PEARSON EDEXCEL A-LEVEL ECONOMICS B · 9EB0

ECONOMICS



MARK SCHEME

4.1 COMPETITION AND MARKET POWER

SCORE	PERCENTAGE
/1170	%

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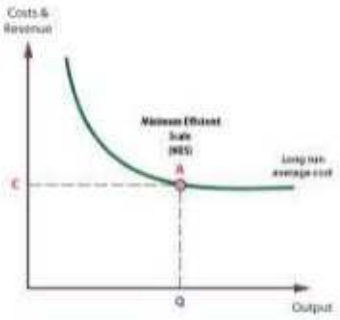
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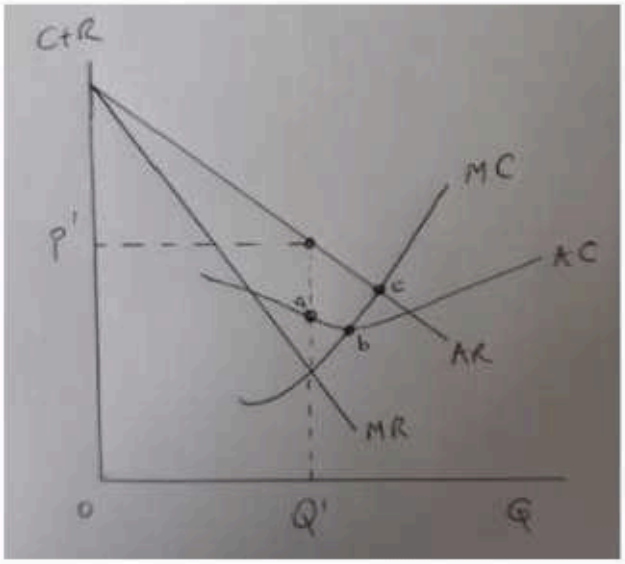
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Mark Scheme

Q1.

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

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

	Diagram e.g.  Monopoly price P1 is not productively efficient as output is at point a and not the lowest point on the AC curve, b. Monopoly price P1 is not allocatively efficient as the price is not equal to MC (c) resulting in a dead weight welfare loss. **NB Monopoly not operating efficiently can be seen as KAA and efficiently as evaluation or vice versa. Diagram not required.**	

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

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

Q2.

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.

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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.

Q3.

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

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

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

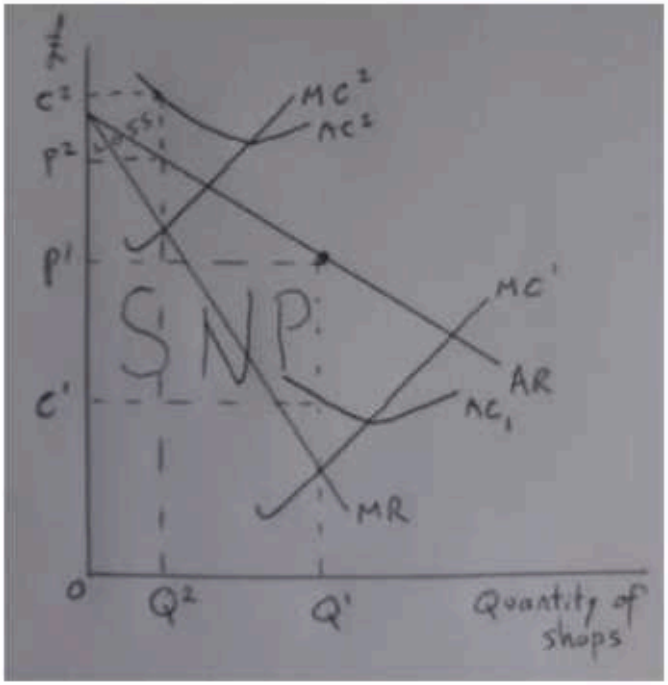
Question Number	Indicative content	Mark
(c)	**Knowledge 2, Application 2, Analysis 2** • Profit maximisation for owners/shareholders, MC=MR • Revenue maximisation for managers, MR =0 • Sales Maximisation to increase market share, AC=AR • Limit pricing by Costa • Profit satisficing by Independents • Coffee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

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

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

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

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

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

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

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

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

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

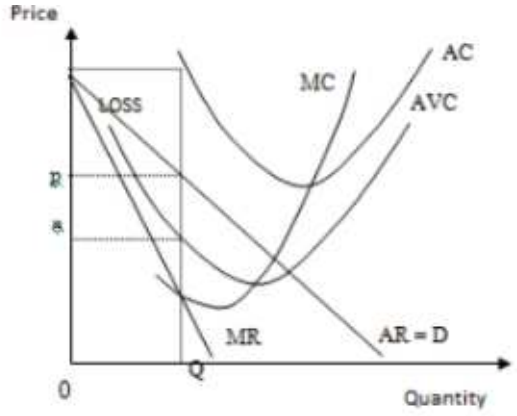
Level	Mark	Descriptor
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Level 1	1–3	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links 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; 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.

