Pearson Edexcel

Mark Scheme (Results)

November 2021

Pearson Edexcel GCE A Level
In Economics A (9EC0)
Paper 1: Markets and Business Behaviour

Edexcel and BTEC Qualifications

Edexcel and BTEC qualifications are awarded by Pearson, the UK's largest awarding body. We provide a wide range of qualifications including academic, vocational, occupational and specific programmes for employers. For further information visit our qualifications websites at www.edexcel.com or www.btec.co.uk. Alternatively, you can get in touch with us using the details on our contact us page at www.edexcel.com/contactus.

Pearson: helping people progress, everywhere

Pearson aspires to be the world's leading learning company. Our aim is to help everyone progress in their lives through education. We believe in every kind of learning, for all kinds of people, wherever they are in the world. We've been involved in education for over 150 years, and by working across 70 countries, in 100 languages, we have built an international reputation for our commitment to high standards and raising achievement through innovation in education. Find out more about how we can help you and your students at: www.pearson.com/uk

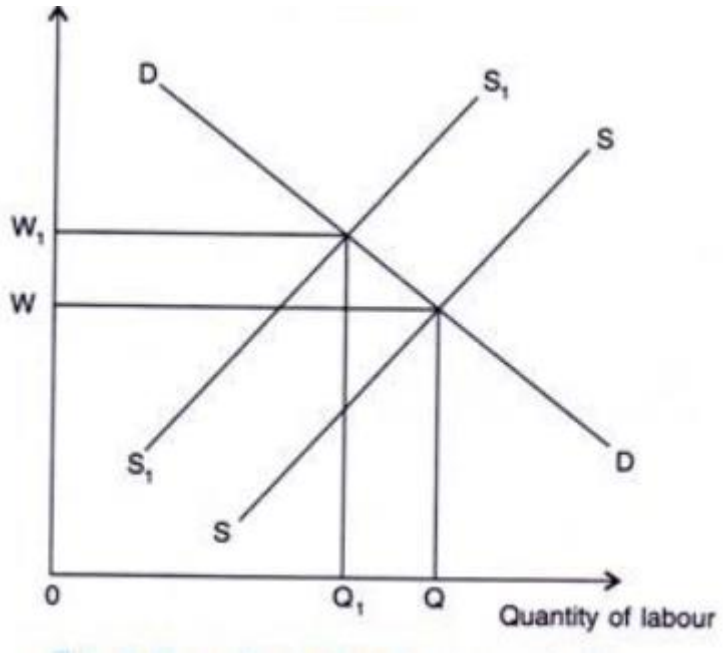
November 2021
Question Paper Log Number P65664A
Publications Code 9EC0_01_2111_MS
All the material in this publication is copyright
© Pearson Education Ltd 2021

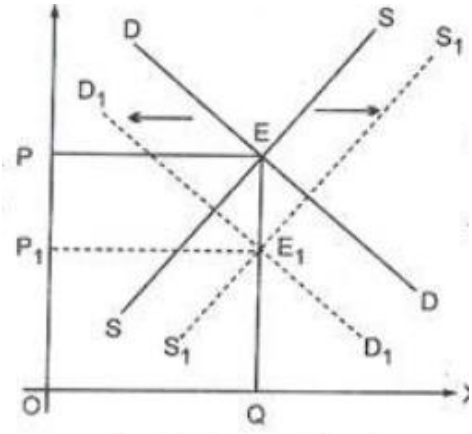
General Marking Guidance

- 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.

