Pearson Edexcel

Mark Scheme (Results)

Summer 2022

Pearson Edexcel GCE A Level
In Econmics A (9EC0)
Paper 01 Market and Business Behaviour

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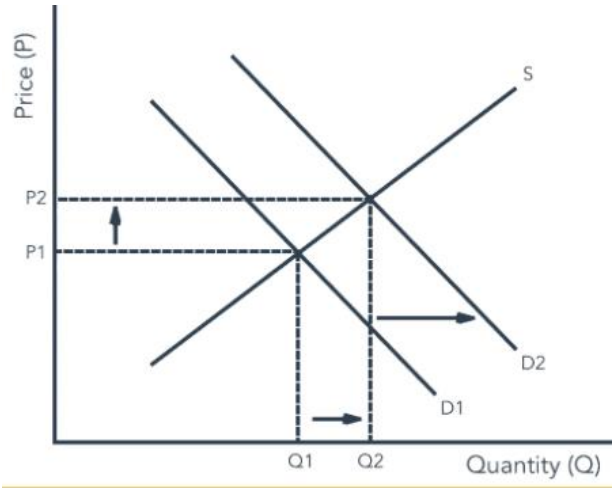
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General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- 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 may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

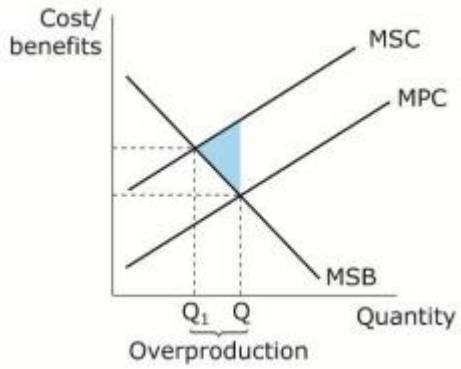
Question Number	Answer	Mark
1(a)	**Analysis 1** **The only correct answer is D** ***A*** *is not correct because fixed costs are not related directly with output in the short-term* ***B*** *is not correct there is no information available on income changes* ***C*** *is not correct because there is no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

Question Number	Answer	Mark
1(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)**

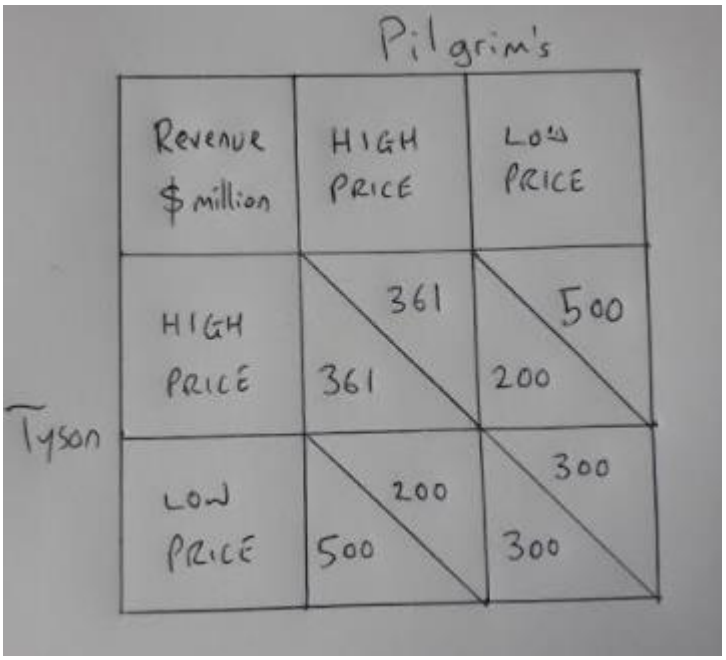
Question Number	Answer	Mark
2(a)	**Application 2** **Application:** 1 mark for likely understanding e.g. • 5% x -1.37 (1) **OR** • 5 % x 1.37 (1) Answer = - **6.85%** **Award 2 marks for correct answer (accept any in the range of 6.8 to 7 or -6.8 to -7)**	**(2)**

Question Number	Answer	Mark
2(b)	**Application 2** **Application:** 1 mark for likely understanding e.g. • 5% x 0.63 (1) **OR** • 5% x -0.63 (1) **OR** Answer = **3.15%** **Award 2 marks for correct answer (accept any in the range of 3 to 3.2)**	**(2)**

Question Number	Answer	Mark
2(c)	**Knowledge 1** **The only correct answer is D** ***A*** *is not correct because demand is price-elastic and XED is positive (substitute)* ***B*** *is not correct because demand is price-elastic and XED is less than +1* ***C*** *is not correct because XED is positive (substitute)*	**(1)**

Question Number	Answer	Mark
3 (a)	**Knowledge 2, Application 2** 1 mark for the correct labelling of MPC, MSB and/or MPB 1 mark for correct shift from MPC to MSC, divergent or parallel 1 mark for showing the external cost at market output Q (MSC>MPC) 1 mark for the new social optimum equilibrium (Q1) identified where MSC equals MSB (Q1) or overproduction 1 mark for welfare loss/gain identified 1 mark for quantity of waste water treatment Diagram required e.g.  	**(4)**