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

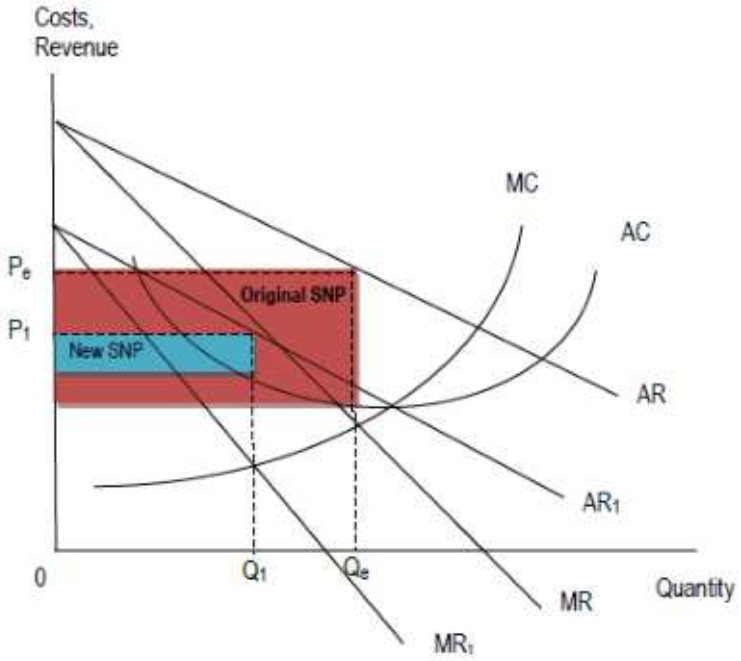
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches which is unbalanced. Evaluative comments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

Q4.

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

Question Number	Answer	Mark
(b)	C	(1)

Q5.

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

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

Q6.

Question Number		Mark
(a)	**Knowledge 2, Application 2, Analysis 1** **Knowledge and analysis:** 1 mark for identification of price inelastic demand and 1 mark for definition of price inelastic demand (a change in price leads to a less than proportionate change in quantity demanded). A further mark for explanation of either of the following: • Price and total revenue moving in the same direction – indication that demand is price inelastic • Demand price inelastic because there are no good substitutes. **Application:** 2 references from Extract 3: (2 marks) • 'Some analysts say that trend (higher prices) should still help lift revenue, even if Brazil produces less' (1) • 'Last year, coffee export revenue fell 19% even though the volume sold rose 10.2% from a year earlier'. (1)	**(5)**

Question Number	Indicative content	Mark
(b)	**Knowledge 2, Application 2, Analysis 2, Evaluation 2** **Knowledge and analysis:** 1 mark for coffee beans as a cost of production; 1 for affect on supply curve. A further 2 marks for further development/explanation • Supply and demand diagram illustrating a leftward shift in the supply curve and rise in the price of a cup of coffee Or verbal explanation **Application:** up to 2 marks for 2 references to Figure 4: e.g. • Coffee represents 3.6% of the cost of a cup of coffee. (1) • Other costs e.g. rent, packaging, wages and profit represent £ 2.12 out of £2.20 of the price of a cup of coffee. (1) **Evaluation:** (2 marks for any valid point): • Coffee beans only a small proportion of price of a cup of coffee • Competition might mean that coffee shops/chains absorb increased costs by reducing profit margins • Consideration of interdependence under oligopoly.	**(8)**

Question Number	Indicative content	Mark
(c)	**Knowledge 2, Application 2, Analysis 4** • Understanding of contestability - low barriers to exit (sunk costs) and entry • Examples of exit barriers and entry barriers in the context of coffee bean farmers and coffee shops • Coffee beans - large number of coffee farmers suggesting low barriers to exit and entry. High threat of potential competition suggesting that the market is contestable • Coffee shop market - dominated by three large chains suggesting low contestability • Sunk costs for coffee shops include - heavy advertising; strong global brand names. These limit the threat of potential competition so making the market less contestable.	**(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** • Coffee bean producers - contestability limited because coffee beans can only be grown in certain climates; long growing period • Coffee shops - fairly contestable because; many small independent coffee shops; low start-up costs; few sunk costs: shops and equipment can be leased or rented; skills required relatively low.	**(4)**

