

PEARSON EDEXCEL A-LEVEL ECONOMICS B • 9EB0

ECONOMICS



EXAM QUESTION PACK

1.2 ENTERPRISE, BUSINESS AND THE ECONOMY

SCORE

/615

PERCENTAGE

%

STEMUP

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Questions

Q1.

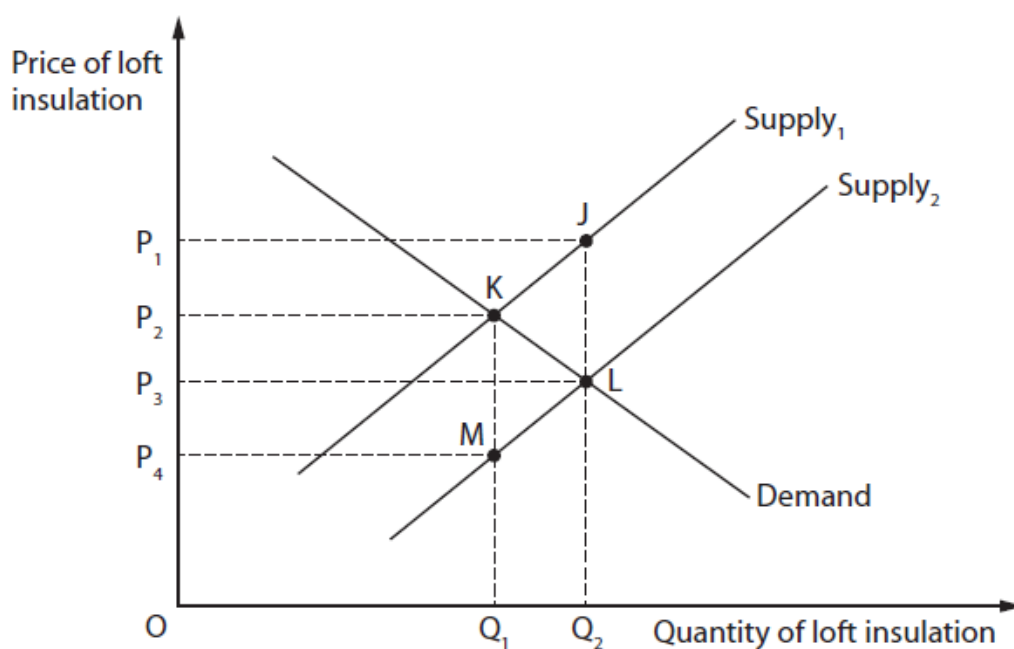
Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

Answer the question with a cross in the box you think is correct ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

The 'Energy Company Obligation' is the government's term for its programme to make houses in the UK more energy efficient.

(a) In the diagram below, the government grants a subsidy to energy suppliers to install loft insulation.

This shifts the market supply curve for loft insulation from Supply_1 to Supply_2 .



The total amount spent by the government on subsidies is represented by the area:

(1)

- ☐ A OP_1JQ_2
- ☐ B OP_3LQ_2
- ☐ C P_3P_1JL
- ☐ D P_4P_2KM

(b) Explain an opportunity cost to the government of granting subsidies to energy suppliers to

install loft insulation.

(3)

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(Total for question = 4 marks)

Q2.

The market for cigarettes

Figure 1: Price elasticity of demand - a comparison between tobacco and e-cigarettes

Price of packet of 20 tobacco cigarettes £7.70–£9.50	Price of e-cigarette kit £9.99–£19.99
Average price per tobacco cigarette 48p	Single cigarette equivalent price of an e-cigarette 7p
Price elasticity of demand for tobacco cigarettes –0.35	Price elasticity of demand for e-cigarettes –1.9

(Source: adapted from <https://www.blucigs.co.uk/united-kingdom/kits/all-kits>)

Extract A

Government intervention on tobacco

There was a time when smoking was fashionable. Television and magazine advertisements glorified smoking. Everyone from your dad to your doctor smoked in all places – cars, restaurants and even hospitals.

Tobacco is still the single biggest cause of cancer in the world and the leading cause of preventable deaths. Nearly 80% of the 1 billion smokers worldwide live in low- and middle-income countries. 5

Bans on tobacco advertising, promotion and sponsorship can reduce tobacco consumption. Comprehensive smoking bans covering indoor workplaces, public places and public transport have been introduced in 48 countries.

Tobacco taxes are the most cost-effective way to reduce tobacco use, especially among the young and people in low-income groups. A tax increase that raises tobacco prices by 10% decreases tobacco consumption by 4% in high-income countries and 5% in low- and middle-income countries. 10

However, some 8 million people are expected to die each year by 2030 – because they have smoked tobacco or have been exposed to passive smoking. The use of alternative products such as electronic cigarettes (e-cigarettes) are gaining in popularity but information about their effects is uncertain. Little research has yet been done about the long-term health effects of e-cigarettes and the nicotine dispensed by e-cigarettes is highly addictive. The illegal tobacco market still counts for 1 in every 10 cigarettes consumed globally. In addition, tobacco companies still spend tens of billions of dollars each year on advertising and promoting tobacco products and sponsoring events. They continuously challenge the regulatory measures governments are taking. 15
20

(Source: adapted from <http://www.who.int/topics/tobacco/en/> and <http://www.who.int/mediacentre/commentaries/reducing-tobacco-use/en/>)

Extract B

Free market approach

Are free markets incompatible with good health? If the solution to every problem involves banning advertising, raising prices and restricting availability, you might easily conclude that the free market is the disease and government regulation is the cure. From this perspective, the providers of food, alcohol and tobacco are determined to push the most unhealthy products on the public at the lowest prices. 5

Contrary to this viewpoint, the profit motive is not unhealthy. Businesses have an obvious incentive to keep their customers alive and customers have a strong incentive to seek out healthier options. Any company that can make a scientifically sound health claim gains a competitive advantage over its rivals. Health sells. In contrast, government regulation can lead to negative health outcomes. Markets can correct themselves long before government failures are even acknowledged. Over a million Britons, almost all of whom are smokers or ex-smokers, use e-cigarettes, as a less hazardous product than cigarettes and yet e-cigarettes face increased regulations and in many countries they are banned. 10

It is neither consistent nor ethical to prevent smokers from switching to much safer alternatives. Efforts to regulate e-cigarettes are a far greater threat to public health than the products themselves. 15

We argue that the interests of consumers are nearly always better advanced by the provision of accurate information and free choice than by prohibitions and regulations. The government policy of small but steady tax rises on tobacco and ever-larger warning labels is becoming less effective and leads to unintended consequences. 20

(Source: adapted from <http://www.iea.org.uk/blog/free-market-solutions-in-health-should-be-allowed-to-flourish>, Christopher Snowden, 11th July 2013)

(a) Explain why 'bans on tobacco advertising' (Extract A, line 7) may result in a decrease in the

revenue of tobacco firms. Include a supply and demand diagram in your answer.

(5)

(b) With reference to the information provided and your own knowledge, assess the view that tobacco consumers switching to e-cigarettes is an example of rational behaviour.

(10)

Tobacco cigarettes and e-cigarettes are considered to be substitutes.

(c) Explain how changes in the price of tobacco cigarettes may affect the demand for e-cigarettes over time.

(6)

(d) With reference to Extract A, lines 11–13, calculate the price elasticity of demand for tobacco cigarettes in high-income countries and in low-middle-income countries. You are advised to show your working.

(4)

(e) With reference to Figure 1, assess the likely reasons for the difference in price elasticity of demand for tobacco cigarettes and e-cigarettes.

(15)

EITHER

(f) Evaluate the possible advantages of a free market approach to cigarette consumption.

(20)

OR

(g) Evaluate the impact of government intervention in the cigarette market.

(20)

(Total for question = 60 marks)

Q3.

Some questions must be answered with a cross in a box (☒). If you change your mind about an answer, put a line through the box (☒) and then mark your new answer with a cross (☒).

Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

The world's first cryptocurrency, Bitcoin is stored and exchanged securely on the internet through a digital ledger known as a blockchain. Bitcoins are divisible into smaller units known as satoshis.

(Source: <https://www.coinbase.com/price/bitcoin>)

(a) Which **one** of the following would be most likely to cause a country's currency to no longer be acceptable as a medium of exchange?

(1)

- ☐ **A** It becomes harder to counterfeit
- ☐ **B** It becomes unlimited in supply
- ☐ **C** It is issued in smaller denominations
- ☐ **D** It is more long lasting

(b) Explain how Bitcoin fulfils **one** function of money, apart from as a medium of exchange.

(3)

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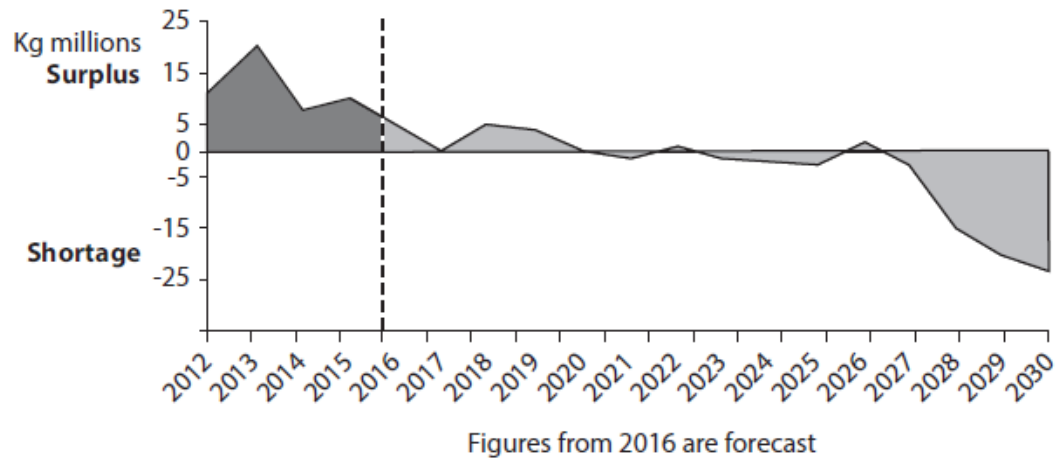
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(Total for question = 4 marks)

Q4.

Energy markets

Figure 1: Annual surplus or shortage of uranium, measured in millions of kilograms



(Source: adapted from <http://www.telegraph.co.uk/business/2016/11/20/uranium-the-unloved-metal-whose-price-is-poised-to-go-radioactiv/>)

Extract A

Uranium: the unloved metal

Uranium is a fuel source for nuclear energy production. The price of uranium has fallen to a 13-year low. Uranium is a relatively common metal but locating it in the right concentrations can be difficult. Australia has the biggest known resource of uranium, followed by Kazakhstan. Kazakhstan's production has increased significantly since 2007, accounting for a large proportion of the surplus of this metal. Given the large stockpiles of uranium some firms have ceased production.	5
The biggest impact on the uranium market has been the devastating accident at the nuclear power station in Fukushima, Japan, in 2011. The accident caused a leak of radiation. The accident reduced confidence in the entire nuclear industry, as high doses of radiation leaks increase the risk of cancer. In addition the high cost of safely storing radioactive waste has delayed the building of new nuclear power stations. Japan initially closed all of its 50 nuclear power stations which reduced the demand for uranium. But it has since concluded that nuclear power must be part of its mix of energy suppliers.	10
Despite this setback in 2016 work started on a new uranium mine in Spain to meet the expected rise in demand for the metal. Uranium is a controlled material, so mining companies have to comply with many regulations before opening a new mine. When it opens in 2018, this will be the only uranium mine in Europe, producing 2.2 million kilos a year. It has been in development for more than a decade.	15
Most developed countries, with the notable exception of Germany, have concluded that nuclear power is an essential part of their energy supply. The US and UK are committed to building new nuclear power stations, the latter providing a £30 billion subsidy to build a new nuclear plant at Hinkley Point. China is also building a further 60 nuclear power stations.	20
Supporters of nuclear power say it provides a reliable source of energy at a time when the world's population is increasing, unlike solar power and wind power which both vary with the weather. In addition they argue that no country can significantly reduce carbon emissions, which are causing climate change, without nuclear. France and the UK have committed themselves to shut down all coal-fired power stations by 2025. So demand for uranium over the next two decades seems guaranteed.	25
	30
(Source: adapted from Uranium: the unloved metal whose price is poised to go radioactive, Jon Yeomans, The Telegraph, 20 November 2016 http://www.telegraph.co.uk/business/2016/11/20/uranium-the-unloved-metal-whose-price-is-poised-to-go-radioactive/)	

Extract B

Irrational consumers pay the price

The UK Government has announced that it might introduce maximum price controls on energy used by households.	
The UK's largest energy suppliers are braced for what could be the industry's most significant government intervention following a decade of rising energy bills and low numbers of consumers switching between energy providers.	5
The Prime Minister promised to intervene because the energy market is "manifestly not working" for consumers. Energy prices have risen by 158% in the last 15 years, and four million households, especially those on low incomes, are still on the most expensive energy rates.	10
Some energy analysts have warned the Government against taking a highly interventionist approach that could undermine the energy market and leave customers paying higher prices in the future.	
(Source: adapted from http://www.telegraph.co.uk/business/2017/03/22/governments-pledge-cut-energy-prices-risks-leaving-consumers/)	

Extract C

The economics of climate change

Rising carbon dioxide emissions result from the increase in the use of coal, gas and oil in transport and for energy production. In addition, deforestation, food production and processing methods make the problem worse. These carbon emissions are causing a rise in global average temperatures, known as climate change. Climate change could cause hundreds of millions of people to suffer hunger, water shortages and coastal flooding. 5

Three elements of policy are required for an effective global response to reduce carbon emissions. The first is the pricing of carbon, implemented through tax, trading pollution permits or regulation. The second policy is to support innovation and the deployment of low-carbon technologies. And the third is action to remove barriers to energy efficiency, and to inform, educate and persuade individuals about what they can do to respond to climate change. 10

(Source: adapted from www.sternreview.org.uk/)

(a) With reference to Figure 1 and Extract A, explain why the price of uranium has 'fallen to a 13-year low' (Extract A, lines 2 and 3) in 2016. Include a supply and demand diagram in your answer.

(5)

(b) With reference to Extract A and your own knowledge, assess whether the supply of uranium is likely to be price elastic or price inelastic.

(10)

(c) With reference to Extract B, explain **two** likely reasons why many consumers of energy have not switched to suppliers offering lower prices.

(6)

(d) Using examples from the information provided, explain what is meant by renewable and non-renewable energy.

(4)

The UK Government is considering introducing a maximum price for energy.

(e) Discuss the likely microeconomic effects of this decision on energy producers **and** consumers. Include a supply and demand diagram in your answer.

(15)

EITHER

(f) Using the concept of external costs, evaluate whether nuclear power is under-provided or over-provided in the energy market. Use an appropriate diagram in your answer.

(20)

OR

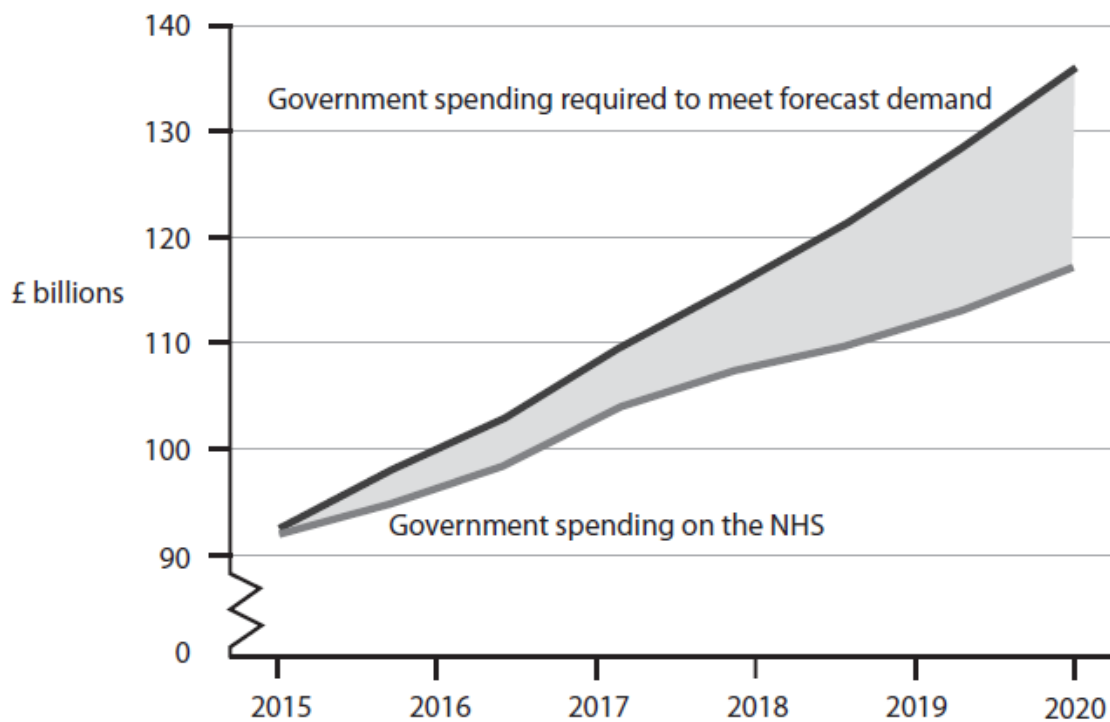
(g) Evaluate ways in which government intervention could be used to reduce carbon emissions. Use at least one appropriate diagram in your answer.

(20)

Q5.

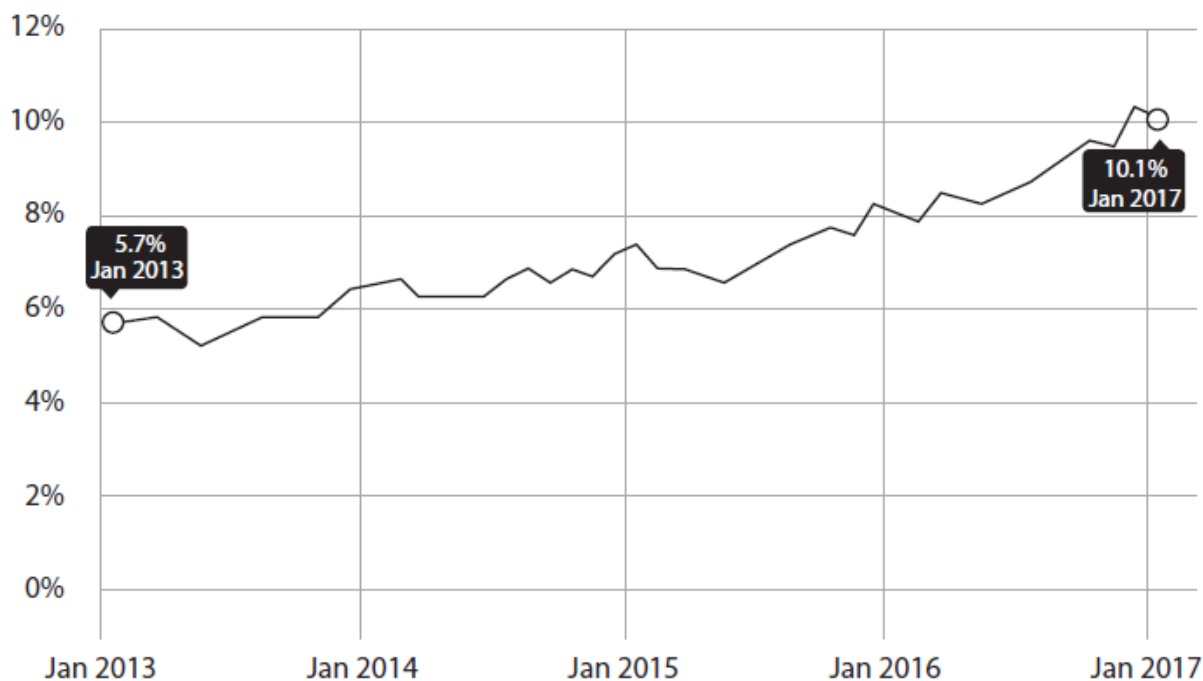
Health provision

Figure 1: National Health Service (NHS) in England: Government spending and projected funding gap, £ billions, 2015 to 2020



(Source: <https://www.economist.com/news/britain/21706563-nhs-mess-reformers-believe-new-models-health-care-many-pioneered>)

Figure 2: Percentage of NHS patients in England waiting over 18 weeks for non-emergency treatment



(Source: <https://www.statista.com/chart/8813/more-and-more-people-made-to-wait-by-the-nhs/>)

Extract A

Hospitals already full

National Health Service (NHS) managers' warned that bed occupancy rates are approaching 99% in some parts of the country, compared with recommended levels of 85%. In 2017 the number of patients waiting for non-urgent treatment passed the four million mark, the highest figure for almost a decade.

