Mark Scheme (Results)

Summer 2019

Pearson Edexcel GCE A Level
in Economics A (9EC0)

Paper 01 Markets and Business Behaviour

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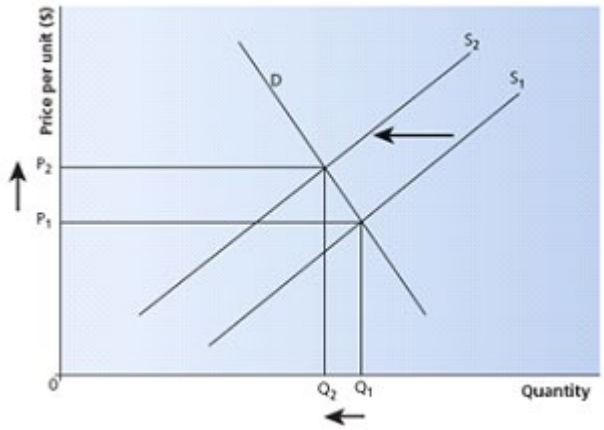
General marking guidance

- All candidates must receive the same treatment. Examiners must mark the last candidate in exactly the same way as they mark the first.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than be penalised for omissions.
- Examiners should mark according to the mark scheme – not according to their perception of where the grade boundaries may lie.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification/indicative content will not be exhaustive.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, a senior examiner must be consulted before a mark is given.
- Crossed-out work should be marked unless the candidate has replaced it with an alternative response.

Question Number	Answer	Mark
1(a)	**Application 2** Price elasticity of supply calculation % change in quantity supplied (28 268/134 612 x 100) = 21% (accept range 20.9 to 21) (1) PES = 21/5.4 (1) = 3.9 **Award 2 marks for 3.9** **(Accept a range between 3.8 and 4)**	**(2)**

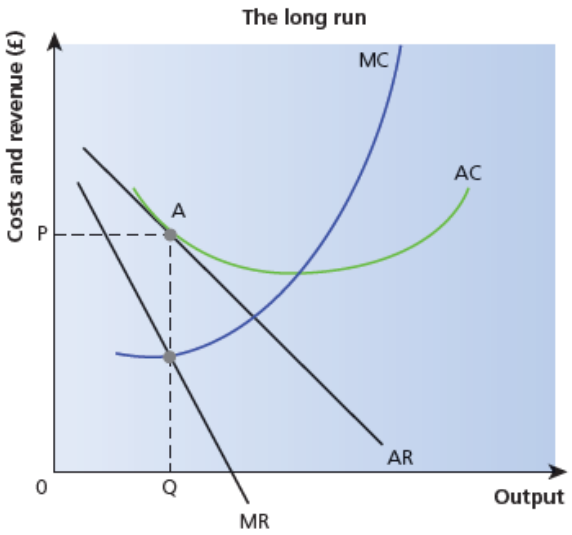
Question Number	Answer	Mark
1(b)	**Application 1** **The only correct answer is C** **A** is not correct because the PES does not equal to infinity **B** is not correct because the PES does not equal zero **D** is not correct because the PES is not less than one	**(1)**

Question Number	Answer	Mark
1(c)	**Knowledge 1, Analysis 1** Identification of a factor determining PES (1) e.g • levels of spare capacity • stocks of finished goods and components available e.g. bricks • time period and production speed • level of factor mobility/flexibility • availability of bricklayers, electricians etc • availability of land • planning permission/regulations • availability of technology/machinery to build Explain as to the impact on price elasticity of supply (1) e.g. • limited availability of land/builders (1) so supply will be inelastic (1)	**(2)**

Question Number	Answer	Mark
2(a)	**Knowledge 2, Application 2** **Knowledge** • Supply and demand diagram annotated to show a left shift in the supply curve (2) **Application** • New equilibrium price (1) • New equilibrium quantity (1)  NB – Award up to 2 diagrammatic application marks for other microeconomic effects based on correct knowledge e.g. – changing Consumer Surplus (1) or Producer Surplus (1) or Revenue (1) or Shortage (1)	**(4)**

Question Number	Answer	Mark
2(b)	**Analysis 1** **The only correct answer is A** **B** is not correct because the potential output is not likely to increase **C** is not correct because A is more likely than C which illustrates a reallocation of resources towards consumer goods. If anything a reallocation of resources towards more capital goods is more likely **D** is not correct because this illustrates an increase in actual output which the stem to the question does not provide evidence for	**(1)**

Question Number	Answer	Mark
3(a)	**Analysis 1** **The only correct answer is D** **A** is not correct because there is some differentiation in monopolistic competition aided by advertising and research **B** is not correct because there are many firms in a monopolistic competition market **C** is not correct because goods are not necessarily homogenous in monopolistic competition and some degree of products being heterogeneous is likely to be evident	**(1)**