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

Question Number	Indicative content	Mark
(d)	**Knowledge 4, Application 4, Analysis 8,** **Evaluation 9** Microeconomic effects: • fluctuating revenues for farmers • uncertainty - difficult for producers to plan investment and output • implications for how the farmer uses his land. Macroeconomic effects: • fluctuating export revenues • fluctuations in the country's balance of payments on current account • could be reflected in fluctuations in the country's GDP • implications for the country's economic development • resources might not be allocated efficiently Possible evaluation points include: • uncertainty can be reduced by forward purchases of • coffee beans at set prices • much depends on whether there is a long run upward or • downward trend in prices of coffee prices • impact on individual coffee producing countries will depend on the significance of coffee to the country' economy • degree of price fluctuation depends on price elasticities of demand and supply • price fluctuations might act as an incentive for countries to diversify and/or develop manufacturing and tertiary industries • possibility of government intervention to stabilise farmers' incomes e.g. through the introduction of a buffer stock scheme.	**(25)**

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

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

Question Number	Indicative content	Mark
(e)	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** Microeconomic effects: • understanding of the impact of depreciation of the *real:* • Brazilian exports will be cheaper abroad, leading to higher demand while imports into Brazil will be more expensive resulting in a decrease in demand • primary producers: export revenues may fall since demand for many primary products is price inelastic • increase in costs for firms reliant on imported raw materials • increase in competitiveness for Brazilian exporters of manufactured goods. Macroeconomic effects: Brazil's currency depreciated by 20% in 2013 • this should increase the competitiveness of its goods and services and lead to an improvement in the current account of the balance of payments • this could lead to an increase in employment • cost push inflation • there is an increase in the real burden of foreign debt. Possible evaluation points include: • 20% depreciation is significant but much depends on whether this is sustained in the medium term • impact on individual Brazilian producers depends on their reliance on imports and/or exports • inflation is a problem so any competitive advantage may be lost quickly. (Depreciation raises the cost of imported raw materials and goods) • impact on current account will depend on whether the Marshall-Lerner condition is fulfilled • Also: short run and long run effect on the current account may be analysed using the J curve effect.	**(25)**

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

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

Q7.

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

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

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

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

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

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

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

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

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

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

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

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

Q8.

Question Number		Mark
(a)	**Knowledge 2, Application 2, Analysis 1** **Knowledge and Analysis** • Definition of exchange rate: price of one currency in terms of another (1) • Possible reasons: – Reduction in QE by USA **(K):** likely to cause a rise in interest rates in developed economies and less demand for the currencies of emerging economies **(A)** – Slow-down in the Turkish economy **(K):** likely to cause a fall in confidence and a decrease in foreign direct investment and less demand for the currencies of emerging economies **(A)** **Application**: Reference from Figure 1: (2) 14% fall in value of the Turkish lira over the whole period	**(5)**

Question Number	Indicative content	Mark
(b)	**Knowledge 2, Application 2, Analysis 4** • understanding of *inflation:* general increase in the average price level Costs of inflation include: • arbitrary redistribution of income from lenders to borrowers • loss of international competitiveness of Argentine goods • uncertainty causing a fall in investment • industrial unrest: reference to impact of strike by the police • menu costs and shoe leather costs • danger of hyperinflation if the current inflation is not brought under control.	**(8)**

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

Question Number	Indicative content	Mark
(b) continued	**Evaluation 4** • current inflation rate may be a short-term phenomenon only • impact of competitiveness depends on inflation rates of countries that Argentina trades with • Argentine government is taking measures e.g. price controls to reduce the rate of inflation • impact on living standards depends on what is happening to wages	**(4)**

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

Question Number		Mark
(c)	**Knowledge 2, Application 2, Analysis 2, Evaluation 2** **Knowledge and Analysis** • Restrictions on beef exports caused a fall in demand and in the price of beef (**K**). In turn, this made it less profitable to produce beef. (**A**) (2) • Soya production becoming more profitable because of growing demand from China (**K**). Therefore, farmers reallocating resources from beef production to soya production. (**A**) (2) **Application** • 10 million fall in the stock of cattle (over 10 years) to 48 million in 2011. • Exports accounted for 20% of beef production in 2007, but have fallen to just 7% in 2013 (2) **Evaluation** 2 marks for any valid point: • Some farmers may find it difficult to switch production from beef to soya because of the costs involved and/or unsuitability of the land • Farmers might think that government restrictions on beef exports may be short-term so they will not switch from beef to soya.	**(8)**