5

The chief executive of the NHS suggested that waiting list targets for routine operations such as hip and knee replacements would have to be sacrificed in order to protect other services, including accident and emergency (A&E) and cancer care.

However, the government has insisted waiting time targets must still be met. Recently the Chancellor awarded the NHS £2.8 billion over three years, including £1.6 billion in 2018 - less than the £4 billion which NHS officials had asked for to keep up with an ageing population and new medical technologies.

10

NHS managers said there was now very little spare capacity in the system, warning of shortages of paramedics, doctors, A&E consultants and nurses.

(Source: adapted from <http://www.telegraph.co.uk/news/2017/12/07/hospitals-already-full-bursting-pressures-mount-warn-nhs-chiefs/>)

Extract B

How health care is funded

Most countries have a mixed economy of health provision typically funded from taxation, patient fees and private health insurance.

The NHS was launched in the UK in 1948 to ensure direct state provision by the government of health care 'free at the point of use'. The NHS is mainly funded from general taxation. However, some NHS patients pay for some of their medical care, such as prescriptions to buy medicine. 5

In the ongoing debate about how best to fund the NHS, some people have proposed introducing a £12 charge for visiting a General Practitioner (GP) doctor. Proponents argue that such a charge would deter overuse of GP services by those who do not have genuine health needs. It would also raise additional money for the NHS and create incentives which will stimulate innovation and more choice. 10

Estimates suggested that a £12 charge on the 450 million visits a year to GPs could have raised enough to cover hospitals' overspend in 2016. Based on exemptions for prescriptions, 90% of patients will not be charged including the elderly, children and low income groups. There would also be administrative costs of collecting the charge and verifying exemptions. These arrangements would significantly reduce the amount a charge would generate, assuming no one paying would be dissuaded from visiting their GP. 15

The proportion of people in the UK taking out private health insurance (PHI) to pay for private health care has increased to 10.6%, despite significant increases in the prices of treatment in private hospitals. Some economists argue that the government should provide subsidies to encourage people to take out private health insurance. This would reduce the burden on the NHS by taking some people out of the state system. Furthermore it is argued that private health care increases choice for users, encourages competition and drives up standards of care. 20 25

A typical PHI policy for a healthy 35-year-old costs about £650 a year but this rises steeply to £2 300 for those aged 70, when claims are far more likely. The level of contribution is based on their risk of requiring health care. PHI also tends to incur high management and administrative costs due to the resources required to assess risk and claims. Also there is the possibility of market failure given asymmetric information. 30

(Source: adapted from <https://www.kingsfund.org.uk/publications/how-health-care-is-funded>)

Extract C

Public parks are a public good

Public parks are places which people can use for free to exercise or to relax. Parkrun Limited organises free weekly runs in local parks attracting hundreds of joggers per park to enjoy healthy exercise. The government is proposing to ban local authorities charging Parkrun for the use of public parks to fund the maintenance of public parks. The government considers that it is appropriate for the public to pay a reasonable sum for the private use of a facility such as a tennis court or a football pitch which may be used exclusively. However, the government does not consider it appropriate for a local authority to charge a volunteer community group 'seeking to provide a free weekly event' for the use of a public park. Parkrun share the park with other park users. Although a running course may be marked out there is no restriction on other people using the park. 5 10

(Source: adapted from © Crown Copyright Running Free – Government consultation on preserving the free use of public parks, April 2017, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/608372/Parkrun_ConDoc.pdf and <http://www.telegraph.co.uk/news/2017/04/14/councils-banned-charging-runners-take-part-regular-saturday/>)

(a) With reference to Extract A and Figure 2, explain how the health care market in the UK illustrates the economic problem.

(5)

(b) Explain how 'asymmetric information' (Extract B, line 30) can lead to market failure in health provision.

(6)

(c) 'Public parks are a public good' (Extract C, line 1). Assess this statement.

(10)

(d) Calculate the annual revenue raised by charging £12 per GP visit. Assume there will be 450 million GP visits per year and 90% of these will not be charged. You are advised to show your working.

(4)

(e) Discuss likely reasons why the prices of treatments in private sector hospitals are increasing. Draw a supply and demand diagram to support your answer.

(15)

EITHER

(f) Evaluate possible ways the government could intervene to reduce the excess demand for state-funded health care.

(20)

OR

(g) Evaluate the possible disadvantages of a free market approach to providing health care.

(20)

(Total for question = 60 marks)

Q6.

Read Extracts A and B and Figure 1 before answering the question.

The market for fish

Extract A

Total allowable catches of North Sea cod halved in response to falling stocks

In 2020, new lower limits on the quantity of cod that can be caught by the UK fishing fleet came into force. These limits on the fish catch, called total allowable catches (TACs), were agreed at the annual EU fisheries negotiations.

It was the last December EU meeting attended by the UK before it left the EU. It was agreed that cod catch limits will be cut by 50% in the North Sea, while reduced limits were agreed for cod in the Celtic Sea, Irish Sea and west of Scotland.

However, there were increases for other types of fish, with TACs for haddock in the North Sea rising by 23% and for sole rising by 19%.

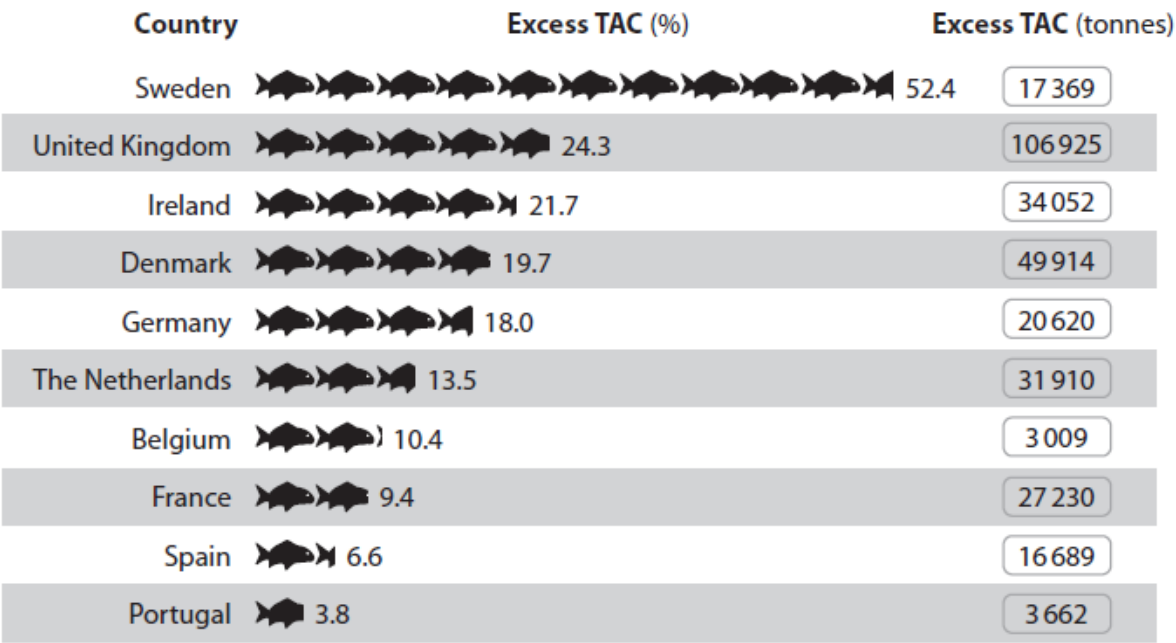
UK Fisheries Minister George Eustice said: "This year there has been mounting scientific evidence suggesting that cod is being overfished in many parts of the northeast Atlantic and we have responded to conserve stocks".

These new regulations applied to the UK while it remained part of the Common Fisheries Policy. In the future it will become an independent coastal state and negotiate on fisheries with the EU and other coastal states such as Norway.

(Source adapted from: <https://www.independent.co.uk/news/business/news/north-sea-cod-stocks-quota-climate-change-brexit-a9252196.html>)

Figure 1

Atlantic over-fishing: share of total allowable catch (TAC) in excess of scientific advice (2019)



(Source adapted from: Statista 2018)

Extract B

The tragedy of the commons

The 'tragedy of the commons' may occur when there are common access resources (CARs). These are natural resources over which no private ownership has been established. Therefore, there are difficulties in excluding people from using or exploiting them. CARs include fisheries and common grazing lands. Oceans are so vast that it is impractical for one fishing company to establish ownership and control. This means that others cannot be prevented from exploiting the ocean. Economists have suggested that with the lack of ownership of these resources, private producers will act in their own self-interest and exploit CARs to maximise profit. This exploitation is unsustainable. In other words, CARs provide an opportunity for individuals to create profit, while creating negative externalities which impact on everybody else. This process is referred to as the 'tragedy of the commons'.

The 'tragedy of the commons' is at the core of a range of problems that are relevant and threatening to natural resources, environments and human health. In the case of overfishing, fishing companies are not made accountable for the state of the ocean. They continue to fish as much as possible to maximise profit. Today, 90% of fish stocks are depleted.

The reason for such a wide range of problems is because there is an environmental cost for everything. The 'tragedy of the commons' is the outcome of the fact that every resource is limited on this planet, coupled with the rising level of demand for these resources. These issues are large-scale and require laws, regulation and international cooperation.

(Source adapted from: <http://felixonline.co.uk/articles/2019-12-09-tragedy-commons-drama-planet-not-enjoying/>)

(a) Explain the likely impact of the new 2020 TACs on the price of cod. Include a supply and demand diagram in your answer.

(5)

According to Extract B, lines 15–16, 'fishing companies are not made accountable for the state of the ocean. They continue to fish as much as possible to maximise profit'.

(b) Assess whether it is rational for fishing companies to behave in this way.

(10)

(c) With reference to the information provided and your own knowledge, explain **two** characteristics of private ownership in a free market economy.

(6)

Fish and chips are complementary goods with an estimated cross elasticity of demand of -8. Currently 950 000 bags of chips are sold in UK fish and chip shops each day.

(d) With reference to the information provided, calculate the new quantity demanded of bags of chips from fish and chip shops, following a 2% increase in the price of fish. You are advised to show your working.

(4)

The UK fishing industry employs about 24 000 people, more than half of them working in Scotland.

(e) Discuss the likely impacts on an economy of specialising in the fishing industry. Use a

production possibility frontier diagram in your answer.

(15)

EITHER

(f) Some economists suggest that the market price of cod does not result in the socially optimum level of output. Evaluate the likely external costs from the over-fishing of cod. Use an appropriate diagram in your answer.

(20)

OR

(g) Other than using a TAC, evaluate the policy options which could be used to reduce market failure resulting from over-fishing. Use at least one appropriate diagram in your answer.

(20)

(Total for question = 60 marks)

Q7.

Statement 1: Cuba has a healthcare system with a patient to doctor ratio of 155:1.

Statement 2: Other countries ought to adopt a similar healthcare system to that which exists in Cuba.

(a) Which **one** of the following best describes the two statements above?

(1)

	Statement 1	Statement 2
☐ A	Normative	Normative
☐ B	Normative	Positive
☐ C	Positive	Normative
☐ D	Positive	Positive

(b) Cuba's population is estimated to be 11 million. With reference to Statement 1 above, calculate the estimated number of doctors in Cuba. You are advised to show your working.

(2)

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(c) Define the term 'command economy'.

(1)

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(Total for question = 4 marks)

Q8.

In February 2016 the Daily Mail newspaper increased its price from 60p to 65p.
By August 2016 its sales had fallen by 5.41%.

(a) Ceteris paribus, calculate the price elasticity of demand for the Daily Mail newspaper over this period. You are advised to show your working.

(2)

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(b) Which **one** of the following is most likely to be a determinant of price elasticity of demand for the Daily Mail newspaper?

☐ **A** Availability of rival newspapers

☐ **B** Change in population size

☐ **C** Decrease in the cost of producing the Daily Mail newspaper

☐ **D** Expected rise in the price of the Daily Mail newspaper

(1)

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(Total for question = 4 marks)

Q9.

The British Broadcasting Corporation (BBC) is a TV broadcaster. It is financed through an annual TV licence fee of £145.50. At this fee level many TV owners benefit from consumer surplus.

(a) Define the term 'consumer surplus'.

(1)

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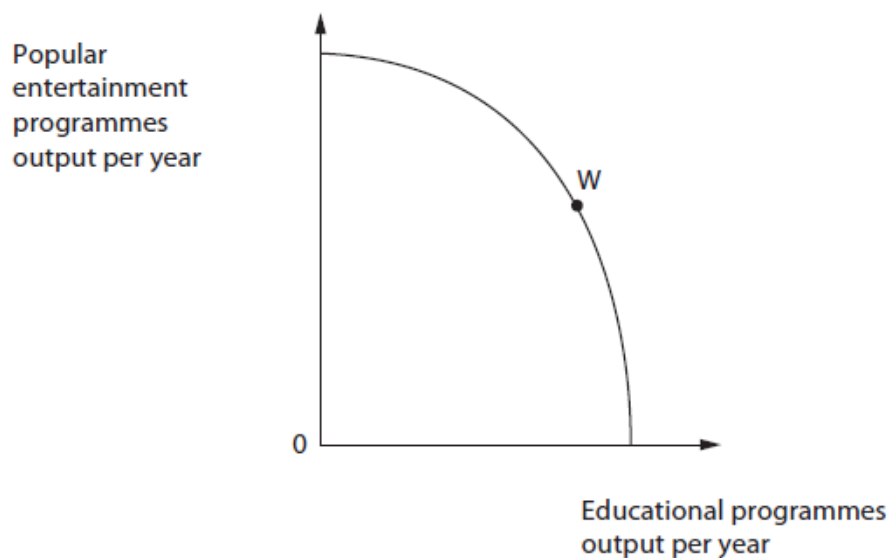
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(b) The diagram shows the production possibility frontier for the BBC. Assuming the BBC is at point W, annotate the diagram to show the opportunity cost of providing more educational programmes.

(2)



(c) BBC programmes are often referred to as being public goods. This is because:

(1)

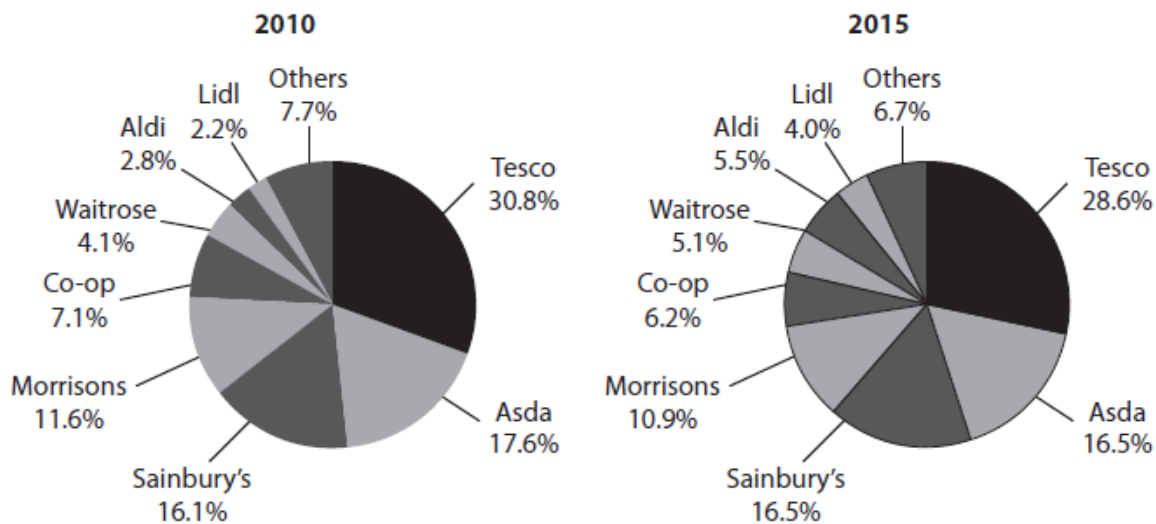
- ☐ **A** all BBC programmes are financed by the public sector
- ☐ **B** the BBC is the most popular broadcaster in the UK
- ☐ **C** the consumption of these programmes is non-rivalrous
- ☐ **D** there are external benefits from the consumption of many BBC programmes

(Total for question = 4 marks)

Q10.

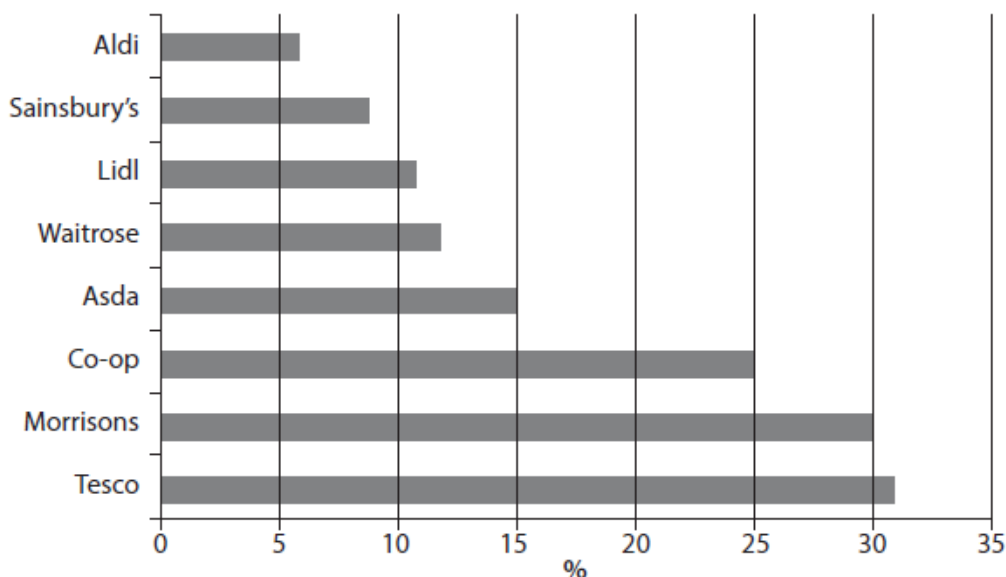
Supermarket price war, food waste and possible mergers

Figure 1: Market shares by total revenue in the UK supermarket sector, 2010 and 2015



(Source: Kantar worldpanel, <http://www.kantarworldpanel.com/en/grocery-market-share/great-britain/snapshot/11.10.15/>)

Figure 2: Proportion of food suppliers reporting that the following supermarkets fail to meet the Groceries Code of Conduct, 2015.



