PEARSON EDEXCEL A-LEVEL ECONOMICS A · 9EC0

ECONOMICS



MARK SCHEME

3.3 REVENUES, COSTS AND PROFITS

SCORE	PERCENTAGE
/685	%

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Mark Scheme

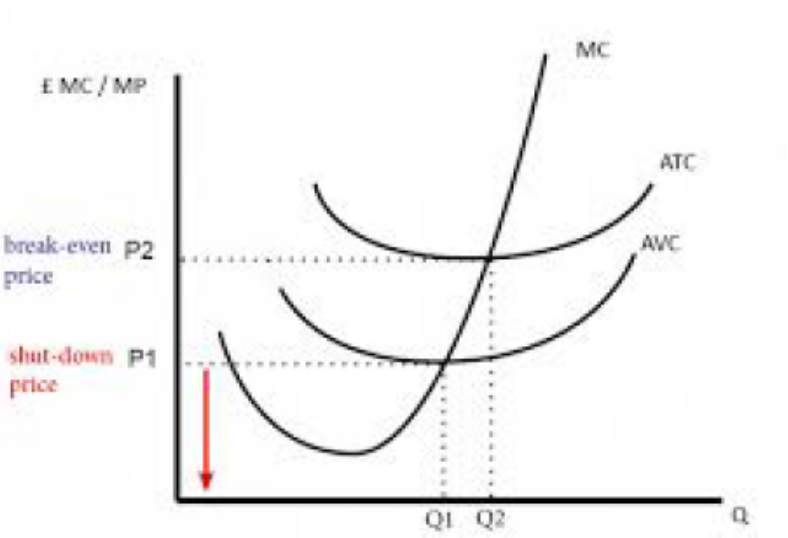
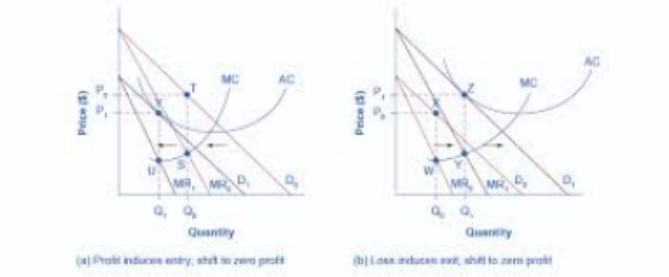
Q1.

Question Number	Indicative content	Mark
(a)	**Knowledge 2, Application 2, Analysis 1** **Knowledge and analysis (3 marks): e.g.** • Productivity must be GDP / input (or per hour worked) to have sense of output relative to input (1) sense of relative efficiency (1) • Nominal values meaning e.g. inflation is included in the figures (1) so useful firms when calculating how much revenue they have earned (1) • PPPs means e.g. that the relative cost of living is taken into account, or the figures are adjusted according to the relative purchasing power (1) • Makes comparison easier across countries (1) and time (1) and meaningful in the same currency (1) **Application (2 marks for 1 point, or 1 + 1)** Award valid data use only e.g. • US produces 28% more per hour (1) than the UK (1)	**(5)**

Question Number	Indicative content	Mark
(b)	**Knowledge 2, Application 2, Analysis 2 Evaluation 2** **Knowledge/implicit understanding of one reason** • Higher employment/employment has not fallen in line with falls in GDP (productivity puzzle) • Inefficient businesses e.g. zombies • Costs of laying off workers is high e.g. labour hoarding – both in terms of severance and loss of human capital • Workers do not want to leave, because of pensions/higher living costs/lack of confidence about finding another job after the biggest crash since the 1930s • Low interest rates have meant workers can be kept on despite falling sales and output, as profits are kept positive • Later retirement age • Lack of investment/FDI in UK (1) e.g. in advanced technology (1) • Numbers in higher education **NB do not award longer working hours unless clearly linked to hourly impact (Figure 4 is hourly productivity)** e.g. diminishing marginal productivity. Award only the **one** best reason given.	

	Application: (2 or 1+1) • Use of Figure 4 to show difference between actual and potential figures • This might be shown using a PPF or AD/AS diagram (1) • Use of UK recent events e.g. financial crisis (1) • **NB At least one application mark is reserved for use of Figure 4.** **Evaluation** (2 marks for any relevant point, or two points 1 +1): • Problems in data – productivity is being measured the wrong way • Trend likely to reverse after recovery from downturn 2020/2021 • As employment falls from events in 2020 the trend might reverse (output per worker will rise if there are fewer workers) • Magnitude of productivity gap is cause for alarm • Reasons why productivity is growing in other countries – or other comment e.g. that the relative productivity (Fig 3) is more significant	**(8)**

Question Number	Indicative content	Mark
(c)	**Knowledge 2, Application 2, Analysis 4** **Knowledge and analysis** • Changing consumer trends • Higher business rates and other costs • Use of diagram to show shut down point • Explanation of diagram to explain why firms leave, e.g. P<AVC • X-inefficiency in shops • Low value added shops have to compete with online **Application** • Competition from online • Use of Extract to give examples, e.g. Maplin could not compete with online similar products • Inflation has reduced the amount you can buy with £1 – Poundworld was not viable • These are saturated market with many new entrants • Large rental bills and higher business rates cannot be met and banks are unwilling to lend/ provide extensions to overdrafts • Falling consumer confidence	

	Example of costs diagram (can use AC or ATC)  Example of revenue diagram:  **NB for a level 3 response there must be at least one valid diagram. The diagram can show either a fall in AR/MR or a rise in costs, or both. The diagram also earns credit as a static diagram, but explanation of changes is still required.**	**(8)**

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	3–5	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	6–8	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
(c) continued	**Evaluation 4** • Some high street stores are doing well, e.g. coffee shops and cafes • Other regeneration of the high street is possible • Many companies are responding to threats from online by extending their online presence • Diagram might be used as part of evaluation, e.g. it depends on whether costs also fall as demand falls. Homebase is seeking lower rents (fixed costs fall). • Firms will stay in business in the short run if they are making a contribution towards fixed costs, i.e. P>AVC. This might be illustrated with a diagram e.g.	

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Indicative content	Mark
(d)	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** Microeconomic policies to improve competitiveness may include: • Labour force policies e.g. changing NMW will affect ULCs • Increased level capital by making investment more profitable/subsidy • Infrastructure spending e.g. Crossrail • Investment in education/skills or cutting/capping university fees • Joint ventures with global companies e.g. Dyson Macroeconomic influences may include: • Trade liberalisation – may refer to tariffs or trade agreements to improve price competitiveness. Also award policies that are protectionist. • Tax and benefit changes e.g. corporation tax • Government policy improvements, e.g. weak expansion in fiscal policy, cut interest rates, subsidies, privatisation • Actions of other institutions e.g. banks, schools • Control of price level e.g. stop QE **NB for a Level 4 response there must be micro and macro policy (s). Some factors could be seen as micro or macroeconomics, such as labour market changes, supply side policies** Possible evaluation points include: • Degree to which the policies might be a success • Depends on other countries (relative competitiveness issue) • Depends on the value of the currency which cannot be directly controlled in the UK. • Depends on relationship with the EU after Brexit • opportunity costs of funds • government failure- lack of information to know where to focus funds	**(25)**

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1 - 4	Displays ability to apply knowledge in context but will focus on small range of elements. Demonstrates understanding by identifying relevant information. Demonstrates knowledge and understanding of terms, concepts, theories and models.
Level 2	5 - 8	Shows ability to apply economic ideas and relate them to economic problems in context. Displays knowledge and understanding of economic principles, concepts and theories to make limited analysis or narrow analysis.
Level 3	9 - 12	Analysis is clear and coherent with evidence well integrated, although may focus on some of the broad elements of the question more than others. Shows ability to apply economic ideas and relate them directly to the broad elements in the question.
Level 4	13 - 16	Analysis is relevant, clear and coherent with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic effects. A clear understanding of economic principles, concepts, theories and arguments.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of evaluative comments without explanation.
Level 2	4–6	Evaluative comments with limited explanations. Evidence of evaluation of alternative approaches which is generic or unbalanced leading to limited judgements.
	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to the context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

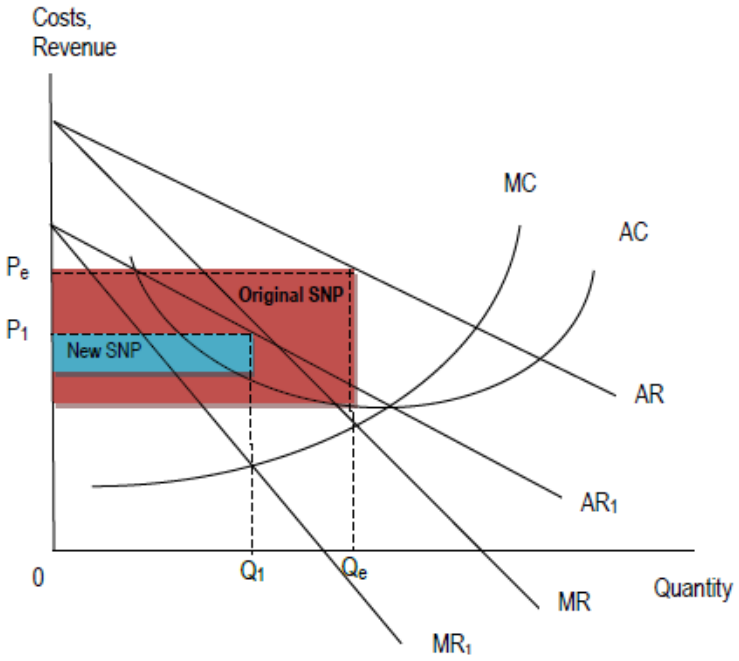
Question Number	Indicative content	Mark
(e)	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** Microeconomic effects may include: • Loss of human capital and therefore lost incomes, consumer welfare • Firms may have unfilled vacancies. Effects on costs • Falling incomes in the UK mean reduced sales • Skills shortages may create a need for employment of migrant workers • Extra costs associated with training staff to up skill them Macroeconomic effects may include: • Shift in SRAS or LRAS might be drawn as costs of production rise, productivity worsens, capacity reduces • Effects of immigration to fill gaps in labour market • Effect on current account as UK economy becomes uncompetitive • Falling tax revenues and increased G – fiscal implications **NB for a Level 4 answer there must be reference to the context of young workers in the specific country's context (UK or any other)** **NB for a Level 4 response there must be micro and macro effects.**	

	Possible evaluation points include that the effect depends on: • Effects of Brexit may mean it is harder to fill vacancies for firms using skilled EU labour • Data may be misleading – difficult to measure human capital • Comment on the priority literacy/numeracy is vital to long term viability of workforce. Should funding increase for education? • There will always be a demand for low skilled workers • Some evidence that most UK young people are better educated 2016 data- improvements likely with reforms to KS2, GCSE and A Levels focusing more on literacy and numeracy/quantitative skills. • Some with poor literacy and numeracy have been highly successful entrepreneurs - there are famous (but statistically rare) examples!	**(25)**

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays ability to apply knowledge in context but will focus on small range of elements. Demonstrates understanding by identifying relevant information. Demonstrates knowledge and understanding of terms, concepts, theories and models.
Level 2	5–8	Shows ability to apply economic ideas and relate them to economic problems in context. Displays knowledge and understanding of economic principles, concepts and theories to make limited analysis or narrow analysis.
Level 3	9–12	Analysis is clear and coherent with evidence well integrated, although may focus on some of the broad elements of the question more than others. Shows ability to apply economic ideas and relate them directly to the broad elements in the question.
Level 4	13 - 16	Analysis is relevant, clear and coherent with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic effects. A clear understanding of economic principles, concepts, theories and arguments.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of evaluative comments without explanation.
Level 2	4 – 6	Evaluative comments with limited explanations. Evidence of evaluation of alternative approaches which is generic or unbalanced leading to limited judgements.
Level 3	7 – 9	Evaluative comments supported by relevant reasoning and appropriate reference to the context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Q2.

Question Number	Answer	Mark
(a)	**Knowledge 2, Application 2** 1 mark for: profits are likely to fall (this may be shown on the diagram) 1 mark for the decrease in the average revenue and marginal revenue curves (accept a pivotal movement of the AR and MR curves) 1 mark for the new equilibrium output and price positions at new MC = MR 1 mark for the original area of supernormal profit. 1 mark for the new smaller area of supernormal profit/ loss. Diagram required e.g.  Accept alternative diagram, e.g.: • Total revenue and total costs diagram	**(4)**

Question Number	Answer	Mark
(b)	B	**(1)**

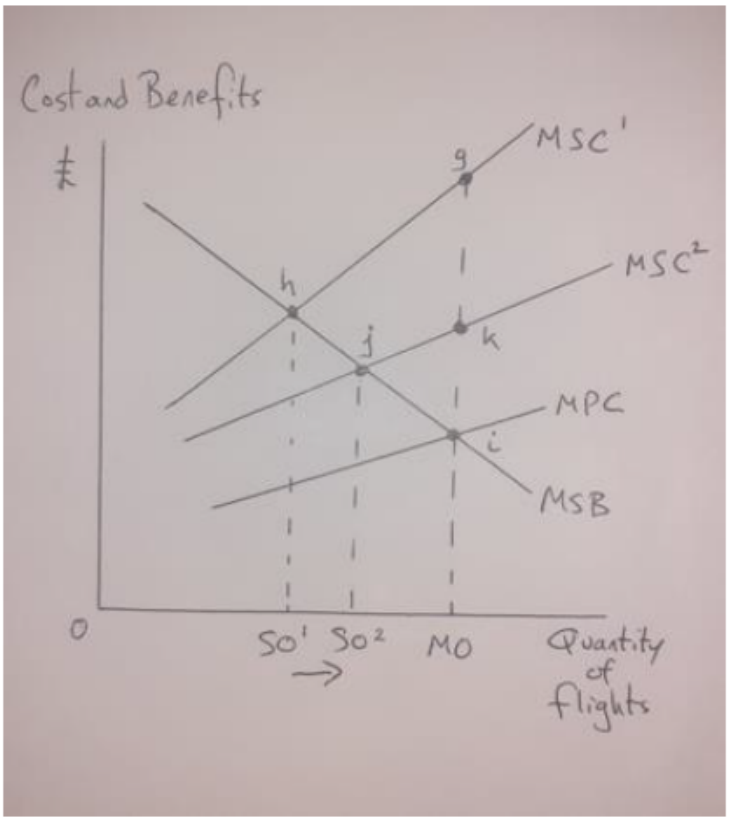
Q3.

Question Number	Answer	Mark
(a)	**Analysis 1** **The only correct answer is C** **A** is not correct because the external economies of scale being the most likely reason would indicate that the market contains mostly small firms in a perfectly competitive market which is not evident in the stem. **B** is not correct because companies merging are more likely to benefit from internal economies of scale **D** is not correct because a demerger will usually reduce market share and it could be argued in this case that the two businesses are unrelated.	**(1)**

Question Number	Answer	Mark
(b)	**Knowledge 2 Application 2** Profit = TR – TC or TC = TR – Profit OR 72.8 million – 14.4 million (1) Calculation of profit in 2016 17.5 million/1.215 = 14.4 million (1) Calculation of total revenue in 2016 75.8 million/1.041 = 72.8 million (1) **Award full marks for the answer = £58.4 million** **NB – simply stating 58.4 million is 4 marks** **simply stating 58.4 is 3 marks**	**(4)**

Q4.

