**Pearson Edexcel
Level 3 GCE**

Tuesday 2 June 2020

Morning (Time: 2 hours) | Paper Reference **9EB0/02**

Economics B

**Advanced
Paper 2: Competing in the global economy**

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.
- Answer the questions in the spaces provided
  – *there may be more space than you need.*

Information

- The total mark for this paper is 100.
- 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 ▶

Answer ALL questions.

SECTION A

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

Write your answers in the spaces provided.

Extract A

Sainsbury's Asda **merger: Competition and Markets Authority (CMA) blocks merger**

In its final report, published in April 2019, the CMA blocked the proposed merger between *Sainsbury's* and *Asda*. The two supermarket chains announced a deal in May 2018 that would have created a giant supermarket chain with around £51bn in sales.

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The CMA investigated the proposed merger after fears the combined company could reduce choice, raise prices or provide a worse quality of service for consumers. The investigation considered whether the merged company would squeeze suppliers by using its increased buying power. If the merger were successful, the combined firm would account for around 30% of UK grocery sales.

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Before the proposed merger was blocked, a spokesperson for *Sainsbury's* said: "The combination… will benefit consumers and the wider UK economy. We are confident in our case and we look forward to continuing to work closely with the CMA." An *Asda* spokesperson also said: "We are confident our reasons for the merger are justified and that the CMA will take a rigorous and evidence-based approach to their assessment of this deal and we will work closely with them to support the process."

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(Source: adapted from www.independent.co.uk/news/business/news/sainsburysasda-merger-competition-watchdog-launches-formal-investigation-a8504301.html)

Extract B

Tesco **to take on budget supermarkets with a cut-price brand named after founder Jack Cohen**

In 2018, *Tesco* unveiled its new chain *Jack's*, named after the *Tesco* founder Jack Cohen. It could be the UK's biggest supermarket challenge to the German discounters *Aldi* and *Lidl*. Mainstream supermarkets have been searching for a way to get into the fast-growing discount market, having seen *Aldi* and *Lidl* gain market share when rising food prices and falling real wages encouraged consumers to shop around for groceries. *Aldi* and *Lidl* controlled more than 13% of the UK grocery market in 2018, compared with less than 9% in 2014.

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Meanwhile, sales at discount retailer *B&M* increased by 23% to £970m in the three months to December 2017, up from 20% growth in the same period of 2016. Though it does not sell fresh food, *B&M*'s range of cut-price branded staple foods, such as biscuits, crisps and breakfast cereals, pose an additional threat to the 67% market share of the 'big four' *Tesco*, *Sainsbury's*, *Morrisons* and *Asda*.

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(Source: adapted from www.theguardian.com/business/2018/sep/19/tesco-opens-jacks-first-discount-store-battle-lidl-aldi)

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Extract C

Index of UK butter prices, 2013 to 2018

Year and month	Average price of butter (250g)	Index
July 2013	£1.51	100
July 2014	£1.58	105
July 2015	£1.58	105
July 2016	£1.36	90
July 2017	£1.50	99
July 2018	£1.80	

(Source: adapted from www.ons.gov.uk/economy/inflationandpriceindices/timeseries/kw9b/mm23)