(Source: YouGov poll of more than 1100 food suppliers to supermarkets. Reported in The Times, 23 June 2015)

Extract A

Supermarket price war puts pressure on their food suppliers

The number of food suppliers (to supermarkets) struggling to remain in business has increased by more than 50% over the past year as supermarkets engage in an intense price war. It has never been tougher for the UK's food suppliers according to a study by accountants Begbies Traynor. It blames aggressive price-cutting by the supermarkets and delays in payments to food suppliers as the main causes of the difficulties. Further problems include food suppliers being forced to pay excessive amounts for packaging specified by supermarkets and funding in-store promotions. Almost 90% of struggling food suppliers are small and medium-sized businesses.	5
The price war has contributed to food prices paid by consumers falling by 1.7% over the past two years.	10
The market shares of the big four supermarkets – Tesco, Asda, Sainsbury's and Morrisons – are under pressure as shopping habits change. Many consumers are switching from one main weekly shop to shopping more frequently at local discount stores such as Aldi and Lidl or purchasing goods online from other grocery retailers.	15
The big four supermarkets have responded by putting more pressure on their suppliers despite an investigation by the Groceries Code Adjudicator (GCA). The GCA has the power to fine supermarkets up to 1% of their annual sales revenue if they break the Groceries Code of Conduct. A YouGov study found considerable differences between the supermarkets in meeting the Code with Aldi performing well but Tesco badly. Despite the Groceries Code, many food suppliers are reluctant to complain for fear of losing contracts with the supermarkets.	20
(Source: adapted from 'Supermarket price war takes toll on UK food suppliers'. Rupert Jones, The Guardian, 20th July 2015)	

Extract B

Food waste in the supply chain

A report from the British Retail Consortium reveals that supermarkets are directly responsible for around 0.2 million tonnes of food waste every year. This is due to the expiry of use-by-dates and poor handling of stock.	
However, 4.1 million tonnes of food waste occurs annually in the food supply chain before it even reaches the supermarkets, indicating the existence of information gaps. The supermarkets are cooperating with food suppliers and farmers to try to reduce this waste. This involves improving forecasts for supply and demand of food and increasing the reliability of transportation and storage.	5
Consumers, the final stage of the supply chain, waste a further 7 million tonnes of food each year. This suggests irrational behaviour. Supermarkets are also working with consumers to reduce the waste by providing advice on how to store and use leftover food. The development of packaging designs to keep food fresher for longer is one of the innovations under way to reduce waste.	10
(Source: adapted from 'Supermarkets tally up food waste bill'. Will Nicholls, in Businessgreen, 19th January 2015. http://www.businessgreen.com/bg/news/2390792/supermarkets-tally-up-food-waste-bill)	

Extract C

Proposed merger activity in the supermarket sector

Analysts at Société Générale, an investment bank, have recommended a merger between Sainsbury's and Morrisons. They claim it would lead to increased economies of scale and market power for the combined business. Such a merger between the third and fourth largest supermarkets in Britain would have been unrealistic a few years ago due to concerns of its impact in reducing competition. However, the chances of getting permission from the Competition and Markets Authority have increased following the growth of Aldi and Lidl. Giant mergers have been approved in other sectors such as Lloyds-HBOS (banking) and British Telecom-EE (telecommunications). 5

The suggested merger would have its challenges. There is considerable overlap between the locations of the stores and the enlarged company would require the rationalisation and co-ordination of hundreds of thousands of employees. A new expensive IT system is likely to be required and the underlying difficult market trends would remain in the food retailing industry. 10

(Source: adapted from 'Tesco-bury and AS-Morrisons. Could Britain's supermarkets be about to merge?' Graham Ruddick, in The Telegraph, 16th December, 2015. <http://www.telegraph.co.uk/finance/newsbysector/retailandconsumer/11699724/Tesco-burys-and-AS-Morrisons.-Could-Britains-supermarkets-be-about-to-merge.html>)

(a) With reference to Figure 1 and Extract A, explain **one** likely reason for the change in the four-firm concentration ratio of the supermarket sector between 2010 and 2015.

(5)

(b) With reference to Figure 2 and Extract A, discuss the possible impact of supermarket monopsony power on both food suppliers and consumers.

(12)

(c) Examine measures the government might use to restrict the monopsony power of supermarkets.

(8)

(d) Assess the extent to which 'information gaps' (Extract B, lines 5 and 6) and 'irrational behaviour' (Extract B, line 11) are the main causes of food waste in the UK.

(10)

(e) Discuss the likely problems for Sainsbury's and Morrisons if the suggested merger between them goes ahead. Refer to Figure 1, Extract C and your own knowledge in your answer.

(15)

(Total for question = 50 marks)

Q11.

(a) With reference to Extract A, explain how migration out of Poland into Britain may affect the Polish production possibility frontier. Use an appropriate diagram in your answer.

(5)

(b) With reference to Extract A, assess **two** factors which might affect the geographical mobility of labour in the EU.

(10)

(c) Discuss the likely benefits of increased immigration from Eastern Europe for employers in the UK.

(12)

(d) Examine the likely reasons Hanson chose to grow 'through a number of mergers, to become one of the world's biggest companies' (Extract C lines 18 and 19).

(8)

(e) Discuss the likely impact of the demerging of conglomerates on efficiency.

(15)

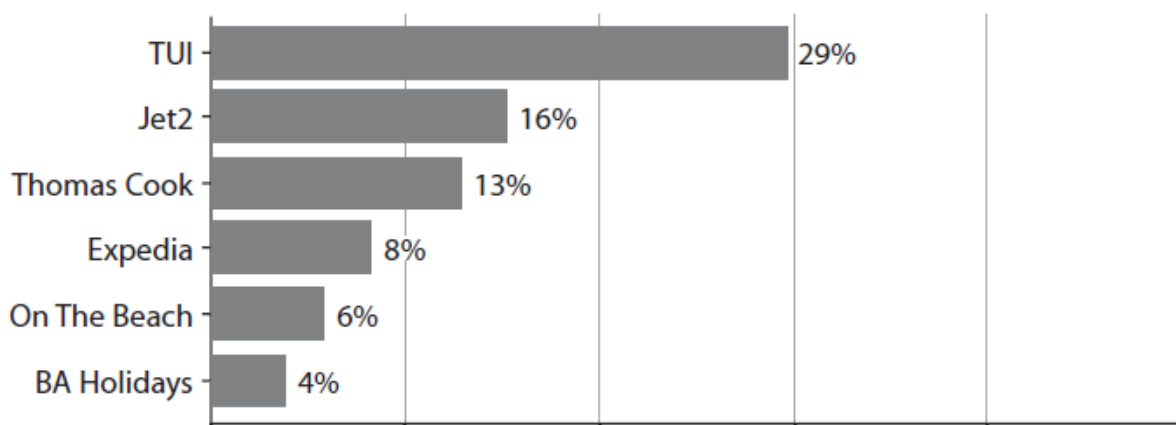
(Total for question = 50 marks)

Q12.

Read Figures 1 and 2 and the following extracts (A to C) before answering this question.

The travel and tourism industry

Figure 1: Package holiday market share of the six largest providers, booked by UK residents, 2019



(Source adapted from: <https://knowledge.sharescope.co.uk/2019/10/16/finding-companies-that-control-their-own-destinies/The Times/ATOL>)

Figure 2: Jet2 package holiday prices to Sorrento

Price before Thomas Cook shutdown	Price 12 hours after Thomas Cook shutdown
2 Adults for 7 Nights from Monday 25 May 2020 🍴 Half Board 🛏 1 x Premium Double or Twin room ✈ Return flights from Edinburgh View flight times 🧳 22 kg Bag Allowance 🧳 10 kg Hand Baggage 🛡 ATOL Protected 🚗 Coach Transfers	2 Adults for 7 Nights from Monday 25 May 2020 🍴 Half Board 🛏 1 x Premium Double or Twin room ✈ Return flights from Edinburgh View flight times 🧳 22 kg Bag Allowance 🧳 10 kg Hand Baggage 🛡 ATOL Protected 🚗 Coach Transfers
Holiday price from £1,576 Per person price £788	Holiday price from £1,648 Per person price £824

Data accessed: 22nd and 23rd September 2019

Extract A

Marginal productivity of cabin crew

Cabin crew are responsible for loading passengers and providing in-flight meals. United Airlines is planning to reduce the number of its cabin crew members onboard international flights. The airline currently operates its planes with one more cabin crew member than its competitors. The marginal productivity of this additional crew member may be low. By reducing the number of its cabin crew members United Airlines will be able to operate more efficiently and compete more effectively.

5

(Source adapted from: <https://simpleflying.com/united-airlines-to-reduce-number-of-crew-on-international-flights/>)

Extract B

Thomas Cook's environmental impact

Thomas Cook Group plc's operations included its airline and 560 high street travel agents providing flights, hotels and package holidays.

The environmental impact of the travel industry is significant. It accounts for 8% of all global carbon emissions. Thomas Cook recognised the risks presented by climate change and actively engaged in reducing their airline emissions. Its plans included using more efficient aircraft and using lower-carbon fuel. In 2018, Thomas Cook was included in the top 10 of the world's most fuel-efficient airlines.

5

(Source adapted from: https://www.thomascookgroup.com/investors/insight_external_assess/Thomas+Cook+Sustainability+Report+2018.pdf)

Extract C

Why did Thomas Cook shut down?

Thomas Cook Group plc ceased trading on 23 September 2019. The collapse of Thomas Cook left 600 000 travellers stranded overseas and approximately 21 000 worldwide employees were left without a job.

Thomas Cook's management said that the failure of rescue talks between banks, shareholders and the UK Government meant it had no choice but to shut down the business.

5

But in truth the tour operator's problems go back much further. A disastrous merger in 2007, increased debts, the internet revolution in holiday booking and Brexit uncertainty all contributed to the failure of the business.

10

In 2007 it merged with MyTravel. Thomas Cook directors had an objective of rapid company growth over short-term profitability. The merger was supposed to create a European giant, promising £75 million-a-year cost savings and a springboard to challenge emerging internet rivals. In reality, Thomas Cook was merging with a company that had only made a profit once in the previous six years, and the deal left the Group with huge debts. In May 2019, the firm reported a £1.5 billion loss.

15

The role of the management in Thomas Cook's collapse is being investigated by the UK Government. Thomas Cook executives' salaries and bonuses have been questioned. Directors received salaries totalling £20 million in the five years before its collapse. The Chief Executive Officer (CEO) earned a £500 000 cash bonus in 2017 and about £8.5 million in his five years with the company. It seems that around £4 million of this was in the form of shares. The share price reached £1.46 in 2018, but each share is now worthless.

20

The CEO said that the directors had worked "exhaustively" to rescue Thomas Cook and create a long-term turnaround strategy. "It is a matter of profound regret to me and the rest of the board that we were not successful."

25

The UK prime minister admitted that the government refused to grant £150 million as a subsidy to help rescue Thomas Cook in the short run. The UK prime minister stated: "Clearly, that is a lot of taxpayers' money and sets up, as people will appreciate, a moral hazard in the case of future such commercial difficulties that companies face. I have questions about whether it's right that the directors, or whoever, the board, should pay themselves large sums when businesses can go down the tubes like that. One is driven to reflect on whether the directors of these companies are properly incentivised to sort such matters out".

30

(Source adapted from: <https://www.theguardian.com/business/2019/sep/23/thomas-cook-as-the-world-turned-the-sun-ceased-to-shine-on-venerable-tour-operator>
and <https://www.ft.com/content/a7dd2554-de23-11e9-b112-9624ec9edc59>)

(a) Explain the likely impact of diminishing marginal productivity of labour on cabin crew staffing levels. Refer to Extract A in your answer.

(5)

(b) Examine the likely impact of Thomas Cook's plan 'to reduce their airline emissions' (Extract B, line 6) on the social optimum position. Use an appropriate externalities diagram in your answer.

(8)

(c) With reference to Extract C, assess whether Thomas Cook's failure was caused by the principal-agent problem.

(10)

(d) With reference to Extract C, discuss the proposed government subsidy to prevent Thomas Cook from reaching its shut-down point.

(12)

(e) With reference to the information provided, discuss the decision by Jet2 to increase its package holiday prices.

(15)

(Total for question = 50 marks)

Q13.

Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

In 2016, the insurance group Esure undertook a demerger with its GoCompare price comparison website.

(a) The most likely reason for this demerger was to:

(1)

- ☐ **A** benefit from external economies of scale
- ☐ **B** benefit from internal economies of scale
- ☐ **C** focus more on its core business
- ☐ **D** increase its market share

Following the demerger, GoCompare announced in 2017 a profit of £17.5 million, up 21.5% on 2016. Total revenue in 2017 was £75.8 million, up 4.1% on 2016.

(Source: adapted from <https://www.insuranceage.co.uk/insurer/3107496/profits-up-at-go-compare>)

(b) Calculate, using the information provided, the total costs of GoCompare in **2016**.

(4)

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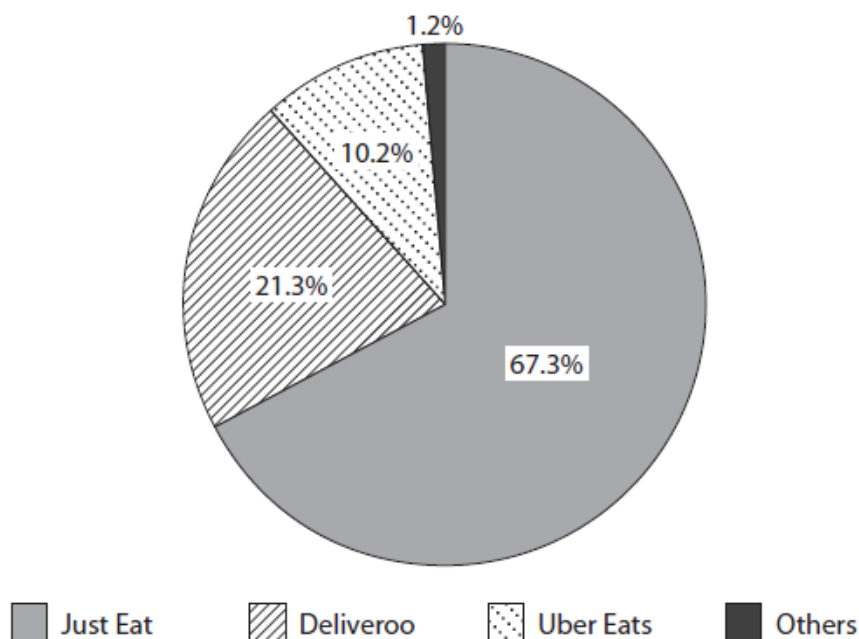
(Total for question = 5 marks)

Q14.

Read Figure 1 and the following extracts (A to C) before answering this question.

The food delivery industry

Figure 1: Market share for third-party food delivery services in the UK, 2019



(Source: adapted from <https://onefourzerogroup.com/the-takeaway-takeover/>)

Extract A

National Minimum Wage rises are more significant for 23 to 25-year-olds

In 2021, the National Minimum Wage main rate, also known as the National Living Wage, rose by 2.2% to £8.91, following a 6.2% rise in 2020. By reducing the age at which people are eligible for the National Living Wage to 23 in 2021, it is estimated that an additional 7.5% of 23 to 25-year-olds could get a 71p an hour pay rise. This amounts to an 8.7% increase, which may cause further financial worries for employers.

5

(Source: adapted from https://www.ndna.org.uk/NDNA/News/Latest_news/2020/Minimum_wages_to_rise_by_inflation_in_April.aspx)

Extract B

What is the true cost of the food delivery service?

The food delivery industry has boomed in recent years. Just Eat, Uber Eats and Deliveroo all offer very similar services – third-party food delivery firms that take up to 30% of the price of restaurant meals and deliver them to customers within a certain radius. The average spend per customer is around £15 with a £5 delivery fee, about five times more expensive than cooking at home and the same price as eating in the restaurant. Cash rich, time poor professionals increasingly turn to food delivery. 5

Food delivery comes with many layers of packaging. In the UK, there are 200 million meals annually with around 1.4 billion individual pieces of plastic for heat retention and protection when travelling, but does it really have to be plastic? People tend to order more food, often high in fat, sugar and salt, and don't even have to get up from their sofa. 10

But there are concerns that the delivery firms are exploiting employees who have no alternative. There is an issue of low pay and informal contracts. Delivery drivers are classed as 'independent contractors', and therefore not subject to some employment rights including a guaranteed minimum wage, sick pay, pensions or holiday pay. Drivers are paid either a flat hourly rate, or a fee per delivery. Factors such as delivery distance, speed, how busy it is and whether there are multiple drop-offs are all factored into how much a driver is paid. Deliveroo says its wages amount to around £10 per hour, but drivers say that during 2020 their pay has been as low as £1 per hour. Drivers are not paid extra for petrol or to maintain their vehicles. Many drivers are recent immigrants or students, who do not have property or savings to fall back on. 15 20

The government could address this with widening minimum pay legislation to contracted workers, by setting codes of practice, or by setting recommended wage targets. Furthermore, there are health and safety issues for workers. Vehicle safety checks, length of shifts and safety equipment are of concern. However, there are still people who take benefit from working flexibility. 25

(Source: adapted from <https://www.theguardian.com/australia-news/2020/oct/25/home-food-delivery-what-is-the-most-ethical-way-to-order-in> and https://digitalcommons.molloy.edu/cgi/viewcontent.cgi?article=1043&context=bus_fac)

Extract C

Integration in the third-party food delivery industry

The Competition and Markets Authority (CMA) is watching carefully to prevent any one firm having complete control of the food delivery industry. Just Eat, the market leader, agreed to merge with successful Dutch firm Takeaway.com in 2020, creating a new European leader by revenues. It also bought Grubhub in the US, with 20 million active users. Just Eat uses an aggressive pricing strategy, undercutting delivery fees below the average cost of other firms in the market, that will force them to merge in order to gain some economies of scale. 5

Amazon, having failed with its own delivery company Amazon Restaurants in 2018, has bought 16% of Deliveroo. The CMA took over a year to agree to the partial integration, on the argument that Deliveroo would close down without external investment. 10

Amazon has unique expertise in marketing, increasing customer share and, most importantly, efficiency in delivering things. Food delivery is often uneconomical because a single household puts in a single order from a single restaurant at any one time. Tech companies such as Amazon can improve the business: once a meal has been ordered, an app often moves that restaurant to the top of the rankings for that neighbourhood, in the hope of getting a second and third delivery. 15

So why do restaurants turn to these delivery firms? The sheer volume of customers these delivery firms can hold makes it a difficult deal to turn down. But resentment from small business restaurant owners, angry at being wholly dependent on tech companies, is growing. Most restaurants would prefer that customers come in and pick up their orders themselves because they do not have to pay the 30% commission. Restaurant profit margins are small, and the effects of a 20% fall in the external value of the pound since 2016 on food costs are significant, given that over half of their food and drink is sourced outside the UK. 20
25

(Source: adapted from <https://www.ft.com/content/c20f6848-3c4b-11ea-a01a-bae547046735>
<https://www.ft.com/content/edf8a144-a101-4ef8-80e3-7d2f1565d35c>
and <https://www.thisismoney.co.uk/money/markets/article-8138703/Uber-set-sell-takeaway-division-rival-Deliveroo-two-years.html> and
<https://www.ft.com/content/c20f6848-3c4b-11ea-a01a-bae547046735> and
<https://www.ft.com/content/bed7c4d8-28c1-11ea-9a4f-963f0ec7e134> and
<https://www.economist.com/1843/2021/01/26/gulp-the-secret-economics-of-food-delivery>)

(a) Using the information provided, explain **one** externality that arises in the food delivery market.

(5)

(b) With reference to Extract B, examine whether the demand for delivered food is price inelastic **and** income elastic.

(8)

(c) With reference to Extract C, discuss the likely effects of increasing integration within the food delivery market.

(12)

EITHER

(d) Evaluate the microeconomic and macroeconomic effects of a depreciation of the pound. Refer to restaurants or other food delivery services in your answer.

(25)

OR

(e) Evaluate the microeconomic and macroeconomic effects of significant increases in the minimum wage. Refer to restaurants or other food delivery services in your answer.

(25)

(Total for question = 50 marks)

Q15.

Read extracts A and B before answering this question.

Hand car wash (HCW) firms in the UK

Extract A

What is the true human cost of your £5 hand car wash (HCW)?

The UK's hand car washes (HCWs) are extremely price competitive, but they have also been linked to modern slavery. Are they ever fair for workers?

There is little agreement about how many HCWs there are in the UK. Estimates range from 10 000 to 20 000. This lack of accurate information about the industry makes government regulation very difficult. Automated car washes, with their fierce rotating bristles, used to be the first option for drivers in a hurry. Now there is more choice. While the economy slows and incomes fail to keep up with inflation, demand for HCWs has grown. Many people see paying £5 for a car washed by someone else, rather than cleaning it at home, as a small expense which yields a high utility. But what is the true cost of a £5 car wash – and what should we be paying?

The growth of HCWs is partly the result of changes in the structure of industry in the UK. Many petrol stations have closed as drivers fill up at supermarkets. Garages and their forecourts have closed as cars become more reliable and locked into service agreements. The available sites for HCWs have therefore increased significantly and rents have fallen.

HCW entrepreneurs have identified available land and have benefitted from changes in the labour market, partly as a result of EU migration. UK drivers are now able to obtain cheap and effective hand car washing. For many migrants, car washes are a first job. "They accept car washing for a short period while they improve their language skills and move into other industries," says Ian Clark, a professor of work and employment at Nottingham Business School. "But there are also car-wash workers without networks who are in a dead end, working there for long periods."

Many drivers are only interested in getting the cheapest wash. If the price is very low, it probably means that workers are receiving less than the minimum wage and working in poor conditions. Crude calculations illustrate the problem. A £5 HCW employing five workers for 10 hours a day would need to wash 79 cars a day to just cover the wage costs. This assumes the workers are paid the minimum wage. This is one car every seven and a half minutes. Even if the profit can be higher on valet services, the price of which can be as little as £12 for a full inside-and-out clean, it's hard to see how a car wash price as low as £5 pays a living wage. This ignores all other costs which HCWs incur such as business rates and rent.