Question Number	Answer	Mark
(a)	**Knowledge 1, Application 2, Analysis 2** **Knowledge and Analysis:** up to 3 marks for e.g. • Staffing levels fall (1) • Diminishing marginal productivity means for an additional unit of labour the additional increase in productivity declines (1) so the additional cost of hiring more labour (1) needs to be set against the additional productivity gained (1) • As marginal productivity declines/diminishing returns set in (1) marginal cost increases at a faster rate (1) given labour is homogenous (1) • In the short run labour is variable (1) all other factors of production are held constant (1) so an additional unit of labour will result in less additional output (1) • An additional unit of labour results in: marginal product declines (1) average product declines (1) total product increases at a slower rate (1) total cost rises at a faster rate (1) marginal cost increases (1) average cost rises (1) **Application:** up to 2 marks for e.g. • lower marginal productivity of an additional crew member (1) explains why American Airlines are reducing staffing levels (1) • The first cabin crew member serves 50 passengers, the second serves 60 additional passengers, the third serves 30 more, the fourth serves 20 (1+1) • The number of additional meals served will decline per additional crew member (1) as crew members start to get in each other's way (1) • The available space on the plane is fixed (1) and seating/trolley/meals/doors available (1) • Lower cost per passenger (1) cheaper tickets (1)	**(5)**

Question Number	Answer	Mark
(b)	**Knowledge 2, Analysis 2, Application 2, Evaluation 2** **Knowledge/understanding:** 2 marks (1+1) e.g. • Social optimum is when MSC = MSB (1) • Social optimum position moves right (1) • Market equilibrium output (e.g. MO) position identified (1) • Downward sloping MSB (1) • MSC = MPC + MEC (1) 	

	Analysis: 1 mark for linked explanation of each identified benefit (1+1) e.g. • Third party effects are lower (1) so external costs are lower/MEC falls (gi to ki) (1) • MSC shifts/skews right (1) showing new social optimum position (MSB=MSC) (1) • Welfare loss falls (1) from ghi to kji (1) **Application:** 2 marks for reference to Extract B e.g. • Thomas Cook airline emissions are lower/switch fuel types/new engines (1) • In 2018 Thomas Cook Group Airline was included in the top 10 of the world's most fuel-efficient airline (1) • Lower insurance bills/clean up bills for companies/households at risk of flood damage/storms (1) loss of cattle/crops due to drought declines (1) • CO_2 emissions per passenger declines (1) quantity of flights increases (1)	

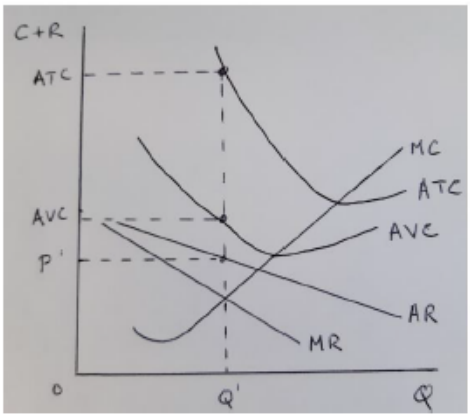
	NB These application points may be annotated on the diagram. **Evaluation:** 2 marks for two evaluative comments, OR 2 marks for identification and linked development of one evaluative comment e.g. • Difficulty in measuring size of negative externality (1) third party effects (1) • CO_2 emissions from travel agents, hotels and holiday activities increase/remain high (1+1) • Computational problems in measuring CO_2 emissions from planes (1) faulty industry data (1)	**(8)**

Question Number	Indicative content	Mark
(c)	**Knowledge 2, Application 2, Analysis 2** **Case for principal agent problem being significant.** Conflict of interest between the principal (shareholder) and the agent (CEOs/directors/managers) creates problems for Thomas Cook: • Moral hazard – no consequences for the failings of management results in high-risk behaviour • Chief Executive incentivised by £500 000 bonus and £8.5 million salary possibly linked to sales or market share rather than the long-term profitability of Thomas Cook • To increase sales or market share the Chief Executive may have focussed on mergers with other Travel businesses, price wars with competitors or investing in buying new hotels and planes rather than keeping costs low and paying off debts • Chief Executive may have prioritised a greener image by reducing emissions or better pay to avoid pilots striking and sought to satisfice shareholders instead reducing the long-term profitability of Thomas Cook	**(6)**

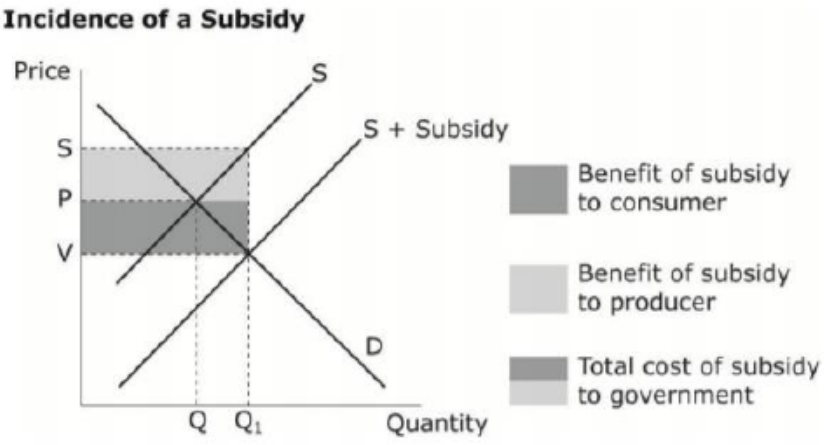
Level	Mark	Descriptor
	0	A completely inaccurate response.
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Level 2	3–4	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or the answer may lack balance.
Level 3	5–6	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are applied appropriately to the broad elements of the question.

Question Number	Indicative content	Mark
(c) continued	**Evaluation 4** **Case against 'principal agent problem'** • Employee share-ownership schemes address the problem. £4m of the CEO's £8.5m earning is in shares – so as an employee he is motivated by profit maximisation, bringing him in-line with shareholders. His shares are now worthless • CEO worked "exhaustively" to rescue Thomas Cook and create a long-term strategy. By owning planes and hotels they would have assets and not borrow to rent. In the long-run Thomas Cook could have moved its sales more on-line • Shareholders have lost capital value but the CEO has lost his job, earnings and his reputation • Shareholders can hold the CEO accountable at their AGM, reject pay and bonus awards and place the CEO on a short-term contract to avoid the long-term contract short-term gain problem • Other factors that caused closure – fuel prices, competition.	**(4)**

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/ reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Indicative content	Mark
(d)	**Knowledge 2, Application 2, Analysis 4** **Case for subsidy:** • Subsidy is financial aid, grant • In long run required more to cover AC • Subsidy may have lowered AC, may be shown as shift on diagram • Benefit of subsidy to producer may cover their AVC in short-run or AC in long-run. • Avoid government rescuing 600 000 travellers • Avoid government paying benefits to up to 21 000 employees and those losing jobs in related industries e.g. hotels • Subsidy may have leveraged help from banks and shareholders • Thomas Cook may have recovered - Package holidays may have come back into fashion – aging population. Recession may have seen a rise in demand for package holidays as an inferior good, YED negative • Diagram may be used, for example:  	

OR



NB a diagram is not required
NB case against subsidy may be seen as KAA and case for as evaluation or vice versa.

(8)

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	3–5	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	6–8	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

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Question Number	Indicative content	Mark
(d) continued	**Evaluation 4** **Case against subsidy** Lack of finance • £150 million not enough - £1.5 billion loss. • Needed help from bank loan (zombie-firm), shareholders or another company taking over Thomas Cook. Not willing to help. • £1.5 billion loss in May 2017, already in long-run • Cheaper and more effective to nationalise to rescue employees and suppliers Merger with MyTravel • Diseconomies of scale, LRAC>AR • Lack of synergy • Loss making business	
	Falling demand for Package holidays • AR shifting in • Booking online through competitors rather than Thomas Cook high street outlets • Package holiday inferior good, YED negative. • Climate change – stay at home. Opportunity cost Dependency Government lacks funds- budget deficit Moral hazard No consequences for the failings of management will teach other businesses who get into commercial difficulties that government will pick up the pieces **NB: Case against subsidy may be seen as KAA and case for as evaluation or vice versa.**	**(4)**

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Indicative content	Mark
(e)	**Knowledge 3, Application 3, Analysis 3** **Exploiting market power** • Jet2 increases 'price per person' by £36 after Thomas Cook closes (Fig 2) • Thomas Cook, with a 13% market share in 2019, exits the market causing Jet2 to gain market share, possibly close to 25% - gaining monopoly power/duopoly/oligopoly (Fig 1) • Jet2 may be using its monopoly dominance to set a price above the market clearing/allocatively market price • Consumer surplus reduced, producer surplus gained. • With less competition for package holidays, Jet2's PED becomes relatively more price-inelastic resulting in greater price setting powers for package holidays • Jet2 may now be able to set its price at a profit maximising level of £824 rather than possible sales maximisation/revenue pricing/limit pricing/predatory pricing at £788 • Demand for Jet2 holidays increasing as a close substitute to Thomas Cook • Remaining companies colluding, use of game theory. **N.B KAA may be used as EV and vice-versa.**	**(9)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–3	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	4–6	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	7–9	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
(e) continued	**Evaluation 6** **Responding to market forces** • Demand for Jet2 holidays increasing as a close substitute to Thomas Cook. This may have been happening before Thomas Cook closure • Thomas Cook exiting the package holiday may have removed a surplus of package holidays • At the price of £788 there is now a shortage of holidays to Sorrento, as shown by excess demand due to cancelled Thomas Cook holidays • Market forces resulting in Jet2 extending their supply at higher prices • As they increase the price to £824 the market may clear	**(6)**

	• Consumers may decide not to buy at higher price - to stay home or become anxious about firms closing and cancelled holidays • Other factors may have caused demand to rise or supply to shift inwards • Market share may not be reallocated to Jet2 • Jet2 is a distant substitute and may not go to same destinations as Thomas Cook • Companies do not collude as fear a whistle-blower and fines 10% or revenue • Rising marginal costs for Jet2 to reduce CO_2 emissions/ buy more fuel to new destinations/ costly take overs. **NB KAA may be used as EV and vice-versa.**	

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches which is unbalanced. Evaluative comments with supporting evidence/reference to context and a partially-developed chain of reasoning.
Level 3	5–6	Evaluative comments supported by relevant chain of reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

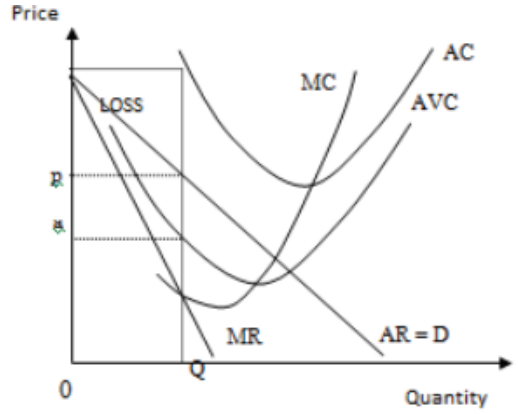
Q5.

Question Number	Answer	Mark
(a)	**Knowledge 1, Analysis 1** **Knowledge / understanding and Analysis e.g :** • Total cost rises (1) at an increasing rate (1) • Total costs continue to rise (1) but more steeply (1) • MC > AC, therefore AC rises (1) • • MC > AC (1) therefore TC increases at a faster rate (1) candidates may draw the TC curve to show it rising more rapidly NB : responses may be shown on the diagram beyond point Z.	**(2)**

Question Number	Answer	Mark
(b)	**Application 1** **The only correct answer is B** ***A*** *is not correct because AVC does not fall* ***C*** *is not correct because AFC falls as fixed costs are spread out over a larger output* ***D*** *is not correct because AFC falls as fixed costs are spread out over a larger output*	**(1)**

Question Number	Answer	Mark
(c)	**Application 2** **Application: (up to 2 marks)** Calculate total cost: Average variable cost = 2 x 0.4 = 0.8 (1) Total variable cost = 0.8 x 400 = £320 (1) £320 + £300 (1) **Award 2 marks for correct answer = £620 (accept 620)** **Award maximum 1 mark for partially correct answer**	**(2)**

Q6.

Question Number	Answer	Mark
(a)	**Knowledge 2, Application 1, Analysis 1** **Knowledge/understanding:** 1 mark for knowledge of short-run shut down point and 1 mark for identifying that this condition does not hold (this knowledge may be shown by identifying points on a diagram). OR 1 mark for identifying alternative plausible economic reason and 1 mark for development. **Application:** 1 mark for application to Blackberry. **Analysis:** 1 mark for linked development. e.g. Short-run shut down point where AR=AVC (1). AR>AVC in short run so continues to operate (1). At Blackberry $4.4bn loss (1) but each additional unit sold contributes to reducing the size of losses. (1) Diagram showing AR<AC (1) and AR>AVC (1), e.g.  Alternative response, e.g.: • if the firm has significant reserves (1) from previous years that it can cover any losses (1) which at Blackberry were £4.4 billion (1) this means the business continues to operate if it believes it can make future profits. (1)	**(4)**

Question Number	Answer	Mark
(b)	C	**(1)**

Q7.

Question Number	Answer	Mark
(a)	**Knowledge 1, Application 2, Analysis 2** Three-firm concentration ratio is the sum of the largest market share of the biggest three firms as a proportion of the whole market (1) Calculations e.g. • 2681+1025+648 = 4354 (1) • 50+40+30+3748 = 3868 (1) • 8222 (1) • 4354/8222 (1) = 0.53 Answer = 52.96% **Award 5 marks for correct answer (52.96)** **N.B. allow 52-53 or 0.53:1 (5)** **N.B. Maximum of 4 marks if no correct answer given e.g. 0.53 (4)**	**(5)**

Question Number	Answer	Mark
(b)	**Knowledge 2, Analysis 2, Application 2, Evaluation 2** **Knowledge/understanding:** 2 marks (1+1) e.g. • Acknowledgement of price inelastic demand (1) • Acknowledgement of price inelastic supply (1) • Non-price determinants of demand (1) • Non-price determinants of supply (1) • Cross price elasticity of demand (1) **Analysis:** 2 marks for linked explanation (1+1) e.g. • Speculative demand, change income, taste and preference (1) • Supply chain failure/ harvest failure/weather/seasonality (1) • Price inelastic demand, lack of close substitutes, small proportion of income, necessity (1) • Price inelastic supply – time-lags with supply, storage problems (1) • Closure of cafés/farms/freight in 2020 (1) **Application:** 2 marks with at least 1 mark for reference to Figure 2 e.g. • May 2020 price falls 3.23% (1) • April 2020 price rises 4.28% (1) • Between April and May 2020 price moved by 7.51 percentage points (1) • Price falls from \$3.13 (Jan 2020) to \$2.99 (Feb 2020 (1+1) • Price rises \$2.99 (Feb 2020) to 3.27 (March 2020) (1+1) • Average price = \$3.32 (2) • Coffee crop harvest failure (1) • Coffee addictive (1) **NB allow up to 2 marks for diagram that enhances the written explanation elsewhere**	**(8)**

	Evaluation: 2 marks for two evaluative comments, OR 2 marks for identification and linked development of one evaluative comment e.g. • Depends upon the degree of price elasticity of demand when supply shifts (1) • Depends upon the degree of price elasticity of supply when demand shifts (1) • Use of buffer stocks (1) brings price stability (1) • Transitory changes (1) short-term shocks of disappear over-time (1) • Futures market (1) dampens price instability/removes volatility (1) • Easy to store (1) and therefore to release if there was a poor harvest (1) • Short-run/long-run (1) **NB award a maximum of 6/8 if no reference to Fig 2 and/or price elasticity**	

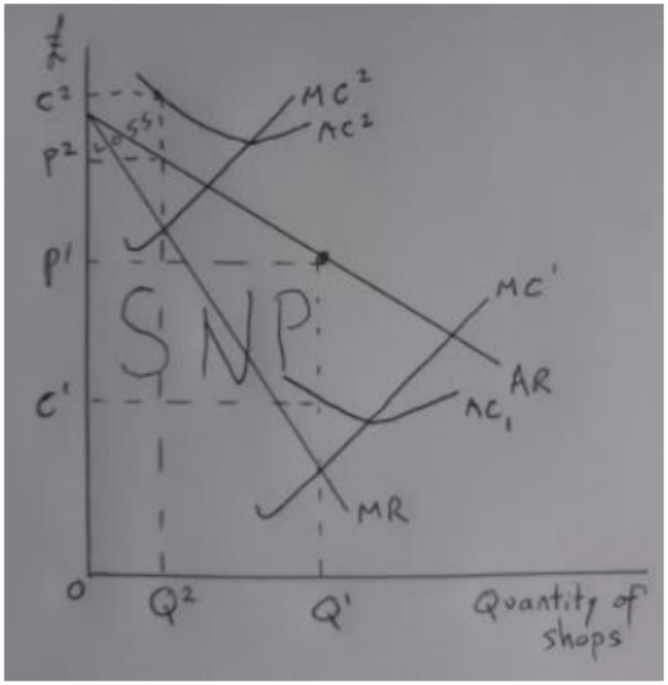
Question Number	Indicative content	Mark
(c)	**Knowledge 2, Application 2, Analysis 2** • Profit maximisation for owners/shareholders, MC=MR • Revenue maximisation for managers, MR =0 • Sales Maximisation to increase market share, AC=AR • Limit pricing by Costa • Profit satisficing by Independents • Coffee quality lowers profit • Relocating may allow more profit • Competitive market makes survival top objective • Unique premium experience lowers profits **NB Allow use of diagrams to explain the above** **NB: For Level 3 response candidates must refer to coffee shops** **NB: Alternatives to profit maximisation may be seen as KAA and profit maximisation as evaluation or vice versa**	**(6)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no link between causes and consequences.
Level 2	3–4	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or the answer may lack balance.
Level 3	5–6	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are applied appropriately to the broad elements of the question.

