



# Examiners' Report

## June 2019

GCE Economics 9EB0 03

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## Introduction

This paper proved to be slightly more accessible than previous series of 9EB0\_03, with some very good responses showing high levels of knowledge, analysis and evaluation. Even so, many answers lacked application and supporting evidence. This is particularly disappointing given that the topic is released well before the exam. Centres should have taken full advantage of this and used the topic of labour in classwork, assignments and wider study; looking at a wide range of case studies and examples. Answers that showed evidence of this were unfortunately rare, many candidates treated the exam paper as a comprehension exercise and some were wholly generic. It is worth reminding candidates that the higher levels in the mark scheme all require good use of supporting evidence.

Many answers showed a simplistic and frequently erroneous mix of assertions and assumptions. Lower labour costs are not an economy of scale neither is increased productivity. Low wages are not an automatic indicator of exploitation and unethical or unscrupulous behaviour by an MNC. An increase/decrease in profit does not guarantee an increase/decrease in wages. An increase in the cost of labour is not a diseconomy of scale and an increase in corporation tax is not an increase in costs. Candidates who write this are unlikely to convince examiners that their chains of reasoning are sound.

Centres also need to appreciate the requirement to allocate 20% of the marks to quantitative skills (QS) as stated in the specification. The stimulus material contained a range of data, in both written, graphical and numerical form. QS9 (see specification, appendix 3) requires candidates to be able to 'interpret, apply and analyse information in written, graphical, tabular and numerical forms'. Many candidates chose to ignore the data or did not make full use of it, once again limiting their attainment.

## **Question 1 (a)**

Many candidates appreciated the role of migration in helping to ease a skills shortage. Stronger responses drew on examples from the UK and recruitment into the NHS and the arrival of EU migrant workers. Balance was achieved by looking at whether the migrants had the right skills to remedy the problem and whether it was a short or long term solution.

Weaker responses failed to offer any competing arguments or lacked application; others tried to achieve balance by looking at policies to reduce skills shortages which were not relevant to the question. As in previous years some candidates are still not including balance in their answers, despite the command word 'Discuss'.

1 (a) Discuss the possible effect of migration on skills shortages.

(8)

Immigration has often been used to ease skill shortages. For example, in 2014, the NHS hired 6,000 foreign nurses. This reduces the risk of skill shortages in the UK medical sector.

However, ~~if~~ this can lead to ~~a~~ dependency culture. The government may not focus on providing the necessary education to correct the skill shortages themselves ~~if~~ with the hope that they will be continued to be filled by immigrants.

~~But~~ If this flow of labour stops for any reason (e.g. Brexit possibly resulting in the reduction of free movement) then the skill shortage could become a lot worse as the economy continues to grow.

Emigration is likely to cause skill shortages in a country. For example, there is currently a shortage of doctors in Asia as they are attracted to higher wages in western economies like the UK. The removal of these skilled workers produces a 'brain drain', meaning that there are less competent workers left in the country to ~~be~~ fulfill the economy's needs.

Free movement ~~has~~ has been enhanced by globalisation. This is evident through the work of the EU who encourage migration. This improves allocative efficiency in the global labour market, resulting in skill shortages being filled in all economies. However, this effect may be limited by differing wage rates. ~~More~~ More developed economies

will be likely to benefit more as workers are attracted to higher wages.

Overall, migration is likely to fill skill shortages in developed economies but create them in LDCs.



A clear and convincing response that uses good supporting evidence in a well-balanced argument.

This response is L2 and 3 marks.

1 (a) Discuss the possible effect of migration on skills shortages.

(8)

Migration could possibly help to deal with the problem of skills shortages in many cases. For example, migration into a country like Sweden, which is struggling with a 'shortage of people with the skills' that are demanded, could help to tackle skills shortages. This is because the people who migrate into these countries may have the necessary skills to help improve the skills shortage. If there is an increased supply of skilled workers, then these shortages are reduced.

However, it is possible that migration may not have a major positive impact on skills shortages. This is because in comparison, increased and improved education may be better for dealing with skills shortages as it ensures citizens are taught skills from a young age. Not only this, but in some cases, migration may have little influence because the workers may not have the skills demanded. Extract B discusses how a developed country like America is seeing shortages, however they are planning to 'train workers' in '3-D printing and digital manufacturing'. Therefore suggesting that these are new skills being demanded, making it ~~with~~ unlikely that migration would help to deal with the shortages.