Evidence from car-wash workers is limited but Clark and others have been able to build a picture of some of the tougher conditions on drenched forecourts. "Like nail bars and small garment manufacturers, car washes are what we call 'hard-to-reach places,'" Clark explains. As part of the research, Clark and his team spoke to workers from 45 HCWs in the Midlands.

Clark and his team met and observed workers who lacked waterproof boots or trousers, or hi-vis jackets and gloves. "They're spraying around hydrochloric acid solution for alloy wheels, breathing in the vapour and fumes," Clark says. Some workers were paid a little over half the minimum wage.

(Source adapted from: <https://www.theguardian.com/world/2018/jul/16/true-human-cost-5-pound-hand-car-wash-modern-slavery>)

Extract B

Government intervention in the HCW industry

There are three main areas of government intervention that might impact on labour intensive firms such as HCWs:

First, there is the planning issue which focuses on the impact on the environment, for example, the disposal and recycling of waste water and chemicals. There could be planning regulations to prevent the use of tarmac rather than concrete on forecourts. Tarmac allows waste water and chemicals to seep into the sub soil. It could also be a requirement to have a sludge trap to stop the waste entering waterways. 5

Second, there is the health and safety issue for workers. Prolonged exposure to chemicals and lack of protective clothing puts the health of workers at risk. Performance targets could involve minimum levels of protective clothing and rest breaks for the workers. 10

Third, there is the issue of tax. The informal nature of the business type makes tax evasion easier.

Not all UK HCWs violate regulations. There are legitimate, regulated HCW firms as well as examples of good practice by independent outlets. One national supermarket, Tesco, has banned all independent hand car washes from its car parks. It is now in a partnership agreement with national car wash operator Waves. It uses a WashMark certificate of quality and compliance which was introduced by the industry to improve working conditions. Other major supermarkets are considering similar changes. One adviser believes £9 is a reasonable minimum price for a basic wash. Some pressure groups have developed a mobile phone app where evidence of unreasonable conditions can be reported by drivers. 15 20

Involving drivers in the issue, and making them demand fairer car washes, creates an incentive for good businesses to improve practices and come forward to get a WashMark certificate. 25

(Source adapted from: <https://www.parliament.uk/documents/commons-committees/environmental-audit/Hand-Car-Wash-evidence.pdf> research into HCWs by Professor Ian Clark, Nottingham Business School May 2018)

(a) Using the information provided, explain the market structure that best describes the hand car wash (HCW) industry in the UK. (5)

(b) Examine **two** reasons why the demand for HCWs increases during a period when consumer 'incomes fail to keep up with inflation' (Extract A line 8). (8)

(c) Discuss the likely effects of changes in the level of migration on firms such as HCWs in the UK. Use a labour market diagram and the information provided to support your answer. (12)

EITHER

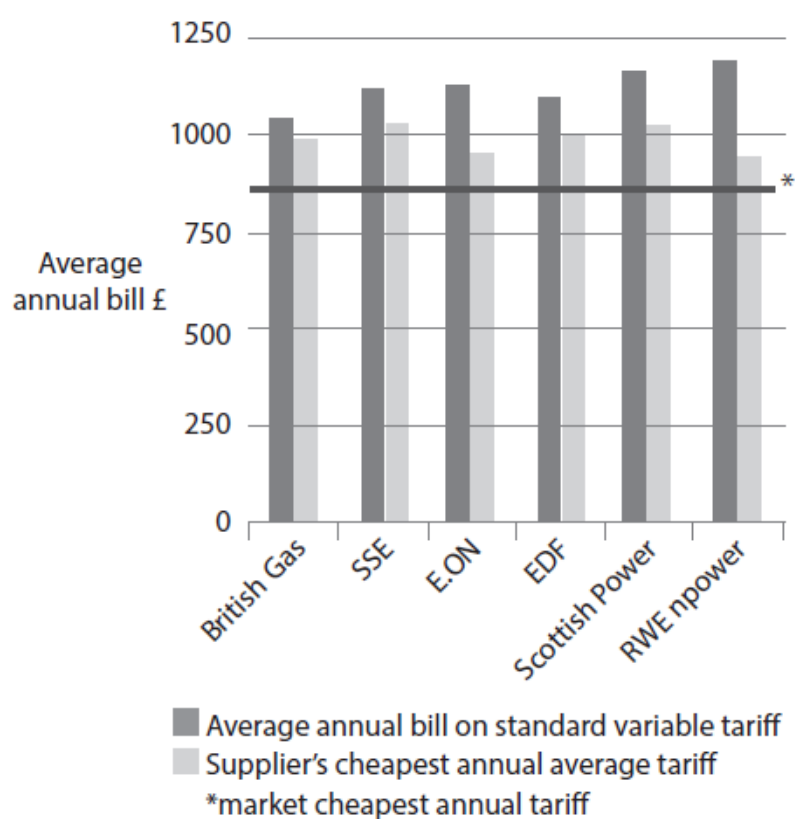
(d) Evaluate the microeconomic and macroeconomic factors which determine the number of firms in an industry. Refer to HCWs or another industry of your choice. (25)

OR

(e) Evaluate the microeconomic and macroeconomic effects of increased government intervention in an industry. Refer to HCWs or another industry of your choice.

(Total for question = 50 marks)

Q16.

Energy and telecommunication markets in the UK**Figure 1: Average annual household bill from the Big Six UK energy suppliers, 2017**

(Source: <https://www.lovemoney.com/news/67298/standard-variable-tariff-compared-cheapest-deal-provider-savings>)

Extract A**Energy price cap to fix 'broken' market in UK**

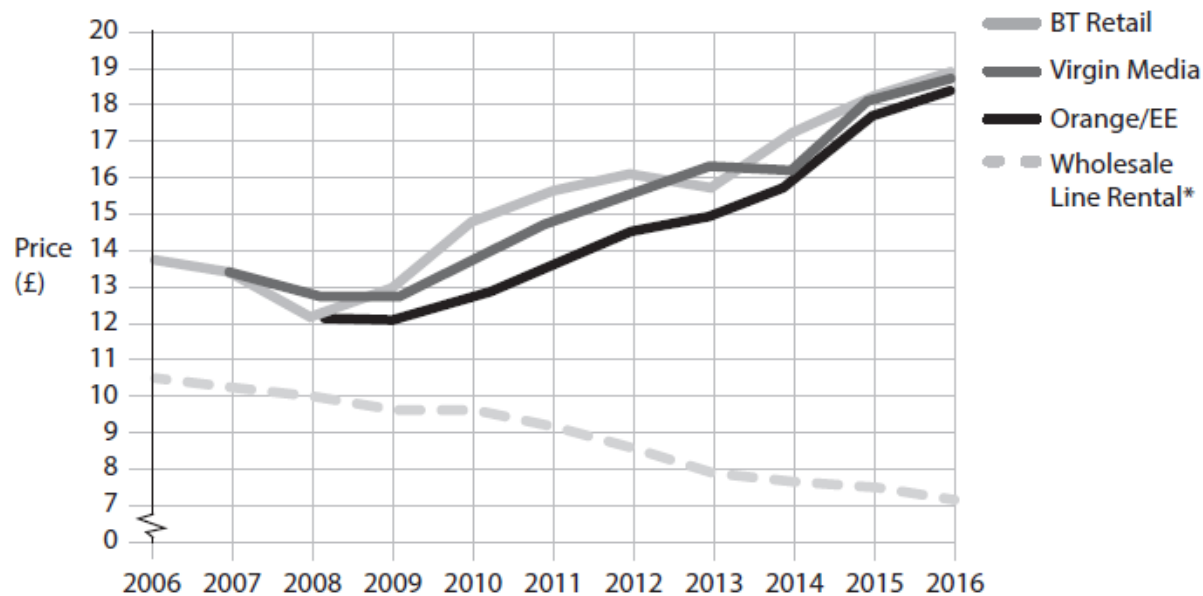
The Prime Minister recently said that the regulator Ofgem (Office of Gas and Electricity Markets) should limit electricity and gas suppliers' most expensive tariffs.

Under the planned new legislation, the energy bills of 11 million households will be capped for as long as five years. The government claimed this cap could save households up to £100 a year. This legislation would force Ofgem to change the licence conditions for energy suppliers so that they are required to cap electricity and gas prices. The measure will apply to anyone on a standard variable tariff, the expensive plans that customers are moved to when cheaper, fixed-price deals end. Ofgem will need to consult energy companies on how the cap is calculated, the government said. The Prime Minister repeated her claim that she had to act because the 'market is broken', a charge the big energy companies reject. "I have been clear that our broken energy market has to change – it has to offer fairer prices for millions of loyal customers who have been paying hundreds of pounds too much," she said.

However, Michael Lewis, chief executive of E.ON said "the government must guard against any unintended consequences that undermine customer service and push up prices as a whole. A price cap will not be good for customers. It will reduce competition and innovation". Smaller suppliers such as First Utility said the Big Six had only themselves to blame for the cap, because they had kept millions of people on standard variable tariffs.

(Source: adapted from 'UK puts energy efficiency at heart of climate change strategy', Adam Vaughan, Copyright Guardian News & Media Ltd 2017 <https://www.theguardian.com/money/2017/oct/12/may-energy-price-cap-ofgem-electricity-gas-tariffs>)

Figure 2: The monthly rental cost of a telephone landline



*Wholesale line rental – the rental price BT Openreach charges telephone service providers

(Source: <https://www.ofcom.org.uk/about-ofcom/latest/features-and-news/landline-prices-review>)

Extract B

BT profit rises

BT Group, which includes BT Openreach and BT Retail, reported a rise in profit as revenue increased following the integration of the consumer mobile business, EE. BT finalised the takeover of EE in August 2016, and the integration has resulted in BT controlling 35% of the mobile consumer market. The profit of the UK-based telecommunication group in its second quarter 2017 rose to £566 million. 5

BT Group chief executive Gavin Patterson said: “We will operate a multi-brand strategy with UK customers being able to choose a mix of BT, EE or Plusnet services, depending on which suits them best. The acquisition enables us to offer great value bundles of services and customers are set to be the winners as we compete for their business”. 10

(Source: adapted from www.marketwatch.com (Oct 27 – 2016) and <http://home.bt.com/news/bt-life/bt-to-retain-ee-brand-as-acquisition-confirmed-11364037422234>)

Extract C

BT to slash landline charges for 1 million customers

Rental charges for landline-only customers – households with a telephone-only contract but no BT broadband – will fall from £18.99 to £11.99 per month after the regulator attacked existing deals as ‘poor value for money’. This rental reduction will save a million landline-only customers £84 a year. 5

The regulator Ofcom (Office of Communications) said it stepped in because these bills for landline-only customers – nearly two-thirds of whom are over 65 – have “soared” in recent years. This is despite BT and other landline providers benefiting from significant cuts in the wholesale line rental cost of providing the service by BT Openreach. Many landline-only customers are elderly, and have been with BT for decades. Ofcom has focused on BT because it accounts for two-thirds of the UK’s 1.5m landline-only customers. 10

A spokesperson for Ofcom said “This position [of dominance] has allowed BT to increase prices without much risk of losing customers, and other providers have followed BT’s pricing lead. We expect BT’s price cut to mean other providers will follow suit”. Ofcom said that over three-quarters of BT’s landline-only customers have never switched provider, which has left them a prime target for price rises. The regulator said that all major landline providers have increased their line rental charges by between 23% and 47% in recent years, while their own costs for providing the service have fallen about 27%. Ofcom said it is also looking at measures to help people shop around for better deals with more confidence. 15 20

(Source: adapted from ‘BT to slash landline charges for 1m customers’, Mark Sweney, Copyright Guardian News & Media Ltd 2017 <https://www.theguardian.com/business/2017/oct/26/bt-to-slash-landline-charges-for-1m-customers>)

(a) With reference to Extract A, explain the difference between a positive statement and a normative statement.

(5)

(b) With reference to Extract B, examine the likely benefits to consumers of the integration between BT and EE.

(8)

(c) With reference to Extract C, assess possible reasons why many ‘landline-only’ customers do not switch to a cheaper telephone provider.

(10)

(d) Discuss **one** likely reason for the rise in BT's profit (Figure 2, Extracts B and C). Use a cost and revenue diagram to support your answer.

(12)

(e) Discuss methods of government intervention to protect consumers within the utilities markets, such as energy and telecommunications.

(15)

(Total for question = 50 marks)

Q17.

Extract A

West End ticket prices reach all time high

The price of West End theatre tickets in London has reached an all-time high. In the past year alone, up to January 2013, the average top-price ticket has risen by almost £10 and now stands at £81.05. In January 2013, London theatres announced record numbers of people wanting to buy tickets for shows. Costs of running the theatres have also risen because there are restoration costs to pay and energy costs have increased. This rise in costs is despite some of the theatres in the West End receiving subsidies. 5

(Source: adapted from 'West End theatre tickets more expensive than ever, says The Stage,' by Matt Trueman, *The Guardian*, 5 April 2013
<http://www.theguardian.com/stage/2013/apr/05/west-end-ticket-price-discrepancy>)

(a) Explain why the price of 'the average top-price ticket has risen by almost £10' (Extract A, line 2). Use a supply and demand diagram in your answer.

(5)

Extract B

Cineworld merger with Cinema City International (CCI)

The UK's biggest cinema chain by market share is to enter seven overseas markets through a £900m merger. Cineworld announced that it has agreed to merge with CCI which owns 100 multiplex cinemas in seven countries Bulgaria, Czech Republic, Hungary, Israel, Poland, Romania and Slovakia. The deal is expected to be promoted as a merger of equals although Cineworld is larger than its new partner. The planned merger with CCI follows a fall of 1% in the revenue earned by cinemas in the UK and Ireland in 2013 to £1.17bn. 5

In 2013, Cineworld was ordered by competition regulators to sell three cinemas following its takeover of the Picturehouse chain. This underlined the difficulty of finding new growth opportunities in the company's home market, which was one factor prompting a search for international expansion opportunities. 10

Cineworld's UK-based rivals have also grown overseas, with Odeon UCI having a presence in seven countries, while Canadian-owned Vue Entertainment has cinemas in Portugal, Taiwan, Germany and Denmark.

The combined group is to be run by CCI's chief executive, although other senior management will be drawn from the ranks of both companies and the board will have more Cineworld board members. 15

(Source: adapted from 'Cineworld Targets Europe With £900m Merger,' By Mark Kleinman, Sky News, 9th January 2014
<http://news.sky.com/story/1192823/cineworld-targets-europe-with-900m-merger>)

(b) Examine **two** reasons Cineworld plans to merge with CCI.

(8)

Adult (19–59 yrs)	£9.60
Child (2–14 yrs)	£6.80
Student (15–18 yrs)	£7.30
Senior (60+ yrs)	£7.30
Family of 4	£29.80

Figure 1

Cineworld (London) cinema ticket prices after 5pm

(c) With reference to Figure 1, discuss the likely impact of price discrimination on Cineworld's profit. Include an appropriate diagram in your answer.

(12)

(d) Apart from price discrimination, assess **one** pricing and **one** non-pricing strategy Cineworld could adopt to increase sales.

(10)

Extract C

Cineworld investigation by Competition Commission (competition regulator)

Cineworld had to sell cinemas in three towns after the Competition Commission (CC) concluded that its acquisition of the Picturehouse chain would lead to higher prices for customers in Aberdeen, Bury St Edmunds and Cambridge. While Cineworld operates mainly in large out-of-town-centre cinemas, Picturehouse's cinemas tend to be smaller and located in city centres.

5

The CC has concluded that the acquisition could lead to a substantial lessening of competition in the cinema market in Aberdeen, Bury St Edmunds and Cambridge – where Cineworld and Picturehouse face limited competition.

(Source: <http://www.competition-commission.org.uk/media-centre/latest-news/2013/aug/cineworld-could-have-to-sell-cinemas>)

(e) Discuss the likely impact of 'a substantial lessening of competition in the cinema market in Aberdeen, Bury St Edmunds and Cambridge' (Extract C, line 6–7).

(15)

(Total for question = 50 marks)

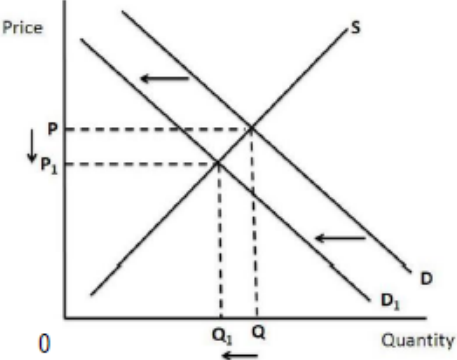
Mark Scheme

Q1.

Question Number	Answer	Mark
(a)	The only correct answer is C <i>A is not correct because the supply curve shift has been ignored</i> <i>B is not correct because this is the cost to the consumer</i> <i>D is not correct because this is the total amount received by the producer</i>	(1)

Question Number	Answer	Mark
(b)	Knowledge 1, Application 1, Analysis 1 Knowledge/Understanding 1 mark for identification of opportunity cost e.g. the next best alternative forgone. Application 1 mark for specific reference to government spending e.g. schools and hospitals. Analysis 1 mark for analysis of problem e.g. the economic and social case for a subsidy should be judged carefully on the grounds of efficiency and fairness. Government subsidies inevitably carry an opportunity cost and in the long run there might be better ways of saving energy.	(3)

Q2.

Question Number	Answer	Mark
(a)	Knowledge 1, Application 2, Analysis 2 Knowledge 1 mark for definition of revenue or may identify clearly in diagram (1) Application 1 mark for using source data or linking ban to reduced consumption (1) and 1 mark for diagrammatic link to change in revenue (1), e.g. • "can reduce tobacco consumption" (1) leading to decreased revenue as shown in diagram (1) Analysis Diagram showing demand shifts left or becomes less price inelastic (1) and new equilibrium (1) 	(5)

Question Number	Indicative content	Mark
(b)	Knowledge 2, Application 2, Analysis 2 • Application – price of e-cigarettes per nicotine cheaper • Data on PED suggests some rational response to price change e.g. 10% rise causes 4% fall in demand (Extract A) Reasons rational • Smokers computationally aware of financial gains of switching • Smokers informed of private health gains (Extract B Paragraph 2) • Reducing health external costs e.g. passive smoking(Extract A L15) • Smokers aware that regulations will increasingly make it difficult for them to gain utility of nicotine consumption through tobacco smoking NB Reasons for/against being rational may be presented as either KAA or EV	(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
(b) continued	Evaluation 4 Reasons against being rational • Smokers lack information and computational skills to accurately assess full costs and benefits of switching. May underestimate long-term gains of switching (bounded rationality) • Information overload • Both products contain nicotine which is addictive and habit forming. • If e-cigarettes were not available they may quit smoking altogether • Switch may be only short-term (impulse buying) • E-cigarettes complements tobacco smoking resulting in an overall increase in nicotine consumption • PED for tobacco remains lower than e-cigarettes so a price rise in the latter may result in a switch back • Peer pressure (herd mentality) pushing smokers to make the switch	(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 chains of reasoning and appropriate reference to context. Evaluation is balanced and considers the broad elements of the question.

Question Number	Answer	Mark
(c)	Knowledge 2, Application 2, Analysis 2 Knowledge/understanding 1 mark each for any two of the following: - definition or formula of cross elasticity of demand (1) - tobacco cigarettes and e-cigarettes have a positive cross elasticity of demand (1) - understanding of substitute relationship e.g. similar products (1) Application 1 mark each for any two of the following: - e-cigarettes seen as less harmful so become more attractive compared to tobacco cigarettes (1) - tougher regulations and growing health awareness on tobacco (1) - they are substitutes because they offer nicotine (1) - applying cigarettes to diagram showing impact on e-cigarettes (1+1) - relative price differences e.g. Figure 1 or tax rises on tobacco (1) - use of numerical example e.g. a 10% rise in the price of tobacco cigarettes results in a less than 10% rise in demand for e-cigarettes Analysis Up to 2 marks for any one of the following in linked development OR two limited examples of analysis (1+1): - the increase in the price of traditional cigarettes is resulting in the change in quantity demanded of e-cigarettes increasing - consideration of whether distant or close substitutes - diagram showing relationship between price of one of the product and demand for the other - magnitude/time	(6)

Question Number	Answer	Mark
(d)	Knowledge 2, Application 2 2 marks for each correct answer, e.g. - High-income countries = -4% / $+10\%$ (1) = -0.4 (2) or 0.4 (2) - Low-middle-income countries = -5% / $+10\%$ (1) = -0.5 (2) or 0.5 (2) NB Award 1 mark for a correct formula as an alternative for substituting correct figures on up to one occasion.	(4)

Question Number	Indicative content	Mark
(e)	Knowledge 3, Application 3, Analysis 3 • Identification of determinants of price elasticity of demand • Application – PED tobacco cigarettes -0.35; PED e-cigarettes -1.9. Reasons why tobacco cigarettes being relatively price-inelastic, e-cigarettes relatively price-elastic e.g.: • habitual consumption • tobacco broadly defined • proportion of income spent on tobacco cigarettes lower than switching cost of buying reusable e-cigarette kit • number of close substitutes • tobacco addictive necessity, e-cigarettes luxury (not yet addicted to). NB to access Level 3 candidates need to consider tobacco and e cigarettes.	(9)

"Assess" was used as the command word for this question instead of "Discuss". In order to meet the expectations set out in the sample material the 10 mark level descriptors have been mapped on to the 15 mark levels as below on this one occasion. See Appendix 1 for full details.