Question Number	Indicative content	Mark
(c) continued	**Evaluation 4** • Short-term objectives used to achieve long-term profitability e.g. better quality coffee raises costs • Use of profit satisficing to achieve other objectives e.g. customer satisfaction or environmental goals • Difficulty calculating precisely profit maximisation position • Depends on owners – Costa Coffee change in ownership change in objectives • Depends on owners - independent owners aim for normal profit/survival/Coca Cola support sustainable communities • Divorce of ownership and control/principal agent problem	**(4)**

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/ reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Indicative content	Mark
(d)	**Knowledge 2, Application 2, Analysis 4** Profitability definition **Profitability decreases** • Increase in advertising/rent/wages (Fixed Cost) shifts AC upwards • Increase in price of coffee beans/wages (Variable Cost) shifts AC and MC upwards • Loss area/smaller profit connected with MC=MR • Slow-down opening new outlets in 2020 • Short-term (AVC) or long-term (AC) shut down point • Coffee shops labour intensive	

	• Diagram e.g.  **NB: For Level 3 response candidates must refer to coffee shops. Must have an accurate diagram.** **NB Allow diagrams showing e.g. rise in fixed costs only, constant returns to scale.** **NB Profitability not decreasing can be seen as EV and decreases as evaluation or vice versa**	**(8)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	3–5	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	6–8	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
(d) continued	**Evaluation 4** **Profitability does not decrease** • Coffee bean costs very volatile • Coffee small proportion of total cost • Rent/labour high proportion of total cost • Profit also determined by revenue • Insufficient information • Prioritisation of reasons • 2020 closures due to external factors • Long-term changes e.g. price of property falls • Absorb costs • Change in market structure – firms exit • Collude/inter-dependence • Change in revenue • Diversify into new product or geographical markets e.g. US	**(4)**

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Indicative content	Mark
(e)	**Knowledge 3, Application 3, Analysis 3** Contestable meaning e.g. low barriers to entry or exit or low sunk costs The market **is** contestable because: • low barriers to entry e.g. - low start-ups costs as it is cheaper to rent shop floor - renting machines needed to make coffee rather than buying them - increasing threat of competition from independent coffee shops (Extract A line 11) - Greggs entry shows they just added chairs and menu range (Extract B line 5) • low sunk costs e.g. training baristas requires less expenditure • Coca-Cola takeover of Costa **NB Coffee shop not being contestable can be seen as KAA and contestable as evaluation or vice versa** **NB for a Level 3 response there must be reference to the context of coffee shop market.**	**(9)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–3	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	4–6	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	7–9	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
(e) continued	**Evaluation 6** The market is **not** contestable because: • high barriers to entry e.g. - highly concentrated market with 3-firm CR nearly 53% implying strong brand image, - collusion and economies of scale making it difficult for small independents to enter and grow • some firms may face high rent costs if they are seeking a larger shop floor/central location • high sunk costs - big chains have finance to spend on promotion and advertising that smaller independent coffee shops won't be able to	**(6)**

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches which is unbalanced. Evaluative comments with supporting evidence/reference to context and a partially-developed chain of reasoning.
Level 3	5–6	Evaluative comments supported by relevant chain of reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Q8.

Question Number	Answer	Mark
(a)	**Application 2** **Application:** 1 mark for applying the formula and 1 mark for the correct answer -21.65% ÷ 17.78% (1) = -1.2 (1) Correct calculations of both percentages accept (-) 0.217 and (-) 0.178 = 1 mark **NB if the answer given is -1.2 or 1.2, award 2 marks**	**(2)**

Question Number	Answer	Mark
(b)	**Knowledge 1, Analysis 1** **Knowledge/understanding:** 1 mark for original **and** new sales revenue Original sales revenue: £7.20 × 97 million = £698.4 million New sales revenue: £8.48 × 76 million = £644.5 million **Analysis:** 1 mark for the change in revenue: **-**£53.9 million (accept close approximation, for example a fall of £54 million) **NB if the answer given is -53.9m/53.9m award 2 marks (this may be stated as -7.7% or 7.7%)** **NB If million is missing from the answer award up to 1 mark**	**(2)**

Question Number	Answer	Mark
(c)	B	**(1)**

Q9.

Question Number	Answer	Mark
(a)	**Knowledge 2, Application 2** **Knowledge/Understanding: (up to 2 marks)** 1 mark for identifying each correct price/output level e.g. Identify profit maximisation position: for example, where MC=MR or output level 25 or price £17 (1) Identify revenue maximisation position: for example, where MR=0 or output level 36 or price £12 (1) **Application: (up to 2 marks)** Calculate total profit at profit maximisation position: for example, total revenue – total cost = total profit: £425 **–** £200 = **£225** (1) **OR** £17-£8=£9, £9 ×£25 = £225 (1) **OR** Calculate total profit at revenue maximisation position: £432 **-** £324 = **£108** (1) **OR** £12-£9=£3, £3 ×£36 = £108 (1) £108 **-**£225 = **-£117** or **£117** **Award full 4 marks for -£117 or fall of £117 or £117**	**(4)**

Question Number	Answer	Mark
(b)	**The only correct answer is B** ***A*** *is not correct because sales maximisation occurs when AC equals AR which is at an output higher than revenue maximisation* ***C*** *is not correct because AC is higher at sales maximisation output than revenue maximisation* ***D*** *is not correct because abnormal profit is removed and only normal profit is now made*	**(1)**

Q10.

Question Number	Answer	Mark
(a)	**Knowledge 1, Application 1, Analysis 3** **Knowledge/Understanding:** 1 mark for: Understanding or definition of a concentration ratio (1) **Application:** 1 mark for reason e.g. Change in shopping habits which has led to consumers shopping more frequently in discount stores/online shopping from other retailers (1) **OR** The smaller discount stores such as Aldi and Lidl have increased their market share (1) **Analysis:** Award further marks for linked developments e.g. because Aldi and Lidl focus on low prices so their sales have risen faster than those of the big four (1) more convenient to shop at local stores (1) The four firm concentration ratio has decreased by 3.6 percentage points (2) **OR** Calculation of the four firm concentration ratio in 2010 (30.8 + 17.6 + 16.1 + 11.6 = 76.1%) (1) Calculation of the four firm concentration ratio in 2015 (28.6 + 16.5 + 16.5 + 10.9 = 72.5%) (1)	**(5)**

Question Number	Indicative content	Mark
(b)	**Knowledge 2, Application 2, Analysis 4** • Definition of monopsony • Food prices likely to fall **Effects on food suppliers might include:** • Financial problems from delays in receiving payments from supermarkets (Extract A) • Lower prices mean a reduction in revenue and profits • Increased costs due to paying excessive amounts for packaging and promotions. • Losses may even be made • Pressure on suppliers to cut costs • Fall in employment • Some food suppliers may exit the industry • Less funds for investment • Risk that suppliers will reduce product quality • Figure 2 indicates some supermarkets abused their market power e.g. Tesco and Morrisons. **Effects on consumers might include:** • Lower prices mean higher consumer surplus • Impact on food waste • Impact of cost cutting measures on quality of food and consumer choice. **NB for a Level 3 response, candidates must consider both food suppliers and consumers in their answer. Answers must refer to the context.**	**(8)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	3–5	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	6–8	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Answer	Mark
(b) continued	**Evaluation 4** • Food suppliers may be able to increase efficiency and so remain profitable and stay in the industry. • Supermarkets may be reluctant to use their monopsony power for fear of GCA, government investigation and possible fines up to 1% of sales revenue. • Consumers may not benefit since supermarkets may not pass on lower costs in the form of lower prices. • Supermarket sector may not be a monopsony as there is more than one buyer –so perhaps less power over food suppliers. • According to Figure 2 some supermarkets may not abuse their position e.g. Aldi and Sainsbury. • Long term implications: exit of firms may risk supplies to consumers. • Consideration of bilateral monopoly e.g. large food supply firms or cooperatives. • Food suppliers may diversify e.g. farm shops. • Food suppliers may undertake vertical integration.	**(4)**

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/ reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Answer	Mark
(c)	**Knowledge 2, Analysis 2, Application 2, Evaluation 2** **Knowledge/understanding:** 2 marks for identification of two measures (1+1) **Analysis:** 2 marks for linked explanation of these measures (1+1) **Application:** 2 marks for reference to data (1+1), e.g. • Fines - GCA can fine supermarkets up to 1% of annual revenue (1) • Regulation to ensure payments made within standard time (1) • Price regulation e.g. minimum pricing – to ensure fair prices are paid for supplies (1) /relevant diagram (1) • Promote new entrants and further competition in supermarket sector (1) • Block mergers if it leads to increased monopsony power (1) **Evaluation:** 2 marks for two evaluative comments, OR 2 marks for identification and linked development e.g. • Asymmetric information may lead to regulator making incorrect decisions (1) e.g. too lenient or too harsh on supermarkets (1) • Regulatory capture may arise (1) • Regulator may lack resources to investigate supermarket sector thoroughly (1) • Problems of gaining accurate information from suppliers (1) as they are reluctant to complain (1) • CMA may allow mergers (1) which increase monopsony power of supermarkets (1) • Government may counteract monopsony power by protecting farmers' income e.g. subsidies (1+1) • Problems of minimum price e.g. excess supply/food waste (1)	**(8)**

Question Number	Indicative content	Mark
(d)	**Knowledge 2, Application 2, Analysis 2** • Identification of information gaps as a cause of market failure **Information gaps as main cause of food waste e.g.** • Food suppliers lack market information: e.g. predicting size of harvests – dependent on climate/ pest control and disease/ time lags in growing crops and raising livestock. • Supermarkets lack market information: e.g. predicting household demand – depends on tastes and fashion which may change/ population and migration changes/ impact of competitors. • Consumers lack market information: e.g. uncertainty over how to store food or whether food is fit for consumption after sell-by dates. **Irrational behaviour as main cause of food waste e.g.** • Computation issues e.g. consumers perceived demand may exceed actual demand for food / difficulty in comparing the different size of food products to fit with the actual amount of food required. • Habitual behaviour e.g. consumers may have a tendency to purchase more food than required/ better to have too much than too little food. • Influence of other people's behaviour e.g. consumers may purchase food that they might not want. • Impulse buying e.g. due to advertising or use of special offers. NB These points could count as Evaluation and the Evaluation points as KAA. NB A Level 3 response would typically consider both 'information gaps' and 'irrational behaviour'. NB There may be overlap between information gaps and irrational behaviour as possible causes of food waste.	**(6)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no link between causes and consequences.
Level 2	3–4	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or the answer may lack balance.
Level 3	5–6	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are applied appropriately to the broad elements of the question.

Question Number	Indicative content	Mark
(d) continued	**Evaluation 4** • Consideration of relative proportions of food waste e.g. supermarkets appear favourable compared to food suppliers and households. • Other factors could cause food waste e.g. ➢ Misleading advertising by firms so consumers purchase food they do not want. ➢ Transport and storage problems due to road congestion / problems of importing food from overseas. • Consideration of whether it is rational to assume that consumers seek to maximise utility in allocating their expenditure / and firms seek to maximise profits in making production decisions. • Long run information gaps may narrow and irrational behaviour may reduce e.g. improved labelling and social enterprise, advice to customers on how to store food and use leftovers or use of new technology to extend freshness of food. NB These points could count as KAA and the KAA as evaluation.	**(4)**

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Answer	Mark
(e)	**Knowledge 3, Application 3, Analysis 3** **Problems of merger include:** • CMA may block this horizontal merger since the combined firm has 27.4% market share/ exceeds the 25% legal monopoly figure. • Costs to the firms: possible diseconomies of scale such as overlap between location of stores/ co-ordination of staff/ redundancies/ implementation of new IT system (different types of diseconomies of scale may be awarded separately). • Impact of merger on consumer loyalty: the new store may not deliver consumer loyalty, for example, different brands between stores. • Lack of synergies and cultural clash • Underlying market conditions remain: consumers changing their shopping habits and merger does not address this issue. • Impact on food suppliers: increased monopsony pressure on suppliers may lead to reduced choice of food suppliers. An increased risk of GCA investigation. • Consideration of problems of other mergers and acquisitions: for example, BT takeover of EE. NB for a Level 3 response there must be reference to the context e.g. Figure 1 or Extract C.	**(9)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–3	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	4–6	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	7–9	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

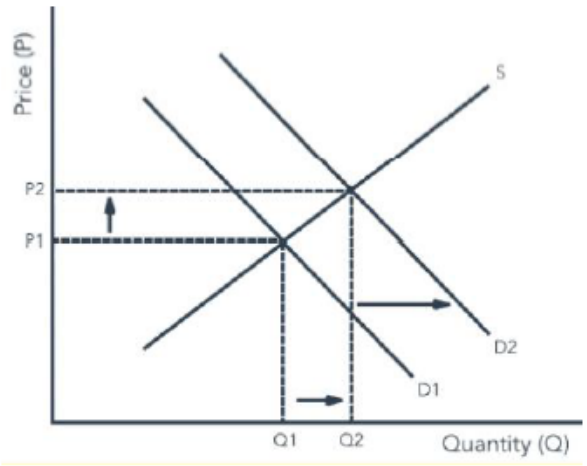
Question Number	Indicative content	Mark
(e) continued	**Evaluation 6** • There may be benefits which offset the problems, such as ○ different types of economies of scale e.g. bulk purchase ○ rationalisation of stores and employees could lead to increased efficiency and profitability ○ increased market power • CMA could permit merger as sufficient competition still exists in the sector from online shopping and the growth of discount stores. • Prioritisation of problems with justification, for example, a lot of money could be spent on the proposed merger which is then blocked by CMA. • Short-run and long run implications: enormous upheaval in short run but sufficient cost savings could be made in long run to make it worthwhile.	**(6)**

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches which is unbalanced. Evaluative comments with supporting evidence/reference to context and a partially-developed chain of reasoning.
Level 3	5–6	Evaluative comments supported by relevant chain of reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Mark Scheme

Q1.

Question Number	Answer	Mark
(a)	**Analysis 1** **The only correct answer is D** ***A*** *is not correct because fixed costs are not related directly with output in the short-term* ***B*** *is not correct there is no information available on income changes* ***C*** *is not correct because there is no information available on price changes*	**(1)**

Question Number	Answer	Mark
(b)	**Knowledge 2, Application 2** **Knowledge** - Correctly labelled original demand and supply (1) annotated to show the demand curve shifted to the right (1) **Application** **As a result of demand shifting right:** – Price increase (1) – Output increase (1) – Original and new equilibrium points identified (1+1) ALLOW horizontal supply Award a maximum of three marks if supply also shifts Diagram e.g.  	**(4)**

Q2.