A largely generic response, balance is attempted but is not relevant because it looks at alternative policies for solving skills shortages and does not focus on the question asked.



## **Question 1 (b)**

Some good responses here with candidates making good use of the evidence to look at both the case for a link between productivity and wages and also weaknesses in the link. Balance was also shown by looking at other factors that might affect either productivity and/or wages. These included the relative state of demand and supply in the labour market, the impact of a minimum wage, those sectors paid by the government and the influence of trade unions and professional bodies.

Some candidates failed to go beyond simplistic assertions or took only a narrow view of the question. There was also some confusion between productivity and production.

(b) Assess the connection between productivity and wages.

(10)

Productivity is how much output is from a person or group of people in a set time. Wages are <sup>regular</sup> agreed payment for completing a task. The two are often seen as connected, as it is believed that higher wages give more motivated, productive staff. This can sometimes be the case, as demonstrated in the 1910s-20s in Ford car production. The staff were seen as very productive and the process was much quicker than it had ever been, with a car being produced every 14 minutes. The staff were paid more than other manufacturers. A direct correlation was that initially, they saw absentees at 10%, which will be very costly to the company, however, once wages were increased, absences dropped to only 2.5%. Therefore, by increasing the wages they got more staff in daily, which will have an impact on production as more people means more work can be done. On the other hand, it is possible and is believed by some that the high productivity and quick production wasn't the result of high wages and motivation, but instead the result of better technologies and implementation of lean production methods such as cell production. This case study holds evidence for both for and against their being a clear connection of between wages and productivity.

~~Another example~~ Others: The idea behind the connection is that high wages <sup>or</sup> mean <sup>either</sup> more motivated <sup>existing</sup> staff, or higher skilled, more productive new staff, being attracted to the job, and so efficiency will be increased and <sup>2</sup> average costs may drop, meaning their

won't be a drop in profit as ultimately total revenue may rise.

An alternative to raising wages to increase productivity would be investing that money on training, which will improve human capital in ~~the same~~ a similar way to wages, or investing in physical capital, which will ~~not~~ be able to replace or assist staff in order to produce more.

In a certain <sup>cases</sup> ~~industries~~, there will not likely be a clear connection between wages ~~is~~ and productivity, as it ~~is~~ can be heavily influenced by how much wages change, and also if inflation changes. An example of this is the public sector, in the years after the financial crash, ~~free~~ pay rises at around 1%, however ~~the~~ inflation was much higher, at between 2 and 3%, so their real wages dropped. In this case, ~~even~~ despite wages increasing, it is very ~~not~~ unlikely that productivity rose, ~~as~~ significantly, <sup>as external factors i.e.</sup> ~~as external factors such as~~ inflation meant the wage increase did not have a positive impact on the workforce.



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Examiner Comments

A good answer that is clearly aware of competing arguments and makes good use of supporting evidence.

## **Question 1 (c)**

Generally, this question was not answered well. There was some confusion over international competitiveness, despite it being a key term in the specification. A fair number of candidates seemed to think it meant the ability to produce a greater volume of goods and services than other economies, rather than the ability to offer a cheaper, better quality or innovative product.

Stronger responses looked at the chain of reasoning that linked skills shortages to rising labour costs and higher prices. Only a few candidates picked up on the wider implications such as possible lack of innovation and creative flair. Balance was usually achieved by looking at the global competitiveness table and pointing out the relatively high rankings of both the US and Sweden despite a skills shortage.

This response reached L3 and scored 7 marks.

(c) Assess the impact skills shortages may have on international competitiveness.

(12)

Skill shortages mean firms have to pay more in wages to incentivise the most productive workforce to be employed by them. More productive workers have lower unit labour cost per given output, and therefore the cost per unit produced is lower. This gives firms a competitive advantage as they produce at a lower price they can drop their prices to become cheaper than competitors and gain a greater market share.

~~How~~ However increasing wages will also increase a firm's production costs, firms have to balance increasing wages to attract workers and <sup>maintaining</sup> ~~maintain~~ low production costs to keep their competitive advantage.