Question Number	Indicative content	Mark
(d)	**Knowledge 4, Application 4, Analysis 8 Evaluation 9** Microeconomic effects: • supply and demand diagram illustrating the impact of maximum prices: contraction in supply and extension of domestic demand • shortages of products subject to price controls • need for rationing • greater price stability for producers • implications for resource allocation: producers will switch resources to the production of products not covered by price controls. Macroeconomic effects: • falling export revenues from beef sales • negative impact on Argentina's balance of trade • could cause fall in the rate of economic growth • negative implications for Argentina's economic development • fall in the rate of inflation • price controls might act as an incentive for producers to diversify and/or develop manufacturing and tertiary industries. Possible evaluation points include: • impact of price controls depends on how rigorously they are enforced • producers may not reallocate resources to products not subject to price controls if they believe that they will only exist for a short time • impact on the balance of trade may be minimal, e.g. because of the increase in exports of soya • impact on the rate of inflation may be limited to the short-term: once price controls are removed the rate of inflation might increase significantly	**(25)**

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

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

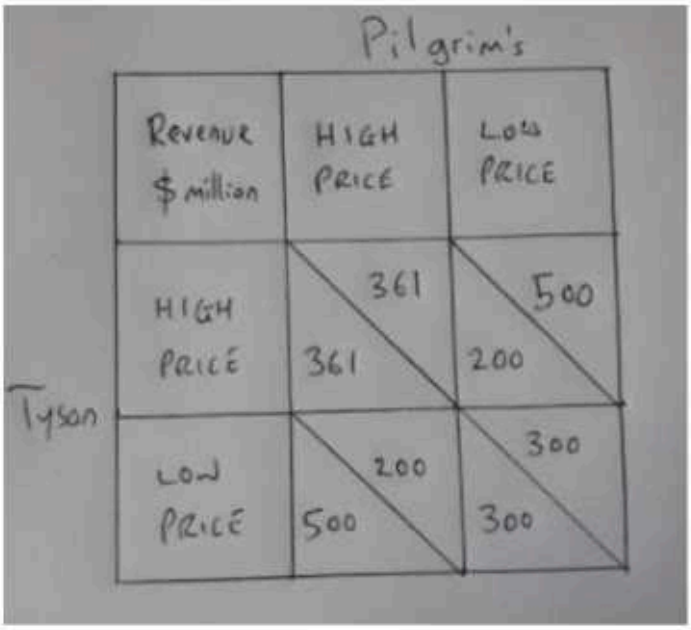
Question Number	Indicative content	Mark
(e)	**Knowledge 4, Application 4, Analysis 8, Evaluation 9** Microeconomic effects: • primary producers: export revenues may fall since demand for many primary products is price inelastic • increase in costs for firms reliant on imported raw materials • increase in competitiveness for Argentine exporters of manufactured goods. Macroeconomic effects: • increase in the competitiveness of Argentine's goods and services may lead to an improvement in the current account of the balance of payments • increase in the rate of economic growth • leading to an increase in employment • cost push inflation resulting from increased costs of imported goods • increase in the real burden of foreign debt. Possible evaluation points include: • impact on individual Argentine producers depends on their reliance on imports and/or exports • demand for some products, e.g. soya may not be adversely affected because demand is increasing rapidly in China • inflation is very high so any competitive advantage may be lost quickly. Impact on current account will depend on whether the Marshall-Lerner condition is fulfilled • short-run and long-run effect on the current account may be analysed using the J curve effect • the current account will only improve if the Marshall-Lerner condition is fulfilled, i.e. if the sum of the price elasticity of demands for imports and exports is greater than 1	**(25)**

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

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

Q9.

Question Number	Answer	Mark
(a)	**Knowledge 2 Application 2** 1 mark for the Pilgrim's revenue gain of e.g. $361 million for charging a collusive high price with Tyson (High Price/High Price) 1 mark for Low Price/Low Price revenue gain being lower than High Price/High Price e.g. Pilgrim's $300 million<$361 million 1 mark for first mover revenue gain being higher than High Price/High Price or Low Price/Low Price e.g. $500 million > $361 million 1 mark for second mover revenue being less than High Price/High Price and Low Price/Low Price e.g. Tyson's $200 million	**(4)**

	Diagram required e.g.  **N.B Valid alternative figures or responses can be used, including profit.** **N.B. award a maximum of three marks if the rationale for the second mover is inconsistent**	

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

Q10.