Question Number	Answer	Mark
(a)	**Application 2** **Application:** 1 mark for likely understanding e.g. • $40 x 300 seats (1) **OR** • $12 000 per show (1) **OR** • $12 000 x 5 (1) Answer = **$60 000** **Award 2 marks for correct answer (60 000)**	**(2)**

Question Number	Answer	Mark
(b)	**Application 2** **Application:** 1 mark for understanding e.g. • Subsidy is 57.5% (1) **OR** • 100% - 30% (tickets sales) – 12.5% (charitable donations) **OR** • 57.5% x $ 200 000 (1) **OR** • 0.575 x 200 000 (1) Answer = **$115 000** **Award 2 marks for correct answer accept a range (114 000 – 116 000)**	**(2)**

Question Number	Answer	Mark
(c)	**Analysis 1** **The only correct answer is D** ***A*** *is not correct because this is sales maximisation* ***B*** *is not correct because this is identifying allocative efficiency* ***C*** *is not correct because this is describing perfect competition market structure.*	**(1)**

Q3.

Question Number	Answer	Mark
(a)	**Application 2** **Application:** 1 mark for appropriate calculation e.g. £2 ×73 million = £146 million (1) **OR** £0.24 ×73 million = £17.52 million (1) **OR** £1.76 ×73 million (1) **OR** correct answer with no millions (1) Answer = **£128.48 million** (accept between £128 million and £129 million) **Award 2 marks for correct answer (128m)**	**(2)**

Question Number	Answer	Mark
(b)	**Knowledge 1, Analysis 1** **Knowledge:** 1 mark for e.g. • The demand for use of gaming machines is likely to increase (1) • It is a substitute for national lottery tickets (1) • Substitutes have a positive cross elasticity of demand (1) **Analysis:** 1 mark for e.g. • Increase by 128% in response to a 100% increase in the price of national lottery tickets (1) • 1.28 cross elasticity of demand indicates they are **close** substitutes (1)	**(2)**

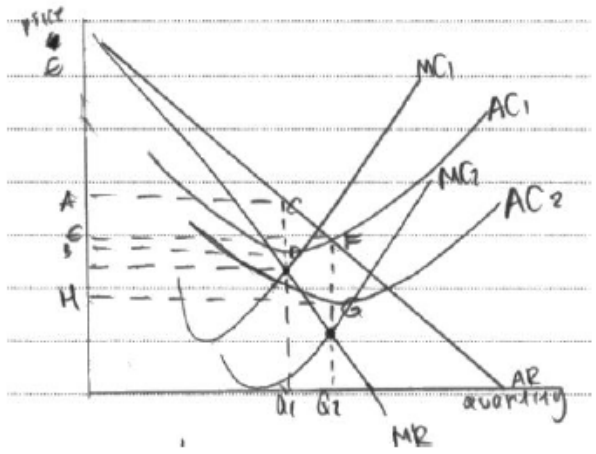
Question Number	Answer	Mark
(c)	**The only correct answer is C** ***A*** *is not correct because the flood defence scheme is non-exclusive* ***B*** *is not a private good because flood defence scheme is non-exclusive so you are unable to charge private individuals that benefit from the scheme* ***D*** *is not correct because it is a distractor in lacking meaning but also indicating that the candidate is confusing rivalry with the non-rivalrous nature of public goods*	**(1)**

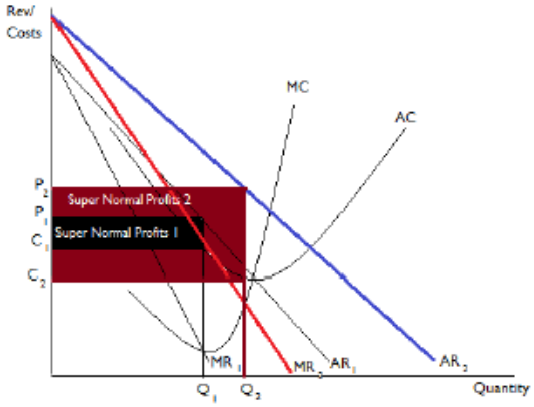
Q4.

Question Number	Indicative content	Mark
(a)	**Knowledge 2, Application 2, Analysis 1** **Knowledge and analysis:** 3 marks. Points might include: • Explanation that national debt is the accumulation of pas fiscal deficits (may be implicit) • National debt interest payments have an opportunity cost in terms of current spending • It may be harder to raise borrowing in the future • In case of a debt crisis, it might be impossible to raise new credit • Also could argue that increased debt worsens the fiscal deficit through debt repayments • 'Jam today not jam tomorrow' or similar idea that it's today's benefits paid for in the future **Application (2 marks for 1 point, or 1 + 1)** Award valid data use only e.g. • Reference to data in Figure 2 e.g. ratio falls (1) to 60% in 2019 (1) • Fig 2: debt is falling as a percentage of GDP which is either because there is a fiscal surplus (Fig 1) or because there is economic growth (Fig 3) • Use of other data, e.g. to keep surplus, 1.9% Fig 1 or Ext C • Want to stay the largest economy in the EU. Data from any of the sources can be credited, if relevant, not just Figure 2. • Maintain independence by not having to borrow	**(5)**

Question Number	Indicative content	Mark
(b)	**Knowledge 2, Application 2, Analysis 2** **Evaluation 2** **Knowledge/implicit understanding of two effects (1 + 1) e.g.** • Consumers demand falls • Firms may pay lower wages • Lower labour turnover • Easier to recruit staff • Reduction in skills, efficiency • Deterioration of public sector finances further reducing spending on infrastructure **Application:** (2 marks for any relevant point, or two points 1 +1): e.g. • Unemployment is forecast to rise (1) to 6.1 percent from 5 percent (1) / 1.1 percentage points (2) • This comes after several years of a declining rate of unemployment (1) **Analysis** (1+1) • Development of points made **Evaluation** (2 marks for any relevant point, or two points 1 +1): e.g. • Demand might rise for inferior goods • Wages may be sticky downwards • This is only a forecast and given events at the beginning of 2020 might end up worse. • Firms exporting goods may not be affected as demand from abroad may remain strong if unemployment does not fall there • The rise in unemployment is small and is still below 11.7% 2005. So, the impact will be relatively small	**(8)**

Question Number	Indicative content	Mark
2(c)	**Knowledge 2, Application 2, Analysis 4** **Knowledge and analysis** • Might mean costs rise in the short run and/or • Costs fall in the long term – fixed or variable • Demand for products might increase as firms improve product quality and choice **Application** • Some firms in Germany are expecting higher long-term profits from the investment (Extract C) • Germany still far behind other countries in the area of technology especially broadband (Extract C) **Analysis** Example of diagram (can use AC or ATC or not shift MC)):	





NB for a level 3 response there must be at least one valid diagram. The diagram can show either a rise in AR/MR or a fall in costs, or both.

(8)

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	3–5	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	6–8	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
(c) continued	**Evaluation 4** • Discussion of whether costs would rise (short term) or fall if successful (long term) • It depends on how labour intensive the production is • It depends on what competitor countries are doing • New technology needs highly skilled labour and cannot be discussed in isolation	**(4)**

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Indicative content	Mark
(d)	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** Microeconomic factors to explain low growth may include: • Labour force factors e.g. changing NMW will affect ULCs and therefore growth • Increased level capital by making investment more profitable/subsidy • Infrastructure spending e.g. schools crumbling, poor internet • Investment in education/skills or cutting/capping university fees • Low level of willingness to embrace modern technologies Macroeconomic influences may include: • Population changes • Trade liberalisation – may refer to tariffs or trade agreements to improve price competitiveness, changes in EU • Tax and benefit changes • Government policy improvements, e.g. weak expansion in fiscal policy, cut interest rates, subsidies, privatisation • Actions of other institutions e.g. banks, schools • Control of price level e.g. stop QE • Competitiveness – use of Extract D **NB some points such as regulation, supply-side policies, changing the interest rate, can be regarded as micro or macroeconomics**	

	NB for a Level 4 response there must be reference to Germany in context Possible evaluation points include: • Degree to which the factors might be a success • Depends on other countries (relative competitiveness issue) – it could be that other countries have a comparative or absolute advantage/other trade pattern and trade bloc arguments • Depends on the value of the euro/ other currency of trading partners which cannot be directly controlled in Germany • Germany might be better protected from worldwide crises such as the recent Global Health Crisis • Growth is not the only desirable economic outcome (it might be argued that slower growth is better)	**(25)**

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1 - 4	Displays ability to apply knowledge in context but will focus on small range of elements. Demonstrates understanding by identifying relevant information. Demonstrates knowledge and understanding of terms, concepts, theories and models.
Level 2	5 - 8	Shows ability to apply economic ideas and relate them to economic problems in context. Displays knowledge and understanding of economic principles, concepts and theories to make limited analysis or narrow analysis.
Level 3	9 - 12	Analysis is clear and coherent with evidence well integrated, although may focus on some of the broad elements of the question more than others. Shows ability to apply economic ideas and relate them directly to the broad elements in the question.
Level 4	13 - 16	Analysis is relevant, clear and coherent with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic effects. A clear understanding of economic principles, concepts, theories and arguments.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of evaluative comments without explanation.
Level 2	4–6	Evaluative comments with limited explanations. Evidence of evaluation of alternative approaches which is generic or unbalanced leading to limited judgements.
Level 3	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to the context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Question Number	Indicative content	Mark
(e)	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** Microeconomic effects may include: • Employment improves or unemployment stops rising • Incomes rise/stop falling • Increased profits for firms e.g. motor manufacturers • Other micro effects of increased spending and welfare e.g. improved health service • Infrastructure improves if spending on this area • Higher taxes in future might have an impact on demand and other aspects of consumer behaviour Macroeconomic effects may include: • AD increases • multiplier • Shift in SRAS or LRAS might be drawn e.g. capacity increases • Increase in price level/output • increase in borrowing – cost for future generations • Diagrams might involve an increase in AD with multiplier effects • Increased debt payments in the future – opportunity cost arguments may be used **NB for a Level 4 answer there must be reference to the German fiscal policy. Some effects such as lower costs or increased investment could be seen as micro or macro** **NB for a Level 4 response there must be reference to Germany**	

	Possible evaluation points include: • Depends on Classical vs Keynesian shape of AS • Depends on size of multiplier • Depends on the cost of borrowing – currently very low • Impact on money markets and conflict with other policies • Opportunity cost arguments • Reference to budget deficit and national debt • Confidence in the markets and consumers in the fiscal policy will determine whether or not it is effective • Will interest rates remain low? • An essential action in the recent context, and without stimulus many incomes and businesses would be lost	**(25)**

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays ability to apply knowledge in context but will focus on small range of elements. Demonstrates understanding by identifying relevant information. Demonstrates knowledge and understanding of terms, concepts, theories and models.
Level 2	5–8	Shows ability to apply economic ideas and relate them to economic problems in context. Displays knowledge and understanding of economic principles, concepts and theories to make limited analysis or narrow analysis.
Level 3	9–12	Analysis is clear and coherent with evidence well integrated, although may focus on some of the broad elements of the question more than others. Shows ability to apply economic ideas and relate them directly to the broad elements in the question.
Level 4	13 - 16	Analysis is relevant, clear and coherent with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic effects. A clear understanding of economic principles, concepts, theories and arguments.

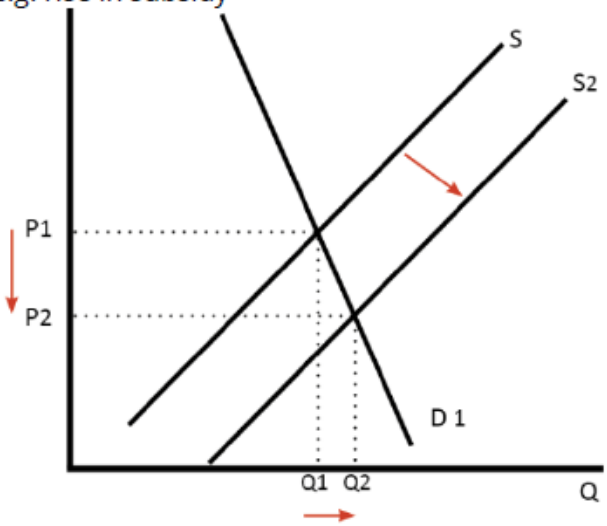
Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of evaluative comments without explanation.
Level 2	4 – 6	Evaluative comments with limited explanations. Evidence of evaluation of alternative approaches which is generic or unbalanced leading to limited judgements.
Level 3	7 – 9	Evaluative comments supported by relevant reasoning and appropriate reference to the context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Q5.

Question Number	Answer	Mark
(a)	**Knowledge 2, Application 2** **Knowledge/understanding**: 1 mark for identifying the condition for sales maximisation, e.g. AR=AC And 1 mark for identifying the condition for profit maximisation, e.g. MR=MC **Application**: up to 2 marks for calculation of total revenue and changes. Profit maximisation TR = £12 x 12 = £144 (1) OR Sales maximisation TR = £8 x 16 = £128 (1) £128 - £144 = -£16 (1) NB accept 16 or -16 for 4 marks up to 3 marks for calculation of total revenue and changes. Profit maximisation TR = £12 x 12 = £144 (1) Sales maximisation TR = £8 x 16 = £128 (1) £128 - £144 = -£16 (1) NB accept 16 or -16 for 4 marks.	**(4)**

Question Number	Answer	Mark
(b)	C	**(1)**

Q6.

Question Number	Answer	Mark
(a)	**Knowledge 1, Application 1, Analysis 3** **Knowledge and Analysis:** (up to 4 marks) Correctly labelled diagram annotated to show a shift right in the supply curve (2) e.g. rise in subsidy  **NB: also accept a double shift right indicating an increase in subsidy.** **NB: also accept a rise in price, given prices annually linked to RPI, but less than it would have been.** **NB: 2 KAA marks are reserved for an accurate diagram**	

	Explanation that subsidy increase is a rise in financial assistance OR cut in cost of production OR additional cash grant (2) Explanation that decreasing costs borne by producers is passed on to consumers as a fall in rail fares OR excess supply results in fall in rail fares (2) **Application:** 1 for reference to Figure 1 e.g. subsidy rises around £11 million (1) subsidy rises from £277 million to £287.9 million (1) subsidy increased by 3.9% (1)	**(5)**

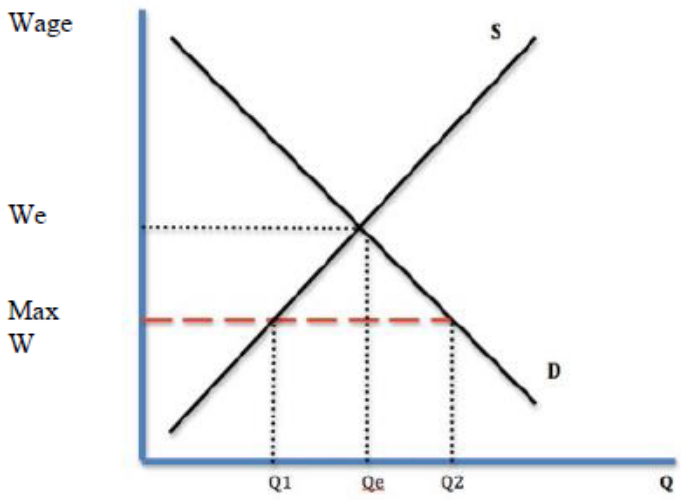
Question Number	Answer	Mark
(b)	**Knowledge 2, Analysis 2, Application 2, Evaluation 2** **Knowledge/understanding:** 2 marks for identification of two non price determinants (1+1) e.g. • Change in taste and preference/quality of service • Changes in income • Price of substitute has risen/substitute less attractive • Price of complement has fallen/complement more attractive • Increased population/migration • Lower price in real terms • Lower prices – special offers/off-peak/forward booking.	

