AQA A-LEVEL ECONOMICS · 7136

ECONOMICS



MARK SCHEME

3.1.8.7 COMPETITION POLICY

SCORE	PERCENTAGE
/184	%

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1.

Issues and areas for discussion include

Introduction	• Definition/explanation of 'utilities' in terms of essential basic services/public goods • Definitions of private sector and public ownership
Developing the response to the question:	• Arguments in favour of privatisation, e.g: ◦ Government failure arguments, e.g: ◦ Lack of investment ◦ Lack of innovation • Burden on taxpayer shifted to consumer • Privatisation creates revenue for the government • Decentralisation, closer to the wants of the consumer • Competition and efficiency • Arguments in favour of nationalisation, e.g: ◦ Market failure arguments, e.g: ◦ Difference between wants and needs ◦ Equity: access to essential services ◦ Externalities, social benefits • The need for central control and accountability for strategic industries • The idea of 'natural monopoly' • Any revenue raised from privatisation is one-off ("selling the family silver") • Experience from the banking crisis and PFIs suggests that while profits are privatised, risks stay nationalised
Evaluation	• Considering the 'ability to pay' versus 'beneficial' principle of providing public services • Considering whether privatisation creates competition, or merely creates a private monopoly, which then needs regulating • Is it a question of either/ or; is there a role for public-private partnerships
Also give credit for:	• Reference to the UK and/ or other economies • Diagrams • An overall judgement of the issues raised

[25]

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2. **Issues and areas for discussion include:**

Introduction	• definitions/descriptions of ◦ privatisation ◦ public-private partnership (PPP).
Developing the response to the question: **Application**	• Evidence from the data used to support arguments for or against privatisation, e.g. references to ◦ competition ◦ concentration ◦ strategic industry ◦ public/private partnerships ◦ need for coordination across government levels ◦ environmental considerations ◦ employment.
Developing the response to the question: **Analysis**	• general arguments **FOR** privatisation, e.g. privatisation increases efficiency because the organisation becomes accountable to shareholders instead of politicians/taxpayers and therefore has to focus on profits. • general arguments **AGAINST**, e.g. an organisation of this type needs to have wider social objectives as well as narrow commercial objectives; the large capital costs and the strategic nature of LNG make it appropriate for the state to intervene. • reasons for the PPP format, e.g. to supply funds in the national interest; to negotiate enforceable contracts with foreign governments • reasons why the MHPA's activities might create negative externalities and impact of state versus private control.
Evaluation	• effects on competition and consumer choice can go either way; could possibly reduce competition and choice • spill-over effects from LNG industry creating costs for others in the area, e.g. tourism • possibility of market failure • possibility of government failure, e.g. wrongly predicting the market for energy • knock-on effects on the labour market • conflict of policies, e.g. with renewable energy • critique of the PPP format, e.g. may lead to ◦ inefficiency ◦ monopoly

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	• impact of regulation *Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.*
Also give credit for	• relevant use of evidence and examples not contained in the data • relevant diagrams • an overall judgement on the issues raised.

[25]

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4.

The issues identified below are intended to provide an indication of some of the areas which might be discussed. Candidates can only be expected to consider a few of these and / or other issues in the time available.

Issues and areas for discussion include:

Introduction	• basic meaning of merger • different types of merger (data refers to 'horizontal') • possible motives for merger: market share, growth, economies of scale, efficiency gains, monopoly power
Developing the response to the question:	• Reasons why mergers might be good for customers / passengers, eg: ◦ Lower prices, due to eg economies of scale, aircraft working closer to capacity ◦ Wider range of product / services ◦ Synergies, more integrated services (data refers to intra-EU, and EU-America services) • Reasons why they might be bad ◦ Higher prices, due to eg reduced competition ◦ Less choice ◦ Loss of consumer surplus • Reasons why mergers might be good for producers / airlines, eg: ◦ Economies of scale, lower costs, greater efficiency ◦ Rationalisation ◦ Less competition, higher profits ◦ Long run, dynamic efficiency, greater market power • Reasons why they might be bad, eg: ◦ Might attract attention of regulators (EU Commission mentioned in data) ◦ Monopoly, inertia, loss of efficiency
Evaluation	• costs versus benefits of merger • discussion of government role in regulating mergers • market failure versus government failure • short-run versus long-run perspectives. Examiners should note that it may be possible to award some marks for basic evaluation such as consideration of a number of pros and cons. However, this must be considered as low-level evaluation and rewarded accordingly. Stronger evaluation would prioritise the benefits and costs, and / or give economic reasons for justifying a judgement on, for example whether benefits generally outweigh costs.