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

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

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

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

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

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

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

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

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

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

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

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

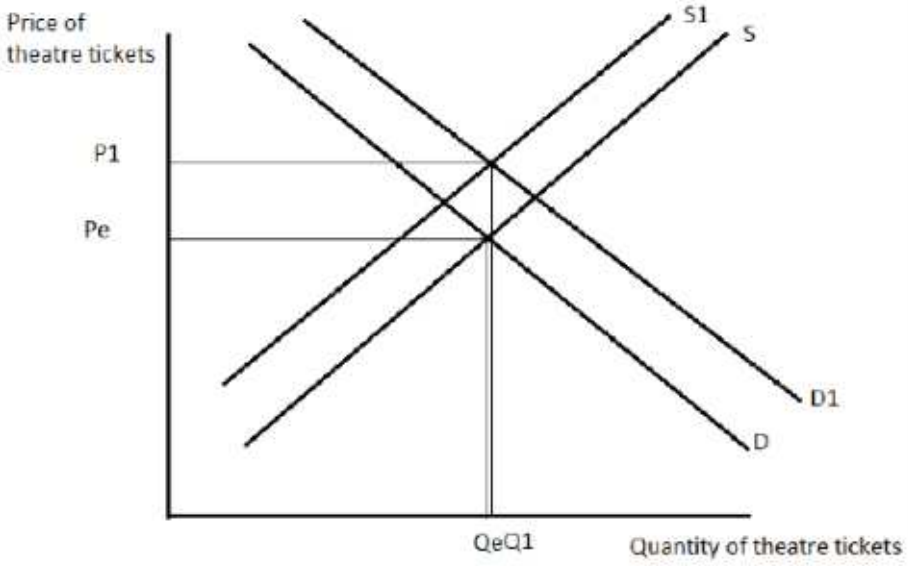
	Macroeconomic effects may include: • Redistribution (micro or macro issue): indirect taxes of this sort are regressive, disproportionately affecting the elderly and the poor. Taxes on HFSS foods moderate consumers, as well as the obese overeaters they are intended to target. • Cost push inflation – a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

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

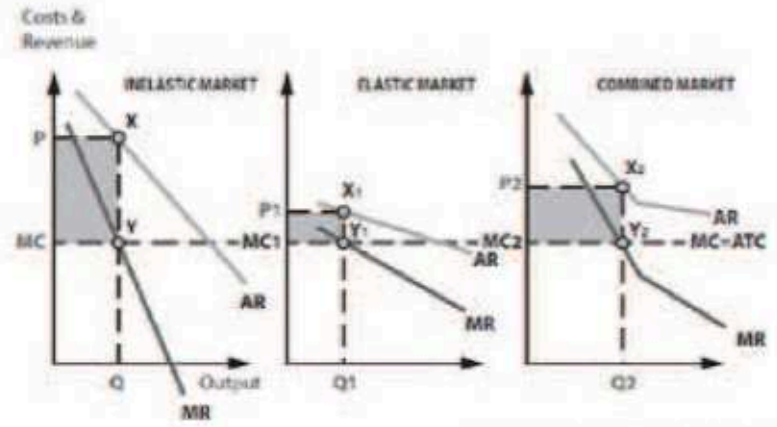
Knowledge, application and analysis		
Level	Mark	Descriptor
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Level 2	5–8	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two stage chains of reasoning only.
Level 3	9–12	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
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Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
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Level 2	4–6	Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially-developed chain of reasoning.
Level 3	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Q1.

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:  	(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 mulitplex 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)**

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 P2MC2Y2X2. • 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 P1MC1YX1 will be greater than if do not discriminate. • Profits will rise if they price discriminate depending on different groups elasticities.	**(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** • 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)**

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** • 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)**

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** • 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)**

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** • 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)**

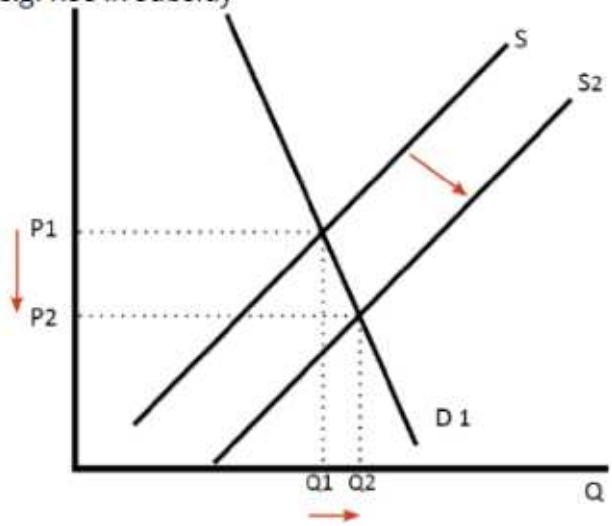
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–3	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes 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.