	Analysis: 1 mark for linked explanation of each identified determinant to demand increasing/shifting right (this may be shown on a diagram) (1+1) Increase in population moved to commuter areas/improvement in rail stock e.g. wifi access. Income elasticity of demand Close substitute e.g. car travel, XED >+1 Close complement e.g. on-board meal, XED >-1 **Application:** 2 marks for reference to Figure 2 (1+1) or other data (1), e.g. • Approximately 50 billion rail passenger kilometres per year (1) to 65 billion (1) or increased by 15 billion rail passenger kilometres per year (2) or Increased by 30% (2) • Economic recovery post 2008 crisis (1) • Cost of car travel/road congestion (1) • Quality of train meals/on board Wi-Fi access (1)	

	Evaluation: 2 marks for two evaluative comments, OR 2 marks for identification and linked development of one evaluative comment, evaluating significance of factors or another reason as a counter-argument e.g. • Delays and cancellations (1) • Recession 2008- 2010 (1) • Car travel still cheaper/train delays and cancellations (1) • Rail meals expensive/congested trains so can't work on board (1) • Increased home working • Rail fares have risen (1)	**(8)**

Question Number	Indicative content	Mark
(c)	**Knowledge 2, Application 2, Analysis 2** **Positive effect on protection of employees:** • Safety of employees maybe better protected • Trade unions will succeed in securing higher wages in negotiations with government rather than private firms. Rail employees become subject to public sector wage setting. Extension in supply of labour. • Greater job security • Improved integration between state owned rail network and rail operators resulting in rail expansion. • Reduced inequality in pay between employees. • Private sector firms may cut less profitable route whereas government will continue these routes protecting employees **Negative effect on protection of employees:** • 'Maximum wage on executive managers pay' may be implemented – causing shortages with specialist managers • Nationalisation may not 'provide a wider choice'/quality resulting in lower levels of employment • Lack of funds for investment from the government may reduce the long-term attractiveness of railways causing service to be cut in future	

NB: Allow relevant diagram e.g.



NB: Negative effects can be seen as KAA and positive effects as evaluation or vice versa.

NB: for a Level 3 response there must be reference to the context of nationalisation of the rail industry.

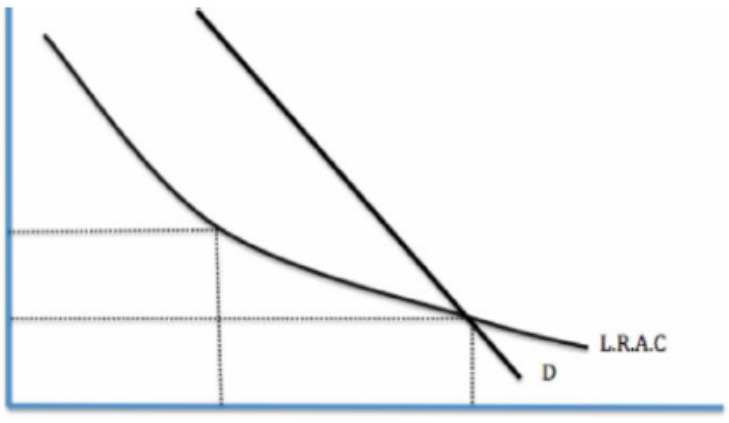
NB: for a Level 3 response there must be reference to the effect on employees.

(6)

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	**1–2**	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no link between causes and consequences.
Level 2	**3–4**	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or the answer may lack balance.
Level 3	**5–6**	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are applied appropriately to the broad elements of the question.

Question Number	Indicative content	Mark
(c) continued	**Evaluation 4** • Limited effect since many train operators such as East Coast now in the public sector • Rail usage which increased under privatisation may decline causing suppliers profits and employees wages to decline • Public or private sector ownership may make no difference to executive managers pay • Wages may not increase faster under state ownership compared to private sector. • Level of personnel could be cut substantially under nationalisation if the government has to make spending cuts. • Wages may not increase faster under state ownership compared to private sector. **NB: Negative effects can be seen as KAA and positive effects as evaluation or vice versa.** **NB: for a Level 2 response there must be reference to employees in context.**	**(4)**

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	**1–2**	Identification of generic evaluative comments without supporting evidence/ reference to context. No evidence of a logical chain of reasoning.
Level 2	**3–4**	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Indicative content	Mark
(d)	**Knowledge 2, Application 2, Analysis 4** **Case for rail network being a natural monopoly** • Define natural monopoly • Application – rail network was renationalised in 2001 after privatisation in 1993 promised competition. Need for integrated national rail network of 32 000km for 2 500 stations, requires enormous investment. • Large infrastructure cost means adding one more passenger or one more train means AC continues to fall. • Little additional costs associated with an additional customer or train running. • Operating one rail track minimises average costs, rail network's LRAC continues to fall as high fixed costs associated with laying track and building new stations. • Allocative efficiency is met at close to large share of market demand. Minimum efficiency scale will require large subsidies to fund off peak services and cover losses. • Average cost would be very high for having two or more rail companies with wasteful duplication of multiple tracks – resulting in higher rail fares. • Allow relevant diagram e.g.	
	AC  Output • Only one rail network company can fully exploit large internal economies of scale – technical, commercial, managerial. **NB: Case for can be seen as KAA and positive case against as evaluation or vice versa.**	**(8)**

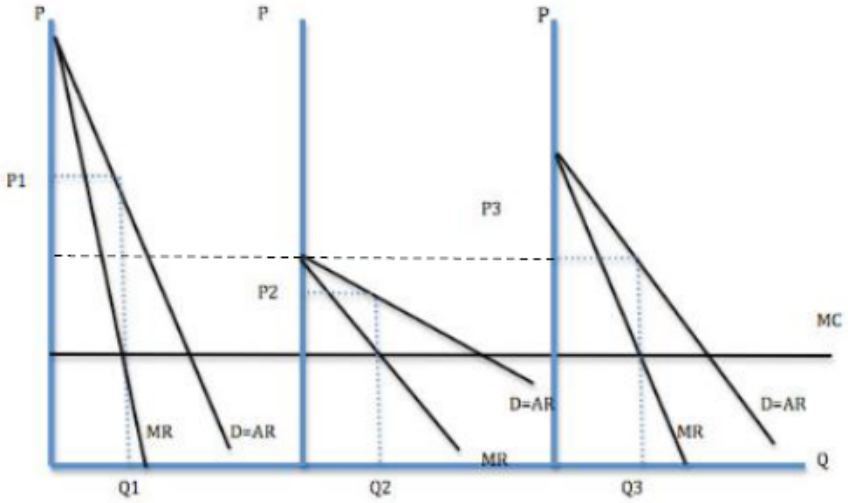
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	**1–2**	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	**3–5**	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	**6–8**	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
(d) continued	**Evaluation 4** **Case for rail network not being a natural monopoly** • Government support for competition: "companies can bid to build new rail lines to upgrade the railway." • Train operating companies already compete to run trains on lines • Rail lines and stations could be leased out to competing firms • Potential diseconomies of scale in rail infrastructure – managerial slack, closure of rail lines. • Technological advances may result in competing rail lines. **NB: Case for can be seen as KAA and positive case against as evaluation or vice versa.**	**(4)**

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	**1–2**	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	**3–4**	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Indicative content	Mark
(e)	**Knowledge 3, Application 3, Analysis 3** Price discrimination – charging different prices to different groups of consumers for the same service e.g. 16-25 railcard users vs adult fare users. Allow peak and off-peak as service from A to B is the same, price discrimination just provides an incentive to travel slightly later. • **Lower rail fares for 16-25 year olds** Young persons' may increase their consumer surplus as a result – prices may move towards being more allocatively efficient P=MC. May find bargain fares - £35.80 cheaper as in Figure 3. Allows lower income groups to consume service – seek employment. • **More choice for rail travellers**: Price discrimination enables TOCs to make more revenue so they can cross subsidise and provide discount fares for seats that would not have been taken. In some cases without price discrimination rail operators may go out of business – preventing rail travel.	

	• **Avoids overcrowding** Trail operators can use price discrimination to manage demand, preventing overcrowded train in peak travel times and encouraging rail travel by 16-25 year olds in less popular times off peak. • **Improved customer service** Rail travellers receive a better-quality travelling experience thanks to additional revenue raised through price discrimination. Investment in new trains, station services, online ticketing, customer information, Improved food and drink service, Wi-Fi access, seating and storage space.	

	• **Price discrimination diagram** showing, for example: Market profit maximising price and output P3 and Q3. At which no service would be provided for 16-25 year old customers. Price discrimination enables a lower price of P2 (£69.50) for young persons' – so consumer surplus increases for consumers with relatively more price elastic demand  **NB: Other correct diagrams accepted.** **NB: For Level 3 a valid diagram such as above is required. Analysis must link to benefits to consumers. Allow other types of rail fare price discrimination e.g advance booking, Senior Railcard, 16-17 year olds half price travel.**	**(9)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	**1–3**	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	**4–6**	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	**7–9**	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
(e) continued	**Evaluation 6** • Rail operators are price regulated so not pure price makers • Cuts in number of guards may mean adults travel illegally. • Higher rail fares for adults £105.30 in Figure 3 (£35.80 more than 16-25 year olds) resulting in fall in consumer surplus and less allocatively efficient pricing. Overall consumer surplus may be lower. • Despite price discrimination consumers are suffering train cancellations and government is having to rescue rail operators making large losses. • Overcrowding happens on off peak trains – so government/rail operators have no incentive to continue offering young persons' discount. • Deteriorating customer service despite price discrimination. Rail operators using additional revenue to pay out dividends or executive pay rises. • Are rail operators/government aware of PEDs for different groups of consumers.	**(6)**

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	**1–2**	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	**3–4**	Evidence of evaluation of alternative approaches which is unbalanced. Evaluative comments with supporting evidence/reference to context and a partially-developed chain of reasoning.
Level 3	**5–6**	Evaluative comments supported by relevant chain of reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Q7.

Question Number	Indicative content	Mark
	Knowledge 4, Application 4, Analysis 8, Evaluation 9 • Definition of microeconomic consequences • Identification of positive XED Positive consequences • Consequences for microeconomic agents of increased demand for electricity – consumers, electric vehicle manufacturers, electric vehicle dealers, battery manufacturers, freight companies, retailers, government, employees. • Use of cost and revenue diagram for to show the effect on profit of falling cost of electric powered vehicles/rising revenue. • Welfare effects on consumer and producer surplus of consumers switching to electric powered vehicles. • Efficiency – allocative, productive, dynamic • Positive external benefits • Reduced negative external costs (MSC>MPC) closer to social optimum Negative consequences • Use of cost and revenue diagram to show the effect on profit of rising cost of petrol or diesel/declining revenue (D=AR). • Welfare effects on consumer and producer surplus of consumers switching away from diesel or petrol. • Efficiency – x-inefficiency • Loss of government revenue as a large proportion of petrol or diesel price is tax • Negative external costs associated with e car manufacturing **NB: Negative consequences can be seen as KAA and positive consequences against as evaluation or vice versa.**	

	Evaluation • Predictions may be wrong – dynamic market forces between substitutes may result in cheaper sources of oil, electric power becoming more expensive. Lack of electric infrastructure. Distant substitutes, XED<+1. • Counterarguments made to the point raised e.g. Supernormal profits made may raise barriers to entry, firms may pursue sales maximisation rather than profit maximisation, congestion. • Information gaps • Different geographic markets – regulations and taxes on oil powered vehicles • Impact on the oil market will depend on how electricity is generated • Negative external costs partly offset by increased demand for electricity **NB: Negative consequences can be seen as KAA and positive consequences against as evaluation or vice versa.**	**(25)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	**1–4**	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	**5–8**	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two stage chains of reasoning only.
Level 3	**9–12**	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	**13–16**	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	**1–3**	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	**4–6**	Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially-developed chain of reasoning.
Level 3	**7–9**	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Q8.

Question Number	Answer	Mark
(a)	**Knowledge 2, Application 2, Analysis 1** **Knowledge and analysis (3):** • Definition of opportunity cost as the next best alternative foregone (1) • Governments have to pay interest (1) at the expense of other expenditure (1) • Servicing means paying back interest and minimum capital requirements (1) e.g. to prevent a default, loss of confidence, other repercussions (1) • The debt is external (1), and in this case owed by governments as they have been borrowing from abroad (1) • Use of PPF to show opportunity cost may be awarded as analysis (1) **Application (2 marks for 1 point, or 1 + 1)**: e.g. • Debt service payments above 20% of G (1) are unsustainable (Extract D) (1) • £20billion raised 2010-2015 (Extract D) (1) • Commodity prices soaring and foreign loans available' (Extract D) (1) • 'Heavy repayment schedules at a time of low commodity prices' (Extract D) (1) • Governments have taken to 'private debt too eagerly' (Extract D) (1) • 'Median level of debt risen from 34% to 48% in 2017' (Extract D) (1) is heavy because of 'low tax base' (Extract D) (1) • High levels of poverty – half of the 26 million people (1), so many feel the effects of reduced government expenditure (Extract E) (1) • 'non-existent tuna fleet' or other hidden debt (Extract D) or corruption (1) at the expense of other government spending (1) • Opportunity costs applied to any developing country, e.g. spending on poverty alleviation, education and health spending or recent cyclone April 2019 (1). **Award a maximum of 1 application mark if there is no reference to Extract D**	**(5)**

Question Number	Answer	Mark
(b)	**Knowledge 2, Application 2, Analysis 2, Evaluation 2** **Knowledge**/implicit understanding of **two** reasons why manufacturing firms stay small, **(1+1)** e.g. • Size of market/lack of access to export markets/low export earnings due to lack of demand • Absence of economies of scale, or insufficient incentive or ability to grow (apart from access to financial) • Problems of human capital, e.g. lack of educated workforce • Lack of infrastructure making expansion into new areas difficult, or small markets • Actions of foreign firms to foster dependency • Government or international actions to make it hard for firms to grow • Lack of TNC involvement in Mozambique/volatility of currency/capital flight • Firms want to remain close to customers- meet needs with specific goods. • Firms might be manufacturing niche products with inelastic demand and high-income elasticity • Small firms more able to manufacture and sell through selling online and have small assets. • Perfect / monopolistic competition characteristics, e.g. low barriers to entry • Non-economic factors, e.g. natural disasters, political tensions, drought • Cost of finance, cost of servicing loans, financial economies of scale and scope. Do not allow **access** to finance.	

	Application (1+1 or 2): e.g. • Further depreciation of the metical (Extract E) • Lack of economic stability (Extract E line 26) • Slowdown in FDI (Extract E) • Depressed global demand (Extract E) • Low levels of employment in the sector (Extract E) may imply lack of skilled workers • High interest rates (Fig. 2 and Extract E line 14) • High import costs (Extract E line 15) • Needs urgently to improve its investment environment and confidence (Extract E line 17) • Large scale emigration (Extract E) • High numbers of people 'below the poverty line' (Extract E line 6) mean the market/incomes are small • 'Economic dependence on South Africa' (Extract E) may limit prices/market power of firms.	