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Also give credit for:	• relevant use of evidence and examples not contained in the data • diagrams • an overall judgement on the issues raised

[25]

5.

For candidates who:

Explain 'public ownership', eg:

- in terms of a business or organisation that is owned by the state / taxpayer / the community.
- and might take the form of eg a nationalised industry, government department, majority shareholding, public corporation, public / private partnership.
- examples: BBC, Royal Mail, etc.

Analyse **two** reasons, in terms of airline or another appropriate example, eg:

- airlines tend to be monopolistic and could therefore exploit monopoly power with lower output and raised prices and public ownership is one way of dealing with monopoly.
- air travel underpins other aspects of a modern economy (transport, aerospace etc) and is therefore too important for strategic economic reasons to be left to the private sector
- 'commanding heights arguments' or their modern variant : 'too big to fail'
- airlines are 'flag carriers' and important businesses in terms of national prestige / image building; they support a great deal of employment, both directly and indirectly.
- aircraft pass over sovereign territories so there are issues of international coordination and security matters, and these are better dealt with by government than by the private sector
- efficiency, including allocative, productive, dynamic.

Make use of a suitable diagram in the analysis

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6.

Areas for discussion include:

- explanation of privatisation and deregulation
- the arguments in favour of privatisation in general
  - efficiency
  - investment
  - greater responsiveness to customer needs
  - adoption of best practice (including from foreign firms)
  - building a shareholder culture
  - one-off impact on public finances
- the arguments against privatisation in general
  - higher prices due to monopoly/oligopoly power
  - reduced quality of service
  - reduced consistency of service
  - greater risk of externalities
  - difficulties in identifying the true value of state-owned assets at time of privatisation
  - costs incurred in the regulation of newly privatised industries
  - impact on employees and trade unions
- the arguments for and against introducing competition alongside privatisation
- impact on customer service quality, reliability and punctuality
- impact on customer price
- profitability of private operators
- impact on technological innovation and dynamic efficiency
- value for money for the taxpayer, perhaps with reference to the criticisms of the Government's handling of the sale of Royal Mail.
- impact on workers' job security, pay and conditions
- regulation of Royal Mail – the split model of competition in parcels but virtually a monopoly in letters allows for comparisons to be made about the different approaches
- reference to the fact that letter collection is more competitive than letter delivery, and the problems faced by Whistl in attempting to enter the latter market
- alternatives to nationalisation and privatisation: such as contracting out, subsidies
- the possibility of government failure, either in running a nationalised post service, or in organising the privatisation process
- market failure arguments.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the candidate's response to the question.