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 link 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 or 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 applied appropriately to the broad elements of the question.

Question Number	Indicative content	Mark
(e) continued	Evaluation 6 • significance of determinant • e-cigarettes habit forming • tobacco cigarettes narrowly defined • proportion of income spent on tobacco cigarettes is rising • becoming closer substitutes • tobacco addiction waning as lost glamour and health warnings, e-cigarettes nicotine addiction. • longer term response to rising tobacco prices	(6)

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	Evaluative comments supported by chains of reasoning and appropriate reference to context. Evaluation is balanced and considers the broad elements of the question.

Question Number	Indicative content	Mark
(f)	Knowledge 4, Application 4, Analysis 6 Functions of the price mechanism to allocate resources: • rationing • incentive • signalling Market diagrams for tobacco and e-cigarettes, making use of supply and demand analysis. * Consumers with knowledge of the potential harm of cigarette smoking may quit smoking. * Smokers will maximise their private utility * Consumers will decide what is in their best interests * Reduction in smoking will happen automatically, without government intervention, as e-cigarettes become popular.	

	Candidates may refer to Adam Smith Consumers free to pursue own self interest Profit incentive will mean firms will want their consumers to live long – so move out of tobacco and into e-cigarette market. Without government regulations e-cigarettes market will be easier for new firms to enter thus improving competition. Competition between e-cigarette manufacturers to maximise profits will drive health improvements and lower costs making them more price competitive. Candidates may refer to Friedrich Hayek Resource allocation from tobacco to e-cigarettes will be brought about by market forces, which will be far superior to any state planning system. Individuals do not have perfect information on cigarettes but have the best knowledge of their own situation. The price mechanism acts as a communication network, markets are self-correcting. Government lacks sufficient information about everything happening in the cigarettes market to be able to make informed decisions.	(14)
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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 or superficial, two stage chains of reasoning only.
Level 3	7–10	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	11–14	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.

Question Number	Indicative content	Mark
(f) continued	Evaluation 6 Failings of the price mechanism • Information gaps • Asymmetric information • Externalities • Peer pressure ignores utility • Habit forming distorts utility Possible different disadvantages or approaches : * While consumers may maximise their private utility $MSC > MSB$, with explanation. e.g. passive smoking/health care costs * Without government intervention the oligopolistic/monopolistic power of cigarette firms, in the form of advertising and propaganda, will go unchecked Candidates may refer to Karl Marx Consumers exploited in past by misinformation on tobacco and due to being addictive they become dependent. Competition and the need to profit maximise will mean firms cut costs risking consumers health and increase prices thus reducing consumer surplus. Nature of free market is for powerful monopolies to emerge that can further exploit 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 leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
Level 3	5–6	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation is balanced and considers the broad elements of the question, leading to a substantiated judgement.

Question Number	Indicative content	Mark
(g)	Knowledge 4, Application 4, Analysis 6 Positive/negative effects of government intervention on tobacco cigarettes and or e-cigarettes with reference to market failure and using diagrams in various contexts: • Indirect taxation (ad valorem and specific) • Subsidies for tobacco replacements • Minimum cigarette price • Provision of information e.g. public health campaign • Regulation e.g. banning smoking in public places or advertising. • Direct provision – nicotine patches and e-cigarettes on NHS prescription Diagrams may be used to illustrate the above.	(14)

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 or superficial, two stage chains of reasoning only.
Level 3	7–10	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	11–14	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.

Question Number	Indicative content	Mark
(g) continued	Evaluation 6 Negative or unsuccessful impact of the intervention methods. Understanding of government failure as intervention that results in a net welfare loss – tobacco cigarette tax revenue exceeding tobacco related NHS expenditure. Causes of government failure: • Distortion of price signals – harm reduction instead of prevention, consuming e-cigarettes rather than quitting • Unintended consequences – e-cigarettes draw in new users acting as a gateway to smoking; regulating e-cigarettes protect tobacco from competition; tobacco smuggling • Excessive administrative costs – slow down e-cigarette innovation • Information gaps – little research on long term effects of e-cigarettes • Ineffective as PED <1; diminishing returns of tax and regulations. Price inelastic demand diagram. Other evaluation approaches include: • Consideration of the extent of government intervention e.g. could it be more regulated • Free market approach might be more effective • Depends on the country being considered • Short run and long run	(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 leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
Level 3	5–6	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation is balanced and considers the broad elements of the question, leading to a substantiated judgement.

Appendix 1

Part (e) directed candidates to "Assess" for 15 marks. In order to be in line with the support materials for this specification, this question should instead have directed candidates to "Discuss" for 15 marks. In order to ensure that all candidates received the fairest possible outcome, examiners were briefed on a levels-based marking structure for both command words. The body of the mark scheme includes the levels structure for the "Assess" command word as written in the paper. The levels structure that examiners considered for the "Discuss" command

word is included below.

Question Number	Indicative content	Mark
(e)	Knowledge 3, Application 3, Analysis 3 • Identification of determinants of price elasticity of demand • Application – PED tobacco cigarettes -0.35; PED e-cigarettes -1.9. Reasons why tobacco cigarettes being relatively price-inelastic, e-cigarettes relatively price-elastic e.g.: • habitual consumption • tobacco broadly defined • proportion of income spent on tobacco cigarettes lower than switching cost of buying reusable e-cigarette kit • number of close substitutes • tobacco addictive necessity, e-cigarettes luxury (not yet addicted to). NB to access Level 3 candidates need to consider tobacco and e cigarettes.	(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 • significance of determinant • e-cigarettes habit forming • tobacco cigarettes narrowly defined • proportion of income spent on tobacco cigarettes is rising • becoming closer substitutes • tobacco addiction waning as lost glamour and health warnings, e-cigarettes nicotine addiction. • longer term response to rising tobacco prices	(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 is balanced and considers the broad elements of the question.

Q3.

Question Number	Answer	Mark
(a)	The only correct answer is B <i>A is not correct because difficulty in counterfeiting is an attribute of money</i> <i>C is not correct because divisibility is an attribute of money</i> <i>D is not correct because durability is an attribute of money</i>	(1)

Question Number	Answer	Mark
(b)	Knowledge 1 Application 2 Award one function e.g. A measure of value (1) e.g. prices can be measured in satoshis (1) people can compare prices of goods and services (1) OR A store of value (1) when an individual saves bitcoin (1) they are confident they will receive the equivalent value back (1) OR A standard of deferred payment (1) when an individual loans another person bitcoin (1) they are confident they will receive the equivalent value back (1)	(3)

Q4.

Question Number	Answer	Mark
(a)	Knowledge 1, Application 2, Analysis 2 Knowledge 1 mark for an increase in supply or a decrease in demand. This may be illustrated on a diagram Application 2 marks for using source data explaining change in supply and demand, e.g. • Estimated surplus (1) of approximately 7 million kg of uranium (1) • Kazakhstan's production has increased significantly/stockpiles (1) • Confidence in nuclear industry declined/Japan closed some of its nuclear plants (1) Analysis Accurate diagram – showing price fall (1) correct shift in demand and supply (1) e.g. (5)	

Question Number	Indicative content	Mark
(b)	Knowledge 2, Application 2, Analysis 2 • Shows or demonstrates understanding of price elasticity of supply. • Reasons why uranium is price inelastic. • Diagram to show price inelastic supply. • Time. Two years to build a uranium mine in Spain, ten years in 'development', difficult to find in right concentrations. • Factor immobility e.g. uranium mine cannot be switched to other uses • Regulation. 'Have to clear extra hurdles' due to government concerns regarding negative externalities. NB KAA can be treated as Evaluation and vice versa (6)	

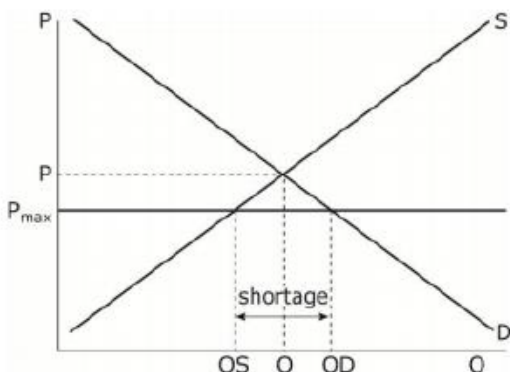
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no link between causes and consequences.
Level 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
(b) continued	Evaluation 4 Reasons why uranium is price elastic: • Time. Ability to store stockpiles of uranium, Figure 1 surplus suggests and 'stockpiles until 2020'. • 'Uranium is a relatively common metal'. Extract A Line 2 • Distinction between short run and long run and its significance for elasticity of supply. By 2018 mine in Uranium producing '2.2 million kilos a year'.	(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 chains of reasoning and appropriate reference to context. Evaluation is balanced and considers the broad elements of the question.

Question Number	Answer	Mark
(c)	Knowledge 2, Application 2 Analysis 2 Award up to 3 marks for each reason: Knowledge/understanding • Identification of two separate reasons: inertia, computational problems, information gap, all providers increasing prices over time. (1) Application 1 mark for, e.g. • 'Irrational consumers pay the price'. (1) • Energy prices have risen by 158% in the last 15 years.(1) • Four million households are still on the most expensive energy rates. (1) Analysis Linked development of why not switching to a supplier offering lower prices (1) e.g. • Inertia (1) despite a decade of rising energy bills (1) as consumers do not have the time or motivation to switch (1).	(6)

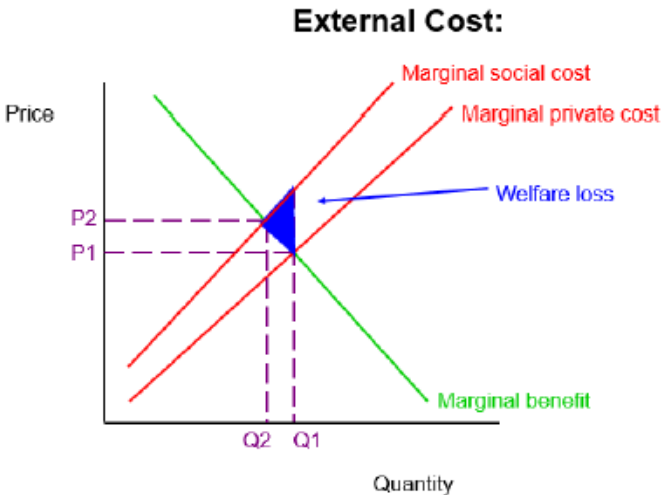
Question Number	Answer	Mark
(d)	Knowledge 2, Application 2 Knowledge/understanding 2 marks for e.g. Renewable energy is a resource made from something which can be renewed itself/infinite supply (1) Non-renewable energy is a resource which once exploited cannot be replaced/finite supply (1). Application 2 marks for, e.g. Energy generated by nuclear or coal is non-renewable (1) Solar or wind energy is renewable (1).	(4)

Question Number	Indicative content	Mark
(e)	Knowledge 3, Application 3, Analysis 3 - Understanding of maximum price.  The effect of a maximum price on consumers: - Energy prices more affordable for consumers, end of 'decade of rising energy bills', extension in demand for energy or increase in quantity demanded (inefficient use). The effect of a maximum price on producers: - Contraction in supply or decrease in quantity supplied, power stations turned off 'undermine energy market', decline in producer surplus or revenue/profit. NB Level 3 responses must consider the effects on both energy consumers and producers. NB If no valid diagram then the maximum of Level 2 may be awarded	(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 • It depends on whether and how far the maximum price is below the market equilibrium price. • It depends on the PES of energy. • It depends on the PED for energy. • Comment on the costs to consumers – loss of consumer surplus, energy shortages, 'higher prices in the future'. • Comment on the impact on producers – producer behaviour e.g. may move up to the price cap, reduce investment • Government failure e.g. distortion of price signals, unintended consequences	(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 is balanced and considers the broad elements of the question.

Question Number	Indicative content	Mark
(f)	Knowledge 4, Application 4, Analysis 6 External Cost:  Diagram(s) accurately drawn – with clearly labelled 'welfare loss' shaded triangle Explain costs to third parties in context. External costs: • Risk of nuclear accident – local schools and businesses close, impact on property prices. • High doses of nuclear radiation leaks increase the risk of cancer – loss of family income, employment, contribution to local economy, costs to NHS. • Cost of storage for future generations – opportunity cost of resources (land) tied to this, resulting in loss of income to farmers for example. • Opportunity cost of subsidies to nuclear industry, subsidy cuts to solar businesses. NB KAA can be treated as Evaluation and vice versa NB If there is no Diagram, max Level 3	(14)

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 or superficial, two stage chains of reasoning only.
Level 3	7–10	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	11–14	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.

Question Number	Indicative content	Mark
(f) continued	Evaluation 6 Reduced external costs in production of substitutes/external benefits may mean it is under-produced: • Curb greenhouse gas emissions which are causing climate change, by using nuclear, resulting in less flooding or storm damage reducing insurance costs to businesses. Extract C • Building new nuclear reactors allow positive local economic effects from job creation. • Provide 'affordable energy' helping businesses stay open thus protecting jobs and ending fuel poverty resulting in lower demands for health care. Other evaluation points might include: • Magnitude – depends on relative size of external cost. • Measurement difficult – putting a value on external costs. • Energy efficiency measures more preferable. • Short term/long term costs and benefits.	(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 leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
Level 3	5–6	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation is balanced and considers the broad elements of the question, leading to a substantiated judgement.

Question Number	Indicative content	Mark
(g)	Knowledge 4, Application 4, Analysis 6 Reasons for government intervention e.g. to correct market failure Link intervention to reducing carbon emissions. Appropriate diagram(s) accurately drawn. Ways might include: • Indirect taxation (ad valorem and/or specific) on carbon emissions providers e.g. coal/gas power stations, or workplace parking, reference to taxes directed at getting people out of their cars • Subsidies to solar/wind/nuclear energy/cycling/public transport • Maximum price on low/zero carbon emissions providers and minimum prices on carbon emitters. • Tradable pollution permits e.g. EU emissions trading scheme. • Provision of information, energy efficiency measures. • Regulation e.g. shut down all coal-fired power stations by 2025, reduction in car emissions by using low emission zones. NB KAA can be treated as Evaluation and vice versa NB If there is no Diagram, max Level 3	(14)

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 or superficial, two stage chains of reasoning only.
Level 3	7–10	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	11–14	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.

Question Number	Indicative content	Mark
(g) continued	Evaluation 6 Why the ways given may or may not be successful e.g. • Distortion of price signals. • Unintended consequences, energy shortages. • Excessive administrative costs, pollution permits. • Information gaps, external costs of non-carbon based energy sources, questioning link between carbon emissions and climate change. • Government failure to provide, solar and wind power 'vary with weather', nuclear accidents. • Relative benefits/costs of government intervention versus market based solutions.	(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 leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
Level 3	5–6	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation is balanced and considers the broad elements of the question, leading to a substantiated judgement.

Q5.

Question Number	Answer	Mark
(a)	Knowledge 1, Application 2, Analysis 2 Knowledge/understanding 1 mark for infinite wants and finite resources (1) Application 1 mark each for any one of the following for infinite wants: • Consumers of health care have a growing list of medical concerns for essential/non essential treatment/waiting list 4 million (1) • Ageing population (1) • New medical technologies(1) 1 mark each for any one of the following for finite resources: • Number of doctors/nurses (1) • Number of hospital beds available/bed occupancy rates 99% (1) use of Figure 2 e.g. • Waiting time has increased from 5.7% (1) to 10.7% (1) Analysis Up to 2 marks for any one of the following in linked development OR two limited examples of analysis (1+1): • Health resources are scarce (1) so Hospitals have to make choices about who to treat (1) • Decisions need to be made on what, how, why and for whom to treat (1+1) • Opportunity cost of making a medical choice/decision (1) • Government health priorities (1)	(5)

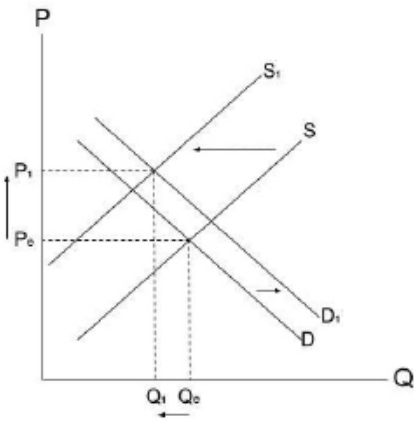
Question Number	Answer	Mark
(b)	Knowledge 2, Application 2, Analysis 2 Knowledge/understanding 2 marks for e.g. - producers know more than consumers (1) or the information is incomplete or imperfect (1) - misallocation of resources (1) Application 1+1 mark for e.g. - risk of requiring health care is an unknown (1) - Doctors know more than patients (1) Analysis Up to 2 marks for any one of the following in linked development to market failure OR two limited examples of analysis (1+1): - Under consumption of healthcare (1) so patients' health conditions deteriorate (1) - Consumers overcharged for health treatment (1) as they are unaware of the true cost of health care (1) - Unnecessary treatment (1) as consumers unaware of health needs (1) - Patients lack of awareness of waiting times and NHS priorities (1)	(6)

Question Number	Indicative content	Mark
(c)	Knowledge 2, Application 2, Analysis 2 - Knowledge – public goods are non-excludable and non-rivalrous - Application - Extract C suggests public parks exhibit these features Reasons why they are public goods 'free use' i.e. do not have to pay to enter 'share the park with other users' 'no exclusive use of the park' - Park run users 'share the park' with other users indicating one person using the park for a run does not have an impact on another person's enjoyment so non-rival. NB Reasons for/against being a public good may be presented as either KAA or EV	(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 Reasons against being public good • Local authorities planning on charging parkrun participants using public parks • Public parks already have exclusive areas e.g. booking tennis courts or football pitches • Parks may be rivalrous in consumption e.g. Hundreds of park run participants may get in the way of other users. • Parks are also excludable because they already have exclusive areas, gates can be closed at certain times	(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 chains of reasoning and appropriate reference to context. Evaluation is balanced and considers the broad elements of the question.

Question Number	Answer	Mark
(d)	Knowledge 2, Application 2 $£12 \times 450 \text{ million (1)} = £5.4 \text{ billion (1)}$ $£5.4 \text{ billion} \times 90\% = £4.86 \text{ billion (1)}$ $£5.4 \text{ billion} - £4.86 \text{ billion (1)} = £0.54 \text{ billion}$ $£5.4 \text{ billion} \times 10\% \text{ (1)} = £540 \text{ million (1)}$ NB Award 4 marks for a correct answer of £540 million/£0.54 billion. Award up to 3 marks for correct working but overall correct answer missing.	(4)

Question Number	Indicative content	Mark
(e)	Knowledge 3, Application 3, Analysis 3 Demand shifting right and/or Supply shifting left e.g.  Reasons for demand shifting right: • Ageing population, migration • Medical technological advances • NHS as a substitute less attractive, inferior good, waiting times. • Peer pressure Reasons for supply shifting left: • high management and administrative costs • salaries/wages rising due to doctor/nurse shortages • removal of subsidy/higher tax on private health care treatment • rising rents of private hospitals • rising cost of machinery in health care. NB For Level 3 KAA one relevant diagram.	(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 link 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 or 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 applied appropriately to the broad elements of the question.

Question Number	Indicative content	Mark
(e) continued	Evaluation 6 • Magnitude depends on how proportionately large the shift in demand or supply is as a key determinant • Price elasticity of demand may be more price elastic in the long run, given improvements in the NHS, discouraging further price increases • Price elasticity of supply may be relatively price inelastic, given health infrastructure, so price rise may be very significant • Other factors may reduce price e.g. government subsidies, productivity gains, healthier lifestyles.	(6)
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	Evaluative comments supported by chains of reasoning and appropriate reference to context. Evaluation is balanced and considers the broad elements of the question.