	Analysis (1+1) • Development of each point, up to 1 mark for each valid factor **Evaluation** (2 marks for any relevant point, two points 1+1): • The development of the gas fields (Extract E) will 'transform the economy' • Pick up in coal and electricity (Extract E) which are probably larger firms and may have impact on manufacturing • may consider whether this is because of choice or lack of opportunity • Long term 'prospects are promising' (Extract E, line 20) e.g. sustainable agreement, gas fields production in 2020s or other initiatives such as trade blocs **NB Cost of finance, financial economies of scale etc are allowed. It is only ACCESS to finance e.g. unavailability of microfinance, savings gap, loss of external lenders which is excluded.** **NB Access to finance *may* be credited as part of the evaluation but not as KAA**	**(8)**

Question Number	Indicative content	Mark
(c)	**Knowledge 2, Application 2, Analysis 4** • Microfinance meaning and role • Plugs the savings gap / Harrod-Domar model • Enables firms to be set up – fixed or start-up costs • enables firms to invest in human capital and overcome primary product dependency • Use of Figure 3 to illustrate size and importance of microfinance operations • Use of Extract F – e.g. '100 000 borrowers', many new business start-ups which could not have gained finance from any other source', 'unfulfilled demand for microfinance' • How borrowers benefit – small firms can be set up or expanded, allowing firms to gain capital and materials to set up businesses, provide more employment, lead to improved living standards • Borrowers lack collateral so cannot borrow from banks in the normal way • The money is in small amounts £200 to £300, paid back regularly and over a short period of time, on which basis the firm forms a business plan for which the lender will approve or advise • Microfinance allows firms to form without the stigma of aid or the dependence of FDI • Use of cost/revenue analysis to support arguments (perfect/monopolistic competitive market) • Macro analysis (AD/AS) must link back to borrowers, e.g. increased standard of living, allows firms to expand/invest **NB For Level 3, answers must link to borrowers** **NB The answer can take the form that there are more costs than benefits as part of the KAA, using the benefits as the evaluation**	**(8)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	3–5	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	6–8	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
(c) continued	**Evaluation 4** • Use of Figure 2 to show high base rates and Figure 3 to show average 75% APR on microfinance • Large potential for expansion (Extract F) • May encounter lack of demand as more than half of the population live below the poverty line • Weak infrastructure does not allow borrowers to access markets • Alternatives to microfinance could be considered, e.g. aid, FDI, debt relief • Reasons why microfinance can be damaging to borrowers, e.g. pressure on women (98% of borrowers), over-indebtedness, poor guidance given to borrowers, macro-finance is needed for economies of scale, people borrowing multiple times, for uses which are social not business orientated. • Large numbers of people setting up similar businesses/highly competitive e.g. food stalls, so profits tend to be low/need for dynamic efficiency • Funds from private banks very different from NGOs – banks might be more cautious, and therefore more likely to succeed, might be better advice, support from specialists, softer terms from either institution might lead to moral hazard	**(4)**

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Indicative content	Mark
(d)	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** Microeconomic influences may include: • Labour force and other demographic factors e.g. emigration of skilled/educated workers, disease, low life expectancy • Small firms with low levels of capital • Low levels of personal saving/high levels of personal debt • Primary product dependency • Volatility of commodity prices • Debt – although do not award access to credit and banking. Allow arguments based on dependency or opportunity cost, for example • Lack of infrastructure/other capital • Absence of property rights • Non-economic factors e.g. natural disasters, social problems • Joint ventures with global companies Macroeconomic influences may include: • Trade liberalisation – may refer to tariffs or trade agreements • Role of FDI e.g. the tuna fleet cover-up dries up FDI • Government policy failure, e.g. weak expansion in fiscal policy, high interest rates, lack of subsidies, privatisation, interventionist strategies, e.g. management of exchange rate, buffer stocks • Actions of other international institutions e.g. IMF or NGOs • Macroeconomic stability, e.g. rate of inflation (might refer to Figure 2), rate of economic growth, exchange rate (metical at a 'new low')	

	Possible evaluation points include: • Degree to which the factors are inevitable • Signs of improvements in passages • Some factors are temporary, e.g. fall in commodity prices such as coal and drought affecting production and exports to other countries within Africa **NB Do not award KAA for arguments based on ACCESS TO credit and banking, although this approach is permitted as part of the evaluation** **NB for a Level 4 response there must be micro and macro factors (s). There must be reference to both growth and development for Level 4**	

	PPD/ Harrod-Domar/ debt/ aid/ debt relief/ cost of credit/ non-economic factors/currency issues / competitiveness index can be used as micro or macro.	**(25)**

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	5–8	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two stage chains of reasoning only.
Level 3	9–12	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	13–16	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic factors. The answer demonstrates logical and coherent chains of reasoning.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially-developed chain of reasoning.
Level 3	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Question Number	Indicative content	Mark
(e)	**Knowledge 4, Application 4, Analysis 8** **Evaluation 9** Microeconomic effects may include: • On people with debt (better off) and savings (worse off) • On people with fixed incomes – may refer to falling real incomes • On firms' profits, e.g. that face rising costs and if they cannot raise prices they will face falling profits, or falling sales as consumers delay purchases. This might be illustrated with cost/revenue diagrams. • On firms' costs if they face rises in interest rates as a policy corollary of high inflation, which might lead to lower profits. This might be illustrated with cost/revenue diagrams. • Opportunity cost, e.g. effects on a government's spending if costs of servicing debts fall • Effect on labour markets e.g. people might work more hours to cover increased cost of living **NB do not award fall in profits or revenue or rise in costs unless a valid chain of reasoning is given** Macroeconomic effects may include: • International competitiveness and balance of payments, between African countries and with the rest of the world. Exports likely to fall and imports likely to rise • Distribution of income and wealth • Confidence and investment in financial markets • Policy responses, e.g. rises in interest rates and effects on AD • Shift in AS and/or AD may be used as part of the analysis • High inflation might deter Investment and FDI	

	NB do not award rise in unemployment/fall in growth unless a valid chain of reasoning is given Possible evaluation points include that the effect depends on: • Whether wages rise in line with inflation • The degree of inflation, and the policy and international responses. • The PED of countries buying the African exports • The PED of importing countries as imports become relatively cheap	

	• Whether African countries are trading with each other the effects of inflation may be cancelled out e.g. use of Figure 2 to show neighbouring countries with higher inflation rates • Whether asset prices rise as to the redistributive impact • Depends on whether this is a long-term inflation problem- could be short term e.g. linked to commodity price rises. Only a problem if it is sustained. • The figures are in one month in July 2017 and may not reflect inflation story for full year. Time series data may be more useful. • Depends on the type of inflation – e.g. cost push or demand pull. • Impact on exchange rates e.g. higher inflation may erode the value of the currency. This might cancel out the impact on competitiveness **NB for a Level 4 answer there must be reference to the context of African countries (not just one)** **NB for a Level 4 response there must be micro and macro effect (s). Costs/ shift in PPF/ currency/labour markets/competitiveness etc. can be used as micro or macro.**	**(25)**

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	5–8	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two stage chains of reasoning only.
Level 3	9–12	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	13–16	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic factors. The answer demonstrates logical and coherent chains of reasoning.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially-developed chain of reasoning.
Level 3	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Q9.

Question Number		Mark
(a)	**Knowledge 2, Application 2, Analysis 1** **Knowledge/understanding and analysis:** Oligopoly (1) OR Legal monopoly (1) OR Monopoly only if monopoly POWER is implied e.g. using CR calculation (1) OR Duopoly only if duopoly POWER is implied e.g. using CR calculation (1) AND Understanding of market structure identified, e.g. a market *dominated by* a few firms, or *interdependent* (1) Explanation of the process linking to the market structure to the action of firms e.g. high concentration means that firms may exhibit collusion, price rigidity, use of non-price competition, profits are not competed away (1)	

	Application (1+1): 2 marks for data references from Figure 1 and other sources (at least 1 mark must be related to Figure 1) e.g. Others 29% • Concentration ratio calculation e.g. 2 firm CR is 44% 3 firm CR is 53% 4 firm CR is 60% 5 firm CR is 66% 6 firm CR is 71% (2) • Costa (31%) is >25% market share (2) • Strong brand names, brand logos e.g. Caffè Nero and Costa (1) have been dominating the UK market Fig. 1/Extract A (1) • Market power is likely to be high (1) with reason e.g. consumer loyalty (1) shown in Figure 3 as price differences tolerates/illustrate market power (1) coffee has price inelastic demand (1) so people are prepared to pay more (1)	**(5)**

Question Number	Indicative content	Mark
(b)	**Knowledge 2, Application 2, Analysis 4** **Pricing strategies** - must be linked to ***profit***, and may include: • Price leadership/price matching – some brands seem very similar in pricing e.g. use kinked demand theory • Predatory pricing • Limit pricing (with view to higher future profits) • Price wars (with view to higher future profits) • Collusion/collaboration - reward the use of game theory/pay off matrix to support this • Undercutting close rival e.g. Costa (with view to higher profits) • Also award, if linked to profit: sales max, exploiting economies of scale, cost cutting, or competitive pricing linked to elastic demand, price rises and/or price discrimination	
	Non-pricing strategies – linked to ***profit***, might include: • Loyalty schemes, e.g. Starbucks only allow its own cup for reuse in store, • Paying for central and expensive locations for stores • Opening up new stores near to competitors to undermine the competition, e.g. at a London location there are many competitors • Closing down non-profitable stores as rationalisation policy • Strengthening the brand by advertising • improving reputation for recycling washable cups/fair trade coffee, sharing with other brands not just Starbucks coffee cups which can be washed in store and re-used • Extension of product range • Focus on quality **NB Award collusion and BOGOF-style approaches as either pricing or non-pricing strategies.** **NB For a Level 3 answer, there must be both price and non-price strategies, and reference to the context of *profitability* of *Starbucks*.**	**(8)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	3–5	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	6–8	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
(b) continued	**Evaluation 4** • Weighing up of reasons for using price or non-price competition, e.g. • Not likely to use price competition - e.g. better to collude and keep higher joint profits. • Non-price competition can have very uncertain results/be expensive • Effects in the short run and long run might vary e.g. rising costs lead to falling profits, but long run demand rises leading to better results • Relative effectiveness of measures e.g. limit pricing may be static in long run and predatory pricing changes when other firms leave • Some of these strategies are illegal and could lead to fines, which might reduce overall profitability • Unstable nature of game theory equilibria • The effectiveness of the competition authorities might be considered e.g. regulatory capture • Depends on the strength of brand loyalty • Limitations of loyalty schemes, e.g. cost, consumer behaviour.	**(4)**

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number		Mark
(c)	**Knowledge 2, Application 2, Analysis 2, Evaluation 2** **Knowledge (1+1)** e.g. • Fall in consumption of non-renewable products (1) • Rise in tax revenues (1) • Reduction in external costs/greater environmental awareness (1) • Soft touch regulation/allows consumer choice (1) **Application (2 or 1+1)** e.g. • Use of reusable cups as a means of reducing demand for disposable cups (i.e. a substitute, Extract C) (1) • Extract B – 5p charge is a small proportion of £2.60 (1) • 85% reduction in plastic bags (1) • This might be illustrated through the use of a correct supply curve shift, e.g. a fall in consumption or production of cups on x axis (1) **Analysis (1+1)** e.g. • Indirect taxes may raise prices (1) • Increases in costs of production (1) • Link between unit tax, tax revenue and reduction in demand for cups (1) • A supply and demand diagram showing an indirect tax (supply shift upwards/leftwards) or an externalities diagram might be used (1) • tax revenue could be used to subsidise other products, e.g. recyclable cups (1)	

	Evaluation (2 marks for any relevant point or 1+1). Points might include: • It depends if the tax is passed on to the consumer • Other policies may be considered e.g. new recycling specialist facilities, regulation • PED might be used, e.g. a 5p tax on the price of a £2.60 coffee might have very little effect on demand, or, a cup of coffee may be a small percentage of consumer income, depends on the availability of substitutes • Regressive nature of the tax – has a greater effect on lower incomes • Other approaches considered, e.g. subsidising reusable cups as in Ext B changing the technology in the recycling **NB award two advantages. A diagram can be credited as analysis or application (1+1) up to 2 marks in total.**	**(8)**

Question Number	Indicative content	Mark
(d)	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** **Microeconomic influences may include:** • Level of demand or expected demand, prospect for profit • Cost of labour, minimum wage, spare capacity in the labour market • Rent/land prices • Contestability of market/barriers to entry e.g. how long and it takes and ease of setting up business • Legal system and other legislative issues • Property rights • Extent of regulation • Existing PED • Brand loyalty • Sunk costs **Macroeconomic influences may include:** • Levels of competitiveness e.g. price and non-price, which might relate to competitiveness ranking, e.g. infrastructure, human capital, institutions • Macroeconomic environment, e.g. inflation • Membership of EU or other trade bloc issues • Value of currency • Level of corporation tax. • Transfer pricing possibility, as outlined in Extract A, as impact on profitability (not costs) • Level/rate of national income/economic growth and spare capacity/unemployment • Growth of household incomes in different countries, e.g. Chinese coffee shops are the most profitable, growing quickly in number • Strength and stability of local economy • Political and social stability	

	NB competitiveness, corporation tax, incomes, unemployment and contestability can be seen as a micro or macro approach. • Possible evaluation points include: • Factors might balance each other out • Changes in tax rates, e.g. government cutting corporation tax significantly • Starbucks is starting to report UK profits – perhaps it has had too much negative publicity from the low profit tax paid, Extract A reduction by a third in sales at Starbucks. Also it is moving headquarters from Netherlands to UK • Different influences affect different firms	**(25)**

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	5–8	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two stage chains of reasoning only.
Level 3	9–12	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	13–16	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic factors. The answer demonstrates logical and coherent chains of reasoning.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches which is unbalanced, leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
Level 3	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Question Number	Indicative content	Mark
(e)	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** **Microeconomic effects may include:** • Effects on consumers – e.g. higher prices (or lower prices if increased competition), more consumer spending on high street. Might include PED, YED (this might be developed as evaluation) • Effect on workers – higher incomes, more jobs • Effect on firms, e.g. increase in profits, revenue/decrease for independent non-branded coffee shops; cost of employing specific skilled workers e.g. baristas or other factors of production • Increase negative externalities e.g. more coffee cups • External economies of scale e.g. ancillary services such as cup manufacturers **Macroeconomic effects may include:** • Increased employment in service industry • Balance of payments e.g. outflow of profits to Starbucks • Effects on primary product producers • AD increase, negative/positive multiplier effects (local businesses might lose out to branded supermarket coffee outlets), inflation/growth • Tax implications e.g. transfer pricing • Income inequality • Environmental impacts	

	NB environmental impacts, labour markets, taxation or incomes can be seen as a micro or macro approach. **Evaluation points may include:** • Extent of negative externalities depends on whether new processing plants for cups are set up/how alternatives are produced. • Depends on the extent of the increase in demand, PED, YED, XED – and if other areas are seeing declines. • Depends on the size of the multiplier • Depends on the level of spare capacity (LRAS for example) • Depends on growth levels, point at which AD and AS meet (if Keynesian approach) • Depends on the performance of other firms • Depends on the extent to which local shops are displaced • Depends on the extent to which substitution can occur – e.g. people drink coffee instead of going to pubs • Depends on degree of profit repatriation, remittances, transfer pricing • Depends on whether coffee shops extends consumption spending or replaces demand for something else which might have different benefits/costs	**(25)**

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	5–8	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two stage chains of reasoning only.
Level 3	9–12	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	13–16	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic factors. The answer demonstrates logical and coherent chains of reasoning.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches which is unbalanced, leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
Level 3	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Q10.