UK producer input cost inflation % change: food products

(Source: adapted from https://www.theatlas.com/charts/SkmQ8rBBb)
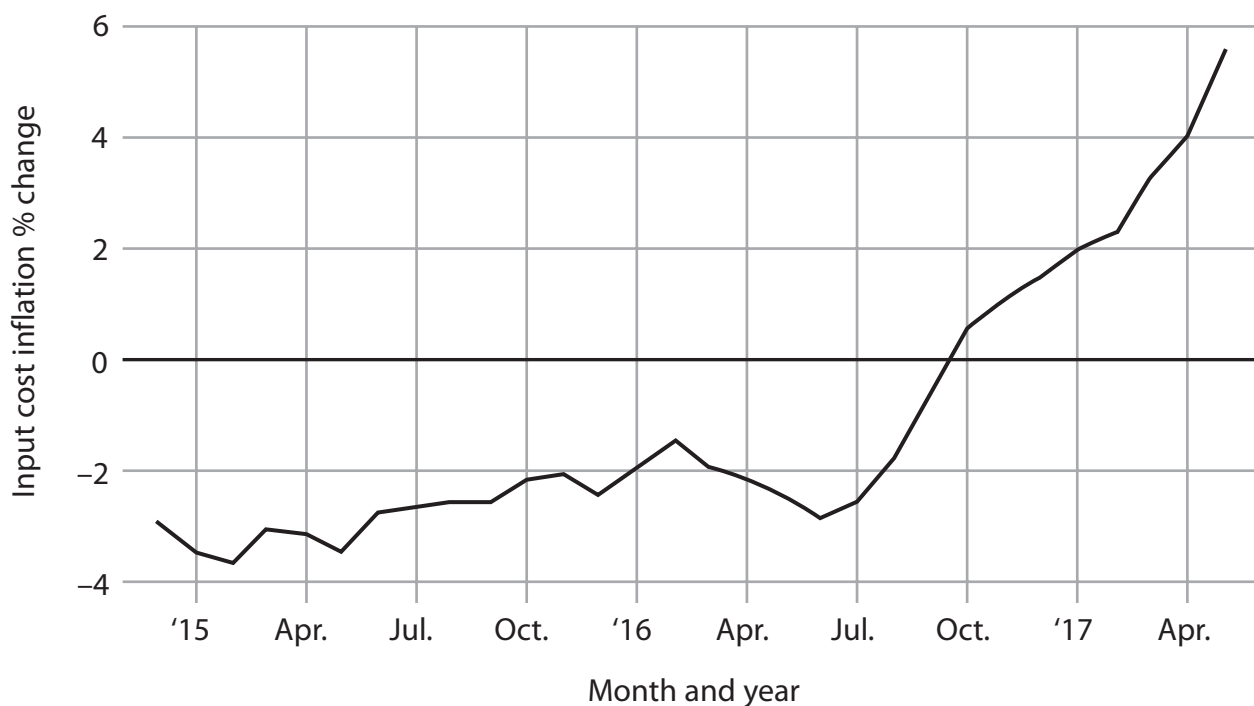
UK monthly food price inflation, January 2017 to July 2018
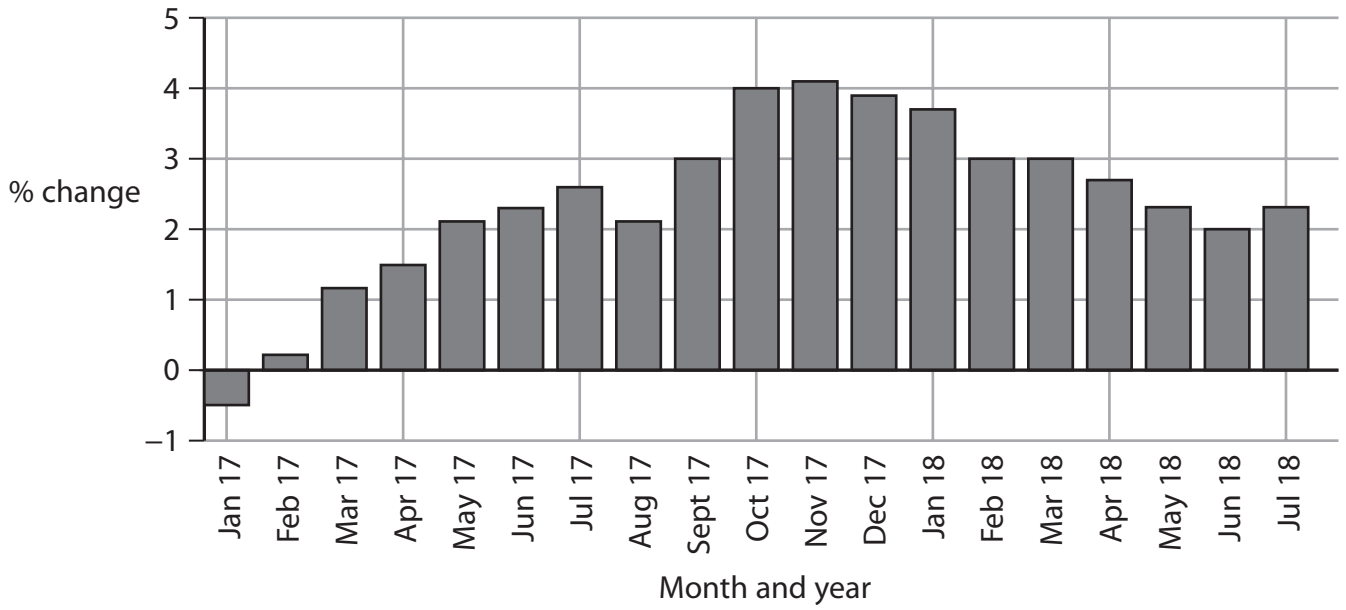
(Source: adapted from www.tradingeconomics.com/united-kingdom/food-inflation)

1 (a) Using the information in Extract C, calculate the index for UK butter prices in July 2018.
You are advised to show your working.