Question Number	Indicative content	Mark
(f)	Knowledge 4, Application 4, Analysis 6 Define excess demand. Application of excess demand to state funded health care. Government interventions: Factors influencing demand and supply (PES) that may result in the removal of excess demand (new hospitals built/doctors trained). Purpose of intervention with reference to market failure and using diagrams in various contexts: • government spending on direct provision increases supply • charging for NHS health care rations • indirect taxation (ad valorem or specific) on sugar/high fat content food/drinks or cutting taxes on healthier lifestyle options • subsidies on healthy food/gym memberships • maximum and minimum prices on healthy and unhealthy food/drinks Other methods of government intervention: • state provision of public goods e.g. public parks • provision of information e.g. 5 a day • regulation e.g. restricting sugar content • subsidising private treatment	(14)

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 or superficial, two stage chains of reasoning only.
Level 3	7–10	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	11–14	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.

Question Number	Indicative content	Mark
(f) continued	Evaluation 6 Government failure to reduce excess demand. Understanding of government failure as intervention that results in a net welfare loss; consumers face an under provision of food/drink that satisfies them i.e. marginal social benefits now exceed marginal social costs. Consumer choice restricted e.g. heavily subsidised healthy school meals and regulations against unhealthy options. Causes of government failure: • distortion of price signals • unintended consequences – charging for health care results in under consumption. • excessive administrative costs • information gaps – what is healthy, concerns about low sugar food/drink contents • time lag of the policies • magnitude depending on size of funding change. Irrational consumer behaviour - peer pressure.	(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 leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
Level 3	5–6	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation is balanced and considers the broad elements of the question, leading to a substantiated judgement.

Question Number	Indicative content	Mark
(g)	Knowledge 4, Application 4, Analysis 6 Distinction between free market, mixed and command economies: reference to Adam Smith, Friedrich Hayek and Karl Marx Disadvantages of free market approach: • Free market under provision of health services, with large external benefits (SMB>SMC analysis), below social optimum. • Sick unable to work – loss of potential output, PPF. • Addressing concerns on affordability to access health care, insurance and information gaps e.g. preventative earlier treatments for elderly and children. • Misallocation of resources on administration of charges. • Profit incentive misallocating resources ahead of patient needs. • Asymmetric information on need to pay for treatment and quality of care. • Missing markets for elderly, children, remote rural areas.	(14)

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 or superficial, two stage chains of reasoning only.
Level 3	7–10	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	11–14	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.

Question Number	Indicative content	Mark
(g) continued	Evaluation 6 Functions of the price mechanism to allocate resources in private health sector or NHS: • rationing • incentive • signalling • 'Private health care increases choice for users, encourages competition and drives up standards of care.' • Mixed economy acts as a compromise between the advantages and disadvantages of a free market economy and a command economy. • Mixed economy features disadvantages of both a free market economy and a command economy and has no advantages of either. • NHS is more efficient and offers better care than private sector so why allow private sector to exist. • NHS waiting lists and lack of choice. • Information failures.	(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 leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
Level 3	5–6	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation is balanced and considers the broad elements of the question, leading to a substantiated judgement.

Q6.

Question Number	Answer	Mark
(a)	Knowledge 1, Application 2, Analysis 2 Knowledge 1 mark for original supply and demand diagram with original equilibrium Application 2 marks for using source data explaining change in supply e.g. • Cod catch limits cut (1) by 50% (1) • Reduced limited TACs agreed for Celtic Sea/Irish Sea/west of Scotland (1) • Relevant use of data from Figure 1 (1+1) e.g. Identifying the country that is overfishing (1) Identifying the amount of overfishing (1) Analysis Accurate diagram – showing price rise or candidate states price rise (1) correct shift in supply (1) e.g.	(5)

Question Number	Indicative content	Mark
(b)	Knowledge 2, Application 2, Analysis 2 Reasons why fishing as much as possible is rational • This is completely rational from the perspective of a fishing company, which has revenues clearly linked to size of catch. • Shows an understanding of profit maximising behaviour. 'Private producers will act in their own self-interest and exploit common access resources to maximise profit.' • Figure 1 shows Sweden fishing at an excess of 52.4% in excess of TAC. • Using techniques to increase the size of the catch will help to minimise costs • 'Common access resources provide an opportunity for individuals to create profit, while spreading negative externalities to everyone else.' NB KAA can be treated as Evaluation and vice versa	(6)

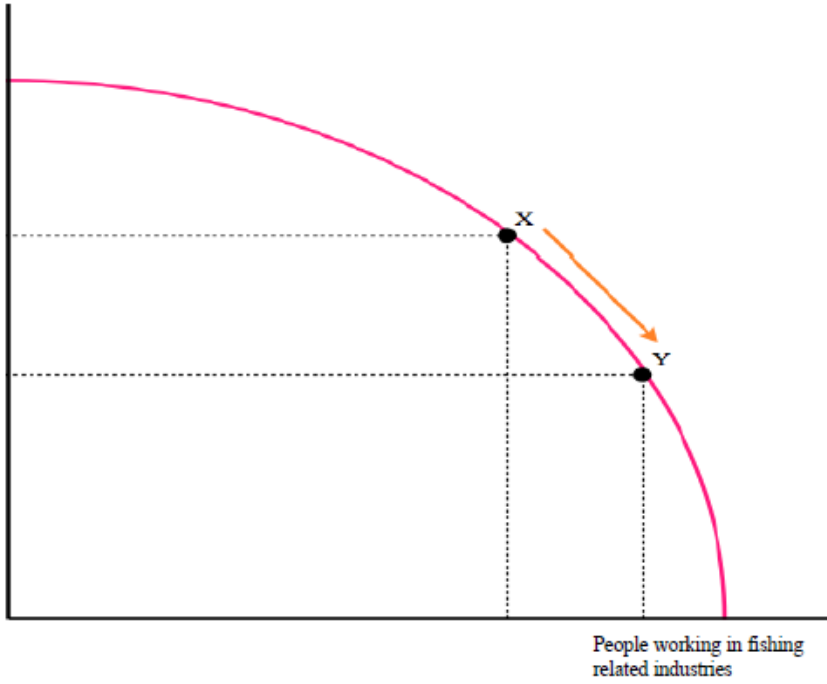
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no link between causes and consequences.
Level 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
(b) continued	Evaluation 4 Reasons why fishing as much as possible is irrational: • ‘Exploitation is unsustainable and will lead to the depletion of resources; this is known as the tragedy of the commons.’ • Short run profits means that stocks are rapidly depleted so in the long run there are no resources for them to fish e.g. individual firms find that dwindling fish stocks mean their own revenue base is contracting. ‘90% of fish stocks are depleted.’ • It may be rational for firms to behave this way but also it is harmful to society of which those firms are a part e.g. negative externalities impact society as a whole	(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 chains of reasoning and appropriate reference to context. Evaluation is balanced and considers the broad elements of the question.

Question Number	Answer	Mark
(c)	Knowledge 2, Application 2 Analysis 2 Knowledge and Analysis (1+1)x2 • Excludability (1) e.g. private ownership enables individuals to charge for the use of an asset (1) • Private ownership of resources (1) e.g. land, labour, capital and enterprise may be exploited by private individuals or firms (1) • Rivalry (1) e.g. private owners of resources can choose to buy and sell resources in order to generate profit (1) • Private ownership in a free market economy may lead to wage disparities or other inequalities (1+1) Application (1+1) 1 mark for use of Extract B e.g. ‘private producers will act in their own self-interest’ individuals ‘maximise profit’ 1 mark for use of own knowledge e.g. private ownership of a resource means someone is accountable for it (1) If someone owns something then they legally stop other people from using it (1)	(6)

Question Number	Answer	Mark
(d)	Knowledge 2, Application 2 1 mark for e.g. Identifies the correct formula (1) e.g. the formula for XED is $\frac{\% \Delta QD \text{ Good A}}{\% \Delta P \text{ Good B}}$ $-8 = x/2\%$ (1) $-8 \times 2\% = -16\%$ (1) (decrease in quantity demanded of bags of chips) $950\,000 \times 16\% = 152\,000$ (1) $950\,000 - 152\,000$ (1) = 798 000 If correct answer is given award all 4 marks. Award up to 3 marks for correct working but overall correct answer missing.	(4)

Question Number	Indicative content	Mark
(e)	Knowledge 3, Application 3, Analysis 3 Impacts can be positive or negative. Understanding of specialisation. The number of workers in the fishing industry relative to other workers will be more in Scotland relative to the rest of the UK: People working in non-fishing related industries  People working in fishing related industries NB If there is no valid diagram - maximum level 2 KAA	

	Advantages might include: - Fishing fleets develop expertise based on years of experience - This will be the case for both labour and capital - Fishing ports have the infrastructure to process the catch and to distribute it to markets in the UK and overseas - Employment opportunities will be available and will grow as the industry develops - Specialisation enables training providers to specialise in developing skills for workers in the region - more resources can go in to	(9)
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	preparing for fishing industry without having to invest in training in other areas. • Spillover effects - skilled labour more freely available so if a new worker is needed they can benefit from training with a different company • Efficient use of resources – a region that specialises in fishing due to availability of resources e.g. good fishing grounds. • Creates jobs – people of Scotland will be able to find employment in the fishing industry • Scotland specialising in the production of fish can catch more and then trade with other countries who specialise in the production of other goods. • By catching more fish the economy can sell these, increasing income in the Scottish economy • By specialising and division of labour increasing output/ reducing costs of production the economy can improve income, living standards. NB KAA can be treated as Evaluation and vice versa	
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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 are many disadvantages of specialising in the production of goods and services to trade: • Over-exploitation of resources leaves economic agents over-exposed, leading to possible business failures and job losses • The reduction of the cod TAC could lead to major issues for Scottish fishing • External costs related to congestion and pollution • Demand for fish falls with the increased trend towards vegetarianism and veganism, the economy would be at risk • Workers could find it difficult to transfer to other industries if they are over-specialised • Current consumption may be unsustainable leading to reduced incomes for future generations	(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 is balanced and considers the broad elements of the question.

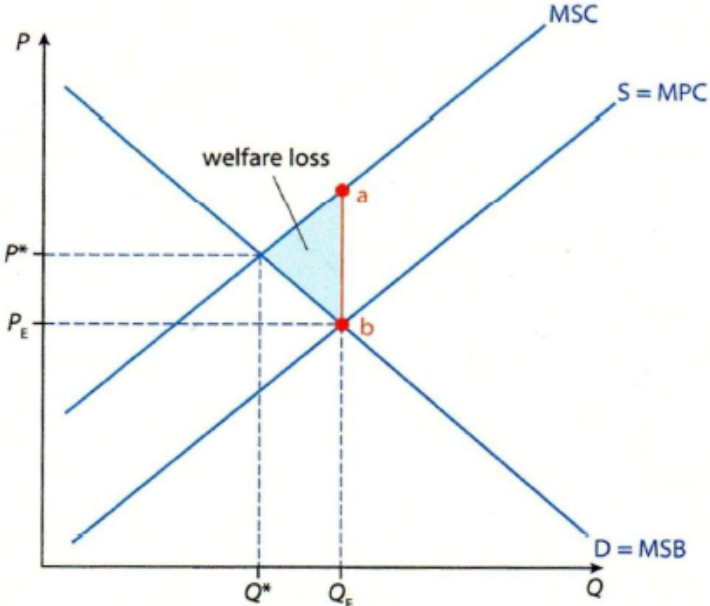
Question Number	Indicative content	Mark
(f)	Knowledge 4, Application 4, Analysis 6 Overfishing is a negative externality in production. Diagram e.g.  NB If there is no appropriate diagram - maximum level 3 KAA	

	Figure 1 shows the scale of the overfishing for different nations, e.g. Sweden's TAC is 52.4% above what the scientists advise. Multiple external costs are referred to in the Extracts. Extract B states that '90% of fish stocks are depleted.' The cod TAC should be reduced in order to reduce the extent of the overfishing. This would reduce the quantity caught from Q_E to Q^*. Possible external costs/third parties that might be affected - Fishing nets can damage wildlife, costing wildlife charities to rescue and rehabilitate animals - Fishing boats spill oil which has a negative impact	(14)
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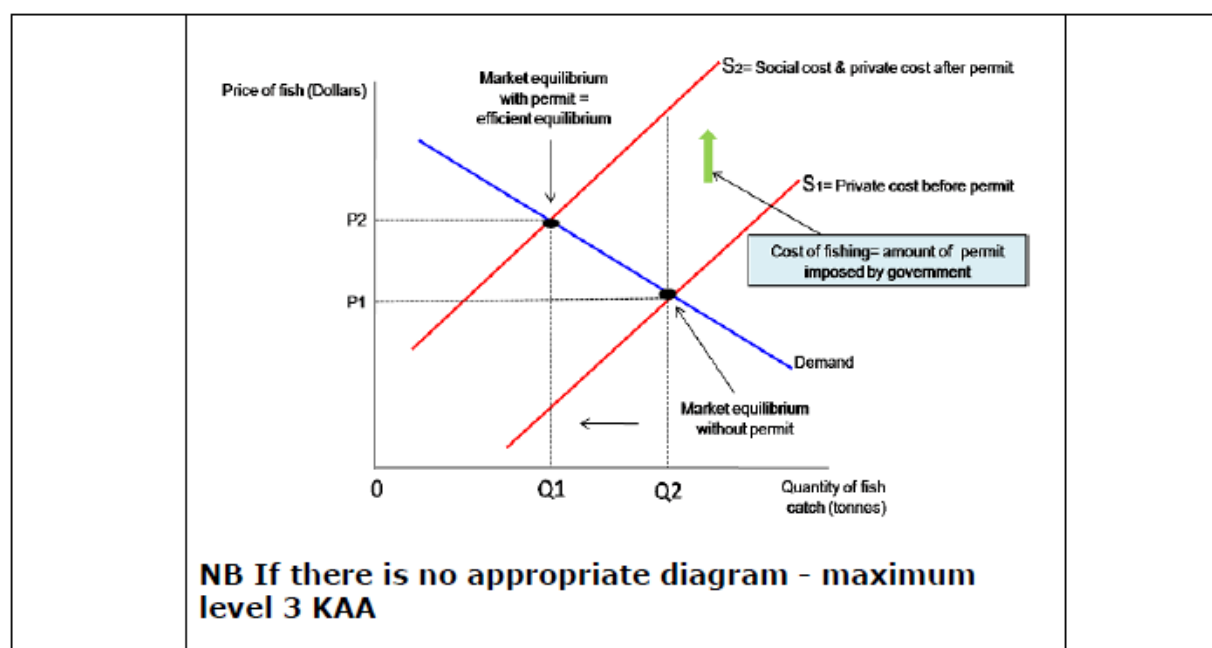
	on those swimming in the sea or wildlife, clear up for Environment Agency etc • Fishing industry throws any over catch back in to the sea, this can pollute the water • Smell from fishing industry can have a negative impact on those that live near the ports • Overfishing increases supply - lowers price and this has negative impact on manufacturers of other food items.	
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Level	Mark	Descriptor
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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 or superficial, two stage chains of reasoning only.
Level 3	7-10	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	11-14	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.

Question Number	Indicative content	Mark
(f) continued	Evaluation 6 • Hard to put a value on external costs - how do you value harm to wildlife • Some impacts are slow to emerge • External benefits may exist - jobs in fish food processing plants, boat building and net making industries • Technology improves meaning risk of oil spills reduces • Net manufacturers are developing safer nets - fishing industry more aware of the need to dispose of nets appropriately • New method of fishing are reducing the external costs • TACs have helped to reduce the external costs	(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 leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
Level 3	5-6	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation is balanced and considers the broad elements of the question, leading to a substantiated judgement.

Question Number	Indicative content	Mark
(g)	Knowledge 4, Application 4, Analysis 6 Do not award policies involving changes in the total allowable catch (TAC) per country There are a range of policy options available to reduce over-fishing: Ways might include: • Provision of information, so that consumers can be encouraged to consume sustainably • Regulation e.g. designated areas for fishing allowing stocks to recover • Extension of property rights to international waters • Agreements on shares of fish that can be caught • Imposing indirect tax on fish to reduce consumption • Subsidy paid to firms to use safer technology • Minimum price for fish • Government permits awarded to fishing companies may be tradable • The answer may be supported using a relevant diagram e.g.	(14)



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 or superficial, two stage chains of reasoning only.
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Level 4	11–14	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.

Question Number	Indicative content	Mark
(g) continued	Evaluation 6 Evaluation of policies might include; • Unintended consequences, such as illegal fishing • Excessive administrative costs • Information gaps, with consumers unaware of the extent of the damage being caused by over-fishing, not knowing level of tax to implement etc. • UK may increasingly over-fish since leaving the EU • Relative benefits/costs of government intervention versus market-based solutions • Government unaware of the right level of intervention	(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 leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
Level 3	5–6	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation is balanced and considers the broad elements of the question, leading to a substantiated judgement.

Q7.

Question Number	Answer	Mark
(a)	The only correct answer is C <i>A is not correct because Statement 1 is Positive, using testable data</i> <i>B is not correct because Statement 1 is Positive, using testable data</i> <i>D is not correct because 'ought' in Statement 2 is Normative</i>	(1)

Question Number	Answer	Mark
(b)	Application 2 Application $11\,000\,000 / 155 (1) = 70\,968$ or $11\,000\,000 / 156 (1) = 70\,512$ Award 2 marks for an answer within the range 70 500 and 71 000.	(2)

Question Number	Answer	Mark
(c)	Knowledge 1 Knowledge/Understanding 1 mark for definition, e.g. - centrally planned - government run - no or limited private sector - government allocates most/all resources.	(1)

Q8.

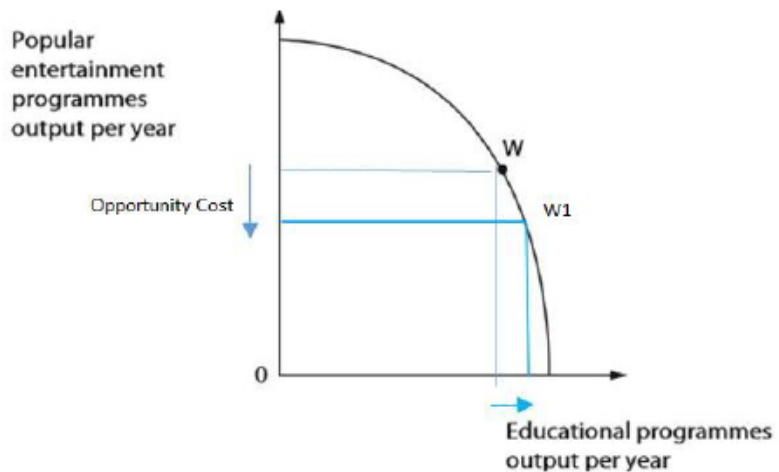
Question Number	Answer	Mark
(a)	Application 2 Application $PED = \frac{\% \Delta Q_d}{\% \Delta P}$ price rise = $5/60 \times 100 = 8.3\%$ (1) or $-5.4\%/+8.3\%$ (1) $PED = (-)0.65$ Award 2 marks for $(-)0.65$ NB if answer given is between $(-)0.7$ and $(-)0.6$ award 2 marks.	(2)

Question Number	Answer	Mark
(b)	The only correct answer is A <i>B is not correct because 'population' is a non price determinant of demand not PED determinant</i> <i>C is not correct because 'cost' is a non price determinant of supply not PED determinant</i> <i>D is not correct because 'expected rise in the price' is a non price determinant of demand not PED determinant</i>	(1)

Question Number	Answer	Mark
(c)	Knowledge 1 Knowledge/understanding 1 mark for definition: 'all other things being equal' (1) OR All other factors remain unchanged (1)	(1)

Q9.

Question Number	Answer	Mark
(a)	Knowledge 1 Knowledge/understanding 1 mark for definition, e.g. • Measure of the welfare (utility) that people gain from consuming goods and services • Difference between the total amount that consumers are willing and able to pay and the total amount that they actually pay. • Diagram showing area under the demand curve and above the market equilibrium price.	(1)

Question Number	Answer	Mark
(b)	Application 2 Application 2 marks for, e.g. An additional point to the right of W indicating movement of resources towards educational programmes (1) and the resulting opportunity cost, showing a fall in output of popular entertainment programmes (1). The following diagram earns 2 marks:  Popular entertainment programmes output per year Opportunity Cost 0 Educational programmes output per year	(2)

Question Number	Answer	Mark
(c)	The only correct answer is C A is not correct because this is providing an example of government finances rather than being non-excludable or non-rivalrous as a definition of a public good. B is not correct because this is confusing popularity with public goods, rather than being non-excludable or non-rivalrous as a definition of a public good. D is not correct because this is confusing benefits to third parties as members of the public rather than being non-excludable or non-rivalrous as a definition of a public good.	(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.