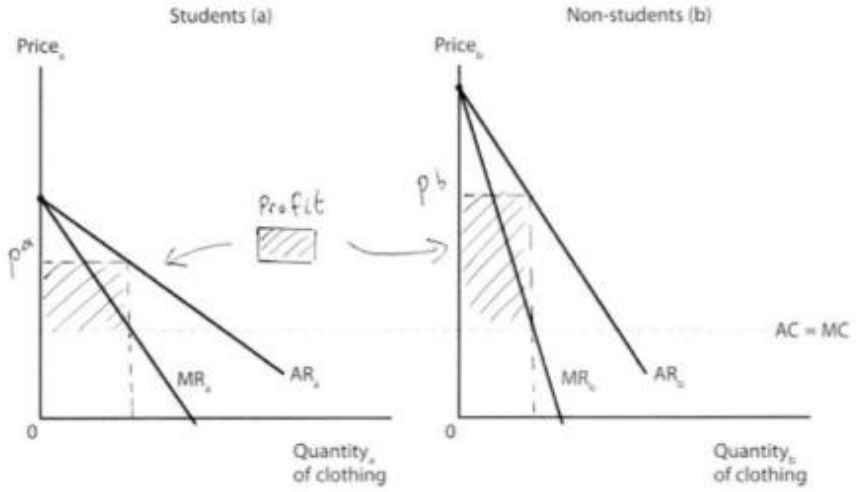
Question Number	Answer	Mark
1(a)	**Knowledge 1** **The only correct answer is D** ***A*** *is not correct because Statement 1 and 2 are positive statements, they are not value judgements* ***B*** *is not correct Statement 1 is positive as it is an objective statement which can be tested* ***C*** *is not correct because Statement 2 is positive*	**(1)**

Question Number	Answer	Mark
1(b)	**Knowledge 2, Application 1, Analysis 1** **Knowledge / understanding:** 2 marks for understanding e.g. • Supply of labour decreases (1) • Wage rises (1) **Application:** 1 mark for e.g. • Takes time to train engineers (1) • Migration of 1 million workers (1) • Annotating diagram in context of engineers (1) • Shortage of engineers (1) • 'Many engineers have left Poland for higher paid jobs in other countries' (1) **Analysis**: 1 mark for a linked development e.g. • Excess demand (1) • Firms offer higher wages (1) • Firms contract demand for labour (1) • New labour market equilibrium achieved (1) **NB Full marks only to be awarded for specific reference to labour market.**	**(4)**

	Wage rate  	

Question Number	Answer	Mark
2(a)	**Knowledge 2, Application 2** **Knowledge** • Supply and demand diagram annotated to show: a right shift in the supply curve (1) and a left shift in the demand curve (1) **Application** • New lower price (1) • New equilibrium price at D1 and S1 as illustrated below, for example (1)  	**(4)**

Question Number	Answer	Mark
2(b)	**Knowledge 1** **The only correct answer is C** ***A*** *is not correct because they have mistakenly only calculated the change in price as a percentage change* ***B*** *is not correct because they have mistakenly calculated -the new price divided by the original price initially* ***D*** *is not correct because they have mistakenly calculated the change in price by the new price.*	**(1)**

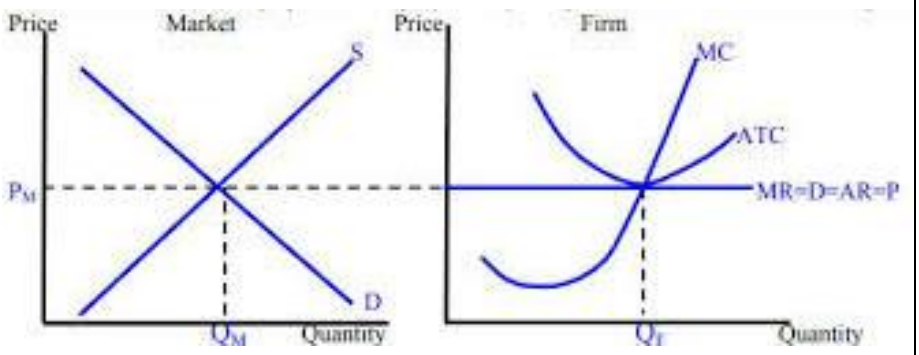
Question Number	Answer	Mark
3 (a)	**Knowledge 2, Application 2** **Knowledge** - Profit maximisation price identified for students (Pa) (1) - Profit maximisation price identified for non-students (Pb) (1) **Application** - Profit identified for students (1) - Profit identified for non-students (1)  	**(4)**

Question Number	Answer	Mark
3(b)	**Analysis 1** **The only correct answer is A** ***B*** *is not correct because the price elasticity of supply does not influence price discrimination* ***C*** *is not correct because for it to be third-degree price discrimination the same product is being bought; it is homogenous* ***D*** *is not correct because price discrimination is not associated with costs of production reasons*	**(1)**

Question Number	Answer	Mark
4(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)**