Level of response	Response	Max 25 marks
5	**Sound, focused analysis and well-supported evaluation that:** • is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes good application of relevant economic principles to the given context and, where appropriate, good use of data to support the response • includes well-focused analysis with clear, logical chains of reasoning • includes supported evaluation throughout the response and in a final conclusion.	**21 – 25 marks**
4	**Sound, focused analysis and some supported evaluation that:** • is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes some good application of relevant economic principles to the given context and, where appropriate, some good use of data to support the response • includes some well-focused analysis with clear, logical chains of reasoning • includes some reasonable, supported evaluation.	**16 – 20 marks**
3	**Some reasonable analysis but generally unsupported evaluation that:** • focuses on issues that are relevant to the question, showing satisfactory knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles to the given context and, where appropriate, some use of data to support the response • includes some reasonable analysis but which might not be adequately developed or becomes confused in places • includes fairly superficial evaluation; there is likely to be some attempt to make relevant judgements but these are not well-supported by arguments **and/or** data.	**11 – 15 marks**
2	**A fairly weak response with some understanding that:** • includes some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely • includes some limited application of relevant economic principles to the given context **and/or** data to the question • includes some limited analysis but it may lack focus **and/or** become confused • includes some evaluation which is weak and unsupported.	**6 – 10 marks**
1	**A very weak response that:** • includes little relevant knowledge and understanding of economic terminology, concepts and principles • includes application to the given context which, at best, is very weak • includes attempted analysis which is weak and unsupported.	**1 – 5 marks**

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7. In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 15 marks**.

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Level 5	**Good analysis <u>and</u> good evaluation**	**22 to 25 marks** *Mid-Point 24 marks*
Level 4	**Good analysis <u>but</u> limited evaluation** **OR** **Reasonable analysis <u>and</u> reasonable evaluation**	**17 to 21** *Mid-Point 19 marks*
Level 3	**Reasonable including some correct analysis <u>but</u> very limited evaluation**	**10 to 16** *Mid-Point 13 marks*
Level 2	**Weak with some understanding**	**4 to 9** *Mid-Point 7 marks*
Level 1	**Very weak**	**0 to 3** *Mid-Point 2 marks*

Issues and areas for discussion include

Introduction	• Definitions, examples ◦ Economies of scale ◦ What is meant by “small” or “large” in this context
Developing the response to the question: **Application/Analysis**	• Distinction between short run and long run • Diminishing returns and returns to scale • Advantages of large firms, e.g. ◦ Types of economy of scale ◦ Other advantages of size, e.g. opportunities for collusion, price making, monopoly, oligopoly, dominant firm price leadership • Disadvantages: diseconomies of scale; x inefficiency ◦ Globalisation and concentrated markets ◦ Government policy (eg sweetheart tax deals) • Advantages of small firms, e.g. ◦ Niche markets ◦ Barometric price leadership ◦ Disruption, e.g. easyJet, Uber ◦ Government policy favouring small firms (eg small business support, start-up grants; business advice agencies) ◦ Government policy hindering small firms, e.g. business rates, VAT, red tape
Evaluation	• Ways in which small firms can fight back, e.g ◦ Reducing costs (internet / weightless economy ◦ Technical change reducing the need for scale economies (eg nuclear power stations versus windmills) • The importance of small firms in the economy ◦ As employers ◦ As motors for growth ◦ As innovators ◦ As ethical producers ◦ Serving specialised markets ◦ Having the potential for growth – large firms start out small • Arguments for and against government intervention to support / promote Small & Medium Enterprises • The question of whether government intervention is necessary • Overall view of advantages and disadvantages of large and small firms *Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.*
Also give credit for	• Diagrams • An overall judgement on the issues raised • Examples

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It will only be possible for students to consider a few of the above. They may also discuss issues not discussed above.

[25]

9. In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 15 marks**.

Level 5	**Good analysis <u>and</u> good evaluation**	**22 to 25 marks** *Mid-Point 24 marks*
Level 4	**Good analysis <u>but</u> limited evaluation** **OR** **Reasonable analysis <u>and</u> reasonable evaluation**	**17 to 21** *Mid-Point 19 marks*
Level 3	**Reasonable including some correct analysis <u>but</u> very limited evaluation**	**10 to 16** *Mid-Point 13 marks*
Level 2	**Weak with some understanding**	**4 to 9** *Mid-Point 7 marks*
Level 1	**Very weak**	**0 to 3** *Mid-Point 2 marks*

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Issues and areas for discussion include