Question Number	Answer	Mark
3(b)	**Analysis 1** **The only correct answer is C** ***A*** *not correct because the fine will increase efforts by the firm to reduce illegal discharges* ***B*** *not correct because the fine will increase costs and reduce profits* ***D*** *not correct because the intervention will not result in a net welfare loss.*	**(1)**

Question Number	Answer	Mark
4(a)	**Knowledge 2 Application 2** 1 mark for the Pilgrim's revenue gain of e.g. $361 million for charging a collusive high price with Tyson (High Price/High Price) 1 mark for Low Price/Low Price revenue gain being lower than High Price/High Price e.g. Pilgrim's $300 million<$361 million 1 mark for first mover revenue gain being higher than High Price/High Price or Low Price/Low Price e.g. $500 million > $361 million 1 mark for second mover revenue being less than High Price/High Price and Low Price/Low Price e.g. Tyson's $200 million Diagram required e.g.  **N.B Valid alternative figures or responses can be used, including profit.** **N.B. award a maximum of three marks if the rationale for the second mover is inconsistent**	**(4)**

Question Number	Answer	Mark
4(b)	**Analysis 1** **The only correct answer is D** ***A*** *is incorrect as tacit is the opposite to overt* ***B*** *predatory pricing aims to price below AVC to destroy a competitor rather than cooperate with them* ***C*** *Price war aims to steal customers from a competitor rather than cooperate with them.*	**(1)**

Question Number	Answer	Mark
5(a)	**Knowledge 1** **The only correct answer is C** ***A*** *is not correct because this would involve merging with a supplier* ***B*** *is not correct because this would involve merging with a consumer* ***D*** *is not correct because this is external not internal growth*	**(1)**

Question Number	Answer	Mark
5(b)	**Knowledge 1 Analysis 1** **Knowledge e.g.** - Commercial/purchasing/ bulk buying (1) - Technical (1) - Financial (1) - Managerial (1) - Marketing (1) **Analysis e.g.** - Lower LRAC (1) - Cheaper steel /monopsony buying power (1) - Larger factory space/delivery vehicles/robots (1) - Lower interest charge on larger loans to fund car factory expansion (1) - New e-car design director/specialist managers (1) - Discounted advertising (1)	**(2)**

Question Number	Answer	Mark
5(c)	**Knowledge 1 Analysis 1** **Knowledge** Concerns e.g. - Against consumer (1) - Against national economic interests (1) - Increased monopoly power/reduction in competition/increased market share (1) **Analysis** Linked development e.g. - Lack of choice for consumers/loss of consumer surplus/force competitors out (1) - Increased prices/exploit consumers (1) - X-inefficiency – lack of investment (1)	**(2)**

Question Number	Answer	Mark
6(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
6(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)**

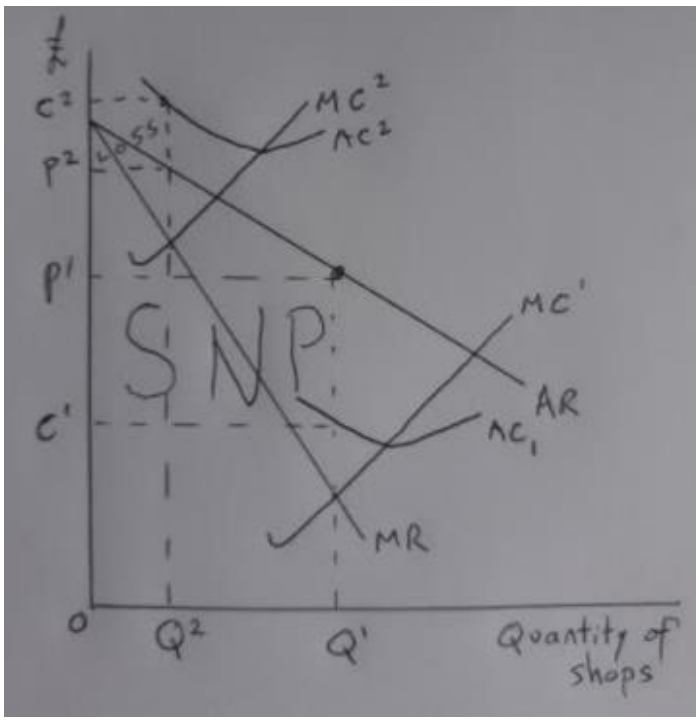
	Evaluation: 2 marks for two evaluative comments, OR 2 marks for identification and linked development of one evaluative comment e.g. • Depends upon the degree of price elasticity of demand when supply shifts (1) • Depends upon the degree of price elasticity of supply when demand shifts (1) • Use of buffer 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
6(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
6(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
6(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
6(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)**

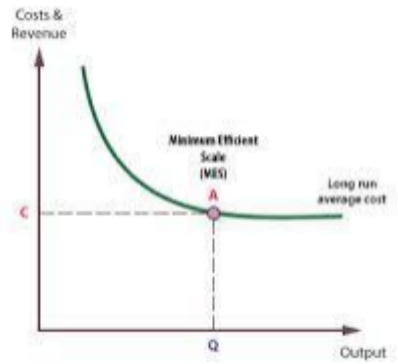
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evaluative comments supported by relevant reasoning and appropriate reference to context.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

Question Number	Indicative content	Mark
6(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
6(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.