Question Number	Answer	Mark
3(b)	**Knowledge 2 Application 2** AC shown tangential to downward sloping AR curve (2) followed by: Identification of the profit maximising equilibrium price and output where MC=MR (1) AC=AR shown at the profit maximising equilibrium (1)  	**(4)**

Question Number	Answer	Mark
4(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
4(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)**

Question Number	Answer	Mark
5(a)	**Knowledge 1, Analysis 1** • Resources are allocated via the price/market mechanism/market forces of supply and demand/ the invisible hand of the market (1) • If there is an increase in demand prices rise to ration the good (1) • Price changes act as a signal (1) • If there is a fall in supply prices rise to ration the good (1) • Consumer sovereignty (1) • By privately owned firms (1) • Limited intervention by government/laissez-faire (1)	**(2)**

Question Number	Answer	Mark
5(b)	**Knowledge 1** **The only correct answer is D** **A** is not correct because Hayek promoted the idea of private investment rather than government spending **B** is not correct because Hayek was a critic of command economies allocating resources, advocating instead the many price signals in a free market economy **C** is not correct because Marx was a critic of the free market economy allocating resources	**(1)**

Question Number	Answer	Mark
5(c)	**Knowledge 1, Analysis 1** **Knowledge** Identification of a benefit of division of labour (1) • Less training needed • Faster production process • Greater output from given workforce • Less time wasted moving between jobs • Increased skill within specific role • Increased efficiency **Analysis** Linked development (1) e.g. A benefit is that the firm only needs to train workers in one specific role (1k) this means that they can lower costs (1an)	**(2)**

Question Number	Answer	Mark
6(a)	**Knowledge 1, Application 2, Analysis 2** **Knowledge and Analysis:** (up to 3 marks) • Understanding of a positive statement e.g. statement of fact that can be tested (1) • Understanding of a normative statement e.g. statement containing a value judgement (1) Further analysis of the difference (1) e.g. • a positive statement is not linked to political viewpoint • these normative statement represents the value judgement of the Prime Minister/current political party • objective v subjective • Scientific method **Application:** up to 2 marks 1 for positive and 1 for normative for each example from the extract Normative example (up to 1 mark) • the regulator 'should' limit the standard variable tariff (1) • offer fairer prices for customers who are paying too much (1) • 'a price cap will not be good for consumers' (1) • The market is broken (1) Positive example (up to 1 mark) • Energy bills of 11 million households will be capped (1) • Save households up to £100 (1)	**(5)**

Question Number	Answer	Mark

6(b)	**Knowledge 2, Analysis 2, Application 2, Evaluation 2**
	
	Knowledge/understanding: 2 marks for identification of two likely benefits to the consumers (1+1) e.g.
	• Lower prices
	• Improved product quality
	• More innovative products
	• Better customer service
	• Better bundles/packages/choice
	
	Analysis: 1 mark for linked explanation of each identified benefit (1+1) e.g.
	• A benefit to the consumer is cheaper prices (1K) as BT has greater purchasing power (economies of scale) OR consumers can buy more goods/services with their income OR increased consumer surplus (1An)
	• A benefit to the consumer is the greater availability of bundles/packages (1K) this therefore means that they can spend less overall when buying products together rather than individually on separate contracts(1An)
	
	Application: 2 marks for reference the context of the BT and EE takeover (1+1), e.g.
	• Multi-brand strategy (1)
	• Mix of BT, EE and Plusnet services (1)
	• Greater value bundles of services (1)
	• Compete for their business (1)
	• Controlling 35% of market share (1)
	
	Evaluation: 2 marks for two evaluative comments, OR 2 marks for identification and linked development of one evaluative comment e.g.
	• Potential problems to the consumer
	  ○ Higher prices in the LR due to diseconomies/monopoly power/x-inefficency
	  ○ Lack of choice as control 35% of market
	  ○ Restriction of new competitors
	  ○ Slowed pace of technology
	  ○ Poor customer service
	• Depends on the actions and behaviour of rival firms
	• Depends on the extent to which cost saving measures are passed on to the consumer
	• Depends on the degree of future regulation within the industry
		(8)