(4)

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(b) Using Extract A, explain **one** impact on competitors of the proposed merger between *Sainsbury's* and *ASDA*.

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(c) With reference to Extract B, explain **one** likely reason for the change in market share of the discount supermarkets.

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(d) Using Extract C, analyse how an increase in cost-push inflation may affect economic growth.

(6)

(e) With reference to Extract B, discuss the impact of falling real wages on the UK supermarket sector.

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(f) Using the extracts, assess the likely impact on consumers and suppliers of the increased market power of supermarkets.

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Turn over ▶

(g) Assess the impact of food price inflation on UK living standards.

(12)

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(h) With reference to Extract A, assess the likely problems for *Sainsbury's* and *Asda* of their proposed merger.

(12)

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(Total for Question 1 = 60 marks)

TOTAL FOR SECTION A = 60 MARKS

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QUESTION 2 BEGINS ON THE NEXT PAGE

SECTION B

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

Write your answer in the space provided.

Extract D

The United States-Mexico-Canada Agreement (USMCA)

In October 2018 after a bitter dispute, the USA, Canada and Mexico reached a deal
to change the North American Free Trade Agreement (NAFTA). The new name for the
world's second-biggest economic bloc after the European Union (EU) is the USMCA.
According to President Trump, it "solves the many deficiencies and mistakes in NAFTA,   5
greatly opens markets to our farmers and manufacturers, reduces trade barriers to
the USA and will bring all three great nations together in competition with the rest of
the world."

However, analysts have warned that new tariffs threaten to reduce economic growth
and the creation of new jobs across the region. In addition, the USA still faces several   10
other trade disputes around the world, not least with China, where the US Government
has applied tariffs of $200bn on Chinese imports. President Trump has also said he could
impose import tariffs on EU cars, further widening the global trade dispute.

(Source: adapted from https://www.theguardian.com/us-news/2018/oct/01/trump-hails-wonderful-new-
trade-deal-with-mexico-and-canada)

2 With reference to Extract D, evaluate the extent to which being a member of a trade bloc promotes economic growth.

(20)

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(Total for Question 2 = 20 marks)

TOTAL FOR SECTION B = 20 MARKS

SECTION C

Read the following extracts (E and F) before answering Question 3.

Write your answer in the space provided.

Extract E

The poor pay higher taxes than the rich

The poorest 10% of households in the UK pay a greater proportion of their income in tax than the richest 10%, new analysis has revealed. Official statistics in April 2017 show the lowest 10% of earners pay an average of 42% of their income in the form of income tax, National Insurance, VAT and council tax. In contrast, the richest 10% see 34.4% of their earnings go in tax, according to analysis by The Equality Trust. 5

Council tax and VAT were found to hit the poorest households particularly hard. Low earners pay an average of 7% of their income in council tax while the wealthiest households pay just 1.5%. A similar trend applies to VAT, on which the poor pay 12.5% of their income while the rich pay 5%. In an analysis that paints a stark picture of inequality 10 in Britain, The Equality Trust found that the richest 10% of households have an average pre-tax income of £110 632 per year compared to just £19 992 for the poorest.

(Source: adapted from https://www.independent.co.uk/news/uk/home-news/lowest-earners-more-tax-richest-office-national-statistics-inequality-council-tax-vat-equality-trust-a7704331.html)

Extract F

Income inequality in the United Kingdom

Inequality in household incomes in the UK has remained at a roughly similar level since the early 1990s, but is higher than during the 1960s and 1970s. While the share of income going to the top 1% of individuals by household income increased during the 1990s and 2000s, there was some reduction in inequality among the rest of the population (based 5 on incomes before housing costs) with the result that inequality overall was fairly stable during this period.

Following the 2008 recession, there was a small fall in income inequality as higher income households saw a larger fall in income in real terms than households at the bottom of the distribution. This can be explained by the sharp fall in real earnings after 10 the recession, while welfare benefits levels initially remained more stable.

The Organisation for Economic Cooperation and Development (OECD) figures suggest that the UK has among the highest levels of income inequality in the EU (as measured by the Gini coefficient) although income inequality is lower than in the USA. Data published by Eurostat, the statistical office of the EU, gives a more positive picture, indicating 15 income inequality in the UK is lower than in several other EU countries although it is slightly higher than the EU average.

(Source: adapted from http://researchbriefings.files.parliament.uk/documents/CBP-7484/CBP-7484.pdf)

3 Using Extracts E and F, evaluate the extent to which fiscal policy could be used to reduce inequality in the UK.

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(Total for Question 3 = 20 marks)

TOTAL FOR SECTION C = 20 MARKS
TOTAL FOR PAPER = 100 MARKS

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