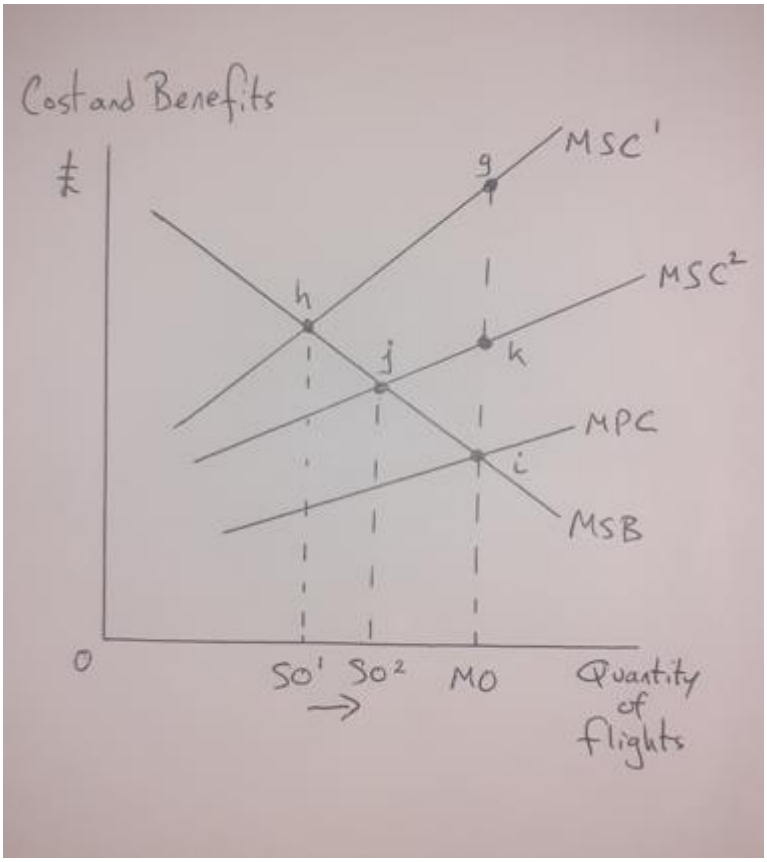
Question Number	Answer	Mark
4(b)	**Application 2** **Application:** 1 mark for understanding e.g. • Subsidy is 57.5% (1) **OR** • 100% - 30% (tickets sales) – 12.5% (charitable donations) **OR** • 57.5% x $ 200 000 (1) **OR** • 0.575 x 200 000 (1) Answer = **$115 000** **Award 2 marks for correct answer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

Question Number	Answer	Mark
4(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)**

Question Number	Answer	Mark
5(a)	**Knowledge 2, Application 2** **Knowledge** - Market equilibrium price (1) - Horizontal demand for the firm, taking the market equilibrium price (1) **Application** - Profit maximisation output and price for the firm (1) - Normal profit identified at the profit maximising output/(ATC=AR) (1) 	**(4)**

Question Number	Answer	Mark
5(b)	**Analysis 1** **The only correct answer is B** ***A*** *is not correct because the firm is not operating at its minimum point on the AC curve* ***C*** *is not correct because P=MC so the firm is allocatively efficient* ***D*** *is not correct because of the reasons given in A and C.*	**(1)**

Question Number	Answer	Mark
6(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
6(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)	

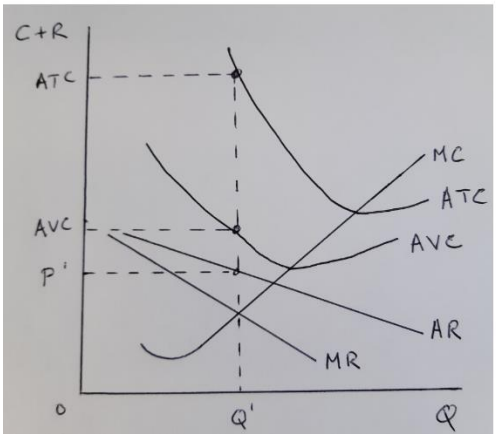
	Application: 2 marks for reference to Extract B e.g. • Thomas Cook airline emissions are lower/switch fuel types/new engines (1) • In 2018 Thomas Cook Group Airline was included in the top 10 of the world's most fuel-efficient airline (1) • Lower insurance bills/clean up bills for companies/households 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)**