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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)**

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.

Q2.

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

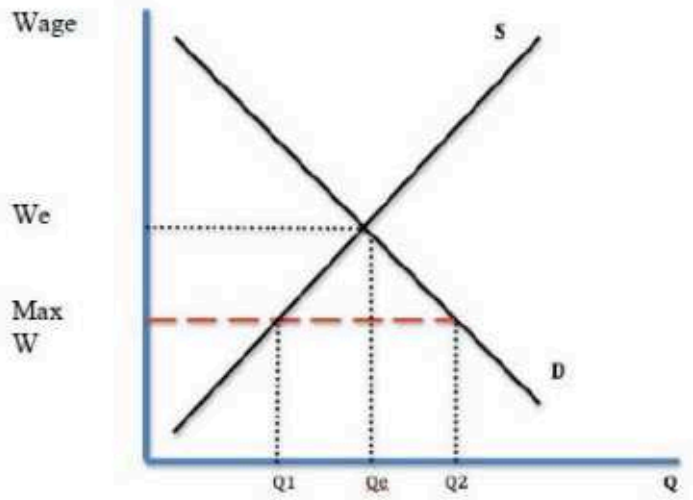
	Explanation that subsidy increase is a rise in financial assistance OR cut in cost of production OR additional cash grant (2) Explanation that decreasing costs borne by producers is passed on to consumers as a fall in rail fares OR excess supply results in fall in rail fares (2) **Application:** 1 for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

Question Number	Answer	Mark
(b)	**Knowledge 2, Analysis 2, Application 2, Evaluation 2** **Knowledge/understanding:** 2 marks for identification of two non price determinants (1+1) e.g. • Change in taste and preference/quality of service • Changes in income • Price of substitute has risen/substitute less attractive • Price of complement has fallen/complement more attractive • Increased population/migration • Lower price in real terms • Lower prices – special offers/off-peak/forward booking.	
	Analysis: 1 mark for linked explanation of each identified determinant to demand increasing/shifting right (this may be shown on a diagram) (1+1) Increase in population moved to commuter areas/improvement in rail stock e.g. wifi access. Income elasticity of demand Close substitute e.g. car travel, XED >+1 Close complement e.g. on-board meal, XED >-1 **Application:** 2 marks for reference to Figure 2 (1+1) or other data (1), e.g. • Approximately 50 billion rail passenger kilometres per year (1) to 65 billion (1) or increased by 15 billion rail passenger kilometres per year (2) or Increased by 30% (2) • Economic recovery post 2008 crisis (1) • Cost of car travel/road congestion (1) • Quality of train meals/on board Wi-Fi access (1)	

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

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

NB: Allow relevant diagram e.g.



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

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

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

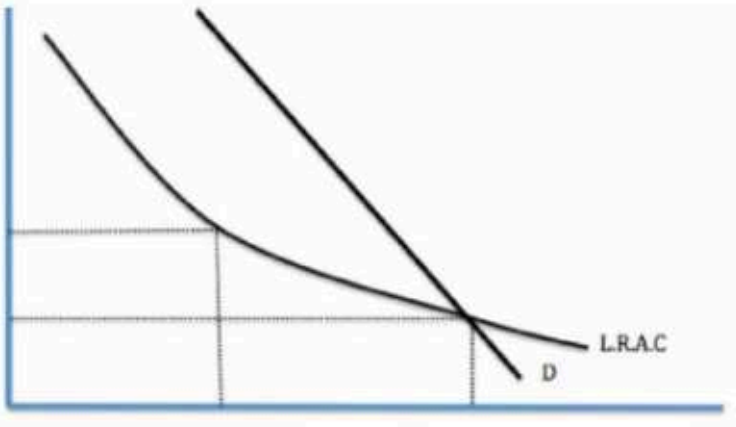
(6)

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

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

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

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

	AC  Output • Only one rail network company can fully exploit large internal economies of scale – technical, commercial, managerial. **NB: Case for can be seen as KAA and positive case against as evaluation or vice versa.**	(8)

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	**1–2**	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
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Level 3	**6–8**	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