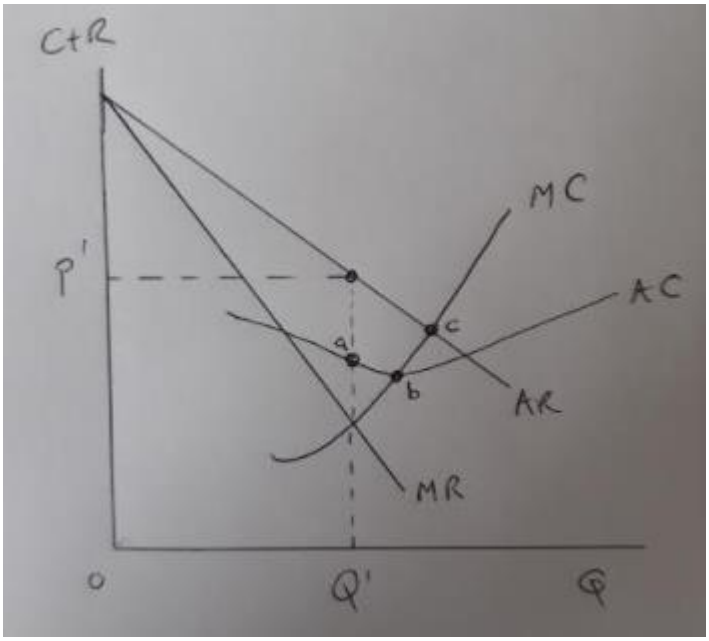
Question Number	Indicative content	Mark
7	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** Definitions of efficiency: • Productive (lowest point of AC) • Allocative (P=MC) • Dynamic (technical – LRAC shifting down) • X-inefficiency (organisational slack – higher AC) • Social efficiency (MSC=MSB) **Case For** • Productive efficiency – larger economies of scale, types of economies of scale e.g. purchasing, monopsony power to reduce costs, minimum efficient scale, natural monopoly Diagram e.g.  • Allocative efficiency - Lower prices (limit pricing) and good customer care deter potential entrants, acts as a surrogate for competition • Dynamic Efficiency - profits re-invested into cost-lowering investment, product innovation may increase AR **NB a diagram is not required for Level 4** **NB For Level 4 the candidate must refer to at least one monopoly.**	**(25)**

Evaluation

Case against

- X-inefficiency −organisational slack due to managerial complacency as a result of lower competition
- Allocative inefficiency −monopoly power that makes them price makers and allows them to charge higher prices (less welfare max)
- Productive inefficiency − profit maximising,
- Dynamic inefficiency might not reinvest but give profits to shareholders in the firm on higher dividends, principal agent problem
- Degree of monopoly power – ability of consumers to switch to alternatives
- Government intervention – price caps, tax
- Government intervention damages efficiency, regulatory capture, strength of regulator

Diagram e.g.



Monopoly price P1 is not productively efficient as output is at point a and not the lowest point on the AC curve, b.
Monopoly price P1 is not allocatively efficient as the price is not equal to MC (c) resulting in a dead weight welfare loss.

NB Monopoly not operating efficiently can be seen as KAA and efficiently as evaluation or vice versa. Diagram not required.

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** **Factors might include:** • Net-wage financial advantages including rise in NMW, benefits and tax (MTR); relative to other occupations/countries/leisure • Job satisfaction/safety - bonuses, employment rights • Skills required – cost and ease of education and training, qualifications needed, transferability of skills • Workforce demographics – early retirement, women entering workforce, cultural or social geographical ties • Housing costs in a particular area • Reduced net migration flows to UK from within EU • Infrastructure – ability to commute or work from home • Trade union power • Flexibility – willingness to sign up to zero-hour contracts to overcome barriers to work due to caring or study commitments **NB: allow application to any industry/occupation. To secure Level 4 requires application to at least one occupation.** **Evaluation** • Prioritisation of factors. • Ease and cost of acquiring skills/language barriers • Barriers to work - social exclusion, study or care commitments, disability discrimination • State of economy – recession • Increase in non-EU net-migration • Information problems • Government measures to improve/limit supply • Short-run/long-run • Rate entering versus rate leaving market • Significance of factors change over time with short run and long run considerations • Combination of factors is likely to have a bigger impact on supply of labour	**(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.
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