Introduction	Basic definitions/descriptions, e.g. producer surplus/ consumer surplus; regulation
Developing the response to the question: **Application / Analysis**	• Advantages of price discrimination, e.g. ◦ Producers receive higher profits which, if re-invested, might benefit consumers through higher efficiency ◦ Increased affordability for consumers paying the lower prices (the low cost airline model, which has been replicated by some other industries) ◦ PD might turn a loss making firm into a profitable one ◦ PD might enable a good / service to be produced that otherwise would be lost • Disadvantages ◦ PD turns consumer surplus into producer surplus, so represents a transfer of resources from a less powerful group to a more powerful one (re-distribution of income in reverse) ◦ In extreme cases, everyone pays the maximum they are willing to pay; consumer surplus disappears ◦ Consumers paying the highest prices might switch to goods / services that are less socially optimal, e.g. consumers paying peak-time public transport fares who can afford to switch to private transport might be incentivised to do so.
Evaluation	• Critical discussion of the quotation • Overall consideration of advantages vs. disadvantages • The case for and against regulation • The spread of price discrimination from low-cost airlines and railway journeys to other business models, e.g. hotels, taxi journeys, and according to the data, theme parks and cruise ships: is this good or bad for consumers / producers? • Discussion of the word 'always' in the question *Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.*
Also give credit for	• Diagrams • An overall judgement on the issues raised • Examples

It will only be possible for candidates to consider a few of the above. They may also discuss issues not discussed above.

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10. In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 15 marks**.

Where there is no **explicit** reference to the data, award a maximum of **21 marks**.

Level 5	**Good analysis and good evaluation**	**22 to 25 marks** *Mid-Point 24 marks*
Level 4	**Good analysis but limited evaluation** **OR** **Reasonable analysis and reasonable evaluation**	**17 to 21** *Mid-Point 19 marks*
Level 3	**Reasonable including some correct analysis but very limited evaluation**	**10 to 16** *Mid-Point 13 marks*
Level 2	**Weak with some understanding**	**4 to 9** *Mid-Point 7 marks*
Level 1	**Very weak**	**0 to 3** *Mid-Point 2 marks*

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Issues and areas for discussion include

Introduction	• Definitions / descriptions of, e.g. ◦ Privatisation ◦ Public ownership
Developing the response to the question: **(Application)**	• Comments from own economic knowledge or based on the data, e.g. ◦ Further comments on **Extract A**, (differences / similarities between different governments) ◦ Examples from **Extract B** of privatisations ◦ Dangers of privatisation mentioned in **Extract C**
Developing the response to the question: **(Analysis)**	NOTE There are two aspects to the question: privatisation vs. nationalisation, and domestic ownership vs. international ownership. To achieve Level 5 both aspects must be analysed **and** evaluated. Level 4 can be achieved by a thorough treatment of one aspect, as long as the other is addressed to some extent. • Arguments for nationalisation / against privatisation, e.g. ◦ Externalities ◦ Inability of markets to make long term predictions ◦ Health and safety issues arising from environmental problems ◦ The need for coordinated international action ◦ Merit goods, demerit good, public goods • Arguments for privatisation / against nationalisation, e.g. ◦ Efficiency ◦ Competition, enterprise, efficiency ◦ Signalling, incentive, rationing functions of price • Advantages / disadvantages of international cooperation. • Implications of inward investment; skills / knowledge transfer, comparative advantage vs. self-sufficiency, import substitution
Evaluation	• Evaluation of some specific privatisations, e.g railways, nuclear power, water • Discussion of the quotation (whether the exclusion of British state ownership can be justified if owners are nationalised by their states, or have the backing of a foreign sovereign wealth fund) • Advantages and disadvantages of a mixed economy approach • Market failure versus government failure • Need for privatisation to be accompanied by effective regulation • Globalisation and globalism • Protection vs. free trade; free movement of capital *Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.*
Also give credit for	• Relevant diagrams • An overall judgement on the issues raised.

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It will only be possible for candidates to consider a few of the above. They may also discuss issues not discussed above.

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