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

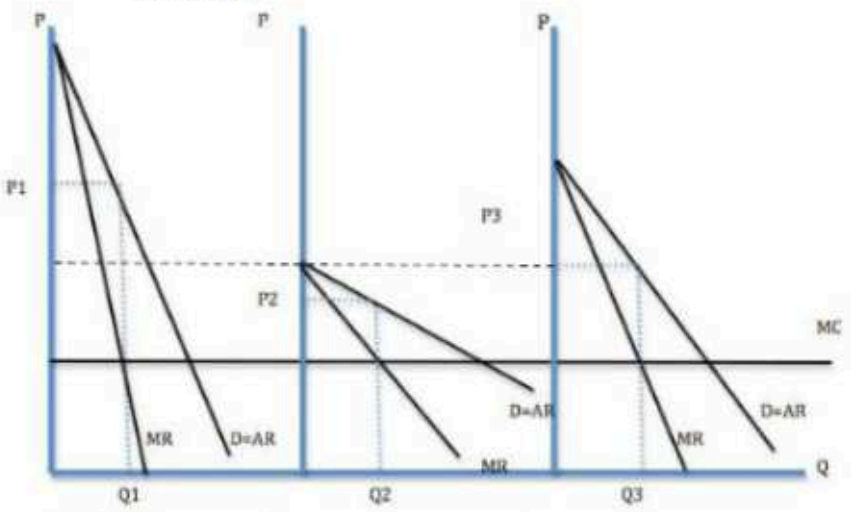
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Question Number	Indicative content	Mark
(e)	**Knowledge 3, Application 3, Analysis 3** Price discrimination – charging different prices to different groups of consumers for the same service e.g. 16-25 railcard users vs adult fare users. Allow peak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

- **Avoids overcrowding**
  Trail operators can use price discrimination to manage demand, preventing overcrowded train in peak travel times and encouraging rail travel by 16-25 year olds in less popular times off peak.

- **Improved customer service**
  Rail travellers receive a better-quality travelling experience thanks to additional revenue raised through price discrimination. Investment in new trains, station services, online ticketing, customer information, Improved food and drink service, Wi-Fi access, seating and storage space.

- **Price discrimination diagram** showing, for example:
  Market profit maximising price and output P3 and Q3. At which no service would be provided for 16-25 year old customers. Price discrimination enables a lower price of P2 (£69.50) for young persons' – so consumer surplus increases for consumers with relatively more price elastic demand



NB: Other correct diagrams accepted.

NB: For Level 3 a valid diagram such as above is required. Analysis must link to benefits to consumers. Allow other types of rail fare price discrimination e.g advance booking, Senior Railcard, 16-17 year olds half price travel.

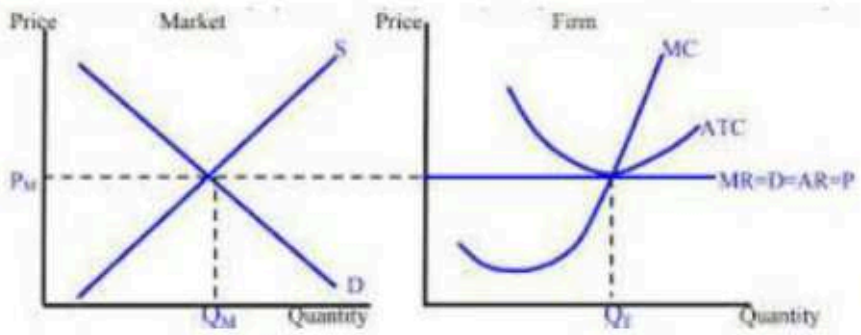
(9)

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

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

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

Q3.

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

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

Q4.

Question Number	Answer	Mark
(a)	**The only correct answer is A** ***B*** *is not correct because the candidate has divided by the new year rather than the original year* ***C*** *is not correct because the candidate has looked at the difference in quantity sold between 2014 and 2015 rather than answering the question between 2011 and 2015* ***D*** *is not correct because the candidate has looked at the decrease in the quantity of PC's not the percentage decrease*	**(1)**

Question Number	Answer	Mark
(b)	**Knowledge 1, Analysis 1** **Knowledge:** 1 mark for likely reason in the decrease in sales of PCs e.g. • Development of substitutes such as Tablets or iPads or iPhones (1) • Fall in global real incomes (1) • Fall in price of substitutes (1) **Analysis:** 1 mark for linked development e.g. • Tablets are more convenient to carry round (1) • New technology in other personal devices so becoming more powerful in their functions (1) • Fall in global incomes means that consumers are less likely to buy normal goods such as PCs (1)	**(2)**

Question Number	Answer	Mark
(c)	**Application 2** **Application 2** 1 mark for appropriate calculation /formula e.g. the sum of 5 largest figures = 190 239 (1) $\frac{190\ 239\ \text{(million)}}{276\ 700\ \text{(million)}} \times 100$ Answer = **68.8%** (Accept between 68% and 69%) **Award 2 marks for correct answer (68.8)**	**(2)**

Q5.