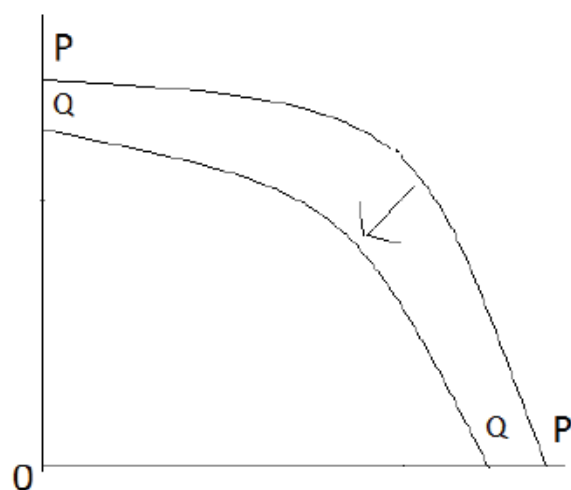
Question Number	Indicative content	Mark
(e) continued	Evaluation 6 • There may be benefits which offset the problems, such as ◦ different types of economies of scale e.g. bulk purchase ◦ rationalisation of stores and employees could lead to increased efficiency and profitability ◦ increased market power • 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.

Q11.

Question Number	Answer	Mark
(a)	Knowledge 1, Application 1, Analysis 3 Knowledge/understanding: 1 mark for defining PPF - maximum possible production using available resources Application: 1 mark for reference to extract, e.g. 2.2 million Polish emigrants (1) Analysis: 1 mark for each of the following: - Draw PPF accurately (1) - PPF shifted inward marked on diagram (1) - Explanation of why PPF shifts inwards (1)	

Capital goods



Consumer goods

e.g. With people leaving Poland the labour force reduces in size meaning with available resources less consumer and capital goods can be produced (1).

(5)

Question Number	Indicative content	Mark
	Knowledge 2, Application 2, Analysis 2 - Understanding of geographical mobility of labour Factors that affect mobility of labour: - Benefit system- e.g. in UK funded by taxation - EU rules- Bulgarian/ Romanians allowed to move freely - Free access to Spanish doctor - Increases the incentive to move to the UK relative to other countries where benefits are contribution based making labour more mobile towards UK - Increases the number that are able to move between countries within the EU. Previously people in Bulgaria and Romania had to apply for a visa to move to the UK but now they can freely move to the UK. - If citizens move to Spain they have access to Spanish GPs and this will make moving to Spain more attractive and increase the mobility in to Spain.	(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
(b) continued	Evaluation 4 • Benefits are lower than rewards of work then it will have little impact on mobility of labour • Have to wait until permanent residents before receiving hospital treatment. • People are less likely to move regions for employment or different jobs as the safety net exists reducing the need to move for work and mobility • Magnitude- depends on size of benefits • Prioritisation- which factor might have the biggest impact on geographical mobility of labour	(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
(c)	Knowledge 2, Application 2, Analysis 4 Candidates may present benefits as Knowledge, Application and Analysis and problems as Evaluation or vice versa. Benefits • Bulgarian/ Romanian etc can provide labour where there are shortages • May attract students to UK who may remain and be productive in UK economy- particularly if skilled occupations • Added 2% to labour force- downward pressure on wages- firms able to employ more at lower costs • Migration, means it is easier to set up or continue here with access to the affordable skills they need. • The downward pressure on wages has helped lower unit labour costs and has made our exports relatively cheaper. • For firms in the UK there is now less regulation in recruiting much needed staff from Eastern Europe where shortages exist in the UK • Some sectors are also benefiting from skilled labour leading to rising productivity.	(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 • Magnitude “unprecedented expansion of labour supply” had contributed to stagnant wages. • Make it more difficult for unemployed people legally settled here to find a job • Little impact if benefits are more attractive to them • Magnitude- 1.1 million remain • Other factors may be to blame for stagnant wages- e.g. business confidence, recessions, financial crises, austerity measure.	(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 2, Evaluation 2 Knowledge/understanding: 2 marks for identification of likely reasons (1+1) Application: 2 marks for reference to the data (1+1) Analysis: 2 marks for linked explanation of these reasons (1+1) • To spread risk (1)- so that if one of the markets does less well (1) it will have less effect on the business (1) if profits falling in brickmaking (1), make money in cigarettes (1) • Asset stripping (1) the business may have bought one company (1) and kept all profitable aspects (1) and sold off unprofitable parts of business (1). So they may have continued mining minerals that were most profitable (1) and stopped mining others (1) • Economies of scale (1) by growing the business to benefit (1) from falling average costs (1) by owning a larger business that includes cigarettes, mining, toys and brickmaking they may be able to benefit from financial economies (1) as banks are willing to lend to the bigger company at lower rates of interest (1) Evaluation: 2 marks for two evaluative comments, e.g. • Likelihood of economies small as so diverse (1) • Only limited connection between businesses (1) OR 2 marks for identification and linked development e.g. • Asset stripping is likely to be the most likely reasons (1) as they have latterly started demerging and selling off aspects of the business that are less profitable.(1)	(8)

Question Number	Indicative content	Mark
(e)	Knowledge 3, Application 3, Analysis 3, Candidates may present positive impacts as Knowledge, Application and Analysis and negative impacts as Evaluation or vice versa. • Eliminating underperforming/ inefficient divisions making more efficient • More allocative efficiency- as less resources wasted on failing parts of the business • More productive efficiency- if diseconomies eliminated • More focused businesses- so less resources wasted on less profitable aspects • More finance available to grow more efficient aspects of business • Smaller units easier to control- perform better wasting less time in decision making • Workforces are shrinking. Philips employed 117 000 people at the end of 2013, down from more than 121 000 in 2008. Bayer reduced its staffing by 3 000 in 2013, while Siemens has 362,000 workers, a fifth fewer than in 2005- reduces over employment • Might lose economies of scale • Focusing on more profitable parts of business enables more profits to be made and invested. More innovation should allow for dynamic efficiency	(9)

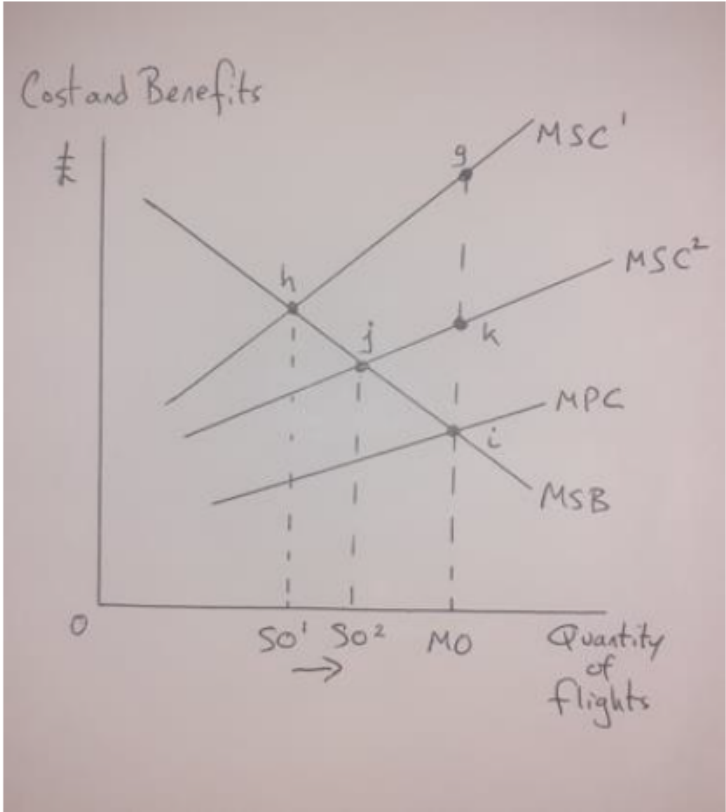
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–3	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes 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 • Magnitude- the efficiency gains may be significant given the savings following redundancies • May only be short term trend more about the state of the economy and less about efficiency gains. • Measurement problem- how much efficiency gains will be achieved is difficult to measure • May reduce in size too far so that AC starts to rise.	(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.

Q12.

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) • CO₂ emissions per passenger declines (1) quantity of flights increases (1)	
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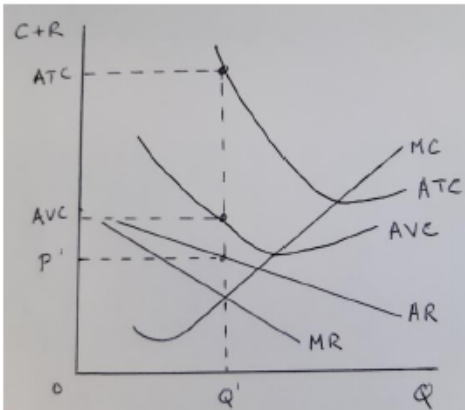
	NB These application points may be annotated on the diagram. Evaluation: 2 marks for two evaluative comments, OR 2 marks for identification and linked development of one evaluative comment e.g. • Difficulty in measuring size of negative externality (1) third party effects (1) • CO₂ emissions from travel agents, hotels and holiday activities increase/remain high (1+1) • Computational problems in measuring CO₂ emissions from planes (1) faulty industry data (1)	(8)
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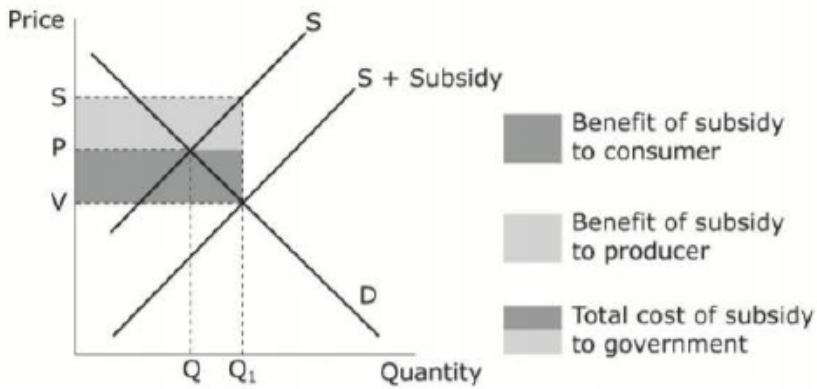
Question Number	Indicative content	Mark
(c)	Knowledge 2, Application 2, Analysis 2 Case for principal agent problem being significant. Conflict of interest between the principal (shareholder) and the agent (CEOs/directors/managers) creates problems for Thomas Cook: • Moral hazard – no consequences for 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 satisfy 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
(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 Incidence of a Subsidy  NB a diagram is not required NB case against subsidy may be seen as KAA and case for as evaluation or vice versa.	(8)
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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 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)
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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% of revenue • Rising marginal costs for Jet2 to reduce CO₂ emissions/ buy more fuel to new destinations/ costly take overs. NB KAA may be used as EV and vice-versa.	
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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.

Q13.

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)

Q14.

Question Number	Answer	Mark
(a)	Knowledge 2, Application 2, Analysis 1 Knowledge and analysis Up to 3 marks for: - the meaning of externalities, e.g. effect on third party, outside the transaction, difference between social cost and private cost (1). Points might include: - use of plastic which is hard to recycle/other single use plastic arguments (1) - HFSS food can cause obesity and have third party effects (1) - more congestion/air pollution from food deliveries (1) (positive) externality due to rise in productivity generated by cash rich, time poor professionals might allow people do impact third parties positively (1) Application: 2 marks for data (1+1 or 2): 1.4 billion containers (1) or other plastic items to allow food to travel safely e.g. heat retention (1) - over-consumption / order more food (1) e.g. impact on other NHS users (1) - HFSS food (1) - falling profit margins (1) or increased competition in food delivery might mean wages fall so fewer wider macro benefits (1) - don't even have to get up/lack of exercise of consumers ordering from their sofa (1) NB 2 marks may be awarded for a diagram e.g. a negative externalities in production of food that has to be delivered	(5)

Question Number	Answer	Mark
(b)	Knowledge 2, Application 2, Analysis 2, Evaluation 2 Knowledge/implicit understanding: (1+1) marks e.g. • demand is price inelastic means that the percentage change in price causes a smaller percentage change in quantity demanded • demand is income elastic means that percentage change in income causes a greater percentage change in demand Application: (1+1 or 2) e.g. • food delivery firms' charge of £5 is a very small percentage of consumer income so they might be seen as essential or basic goods (Ext B line 5) • three dominant firms Just Eat, Uber Eats and Deliveroo (Ext B line 2) • The food delivery industry has boomed in recent years (Ext B line 2) • cash rich, time poor (Ext B line 7) • income growth prior to 2020 meant delivery has boomed • HFSS addiction/habit forming • Convenient mobile app, so PED inelastic • 5 times more expensive than cooking at home Analysis: (1+1) development of each type of elasticity, e.g. • if demand is price inelastic then revenue will rise for the firm when it raises price • habit forming behaviour so PED inelastic • few close substitutes so PED inelastic • small part of overall consumer spending so PED inelastic • food delivery services are a very small percentage of consumer income so they might be seen as essential or basic goods • if food delivery is a luxury the demand likely to be income elastic, e.g. then the firms will benefit in times of economic growth, but lose demand in a recession • if food delivery is a treat in an economic downturn then it is an inferior good NB up to 2 marks may be awarded for diagram(s) (1+1)	

	Evaluation: (2 marks for any relevant point, or two points 1 +1) • the 30% of prices paid by restaurants is not seen by the consumer • depends on geographical areas e.g. rural vs urban areas. • the worldwide health crisis might have caused distortions in the data • third-party food delivery firms are inferior goods if demand rises when incomes fall • other factors affect demand apart from income, e.g., availability of substitutes (eating in restaurants is impossible in global health crisis) • discussion of normal vs inferior question e.g. compared to eating in a restaurant or cooking at home • income elastic vs. inelastic e.g. demand for third-party food delivery is price elastic for some income groups when incomes fall as it takes up a larger percentage of income	(8)
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Question Number	Indicative content	Mark
(c)	Knowledge 2, Application 2, Analysis 4 Points might include: • integration includes horizontal/vertical/conglomerate joining of firms • leads to economies of scale • increased market share • removal of competition • increased monopoly power • international rivals can avoid taxes • prices higher for consumers • reduced choice for restaurants and consumers • monopsony power over restaurants • technical advantages of vertical integration • vertical power over firms can leave other firms with high barriers to entry • Just Eat has bought out rivals e.g. merger between Just Eat and Takeaway.com • Amazon has partially bought Deliveroo (16% so far) which may have saved it, and/or improved it on the tech side NB effects might include more than one types of economies of scale, or other combined analysis. Award diagrammatic analysis e.g. economies of scale LRAC	(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 • mergers might be necessary to ensure the survival of firms (e.g. Deliveroo case) • further mergers might be limited by the CMA • supernormal profits might lead to lower prices, better technology and/or a more consumer-led market • prices may fall due to fall in average costs due to e.g. economies of scale • diseconomies of scale	(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 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
(d)	Knowledge 4, Application 4, Analysis 8, Evaluation 9 Microeconomic effects of depreciation may include: • higher cost of imports of food and therefore higher cost of production for hospitality sector • lower profits for firms in hospitality • higher prices of food for consumers • consumers have lower standards of living if they are on fixed incomes/ • falling real incomes so demand for restaurant meals and food delivery services might shift left • workers have higher incomes if working in exporting firms in other industries, so might use more delivery services • restaurants might begin to use more locally produced food Macroeconomic effects of depreciation may include: • capital in-flows, e.g. benefits to multinational firms such as Just Eat for investment in the US using other currencies/ AD and/or LRAS shift out • cost push inflation/SRAS shifts in • more injections and fewer withdrawals leading to rise in AD and multiplier effect • increased employment • incentive to use transfer pricing • UK tourism might be boosted by depreciation which would improve local restaurants NB for a Level 4 response there must be micro and macro effects and use of data with reference to restaurants or other food delivery services. Higher costs, changes in competitiveness, environmental changes could be seen as micro or macro, for example, can be used as either micro or macroeconomics. NB Effects in KAA could be used as evaluation and vice-versa.	(25)

	9 marks for evaluation – points might include: • depends on the nature of the restaurant. Some try to use locally sourced ingredients • the pound has recovered significantly since 2016 • food costs are a small cost relative to other costs, e.g. rent and delivery • some restaurants are specialised in UK food so cost effect very low • other factors are more important, e.g. the heavy fiscal spending in response to the global health crisis • other factors determining capital inflows • relative depreciation or trade weighting of other currencies • offsetting costs with altering portion sizes or changing menu options • impact on tourism small relative to the increase in the production of food • regional differences with the UK e.g. whether there is a local food supply option • Marshall Lerner • J-curve	
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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 16 marks for KAA, for effects of increased minimum wage Microeconomic effects may include: • rise in wages will benefit very low paid workers. Might be shown on increasing NMW diagram • effect on cost to firms e.g. reduced profit margins. Might be shown on a cost and revenue diagram. • excess supply of hospitality workers • effect on prices consumer surplus falls, output falls, price increases • impact on quantity of labour demanded/contraction of labour demand • impact on productivity • inefficient resource allocation due to distortion of price mechanism Macroeconomic effects may include: • income equality improvements – may use Gini/Lorenz • prices rise – inflationary effects • reduction in relative poverty • AD: increase in consumption as incomes increase/fall in investment as profits fall • SRAS: cost-push • LRAS: if investment falls, then LRAS shifts in • reduced employment • higher income tax revenue • lower unemployment related benefits NB for a Level 4 response there must be micro and macro effect (s) and use of data with reference to restaurants or other food delivery services. Employment or welfare issues could be seen as micro or macro, for example, can be used as either micro or macroeconomics. NB Effects in KAA could be used as evaluation and vice-versa.	(25)

	9 marks for evaluation – points might include: • effect on firms depends on how much wage costs are as a proportion of overall costs • impact on real output depends on level of spare capacity/elasticity of LRAS/magnitude of multiplier • effect on workforce of employment regulation depends on elasticity for demand for labour, and degree with which it can be replaced with capital • depends on PED of food delivery firm market as a whole • consumers might also have increases in wages so profits might not fall • some firms will face decreased demand and go out of business. Loss of jobs and other economic activity • depends on the PED and PES in factor market and product market as a whole • LRAS might rise as economically inactive workers enter labour force to look for jobs • higher tax revenue may not occur if unemployment increases or investment decreases • higher unemployment related benefits if unemployment increase • productivity/motivation arguments	
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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, Analysis 1 Knowledge and analysis 3 marks for identifying market structure and relevant features. Points might include: • Monopolistic competition or highly competitive (1) • Many small sellers in the market (1) • Low price setting power (1) • Firms sell differentiated goods (1) • Normal profit/low profit margins as a sign (1) of low barriers to entry/exit (1) • Allow up to 2 marks for diagrammatic analysis Application: 2 marks for data (1+1 or 2): point might include: • there are many firms 10 000 to 20 000 (1) • cheap, low skill labour are possibly migrants (1) • low level of capital required (1) • everyone paying the same £5 (1) • some offering inside and out washes (1) / similar car washing at each provider (1) • Availability of cheap premises make market entry easier (1)	(5)

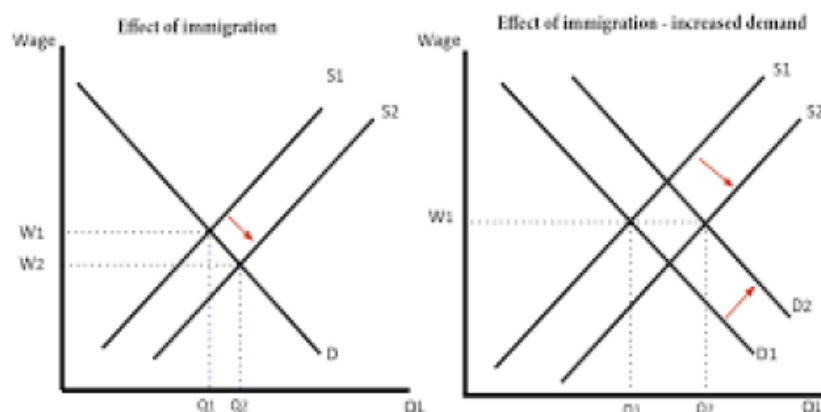
Question Number	Answer	Mark
(b)	Knowledge 2, Application 2, Analysis 2, Evaluation 2 Knowledge/ implicit understanding: (1+1) marks for two reasons and explanation e.g. • HCWs are inferior goods if demand rises when incomes fall • HCWs at £5 are a very small percentage of consumer income so they might be seen as essential or basic goods • Other factors affect demand apart from income, for e.g. availability and price of substitutes (automatic car washes [might be normal/luxury good] or car washing equipment), working patterns Application: (2 marks for any relevant point, or two points 1 +1). Points might include: • Incomes are not keeping up with inflation so real incomes are falling • HCWs at £5 are a very small percentage of consumer income so they might be seen as essential or basic goods. • Increased demand when people have lower incomes – high level of utility at small expense, Extract A paragraph 2 • Extract B: there is a decrease in the availability of automatic car washes as independent petrol retailers go out of business. • Increased number of sites and rents have fallen (Extract A paragraph 3)	

	Analysis (1 + 1): • Linked development of the two points made • Maybe shown by diagrammatic analysis Evaluation: (2 marks for any relevant point, two points 1 +1). Points might include: • Subjective happiness is yielded from an HCW, implying that it is rational to use an HCW/it is not rational as washing the car at home is cheaper when incomes fall • Incomes have not been falling over the whole period, so it is more likely that as incomes rise people are buying a HCW as a YED is low (small percentage of income) • Regional or demographic changes in incomes	(8)
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Question Number	Indicative content	Mark
(c)	Knowledge 2, Application 2, Analysis 4 Knowledge/implicit understanding: Points might include: - Increased labour supply – workers willing to take low-paid jobs - Arguments also allowed that since the UK left the EU, many workers are leaving – question does not specify immigration or emigration - Increased demand from increased UK population also allowed as an approach Application: - Immigrants the main employees at HCWs and similar labour intensive firms (Extract A) - Implication in EU that increased immigration (Extract A paragraph 4) has caused supply to increase and therefore wages half of minimum wage (Ext A last paragraph) - HCW often a first job while the migrant's language improves on arrival in the UK (Ext A) - Following UK leaving the EU many low skilled labour may leave - Workers are not able to migrate as wages are not high enough in sector to be able to migrate to post UK leaving the EU	

	Analysis: - Labour market diagram showing increase in the supply of labour - NMW diagram showing excess supply of labour at the wage floor - Allow decrease in supply, e.g. since the UK leaving the EU - Allow backward bending supply of labour - Allow monopsony diagrams (although not required) - Some segments require more skilled workers and not suit low skilled migrant workers, e.g. valeting - Reference to any industry that relies on migrant workers, e.g. hospitality, nursing, construction NB if no valid diagram or reference to an industry, then award a maximum of Level 2 KAA	(8)
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Diagram, shift in demand and/or supply, or minimum wage e.g.



