apps chart); it's seen as a welcome addition to the marketplace where technology has changed the shape of the taxi market.

Taxi hailing apps are now commonplace and there are at least four different apps that have agreements with black cab drivers to assist them with competing with the likes of *Uber*. All types of taxis, whether traditional black cabs or private hire vehicles, will have to embrace the digital economy in order to survive.

(Source: adapted from The Secrets of the Taxi Wars: Tonight © Copyright ITV plc 2016 and © Crown Copyright)

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2 (a) What is meant by the term 'predatory pricing'?

(2)

(b) Using Extract C, calculate to 2 decimal places the percentage change in the number of private hire vehicles in London from 2013 to 2015. You are advised to show your working.

(4)

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(c) Explain the likely impact on the price of taxi journeys resulting from the trends shown in Extracts C and D.

(4)

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Uber is planning an extensive advertising campaign across the UK in 2016.

(d) Discuss the possible impact on *Uber*'s demand curve from this advertising campaign.

(8)

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(e) Assess how a small private hire vehicle firm could compete successfully in the taxi market.

(12)

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(Total for Question 2 = 30 marks)

TOTAL FOR SECTION B = 30 MARKS

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SECTION C

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

Write your answer in the space provided.

Extract E

Delight over £80m *Muller* and *Dairy Crest* merger

Muller Wiseman Dairies announced its plans to acquire the dairy operations of *Dairy Crest* on 6 November and the deal was finally completed on 26 December 2015. The merger will create a new organisation called *Muller Milk & Ingredients*. The new business will employ more than 8,000 people and process 25% of Britain's milk production, with 2,000 dairy farmers contracted as suppliers.

Muller Milk & Ingredients' Managing Director, Andrew McInnes, said: "It is clear that we have a committed workforce and a key priority is to get to know our new colleagues and ensure that they have the information they need to perform their roles and their questions are answered. For now it's very much business as usual and colleagues from *Muller Wiseman Dairies* and *Dairy Crest* deserve enormous credit for successfully delivering their obligations to customers over the key festive period."

Employees will be able to see plans for the new organisation in site meetings and online. Customers, farmers and suppliers will be sent information about the new organisation.

(Source: adapted from Delight over £80m Muller merger © Shropshire Star)

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3 Evaluate the possible benefits of inorganic growth for a firm such as *Muller Milk & Ingredients*.

(20)

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(Total for Question 3 = 20 marks)

TOTAL FOR SECTION C = 20 MARKS
TOTAL FOR PAPER = 80 MARKS

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