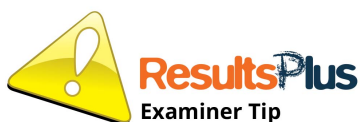
Other factors can also influence international competitiveness. Trade barriers, increase the cost for certain suppliers not part of integration, for example Customs when there are fixed tariffs on non members. So one firm may have the lowest production cost but tariffs cause their product to be more <sup>expensive</sup> ~~expensive~~ and lose international competitiveness.

International Competitiveness is also impacted controlled by the size of a firm, larger firms can use managerial economies of scale to get best workers, most productive workers and cut costs elsewhere with less production tactics. Similarly they could utilize technical economies of scale to replace skilled workers with capital, buy more capital intensive also has long term benefits with international competitiveness as there is a lower CPU can be obtained.

~~Skill shortages are an important factor in a~~  
Skill shortages are a massive problem for some firms and thus international competitiveness however, there are alternative ways of competing internationally that will give firms better long term benefits.



This has some accurate knowledge with chains of reasoning. However, it is all generic and lacks supporting evidence. Had it done so; it would have been rewarded with a higher mark.



Always make sure to include supporting evidence in your arguments. Either from your own knowledge or the extracts provided.



## **Question 1 (d)**

Many candidates underachieved on this question because they rushed into a prepared and generic response that reeled off a list of policies with little, if any, reference to the problems facing Sweden. It is important for candidates to keep in mind the actual point of the question, rather than embarking on a pre-prepared one. There was much in the extracts that candidates could have used to provide both evidence and a framework for a much better response. A common misconception was to suggest increased migration as a way of reducing unemployment, whilst this may reduce a skills shortage and reduce the number of job vacancies it will not reduce existing unemployment and could, arguably, increase it.

Stronger candidates did realise that Sweden faces problems of both occupational and geographical immobility and that supply-side policies might be the most suitable. Balance was achieved by looking at the drawbacks of these policies and discussing whether alternative demand-side policies were likely to have a positive impact in this situation. Surprisingly, examiners did not see anyone making use of figure 2 which clearly indicates a problem with seasonal unemployment. Some suggestions were a bit unrealistic, such as building a high speed rail link between Stockholm and Sodermanland to enable unemployed workers to find employment, despite the evidence stating that they were only 'a short drive' apart.

This response reached L3 and scored 14 marks.

(d) Evaluate the policy options the Swedish government might use to reduce unemployment.

(20)

Reducing unemployment in Sweden ~~it~~ would ~~have to tackle both these~~ involve the Government having to tackle both the 'skills mismatch' and wage inequality, as well as the regional variations in unemployment brought about by geographical immobility (structural unemployment).

Foremost, to tackle the unemployment (around 6.4%) in 2018, ~~the~~ the Government may use supply-side policies to reduce the skills-shortages in 'niche industries'. With a current 'lack of reform' in the educational sector that ~~is~~ exacerbates the skill shortage problem of unemployment.

Sweden may subsidise improvements in educational facilities with an interventionist approach to both education and training - the latter used in the UK via the 2016 Apprenticeship scheme. This policy would increase the supply of skilled, graduate workers in the Swedish workforce and reduce



Unemployment in ~~these sector~~ 'niche' sectors.

However, ~~that~~ this interventionist (Keynesian) supply-side policy ~~may~~ has a significant time lag as the time taken to go through the education process is long, ~~similarly~~ therefore the unemployment issue would remain for a number of years before being tackled and the government may enter a ~~the~~ public sector deficit via increased spending.

~~That~~ Furthermore, to tackle structural ~~based~~ particularly, - based on geographical immobility - seen as the university city Uppsala (with the lowest rate of unemployment at 5.9%) and Gävleborg (with the highest rate of 11.4%) are only a 'short drive' apart, ~~that~~ the Swedish government may introduce a policy of infrastructural ~~reform~~ reform. For example - as the UK is doing with the HS2 railway - the Swedish ~~gov~~ Government may choose to invest in a new

low-cost transport system within the nation to reduce geographical immobility of those who are not mobile enough to move to areas in which the demand for labour is high.

However, whilst this may also result in a public deficit, if the time-lag would also be significant and if occupational immobility - such as the 'skills mismatch' with a score of 9.8 - infrastructural development would hardly reduce structural unemployment and provide only temporary construction jobs.