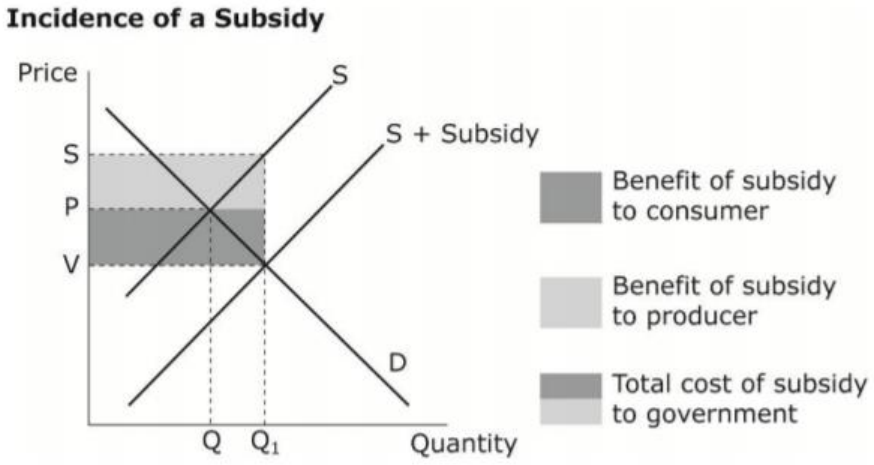
Question Number	Indicative content	Mark
6(c)	**Knowledge 2, Application 2, Analysis 2** **Case for principal agent problem being significant.** Conflict of interest between the principal (shareholder) and the agent (CEOs/directors/managers) creates problems for Thomas Cook: • Moral hazard – no consequences 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.
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** **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
6(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.

Question Number	Indicative content	Mark
6(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.

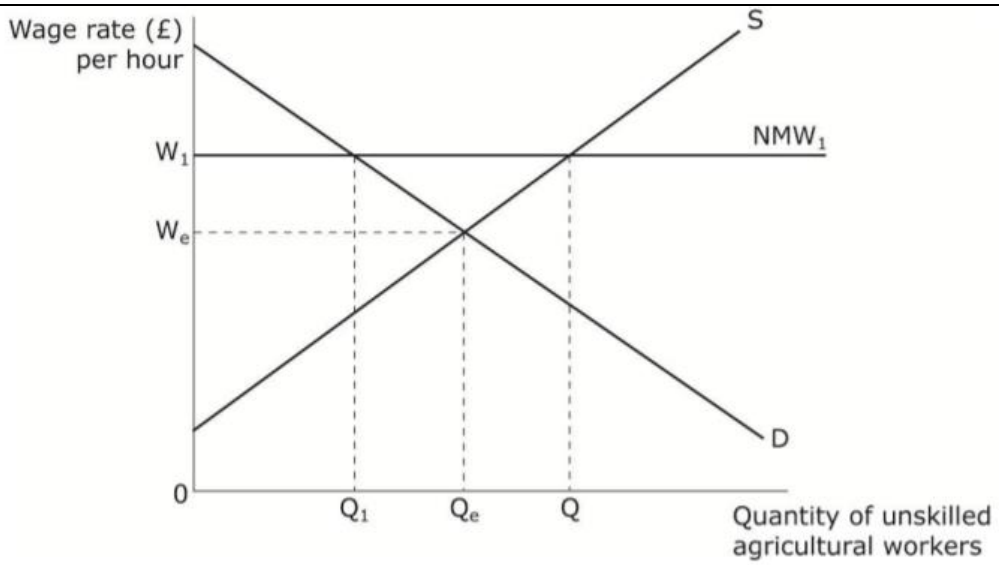
Question Number	Indicative content	Mark
6(e)	**Knowledge 3, Application 3, Analysis 3** **Exploiting market power** • Jet2 increases 'price per person' by £36 after Thomas Cook closes (Fig 2) • Thomas Cook, with a 13% market share in 2019, exits the market causing Jet2 to gain market share, possibly 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)**