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 • Impact of UK leaving the EU, Global Health Crisis etc. might put immigration figures into negative, and wages and conditions might improve • Depends on monopsony power • Evidence suggests there is not exploitation, or there is not enough evidence • Some firms are charging a fair wage • Other changes in the pipeline • The size of the changes in migration will dictate the impact on labour market • The ability of workers to move to other sectors/ speed language developed will determine impact on labour market • Within HCW there are sub-markets - some specialise in luxury vehicles - others are mobile operators who visit home - each will be affected differently	(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 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
(d)	Knowledge 4, Application 4, Analysis 8, Evaluation 9 16 marks for KAA, for causes of the number of firms in an industry to change. Microeconomic causes may include: • nationalisation • privatisation • contestability • market power • economies of scale – natural monopoly • regulation and deregulation • oligopoly behaviour • barriers to entry e.g. factors linked to demand- tastes- preference for HCW over automatic, income, availability of substitutes- decline in automatics	

	Macroeconomic causes may include: • economic growth – e.g. a growing market means more firms will enter • trade patterns • level of protectionism • government policies e.g. supply side policies • TNCs and FDI • unemployment (especially given recent events) • inflation- if inflation is high, costs rise and if unable to increase prices, then firms may exit the market • Level of environmental protection- adds to the costs and may reduce the number of firms. • Exchange rates - if appreciated - costs to import lower and export higher - exporters may exit the market • Relative poverty high and rising - more demand low costs HCW increasing demand and market size - more firms NB for a Level 4 response there must be micro and macro cause(s). Foreign direct investment, role of TNCs, or regulation could be seen micro or macroeconomics NB for a Level 4 response there must be reference to an industry	
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	9 marks for evaluation – points might include: • Depends on the nature of the business. Another industry could be used as a contrast, e.g. a capital intensive industry • Depends on the LRAC and the minimum efficient scale in the current situation • Changes over time – barriers to entry or exit are likely to change e.g. in the face of new technology in car wash industry or other industry • Exchange rates go up and down so could equally depreciate • Environmental protection may create more demand as it is a more ethical service and not cause the number of firms to fall	(25)
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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 16 marks for KAA, for effects of increased government intervention. Microeconomic effects may include: • Minimum price, living wage enforced, planning issues, tax, health and safety • Rise in wages (if wage floors introduced) will have a large impact on costs. Might be shown on increasing NMW diagram • Effect on price of car washes – consumer surplus falls, output falls, price increases • Impact on quantity of labour/marginal revenue productivity • Impact on productivity • Diagram to show the effect of the intervention approach, e.g. of minimum price as solution to market failure • Price of a car wash might be passed on to higher wages	

	Macroeconomic effects may include: • Income equality improvements – may use Gini coefficient or Lorenz curve • Prices rise – inflationary effects • reduction in levels of poverty • effects on growth – inflexibility in markets can reduce I or FDI • might improve environmental standards • Reduced employment NB for a Level 4 response there must be micro and macro effect (s). Employment or welfare issues could be seen as micro or macro, for example, can be used as either micro or macroeconomics NB for a Level 4 response there must be reference to an industry	
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	9 marks for evaluation – points might include: • Government failure, e.g. regulatory capture, asymmetric information • depends on impact of other events such as UK leaving the EU, high unemployment from recent Global Health Crisis • effect on workforce of employment regulation depends on elasticity for demand for labour, and degree with which it can be replaced with capital • depends on PED of HCW market as a whole • consumers might also have increases in wages • some firms will face decreased demand and go out of business. Loss of jobs and other economic activity • depends on the PED and PES in factor market and product market as a whole • Wash Mark Certificates not government regulation may have more of an impact in improving quality and conditions for workers and reducing pollution than government action	(25)
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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.

Q16.

Question Number	Answer	Mark
(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
(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-inefficiency ◦ 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)
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Question Number	Indicative content	Mark
(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)
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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 • 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.

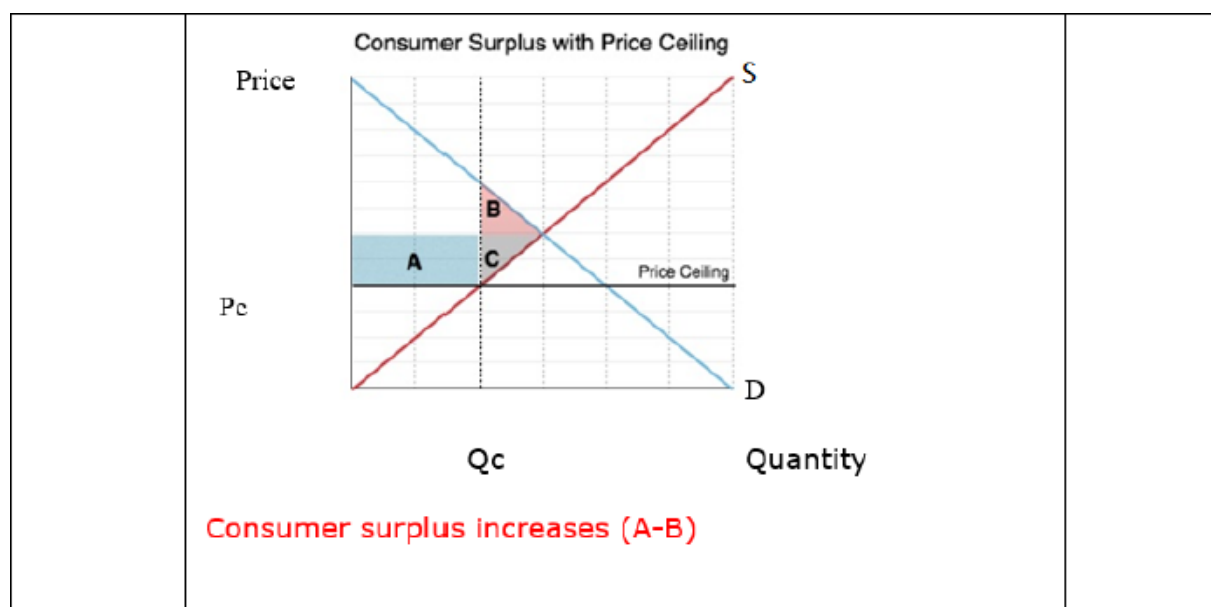
Question Number	Indicative content	Mark
(d)	Knowledge 2, Application 2, Analysis 4 BT profit levels have risen to £3.03 billion • Higher revenue due to, e.g.: - Higher rental price for landline - Price increases of 15% - Broadband calls up in price - Customers paying a higher price for setting up landline 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	

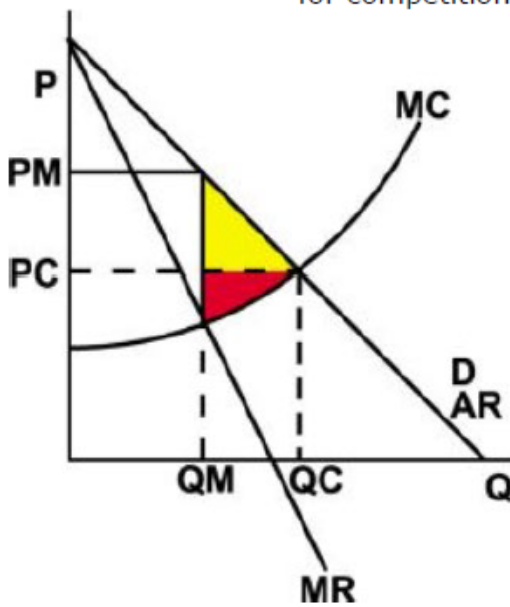
	Costs and revenue diagram showing: - Original profit maximising output level - Outward shift in AR and MR - And/or – fall in AC and MC - And/or – fall in AC if FC lower - And/or Changes shown on Monopoly diagram e.g. from limit pricing to profit maximisation - Original SNP and larger new SNP area NB – For Level 3 an accurate costs and revenue diagram must be included.	(8)
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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 • 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
(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	

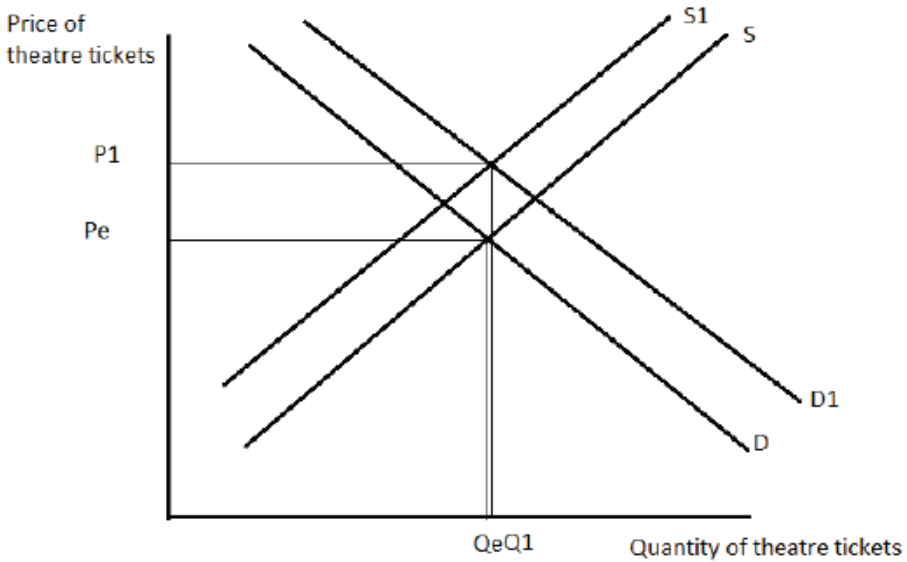


	Improved allocative efficiency for consumers, surrogate for competition. 	(9)
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	0	A completely inaccurate response.
Level 1	1–3	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant 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.

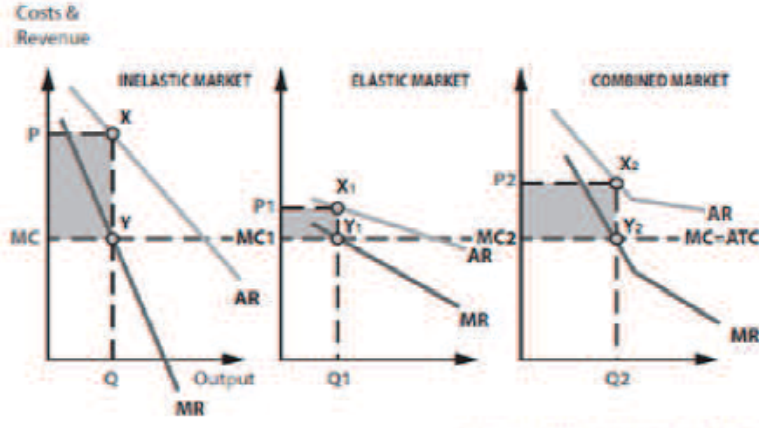
Question Number	Indicative content	Mark
(e) continued	Evaluation 6 • Criticisms of the likely effectiveness of the policies • Awareness of the problems surrounding their implementation • Recognition that a combinations of approaches may be needed • Different industries may need differing approaches • 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.

Q17.

Question Number	Answer	Mark
(a)	Knowledge 1, Application 1, Analysis 3 Knowledge/understanding: 1 mark for: - accurate supply and demand with original equilibrium. (1) Application: 1 mark for identifying either: - record numbers of people wanting to buy tickets for shows (1) - costs of running the theatres has risen to pay for restoration and absorb the cost of booking fees. (1) Analysis: 1 mark for each of the following: - supply shifted leftwards (1) - demand shifted rightwards (1) - accurate new equilibrium showing higher price. (1) For example:  Price of theatre tickets P1 Pe S1 S D1 D QeQ1 Quantity of theatre tickets	(5)

Question Number	Answer	Mark
(b)	Knowledge 2, Analysis 2, Application 2, Evaluation 2 Knowledge/understanding: 2 marks for identification of two reasons (1+1). Analysis: 2 marks for linked explanation of these reasons (1+1). Application: 2 marks for reference to the data (1+1), e.g. • to enter seven overseas markets (1) – including Bulgaria, Czech Republic, Romania, Hungary, Israel, Poland, Romania and Slovakia/ operates almost 100 multiplexes (1) which increases the quantity of potential consumers (1) • to establish a European multiplex powerhouse (1) – CCI operates almost 100 multiplexes (1) which increases the quantity of potential consumers at each location (1) • Cineworld was ordered by competition regulators to offload three cinemas following its takeover of the Picturehouse chain (1). Difficulty of finding new growth opportunities in the company's home market (1) so moving abroad enables expansion (1) • industry data by Rentrak showing that UK and Ireland box office takings in 2013 fell by 1% to £1.17bn (1) falling demand in UK (1) and markets in Europe may be growing (1) • rivals have also grown overseas, with Odeon UCI and Vue Entertainment (1) and this suggests is a rational decision for the business to make (1) as their competitors are likely to have moved to maximise profits. (1)	

	Evaluation: 2 marks for two evaluative comments, e.g. • however, some of the countries they are moving to are poorer than the UK (1) • even in these countries they will be scrutinised by EU regulation (1) OR 2 marks for identification and linked development e.g. • magnitude of fall in cinema sales – fall 1% (1) could just be a bad year for films (1) • unlikely to want to copy them (1) it is more the impact on their competitors' profitability they are concerned about. (1)	(8)
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Question Number	Indicative content	Mark
(c)	Knowledge 2, Application 2, Analysis 4 - Define price discrimination. - Application- same screening but different prices – examples from data. - Third degree price discrimination diagram.  (Source: www.economicsonline.co.uk) - If they do not discriminate and $MR=MC$ profit is $P_2MC_2Y_2X_2$. - Adults – demand more inelastic so willing to pay more and respond less as price rises. - Children – demand more responsive to change in price – elastic. - If firms splits up the market and charges different prices to each group the area of profit $PMCYX$ and $P_1MC_1Y_1X_1$ will be greater than if do not discriminate. - Profits will rise if they price discriminate depending on different groups elasticities.	(8)

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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 • Cost to administer and to ensure people buy only appropriate tickets is expensive. • Assumes they know shapes of demand curves for each group – which they may not. • Even within sub groups very different markets with different sensitivities to price – so could increase profits further with other discrimination. • Ethics/fairness of price discrimination. • Magnitude of price variations – £6.80-9.60. • Depends on proportion of earnings from tickets – other earning (popcorn etc) may be more significant. • Cutting costs may have more of an impact on increasing profits than changing price and revenue.	(4)

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Question Number	Indicative content	Mark
(d)	Knowledge 2, Application 2, Analysis 2 - Define price and non-price competition. - Identify relevant price and non-price strategies suitable for Cineworld. - Application – competitors such as Odeon and Vue cinema. Benefits and limitations of each can be taken as Knowledge, Application and Analysis, or Evaluation - Price wars – lowering the price to attract customers from competition – increasing sales. - Predatory pricing – where a firm prices below AVC/AC of competitors – enables competitors to be driven out of the market and increases sales enabling the firm to drive up prices later. - Price leadership – where Cineworld sets its price first in order for competitors to follow – leading price may enable the firm to under-cut competitors for a time or push up the price as competitors follow. - Limit pricing – keep price low – to avoid firms contesting/entering market – lower price means higher output and sales, lack of competition means less fierce advertising and price reduction needed. Types of non-price competition - Advertising – this will raise awareness, interest, desire and action to increase sales of cinema tickets. - Branding – investing in the image, logo, slogan of the business – to build trust amongst customers.	(6)

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Question Number	Indicative content	Mark
(d) continued	Evaluation 4 • Price wars – competitors may lower the price also meaning customers are the only ones to benefit, profit margins fall. • Predatory pricing – could get into legal trouble for trying to shut down competitor, if they have reserves they could last a long time driving down your own profits/ reserves. • Price leadership – Cineworld may increase price but competitors may not. • Limit pricing – low price means higher output but lower revenue and profit as not profit maximising. Types of non-price competition • Advertising – this will cost money, and may just encourage competitors to do the same making it more costly to remain in market. • Branding – may be a waste of funds as it may not encourage trust or brand loyalty. Other evaluation Game theory • Competitors likely to react and adjust price or advertising budgets/so could end up with both with lower price or higher costs in terms of advertising budget. • Pay off matrix may be used to show worst outcome for all. • Magnitude – depends on amount of price adjustment and advertising budget. • Prioritisation of the significance of each factor – whether pricing and non-price will be most important • Short run little change – people do not adjust to price changes straight away/long run may take time for benefits to emerge, e.g. branding.	(4)

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Question Number	Indicative content	Mark
(e)	Knowledge 3, Application 3, Analysis 3 • Competition Commission (CC) concluded merger would lead to higher prices for customers in Aberdeen, Bury St Edmunds and Cambridge. • Diagram, e.g. monopoly or comparing monopoly and perfect competition. • Increased producer surplus/decreased consumer surplus – fairness. • Deadweight loss from monopolist. • Lack of productive efficiency/allocative efficiency ($P > MC$). • X-inefficiency/organisational slack.	(9)

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Question Number	Indicative content	Mark
(e) continued	Evaluation 6 • Cineworld operates mainly large out-of-town-centre cinemas, Picturehouse's cinemas tend to be smaller cinemas located in city centres – not direct competitors. • Other indirect competitors – bowling etc. • Dynamic efficiency, increased profits may be used to innovate. • National pricing operated where it is the same for all locations. • Management monitored by head office so unlikely to develop X-inefficiency. • May revenue maximise or sales maximise due to divorce of ownership.	(6)

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