Question Number	Indicative content	Mark
6(c)	**Knowledge 2, Application 2, Analysis 2** **Information gaps as main cause of consumers failing to switch** ➢ Consumers lack market information on the price of their landline bill in relation to other providers ➢ Main target audience (the elderly) lacks the knowledge to shop around online and use price comparison sites ➢ Switch to online billing and direct debit payments means many households are unaware ➢ Automatic price changes made by BT ➢ Hard to compare prices as all bundles comprise of different services ➢ Lack of awareness of competitor prices and packages **Irrational behaviour as main cause of consumers failing to switch** ➢ Computation issues e.g. consumers do not understand their pricing structure ➢ Habitual behaviour/status quo bias/brand loyalty e.g. consumers may have a tendency to purchase the same service over time ➢ Consumers do not have the time to shop around or look for better deals ➢ Consumers want to avoid the disruption of changing provider ➢ Strong brand of BT leading to an inelastic demand Other factors could be causing this: ➢ Misleading advertising or price plans ➢ Lack of provision in all areas e.g. fibre optic or bundles ➢ Tie in contracts & automatic renewals ➢ Information overload ➢ Size of savings may not be significant enough to go through switching ➢ Line quality may vary so not similar packages/non-price considerations make BT offer the best. **NB For Level 3 response candidates need at least two reasons but are not required to use both 'information gaps' and 'irrational behaviour'.** **NB There may be overlap between information gaps and irrational behaviour as reasons.**	**(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
6(c) continued	**Evaluation 4** • Counter arguments made to the reasons raised • Significance of the reasons provided • Consideration of whether it is rational to assume that consumers seek to maximise utility in allocating their expenditure • Long run information gaps may narrow and irrational behaviour may reduce e.g. improved price plan information & actions of the regulator	**(4)**

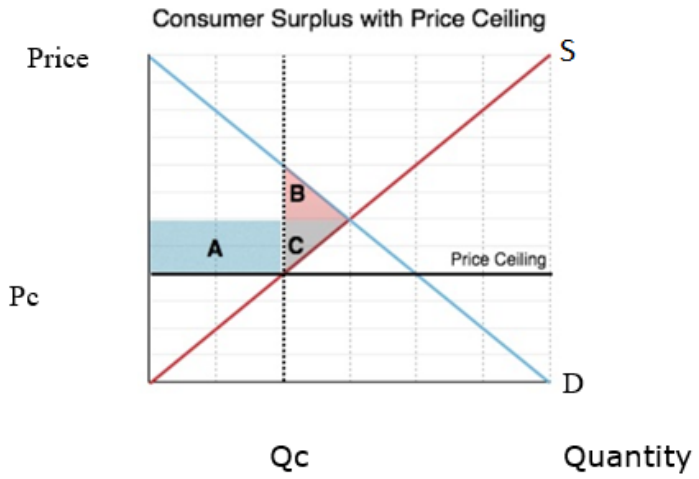
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/ reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evaluative comments supported by relevant reasoning and appropriate reference to context.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

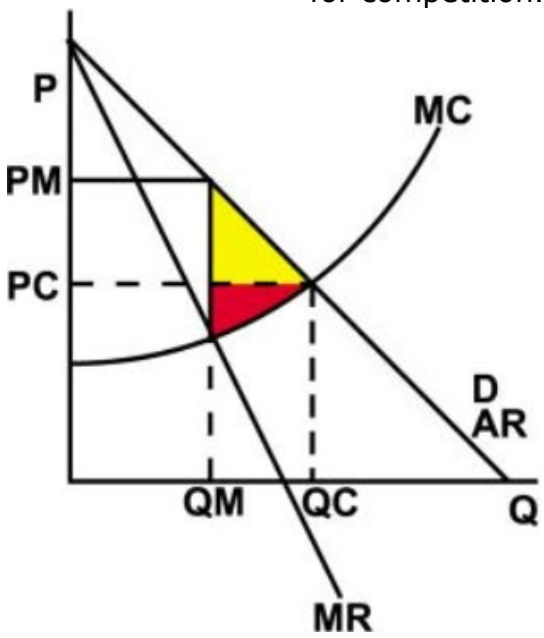
Question Number	Indicative content	Mark
6(d)	**Knowledge 2, Application 2, Analysis 4** BT profit levels have risen to £3.03 billion • **Higher revenue** due to, e.g.: Higher rental price for landline Price increases of 15% Broadband calls up in price Customers paying a higher price for setting up landline with BT Integration with EE increasing mobile revenues Increase in market share to 35% Inelastic PED subject to monopoly abuse • **Lower costs** Approximately 27% fall in the cost of providing the landline service Economies of scale Fall in fixed costs of providing extensive 'landline' network Dynamic efficiency gains/synergy/patents acquired from merger Fall in variable cost • **Other potential reasons** explained: Exploitation of certain consumer groups Effective use of price discrimination Collusion with other landline providers **Costs and revenue diagram** showing: Original profit maximising output level Outward shift in AR and MR And/or – fall in AC and MC And/or – fall in AC if FC lower And/or **Changes** shown on Monopoly diagram e.g. from limit pricing to profit maximisation Original SNP and larger new SNP area **NB – For Level 3 an accurate costs and revenue diagram must be included.**	**(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
6(d) continued	**Evaluation 4** • Profits levels are likely to fall in the future due to the actions of the regulator and prices falling • Profits levels are likely to fall in the future as more competition enters the markets • Relative significance of points • Significance - both factors are working together to increase the extent of their profits • Not possible to say for certain due to a lack of information and data • Magnitude – 27% fall in costs likely to have a significant contribution.	**(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
6(e)	**Knowledge 3, Application 3, Analysis 3** **Methods of government intervention include:** • Price regulation • Profit regulation • Renationalisation of industry • Performance targets • Quality standards • Providing information to enable switching • Policies to enhance competition between firms e.g. start-up grants • Policies to improve contestability and help small firms • Work of the Competition & Markets Authority regarding abuse of dominant position, anti-competitive agreements or intervening on mergers. **NB for a Level 3 response there must be reference to the context of utilities. (Do not award Level 3 if no reference to the data provided or utility industries)** **NB for a Level 3 response there must be reference to more than one policy and the policy must refer to how it protects consumers.** **NB for a Level 3 response a diagram is not required but may include for example**  Consumer surplus increases (A-B)	