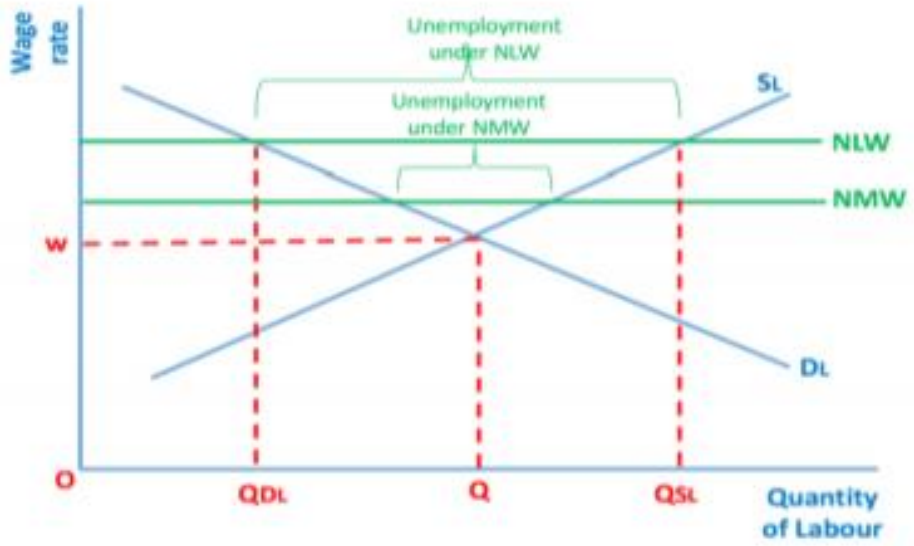
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–3	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes 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
6(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 • 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.**	**(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** • Minimum wage – legally enforced wage floor • Wage set above market equilibrium wage • Increasing from £8.72 to £10.50 • Extension in supply of labour • Contraction in demand for labour • Excess supply of labour Drawback of increase • Unemployment in specific labour market • Firms close in specific market - rise in variable/fixed cost depending on market • Additional drawbacks of minimum wage Wage elasticity of demand • Proportion of labour costs relative to total costs • Ease and cost of factor substitution • PED for final product, derived demand Wage elasticity of supply • Relative skills required in specific market • Income effect • Substitute effect • Allow suitable minimum wage diagram e.g.	**(25)**





NB a diagram is not required
NB for Level 4 the candidate must refer to a specific labour market.

Evaluation

- Benefits of increase
- Increased labour mobility into specific market
- Increased productivity
- Counters monopsony employer abuse
- Firms decide to now train labour as paying higher wage
- Improved customer service/social objectives achieved
- Improved living standards/reduced relative poverty e.g. north of England
- Additional benefits of minimum wage

	• Minimum wage set below equilibrium – in parts of country • Does not apply to some workers in specific market • Relative price elasticity of demand for labour • Relative price elasticity of supply • Short-run/Long-run considerations – substitute capital, qualifications and training • Labour in specific market is not homogenous • Backward bending supply of labour • Cost of labour relative to other factor inputs • Ability of firm to relocate/move into another market • Problems measuring productivity	

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** • High concentration ratio – Oligopoly market structure/Monopoly power/Monopsony power • Decisions to erect/maintain high barriers to entry and exit • Interdependence of firms – use of game theory in decision making • Price leadership • Collusive and non-collusive behaviour • Product differentiation • Types of price competition – predatory pricing, limit pricing • Types of non-price competition • Monopoly power – limiting choice, profit maximising, price discrimination • Monopsony power – reducing producer surplus of suppliers The role of competition in business decision making • Profit maximisation • Alternative business objectives • Mergers and take-overs • Revenue, Costs and Profits in different market structures • Pricing and output decisions of firms in different contexts **Evaluation** • Fines/Regulations by Government/Regulatory bodies curtails business decision making • Regulatory capture • Asymmetric information • Price wars/limit pricing acts as a surrogate for competition • Non-price competition acts in consumer interest – technological advances/customer service. • Wider benefits from new industry giants e.g. Amazon/Google – tax revenue, employment, market for SME's, re-investing profits • Loss of dynamic efficiency gains from incumbent dominant firms • CMA/EC preventing mergers/forcing demergers **NB a diagram is not required** **NB KAA may be used as EV and vice-versa** **NB for Level 4 the candidate must refer to a specific industries.**	**(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.

Pearson Education Limited. Registered company number 872828
with its registered office at 80 Strand, London WC2R 0RL, United Kingdom