Question Number	Answer	Mark
(a)	**Knowledge 2, Application 2, Analysis 1** **NB an answer which sees highly concentrated as having a large number of firms will not earn knowledge or analysis marks** **Knowledge and analysis:** 3 marks for e.g. • Identification of **high** concentration - high market share of some firms (1) few large firms dominate (1) uncompetitive (1) • Identification of market structure - there is a *legal* monopoly (Walkers) **OR** oligopoly **OR** duopoly (1) • Firms can set prices (1) control output (1) / monopoly power (1) • Interdependent (1) • High barriers to entry/exit (1) low contestability (1) **Application:** 2 marks for data references e.g. • Walkers have over 50% of market share (1) • Use of concentration ratio e.g. 2 firm CR 78.0% (2), 3 firm CR 82.2% (2) • Extract A refers to ban making market more competitive (1) implying prices are currently uncompetitive/high (1) • Extract A – high levels of advertising (1) • common features: they tend to be dominated by a small number of firms that sell multiple brands and that heavily advertise their products (1) **NB Concentration ratio calculation can be awarded as analysis or application** **Award a maximum of 1 application mark if there is no reference to Figure 1 or Extract A**	**(5)**

Question Number	Answer	Mark
(b)	**Knowledge 2, Application 2, Analysis 2, Evaluation 2** **Knowledge/ implicit understanding: (1+1)** marks for reason e.g. • Educational/skills/wage differences • Changing patterns of trade/globalisation • Government policy/austerity/universal credit • Income generated from inheritance • Payments generated from debt • Race, gender, age, geographical issues • Changes in direct tax • Stage of the economic cycle/Financial Crisis 2008 • House prices (must relate to income not wealth) • Weakened power of trade unions • Level of unemployment/underemployment • Irrational behaviour/information gaps/myopia **Application (1+1 or 2):** • Any valid application to **causing inequality** in the UK or other developed country, e.g. unaffordable house prices in the UK mean the younger generation has little income after rent (1); cut in the top rate of income tax, rise in NICs, change in tax thresholds; university fees at £9250 a year is widening the income gap if fewer low income households go to university (1); pensions rising below average incomes (1); educational differences such as an economics degree has a higher impact on future earnings than other degrees (1)	

	Analysis (1+1): • Linked development of the **two** points made **Evaluation (1+1 or 2)**. Points might include discussion of: • The role of transfer payments/minimum wages in narrowing/failing to narrow inequality • Changes rather than levels of income inequality, absolute vs relative issues • Relationship with wealth e.g. as a more significant inequality issue • Relative significance of different factors e.g. direct taxes more proportional than indirect taxes (regressive) • Time lags e.g. education has effects as yet unfolded, government policy might change, Brexit has not yet happened. **NB Do not allow indirect taxes or subsidies as KAA** **NB Use of Gini coefficient or Lorenz curves could be used as application or analysis**	**(8)**

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Question Number	Indicative content	Mark
(c)	**Knowledge 2, Application 2, Analysis 4** • Firms are interdependent so they will respond in the face of what other firms might do • Firms may not reach the same outcome as if they operated alone • Firms are cutting prices because they want to expand market share/steal other firms' markets • All firms responding in this way means that firms make less profit overall • Effects of advertising ban may make market more contestable, with possible effects on entrant • Price cuts could be a form of limit pricing, i.e. reducing contestability (effects on possible entrants may be shown) • **Game theory** e.g. a payoff matrix or kinked demand curve to illustrate behaviour, for example cartel-like or collusive behaviour, price leadership **NB to access Level 3 there must be correct use of game theory and application to the data.**	**(8)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	3–5	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	6–8	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

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Question Number	Indicative content	Mark
(c) continued	**Evaluation 4** • Firms such as Walkers have significant market share and brand loyalty, even if competition lower price they may not switch • Use of context to show that firms are cutting prices because of a regulation and not because of the actions of other firms. No sign of interdependence. • Size of market shrinking overall so behaviour more aggressive • Firms setting low prices in a long run equilibrium might not the best option for the firms or other stakeholders. • Advertising ban affects children mainly - so price competition less needed for older target audiences that can still be targeted. • Reference to only 10% loss in sales compared to 15% - still a large impact on firms (Extract A).	**(4)**

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

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Question Number	Indicative content	Mark
(d)	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** 16 marks for KAA, for effects of increased spending on education to promote heathy eating in the UK. Microeconomic effects may include: • Effects of increased demand for healthy foods/consumer surplus/increased prices (may include supply and demand diagram) or fall in price of HFSS foods • Positive externalities in consumption are internalised (may include divergent MSB and MPB diagram and corresponding movement toward social optimum at MSB=MSC) • Impact on firms which make unhealthy products – increased costs if they diversify/reduced demand e.g. use of healthier ingredients with higher costs. This might be shown on a cost/revenue diagram. • Increased profits for healthy food producers e.g. shown on a costs/revenue diagram • labour market issues, e.g. workforce becomes healthier, and reduced obesity might make workers more productive (increase marginal product) • Opportunity cost of spending on education Macroeconomic effects may include: • Effects on price level and output as G increases, with multiplier effects. May be shown by shift out in AD with effects on price level and real output. • Healthier workforce shifts out the LRAS, with impact of lower prices and higher output • Fiscal implications – crowding out, effect on balancing budget	

	NB for a Level 4 response there must be micro and macro effect (s). Opportunity cost/shift in PPF/labour markets/competitiveness etc. can be used as micro or macro. 9 marks for evaluation – questioning might include: • Expansionary fiscal policies not necessarily happening. It might mean expenditure elsewhere is cut (opportunity cost arguments) • Trade-off between objectives e.g. increased spending might cause inflation, depends on the state of the fiscal balance, multiplier etc. • Questioning whether education is effective, or whether other policies are needed, e.g. tax, banning advertisements • Education might be counter-productive/role of state might be questioned e.g. government failure, crowding out effect	**(25)**

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	5–8	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two stage chains of reasoning only.
Level 3	9–12	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	13–16	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic factors. The answer demonstrates logical and coherent chains of reasoning.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially-developed chain of reasoning.
Level 3	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Question Number	Indicative content	Mark
(e)	**Knowledge 4, Application 4, Analysis 8 Evaluation 9** 16 marks for KAA, for effects of increase in tax on HFSS foods. Microeconomic effects may include: • Rational economics implies people will change consumption patterns. Consumer preferences will change away from HFSS foods e.g. as consumers switched to cheaper brands and crossed the border to Sweden and Germany to do their shopping (Extract C). • An ad valorem or specific tax diagram might be used to illustrate the effects on prices/quantity in each market, and the incidence of tax • Cross elasticity of demand – evidence (e.g. Extract C) that a rise in price may cause a rise in demand for healthy food. • Welfare changes, e.g. loss of consumer, producer surplus/higher prices and deadweight welfare loss. This might be shown with an externalities diagram, e.g. positive in consumption of healthier foods. • Impact on firms, e.g. loss in profits on HFSS as costs rise/demand falls. This might be illustrated using a costs/revenue diagram; increased profits for healthier options. • Impact on labour market. Healthier workers, or effects of cut in real wages as costs of living increase. Changing employment opportunities. e.g. reduced employment for HFSS manufacturers and increased employment for healthy foods firms.	

	Macroeconomic effects may include: • Redistribution (micro or macro issue): indirect taxes of this sort are regressive, disproportionately affecting the elderly and the poor. Taxes on HFSS foods moderate consumers, as well as the obese overeaters they are intended to target. • Cost push inflation – a one-off rise in prices. This might be shown by an upwards/leftwards movement of AS • Effects on incomes/net exports – may be linked to a fall in AD, e.g. in Denmark the policy helped push up food prices in a year in which real wages fell by 0.8%. • Governments might gain revenue which can be used elsewhere in the economy / lose revenue – Laffer curve (Extract C) **NB for a Level 4 response there must be micro and macro effect (s). Opportunity cost/shift in PPF/labour markets/productivity/competitiveness etc. can be**	

	used as micro or macro. Up to 9 marks for evaluation. Points might include: • Depends if firms respond by cutting prices (Extract B) • The tax makes people buy other unhealthier food (in Extract C) e.g. increases price and people may substitute to cheaper even unhealthier or low-quality alternatives that are more affordable • Tax is not an efficient deterrent to obesity. The policy had a very limited impact on the consumption of HFSS in the data foods: 80% of Danes did not change their shopping habits at all (Ext C). Not only is demand for food relatively inelastic, prices often fluctuate, and consumers become immune to changes • Depends on magnitude- the proportion of income may be low • The price elasticity of demand will determine the incidence of the tax - inelastic larger consumer incidence and elastic larger producer incidence. • Depends on how funds are used - e.g. to promote healthy eating through subsidies and education • The intervention may mean free markets work less well – theory of unintended consequences • Other unintended consequences e.g. counterfeit, smuggling	**(25)**

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	5–8	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two stage chains of reasoning only.
Level 3	9–12	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	13–16	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic factors. The answer demonstrates logical and coherent chains of reasoning.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially-developed chain of reasoning.
Level 3	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Q11.

Question Number	Answer	Mark
(a)	D	**(1)**

Question Number	Answer	Mark
(b)	**Knowledge 1, Analysis 1** Fixed costs remain the same as output increases or decreases (1) Variable costs vary directly with output. (1)	**(2)**

Question Number	Answer	Mark
(c)	**Application 2** **Application:** 1 mark for applying the formula 1 mark for workings: e.g. 13 × 227 ÷ 100, 13% of 227 (1) **Award 2 marks for correct answer 29.5 (accept answer between 29 and 30)**	**(2)**

Q12.

Question Number		Mark
(a)	**Knowledge 2, Application 2, Analysis 1** **Knowledge** 1 mark for identification of a possible cause and 1 mark for its relevance to energy use Possible causes: • Increase in world population (1) • Increase in devices requiring electricity (1) • Increase in world GDP and living standards (1) **Application**: 2 marks for data references from Figure 1 (identifying the forecast change): • Demand for nuclear and renewable more than double • Demand for gas doubles • Demand for coal and oil increase by between 30% and 50% • Comment on increase in overall demand **Analysis:** • 1 mark for explanation of the link between the identified case and energy use	**(5)**

Question Number		Mark
(b)	**Knowledge 2, Application 2, Analysis 2, Evaluation 2** **Knowledge and analysis** • Increasing injections (exports) **(K)** may lead to a boost to the circular flow and an increase in AD if not offset by greater leakages **(A)** • Decreasing leakages (imports) **(K)** may lead to a reduction in the circular flow and reduce AD **(A)** **Application:** • Exports increasing, imports decreasing, but until 2020, leakages still greater than injections so overall leakage from circular flow (2) • Or 2 specific data references from figure 4 **Evaluation** (2 marks for any relevant point): • These are forecasts so the impact on the circular flow may be different from that described above • Other injections and leakages influence the circular flow which may offset the changes described above	**(8)**

Question Number	Indicative content	Mark
(c)	**Knowledge 2, Application 2, Analysis 4** • recognition that gas and solar energy/nuclear energy are substitutes • application of cross elasticity of demand: definition or formula value will be positive • use of information provided to draw conclusion (reference to first paragraph, Extract 2): a fall in the price of gas will lead to a fall in the demand for solar energy and nuclear energy.	**(8)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	3–5	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	6–8	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
(c) continued	**Evaluation 4** • much will depend on relative price of gas in relation to solar and nuclear energy • recognition that there will be a time lag before any impact on market for other forms of energy because supply very price inelastic • investors will want to be certain that change in relative prices is long term • impact may be limited due to the rising demand for global energy	**(4)**

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/ reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Indicative content	Mark
(d)	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** Microeconomic effects: • on price of gas to consumers – impact on consumers' surplus • on price of gas to producers – impact on producers' surplus • implications for producers of other forms of energy • external costs – on environment and water supply Macroeconomic effects: • on investment – multiplier effect on GDP so promoting economic growth • on employment – an estimate that 35 000 jobs will be created • balance of payments on current account e.g. competitiveness may increase if fracking results in lower energy prices leading to an improvement in exports. Also, less need to import energy from abroad • rate of inflation may fall – lower energy prices Possible evaluation points include: • Impact on price of energy may be less significant than in the USA • Impact on other forms of energy – much will depend on how much gas is obtained from fracking • Difficult to forecast the magnitude of external costs or to place a monetary value on them • Impact on macroeconomic variables (growth, employment, balance of payments) dependent on amount of gas found, the price at which it sells, changes in prices of other forms of energy	**(25)**

Knowledge, application and analysis		
Level	Marks	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays ability to apply knowledge in context but will focus on a small range of elements. Demonstrates understanding by identifying relevant information. Demonstrates knowledge and understanding of terms, concepts, theories and models
Level 2	5–8	Shows ability to apply economic ideas and relate them to economic problems in context. Displays knowledge and understanding of economic principles, concepts and theories to make limited analysis or narrow analysis
Level 3	9–12	Analysis is clear and coherent with evidence well integrated, although may focus on some of the broad elements of the question more than others. Shows ability to apply economic ideas and relate them directly to the broad elements in the question.
Level 4	13–16	Analysis is relevant, clear and coherent with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic effects. A clear understanding of economic principles, concepts, theories and arguments.

Evaluation		
Level	Marks	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of evaluative comments without explanation.
Level 2	4–6	Evaluative comments with limited explanations. Evidence of evaluation of alternative approaches which is generic or unbalanced leading to limited judgements.
Level 3	7–9	Evaluative comments supported by relevant reasoning. Evaluation recognises different viewpoints and can be critical of the evidence provided.

Question Number	Indicative content	Mark
(e)	**Knowledge 4, Application 4, Analysis 8** Microeconomic effects: • impact on revenues and profits of energy companies • impact on investment decisions by firms in the energy market • impact on wages of workers in energy industries • impact on consumer real incomes and on demand for other goods and services. Macroeconomic effects: • lower costs of production • lower global rates of inflation (AD/AS analysis) • impact on global growth rates • impact on balance of payments on current account of different countries • increase in CO_2 emissions: consideration of impact on climate change on different countries, reference to external costs • impact on consumers and producers of the main countries supplying energy.	
	Possible evaluation points include: • impact on different industries will depend on their energy costs as a proportion of total costs • impact on households will depend on cost of energy in household budgets • impact on demand for other goods and services will depend on other factors e.g. state of world economy, consumer confidence, household debt • impact on inflation rates and growth rates depends on elasticities of AD and AS curves • impact on balance of payments on current account of different countries depending on whether they are net importers or net exporters of energy • impact on external costs depends on how different energy sources are affected	**(25)**

Knowledge, application and analysis		
Level	Marks	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays ability to apply knowledge in context but will focus on a small range of elements. Demonstrates understanding by identifying relevant information. Demonstrates knowledge and understanding of terms, concepts, theories and models
Level 2	5–8	Shows ability to apply economic ideas and relate them to economic problems in context. Displays knowledge and understanding of economic principles, concepts and theories to make limited analysis or narrow analysis
Level 3	9–12	Analysis is clear and coherent with evidence well integrated, although may focus on some of the broad elements of the question more than others. Shows ability to apply economic ideas and relate them directly to the broad elements in the question.
Level 4	13–16	Analysis is relevant, clear and coherent with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic effects. A clear understanding of economic principles, concepts, theories and arguments.

Evaluation		
Level	Marks	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of evaluative comments without explanation.
Level 2	4–6	Evaluative comments with limited explanations. Evidence of evaluation of alternative approaches which is generic or unbalanced leading to limited judgements.
Level 3	7–9	Evaluative comments supported by relevant reasoning. Evaluation recognises different viewpoints and can be critical of the evidence provided.

Q13.