Conclusively, Sweden's Government may fall into a deficit if using policies of infrastructural and educational development to tackle high-skilled and structural unemployment. Hereby, perhaps reducing 'strict regulations' on migrants from outside the EU can <sup>help</sup> fill skill shortages (Chinese graduates) etc. at a lower cost, tackling unemployment without a deficit. (Total for Question 1 = 50 marks)



A good answer that recognises the particular problems facing Sweden and develops chains of reasoning using some supporting evidence.

(d) Evaluate the policy options the Swedish government might use to reduce unemployment.

(20)

\* education  
\* low wages - jobs for low skilled  
\* non-EU permits.

As stated in Extract A, there are three areas that the Swedish government may choose to focus on to try and reduce unemployment. The first being education. This can lead to a more skilled workforce, which will help balance out their 9.8 score in 'skills mismatch' as more people will be available to work as needed in higher skilled jobs, and those who don't benefit from education, especially higher education will still be able to work the lower skilled jobs. The negatives with this is that there can be a significant time lag of at least a few years, and so it is definitely a longer term option. Also, in order to attract people to study, as has been here in the UK is being currently discussed, the government may lower tuition fees to universities or offer grants so more people can access it. As much as this is good as previously discussed, it ~~is~~ involves government spending which means there will be an opportunity cost, and also a possible conflict of objectives, as this means they have less revenue to invest, and so may ultimately not be able to see as good economic growth, which is another macroeconomic objective.

Another policy option mentioned is lower wages in low skilled positions in order to create more jobs. This may be beneficial, as it could help a lot of unskilled workers into work, however it could also see some negatives, as it will not benefit those



already in these positions, and it could lead to a poverty trap if the wages continue to drop, meaning ~~the~~ unemployment will increase and wages will ultimately have to rise again to attract people back into work.

The third policy mentioned is permits for non-EU workers being ~~to~~ very strict. In the extract the evidence suggest this ~~can~~ could work for ~~the~~ native people to gain the jobs left by those ~~for~~ migrants forced to leave, which will reduce unemployment especially in low skilled positions, however in some areas it may leave Sweden with skills shortages, if those migrants were filling gaps. It will also mean there may be a loss in tax revenue, and therefore government spending, or in consumer spending, and so ~~the~~ economic growth may slow.

Overall, all of these policies have good potential outcomes, but will likely also lead to some sort of policy conflict where growth could stall or inflation could rise which will mean another problem for the government to try and solve.



A response that is partially aware of what could be done but is short on accurate knowledge and understanding as well as specific details of the policies. Balance is attempted but is unsupported and unsubstantial.

## **Question 2 (a)**

This question was generally answered well with many candidates being able to explain the advantages of division of labour for a manufacturer. Most used the example of Adidas and shoe manufacturing to illustrate their argument. Balance tended to be more generic, with boredom, loss of motivation and poor quality or productivity the outcome. Again, despite being a 'discuss' question a large number of answers were one sided.

This response reached L3 and 7 marks.

2 (a) Discuss the benefits of division of labour for a manufacturer such as Adidas.

(8)

As Adam Smith explains in his book 'The Wealth of Nations', the division of labour (specialisation) is likely to result in increased productivity as individuals specialise in specific processes. This is likely to have been the main method used by Adidas in Asia due to the use of more labour intensive production methods.

Smith also argues that specialisation should increase the quality of a ~~firm's~~ firm's final product as each process has been carried out by individuals with expertise. However, many modern firms now look to ~~use~~ cell production to increase the quality of their products. This is because the division of labour can result in a lack of motivation, resulting in little attention to detail. For ~~the~~ Adidas, quality is important for the maintenance of their brand image, so ~~the~~ whilst the division of labour may reduce costs, it may not be entirely beneficial for them.

Specialisation can go a long way to cutting costs (and boosting profits) due to a <sup>possible</sup> reduction in training costs. This occurs as firms only have to train each employee ~~to~~ to do one job rather than all of the jobs required in the factors of production. But they must be able to do it very well, which takes a lot of training, so perhaps training costs may not

decrease much at all.

~~Adidas~~



A good response showing clear understanding and full awareness of competing arguments. It also uses supporting evidence well.



2 (a) Discuss the benefits of division of labour for a manufacturer such as Adidas.