	Improved allocative efficiency for consumers, surrogate for competition.  	**(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
6(e) continued	**Evaluation 6** • Criticisms of the likely effectiveness of the policies • Awareness of the problems surrounding their implementation • Recognition that a combinations of approaches may be needed • Different industries may need differing approaches • SR v LR implications • Regulatory capture • Asymmetric information • Regulatory lag • Irrational consumer behaviour • Unintended consequences of government failure e.g lack of innovation, price increases, deteriorating customer service. **NB for a Level 3 response there must be reference to the context of utilities.**	**(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.

Question Number	Indicative content	Mark
7	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** • Definition of a wage differentials • Recognition that labour is a derived demand • Use of labour market diagrams to show the reasons for wage differentials Likely reasons: • Differing demand for labour • Differing levels of supply of labour • Compensatory reasons – skills/qualifications/experience/region/productivity/age • Public versus private sector workers • Problem of a monopsony employer for certain workers • Impact of trade union membership • Impact of immobility of labour • Impact of discrimination • Use of elasticity of demand for labour • Use of elasticity of supply of labour • Current labour market issues – gig economy/zero hours/austerity/gaps in employment for carers **NB – For Level 4 the candidate must refer to a specific industry and the reasons for the wage differentials that exist within it.** **Evaluation** • Significance of the reasons provided • Counterarguments made to the point raised • Extent to which wage differentials may reflect the fact that labour market forces are working efficiently • Extent to which wage differentials may reflect imperfections in the labour market • Likely to be a combination of reasons • Wage differentials may ignore bonuses or other financial/non-financial rewards • Consideration as to whether the wage differentials are increasing or decreasing within the industry • Contrast to alternative industries • Short run versus long run consideration • Increased transparency may reduce pay differentials. • Regulations/National Minimum Wage/unions/public pressure reducing wage differentials. • Gaps in employment becoming shorter or delayed	**(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. 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
8	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** • Definition of collusion • Recognition of the concept of interdependence likely to exist in an oligopolistic market structure • Identification of the format in which collusion may take Likely reasons: • Reduce the level of competition & the cost of direct competition e.g. – marketing or price wars • Increase revenue and joint profit maximisation • Use of game theory and pay off matrix to show the benefits of collusion v competition, e.g Firm B Firm A Revenue / High Price / Low Price High Price: £7.7 bn , £7.7 bn / £1 bn , £10bn Low Price: £10bn , £1 bn / £5bn , £5bn • To restrict choice and increase price setting power • To enable the cost of regulations & taxation to more easily be passed on to the consumer • To protect market share/dominance against new entrants and rivals • To reduce uncertainty within the market • To control supply • Higher producer surplus and shareholder value • Market rigging to allocate work between contractors • Anti-competitive practices to restrict access to the supply chain • Poor regulation/asymmetric information/regulatory capture so lack of detection/difficult to find evidence of tacit collusion. **NB for a Level 4 response, candidates must refer to a specific INDUSTRY in their answer.**	

	Evaluation • Likely problems that may occur: Illegal nature of collusion – risk of fines & criminal prosecution Impact on brand image Risk of cheating/breakdown of the agreement Risk of complacency and a lack of innovation – leading to x inefficiency/lack of competitiveness/threat from new entrant • Effectiveness of the collusion will depend on: Number of firms involved Relative size of firms Degree of trust Levels of barriers to entry PED of product demand Chances of whistleblower behaviour Level and effectiveness of regulation • Debate over whether it is collusion or simply the nature of oligopoly markets e.g. airline industry share safety features and check-in desks • Relative significance of arguments made • Use of contrasting examples to highlight significance • Collusive behaviour often breaks down, using pay-off matrix. • Non-collusive reasons for price stability e.g. price leadership • Arguments that it could bring benefits e.g. – the survival of a declining industry/benefits to consumers and others - This point can count as KAA	**(25)**

Knowledge, application and analysis		
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