Question Number		Mark
(a)	**Knowledge 2, Application 2, Analysis 1** **Knowledge:** • 'Good' deflation - Caused by an increase in aggregate supply (1) • 'Bad' deflation - caused by falling aggregate demand (1) **Application:** 2 data references from Extract 1: (2 marks) • For 'good' deflation - falling price of unit of computing power (1) • For 'bad' deflation - recession in eurozone (1) **Analysis**: 1 mark for explanation of the link between: Either • AS and 'good' deflation: because it is caused by new technology; falling raw material prices which result in higher real output (1) OR • AD and 'bad' deflation: because it is caused by falling real wages which result in lower real output. (1)	**(5)**

Question Number		Mark
(b)	**Knowledge 2, Application 2, Analysis 2, Evaluation 2** **Knowledge and analysis:** 1 mark for each reason, up to 2 marks **(K)**. A further 2 marks for supply and demand diagram(s) or further development or explanation **(A)** • Fall in demand - recession in eurozone; slowdown in China and Asia • Increase in supply - shale oil **Application (1+1 marks):** Specific data reference from Figure 1, e.g. fall in oil price from around $115 a barrel in mid 2014 (1) to just over $60 a barrel by the end of 2014 (1) Specific data references from Extract A: e.g. 50% increase in oil supply in USA (1) **Evaluation:** (2 marks for any relevant point): • Prioritisation - discussion of which factor has had the greatest impact • Fall in demand might be more temporary than increase in supply.	**(8)**

Question Number	Indicative content	Mark
(c)	**Knowledge 2, Application 2, Analysis 4** • Meaning of a cartel: group producers acting together; restricting supply to force up price • The producers act as a monopolist when a cartel is formed • All major producers must be members of the cartel for it to be able to succeed • No new substitutes for the product must be available (in this case shale oil is an effective substitute for oil) • Supply must be controlled – without 'cheating' by individual producers.	**(8)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1 - 2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	3 - 5	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	6 - 8	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
(c) continued	**Evaluation 4** • Much will depend on relative price of oil in relation to sources of renewable energy • A cartel might be more successful in the short run than in the long run when alternatives may be developed and become more available • Less powerful members of the cartel are likely to cheat • Difficulty of controlling activities of major producers • Impact of increase in shale oil/gas production • Inability to prevent entry of new producers (discussion of the degree of contestability in the market.	**(4)**

Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
2	3-4	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Indicative content	Mark
(d)	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** Microeconomic effects: • on consumers - increase in real value of savings; falling prices so increase in consumers' surplus • on producers - lower input prices leading to falling costs of production and possibly higher profits • on workers - could result in nominal wage cuts • on shareholders - falling profits might result in falling dividends. Macroeconomic effects: • impact on Investment - less incentive for firms to buy capital equipment • impact on Employment - could lead to a 1930s type depression with massive unemployment • impact on Economic growth - could result in prolonged depression • impact on Real value of a country's national debt increases. Possible evaluation points include: • impact depends on the causes of deflation – whether it is 'good' or 'bad' • consumers face increase in real value of mortgages and debts • producers face falling revenues and profits • impact on macroeconomic variables (growth, employment, balance of payments) dependent on type of deflation.	**(25)**

Knowledge, application and analysis		
Level	Marks	Descriptor
	0	A completely inaccurate response.
Level 1	1 - 4	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	5 - 8	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two stage chains of reasoning only.
Level 3	9 - 12	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	13 - 16	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Evaluation		
Level	Marks	Descriptor
	0	No evaluative comments.
Level 1	1 - 3	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4 - 6	Evidence of evaluation of alternative approaches which is unbalanced, leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
Level 3	7 - 9	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Question Number	Indicative content	Mark
(e)	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** Microeconomic effects: • impact on costs of production resulting in higher profits for businesses • impact on revenues and profits of oil companies (reference to price inelasticity of demand) • impact on investment decisions by firms in the oil market, especially with reference to shale oil • impact on wages of workers in oil industry • impact on consumer real incomes and on demand for other goods and services • impact on green energy industries (reference to cross elasticity of demand). Macroeconomic effects: • lower global rates of inflation (AD/AS analysis) • impact on global growth rates • impact on balance of payments on current accounts of oil importing countries and oil exporting countries • impact on $C0_2$ emissions: consideration of impact on climate change on different countries - reference to external costs. Possible evaluation points include: • impact on different industries will depend on their oil costs as a proportion of total costs • impact on households will depend on cost of oil in household budgets • impact on demand for other goods and services will depend on other factors e.g. state of world economy, consumer confidence, household debt • impact on inflation rates and growth rates depends on elasticities of AD and AS curves • impact on balance of payments on current account of different countries depending on whether they are net importers or net exporters of oil • impact on external costs depends on how different price elasticity of demand for oil.	**(25)**

Knowledge, application and analysis		
Level	Marks	Descriptor
	0	A completely inaccurate response.
Level 1	1 - 4	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	5 - 8	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two stage chains of reasoning only.
Level 3	9 - 12	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	13 - 16	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Evaluation		
Level	Marks	Descriptor
	0	No evaluative comments.
Level 1	1 - 3	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
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Level 3	7 - 9	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

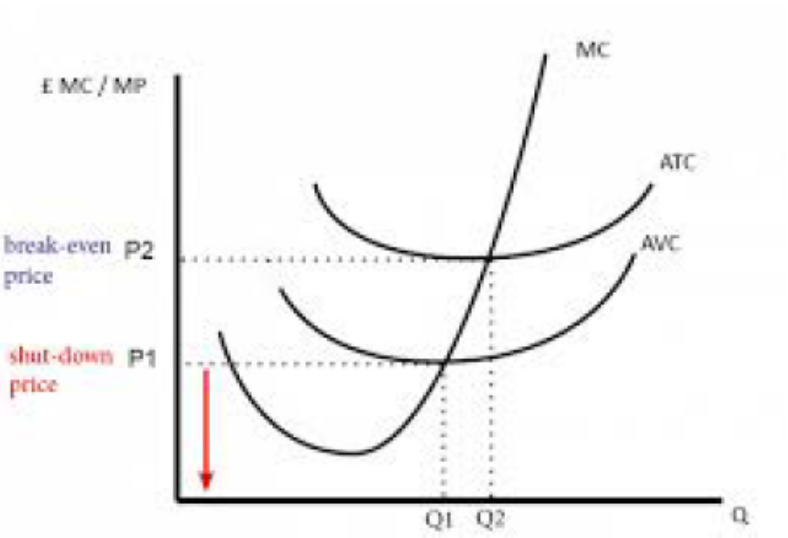
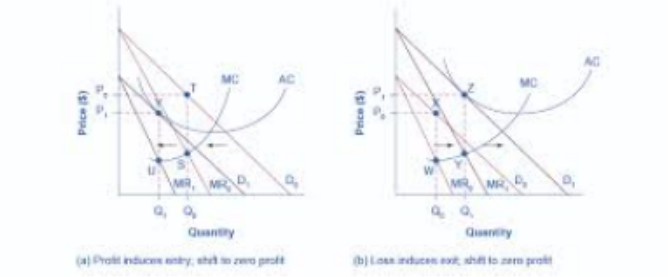
Q14.

Question Number	Indicative content	Mark
(a)	**Knowledge 2, Application 2, Analysis 1** **Knowledge and analysis (3 marks): e.g.** • Productivity must be GDP / input (or per hour worked) to have sense of output relative to input (1) sense of relative efficiency (1) • Nominal values meaning e.g. inflation is included in the figures (1) so useful firms when calculating how much revenue they have earned (1) • PPPs means e.g. that the relative cost of living is taken into account, or the figures are adjusted according to the relative purchasing power (1) • Makes comparison easier across countries (1) and time (1) and meaningful in the same currency (1) **Application (2 marks for 1 point, or 1 + 1)** Award valid data use only e.g. • US produces 28% more per hour (1) than the UK (1)	**(5)**

Question Number	Indicative content	Mark
(b)	**Knowledge 2, Application 2, Analysis 2 Evaluation 2** **Knowledge/implicit understanding of one reason** • Higher employment/employment has not fallen in line with falls in GDP (productivity puzzle) • Inefficient businesses e.g. zombies • Costs of laying off workers is high e.g. labour hoarding – both in terms of severance and loss of human capital • Workers do not want to leave, because of pensions/higher living costs/lack of confidence about finding another job after the biggest crash since the 1930s • Low interest rates have meant workers can be kept on despite falling sales and output, as profits are kept positive • Later retirement age • Lack of investment/FDI in UK (1) e.g. in advanced technology (1) • Numbers in higher education **NB do not award longer working hours unless clearly linked to hourly impact (Figure 4 is hourly productivity)** e.g. diminishing marginal productivity. Award only the **one** best reason given.	

	Application: (2 or 1+1) • Use of Figure 4 to show difference between actual and potential figures • This might be shown using a PPF or AD/AS diagram (1) • Use of UK recent events e.g. financial crisis (1) • **NB At least one application mark is reserved for use of Figure 4.** **Evaluation** (2 marks for any relevant point, or two points 1 +1): • Problems in data – productivity is being measured the wrong way • Trend likely to reverse after recovery from downturn 2020/2021 • As employment falls from events in 2020 the trend might reverse (output per worker will rise if there are fewer workers) • Magnitude of productivity gap is cause for alarm • Reasons why productivity is growing in other countries – or other comment e.g. that the relative productivity (Fig 3) is more significant	**(8)**

Question Number	Indicative content	Mark
(c)	**Knowledge 2, Application 2, Analysis 4** **Knowledge and analysis** • Changing consumer trends • Higher business rates and other costs • Use of diagram to show shut down point • Explanation of diagram to explain why firms leave, e.g. P<AVC • X-inefficiency in shops • Low value added shops have to compete with online **Application** • Competition from online • Use of Extract to give examples, e.g. Maplin could not compete with online similar products • Inflation has reduced the amount you can buy with £1 – Poundworld was not viable • These are saturated market with many new entrants • Large rental bills and higher business rates cannot be met and banks are unwilling to lend/ provide extensions to overdrafts • Falling consumer confidence	

	Example of costs diagram (can use AC or ATC)  Example of revenue diagram:  **NB for a level 3 response there must be at least one valid diagram. The diagram can show either a fall in AR/MR or a rise in costs, or both. The diagram also earns credit as a static diagram, but explanation of changes is still required.**	**(8)**

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	3–5	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	6–8	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
(c) continued	**Evaluation 4** • Some high street stores are doing well, e.g. coffee shops and cafes • Other regeneration of the high street is possible • Many companies are responding to threats from online by extending their online presence • Diagram might be used as part of evaluation, e.g. it depends on whether costs also fall as demand falls. Homebase is seeking lower rents (fixed costs fall). • Firms will stay in business in the short run if they are making a contribution towards fixed costs, i.e. P>AVC. This might be illustrated with a diagram e.g.	

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Indicative content	Mark
(d)	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** Microeconomic policies to improve competitiveness may include: • Labour force policies e.g. changing NMW will affect ULCs • Increased level capital by making investment more profitable/subsidy • Infrastructure spending e.g. Crossrail • Investment in education/skills or cutting/capping university fees • Joint ventures with global companies e.g. Dyson Macroeconomic influences may include: • Trade liberalisation – may refer to tariffs or trade agreements to improve price competitiveness. Also award policies that are protectionist. • Tax and benefit changes e.g. corporation tax • Government policy improvements, e.g. weak expansion in fiscal policy, cut interest rates, subsidies, privatisation • Actions of other institutions e.g. banks, schools • Control of price level e.g. stop QE **NB for a Level 4 response there must be micro and macro policy (s). Some factors could be seen as micro or macroeconomics, such as labour market changes, supply side policies** Possible evaluation points include: • Degree to which the policies might be a success • Depends on other countries (relative competitiveness issue) • Depends on the value of the currency which cannot be directly controlled in the UK. • Depends on relationship with the EU after Brexit • opportunity costs of funds • government failure- lack of information to know where to focus funds	**(25)**

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1 - 4	Displays ability to apply knowledge in context but will focus on small range of elements. Demonstrates understanding by identifying relevant information. Demonstrates knowledge and understanding of terms, concepts, theories and models.
Level 2	5 - 8	Shows ability to apply economic ideas and relate them to economic problems in context. Displays knowledge and understanding of economic principles, concepts and theories to make limited analysis or narrow analysis.
Level 3	9 - 12	Analysis is clear and coherent with evidence well integrated, although may focus on some of the broad elements of the question more than others. Shows ability to apply economic ideas and relate them directly to the broad elements in the question.
Level 4	13 - 16	Analysis is relevant, clear and coherent with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic effects. A clear understanding of economic principles, concepts, theories and arguments.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of evaluative comments without explanation.
Level 2	4–6	Evaluative comments with limited explanations. Evidence of evaluation of alternative approaches which is generic or unbalanced leading to limited judgements.
	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to the context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

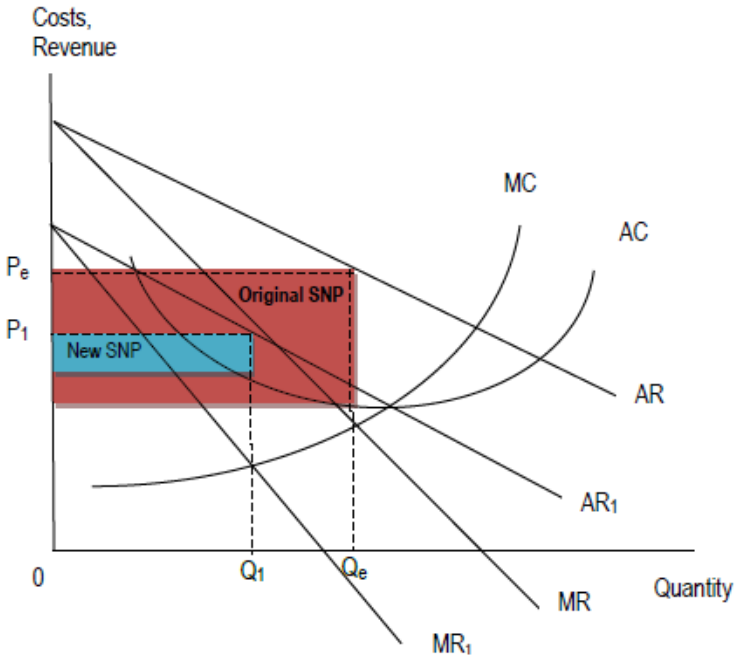
Question Number	Indicative content	Mark
(e)	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** Microeconomic effects may include: • Loss of human capital and therefore lost incomes, consumer welfare • Firms may have unfilled vacancies. Effects on costs • Falling incomes in the UK mean reduced sales • Skills shortages may create a need for employment of migrant workers • Extra costs associated with training staff to up skill them Macroeconomic effects may include: • Shift in SRAS or LRAS might be drawn as costs of production rise, productivity worsens, capacity reduces • Effects of immigration to fill gaps in labour market • Effect on current account as UK economy becomes uncompetitive • Falling tax revenues and increased G – fiscal implications **NB for a Level 4 answer there must be reference to the context of young workers in the specific country's context (UK or any other)** **NB for a Level 4 response there must be micro and macro effects.**	

	Possible evaluation points include that the effect depends on: • Effects of Brexit may mean it is harder to fill vacancies for firms using skilled EU labour • Data may be misleading – difficult to measure human capital • Comment on the priority literacy/numeracy is vital to long term viability of workforce. Should funding increase for education? • There will always be a demand for low skilled workers • Some evidence that most UK young people are better educated 2016 data- improvements likely with reforms to KS2, GCSE and A Levels focusing more on literacy and numeracy/quantitative skills. • Some with poor literacy and numeracy have been highly successful entrepreneurs - there are famous (but statistically rare) examples!	**(25)**

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays ability to apply knowledge in context but will focus on small range of elements. Demonstrates understanding by identifying relevant information. Demonstrates knowledge and understanding of terms, concepts, theories and models.
Level 2	5–8	Shows ability to apply economic ideas and relate them to economic problems in context. Displays knowledge and understanding of economic principles, concepts and theories to make limited analysis or narrow analysis.
Level 3	9–12	Analysis is clear and coherent with evidence well integrated, although may focus on some of the broad elements of the question more than others. Shows ability to apply economic ideas and relate them directly to the broad elements in the question.
Level 4	13 - 16	Analysis is relevant, clear and coherent with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic effects. A clear understanding of economic principles, concepts, theories and arguments.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of evaluative comments without explanation.
Level 2	4 – 6	Evaluative comments with limited explanations. Evidence of evaluation of alternative approaches which is generic or unbalanced leading to limited judgements.
Level 3	7 – 9	Evaluative comments supported by relevant reasoning and appropriate reference to the context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Q15.

Question Number	Answer	Mark
(a)	**Knowledge 2, Application 2** 1 mark for: profits are likely to fall (this may be shown on the diagram) 1 mark for the decrease in the average revenue and marginal revenue curves (accept a pivotal movement of the AR and MR curves) 1 mark for the new equilibrium output and price positions at new MC = MR 1 mark for the original area of supernormal profit. 1 mark for the new smaller area of supernormal profit/ loss. Diagram required e.g.  Accept alternative diagram, e.g.: • Total revenue and total costs diagram	**(4)**

Question Number	Answer	Mark
(b)	B	**(1)**