(8)

Division of labour can hold importance for a manufacturer such as Adidas. This is because it allows different areas of the production line to specialise in their area of production. This can significantly improve productivity for Adidas, as their workers will become highly skilled in a certain area of production along the supply chain. This will mean that the manufacturer will be producing more goods for a lower cost per unit, so economies of scale are achieved, meaning that the business will grow. This would give Adidas a larger market share along with an increase in profit, which can be further invested in research and development.

Division of labour can however, lead to an increase in transport costs, as Adidas would have to move the products between areas which the labour is divided into.



Although this response demonstrates knowledge of division of labour, it confuses lower average costs with economies of scale and asserts this will lead to greater market share and profits. The attempt at balance is unconvincing.



Avoid making assertions, use words such as 'might' and 'may' rather than 'will' and 'would'. If you think something may happen, explain why or demonstrate how, don't assume that the examiner will fill in the gaps for you - they won't.

## **Question 2 (b)**

Most candidates were able to show some awareness of the impact on the labour force in Vietnam, by discussing increased employment opportunities and incomes. Balance was less successful, with many automatic assumptions that these businesses would exploit the workforce with low pay and terrible working conditions. More nuanced answers were aware that low pay, by our standards, was likely to be quite good when compared to existing opportunities. Other benefits included skills transfer and increased employment by local businesses that would benefit directly from the new arrivals and the spending power of their newly employed workers. Balance was often shown by pointing out the possible short-term nature of any benefits, using the Malaysian workers as an example. Some candidates wandered off the point of the question and looked at the impact on the Vietnamese economy and government; this was not rewarded.

This response reached L2 and scored 5 marks.

→ exploit → can ↑ economy growth

Intel, Samsung, LG and Microsoft have all moved production bases to Vietnam.

(b) Assess the possible impact of this on the local labour force in Vietnam.

(10)

This could have a negative impact on the local labour force. As ~~extract 11~~ ~~the~~ suggest, the companies, for example 'Intel', are relocating "in an effort to cut labour costs". This suggests that their main incentive and business objective is to cut costs and maximise profit, and so are likely to export workers with very ~~small~~ <sup>low</sup> wages and poor working conditions. This ~~proves~~ means that the local labour force is underpaid and could be at risk of injury / ~~poor~~ health due to the poor conditions.

However, Vietnam could benefit if the low wages beat existing ones, this means that, despite it being cheaper for the companies, the local labour force may actually benefit ~~for~~ from the ~~an~~ increase in jobs, and could reduce unemployment and help increase standards of living.

To conclude, it depends on the current level of unemployment and poverty in Vietnam as to whether or not the ~~or~~ ~~unemployment~~ relocation of 'Intel, Samsung, LG and Microsoft' will benefit or hinder the local labour force.



This response does tend to equate low wages with exploitation of workers and poor working conditions which may, or may not be the case. It attempts balance by recognising that jobs will be created and improvements made if the wages are higher than is currently the case. A conclusion (which is not needed on this question) adds little.



To reach the higher levels, chains of reasoning need to be developed. This means showing step-by-step why or how, something might happen.

## **Question 2 (c)**

Despite a number of blank responses most candidates recognised the importance of an ethical supply chain to a business, focussing on consumer awareness and the impact on sales of adverse publicity. Another common strand was to look at employee motivation and the impact it could have on quality and productivity. Balance was mostly achieved by looking at the increased cost of maintaining and monitoring an ethical policy. Some candidates also pointed out that perhaps many consumers looked for low prices and were less concerned about ethical behaviour. One pleasing aspect of many answers was the use of wider examples, this was in marked contrast to their absence in the other questions.



(c) Assess the importance of having an ethical supply chain for a business such as Adidas or Intel.

(12)

Having an ethical supply chain can be very important to businesses like Adidas and Intel. For example, when Nike's use of sweatshop labour was exposed in the 1990s, sales dropped dramatically. Having a good brand image is likely to increase ~~the~~ businesses' sales. This will allow them to make more profit and expand. ~~Adidas~~ Adidas could reinvest the money into another speedfactory which would increase their productivity and thus lower their unit costs. This would be able to make them more competitive in their market, resulting in an increased market share which would give them more control over pricing etc.

The increasing use of capital intensive labour (e.g. robots and 3D printing in Adidas' speedfactories) makes ethical supply chains much less important for Adidas and Intel as they are employing  $\frac{1}{4}$  a lot less actual people. This puts them under less pressure to be constantly ensuring that their workers are happy.

Maintaining an ethical supply chain can be very costly as it often entails paying higher wages and ~~Maintaining~~ maintaining good working conditions. In order to make high profits, Adidas and Intel may focus on other areas such as productivity.

It is evident that the importance of an ethical supply

chain is dependent on a firm's aims. If they aim to boost profits then it may be less important. However, the case of Nike in the 1990s shows that having an ethical supply chain always has some level of importance to all firms.



A good answer despite the rather dated example of Nike. Nevertheless it does support some well-made points. It could have been wider ranging in its balance but a solid L3 answer.



## **Question 2 (d)**

This question proved to be accessible for the majority of candidates who were able to discuss the importance of labour in terms of both costs and skill levels when choosing a production location. Balance came in the form of other factors that might affect location such as infrastructure, ease of doing business, government policy and trade blocs. Weaker responses often just listed these without much in the way of further explanation. The development of competing arguments and balance is important in this paper and particularly so with the longer questions. Many candidates limited their marks by failing to do so.

Disappointingly, many answers were wholly generic, not even bothering to use the extracts. Once again, it is worth stressing that the 'use of relevant evidence' is a key part of the level descriptors in the mark scheme. Without this, candidates will struggle to reach the higher levels and many of the generic responses were in L2 or low L3. Stronger candidates did bring in some good examples to support their arguments such as JLR moving to Slovakia and FDI flows into the EU and NAFTA to circumvent trade restrictions. Such responses were more convincing and consequently were able to access the higher levels.

(d) Evaluate the importance of the labour force when choosing a location for production.

(20)

When choosing a location for production, firms will look to minimise costs ~~and~~, possibly gain access to particular markets, and ~~ensure~~ ensure quality.

As a result, firms will avoid economies where there are skill shortages in the areas that they specialise in. For example, Intel would be unlikely to relocate their production to Sweden where there are significant skill shortages in the IT sector. This is because skill shortages reduce the supply of labour, resulting in increased wage costs. These increased costs would make ~~the~~ a ~~firm's~~ firm's products less competitive in the global market. This shows the potential importance of the labour force.

Firms may aim to minimise their costs by relocating production to an emerging economy (like Intel in Vietnam). Lower wage rates and ~~costs~~ will reduce manufacturing costs for a firm. However, as Adidas found, shipping costs may be more important than the labour force. Although, if a firm strategically relocates within a target market (like Intel in Vietnam) then ~~the~~ the firm will benefit from both decreased shipping costs and labour costs. So, whilst the labour force is important, so is the location.

Firms may aim to increase the quality of their

products by relocating to a more developed economy in order to benefit from a more educated workforce. This is evident through Nissan's relocation of production to North-East England. As quality is a determinant of demand, this may benefit the firm by increasing sales, making the workforce very important. However, this comes with a price as wage rates are higher in developed economies. This could make a firm's products less competitive. Perhaps, for Nissan, the location was more important as it gives them access to the UK market and other high-wage economies within the EU.

For Adidas, the labour force may not be very important at all. Their new speedfactories are highly capital intensive; ~~making the~~ The lack of a requirement for human labour makes them much less important.

Overall, it is evident that the labour force can be very important for some labour intensive firms, but other factors (like location) are also important. For capital intensive firms, the labour force is not the most important factor. Since global production is becoming much more capital intensive, the labour force will continue to become less important when choosing a location for production.



A L4 response which makes very good use of examples from wider reading and the extracts. Arguments are clear and well-developed but could perhaps have covered a wider field.



The 20 mark questions are designed to be open and wide ranging. Don't confine yourself to just one aspect or strand of development.

## Paper Summary

Based on their performance on this paper, candidates are offered the following advice:

- The case study should be thoroughly prepared for, and real-life examples researched to reinforce discussion.
- Always support your arguments with evidence and examples.
- QS skills account for 20% of available marks, more details in the specification. Practice and preparation of key diagrams is crucial.
- It is well worth looking carefully at the level descriptors and taking time to understand what they mean.
- There is a lot of data in this paper, take the time to read through it all carefully before starting your answers.
- Watch your timing and do not spend too long on the shorter questions.

## Grade Boundaries

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