Question Number	Indicative content	Mark
	Knowledge 4, Application 4, Analysis 8, Evaluation 9 • Definition of a wage differentials • Recognition that labour is a derived demand • Use of labour market diagrams to show the reasons for wage differentials Likely reasons: • Differing demand for labour • Differing levels of supply of labour • Compensatory reasons – skills/qualifications/experience/region/productivity/age • Public versus private sector workers • Problem of a monopsony employer for certain workers • Impact of trade union membership • Impact of immobility of labour • Impact of discrimination • Use of elasticity of demand for labour • Use of elasticity of supply of labour • Current labour market issues – gig economy/zero hours/austerity/gaps in employment for carers **NB – For Level 4 the candidate must refer to a specific industry and the reasons for the wage differentials that exist within it.**	
	Evaluation • Significance of the reasons provided • Counterarguments made to the point raised • Extent to which wage differentials may reflect the fact that labour market forces are working efficiently • Extent to which wage differentials may reflect imperfections in the labour market • Likely to be a combination of reasons • Wage differentials may ignore bonuses or other financial/non-financial rewards • Consideration as to whether the wage differentials are increasing or decreasing within the industry • Contrast to alternative industries • Short run versus long run consideration • Increased transparency may reduce pay differentials. • Regulations/National Minimum Wage/unions/public pressure reducing wage differentials. • Gaps in employment becoming shorter or delayed	**(25)**

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

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

Q6.

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-inefficency ○ Lack of choice as control 35% of market ○ Restriction of new competitors ○ Slowed pace of technology ○ Poor customer service • Depends on the actions and behaviour of rival firms • Depends on the extent to which cost saving measures are passed on to the consumer • Depends on the degree of future regulation within the industry	**(8)**

Question Number	Indicative content	Mark
(c)	**Knowledge 2, Application 2, Analysis 2** **Information gaps as main cause of consumers failing to switch** ➢ Consumers lack market information on the price of their landline bill in relation to other providers ➢ Main target audience (the elderly) lacks the knowledge to shop around online and use price comparison sites ➢ Switch to online billing and direct debit payments means many households are unaware ➢ Automatic price changes made by BT ➢ Hard to compare prices as all bundles comprise of different services ➢ Lack of awareness of competitor prices and packages	

	Irrational behaviour as main cause of consumers failing to switch ➢ Computation issues e.g. consumers do not understand their pricing structure ➢ Habitual behaviour/status quo bias/brand loyalty e.g. consumers may have a tendency to purchase the same service over time ➢ Consumers do not have the time to shop around or look for better deals ➢ Consumers want to avoid the disruption of changing provider ➢ Strong brand of BT leading to an inelastic demand Other factors could be causing this: ➢ Misleading advertising or price plans ➢ Lack of provision in all areas e.g. fibre optic or bundles ➢ Tie in contracts & automatic renewals ➢ Information overload ➢ Size of savings may not be significant enough to go through switching ➢ Line quality may vary so not similar packages/non-price considerations make BT offer the best. **NB For Level 3 response candidates need at least two reasons but are not required to use both 'information gaps' and 'irrational behaviour'.** **NB There may be overlap between information gaps and irrational behaviour as reasons.**	**(6)**

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

Question Number	Indicative content	Mark
(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)**

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)**

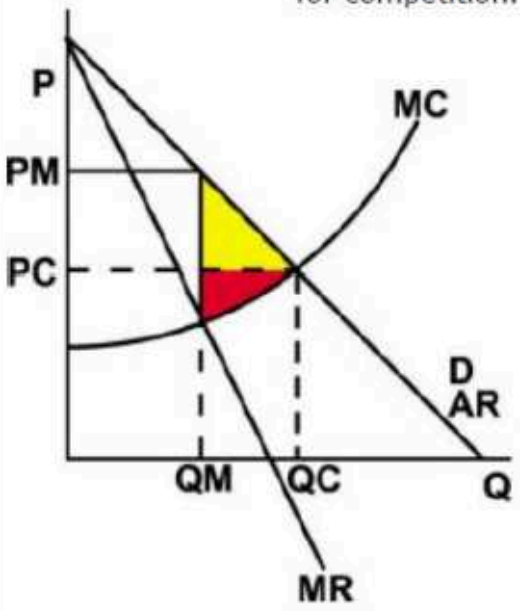
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evaluative comments supported by relevant reasoning and appropriate reference to context.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



Consumer surplus increases (A-B)

Improved allocative efficiency for consumers, surrogate for competition.



(9)

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

Question Number	Indicative content	Mark
(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.

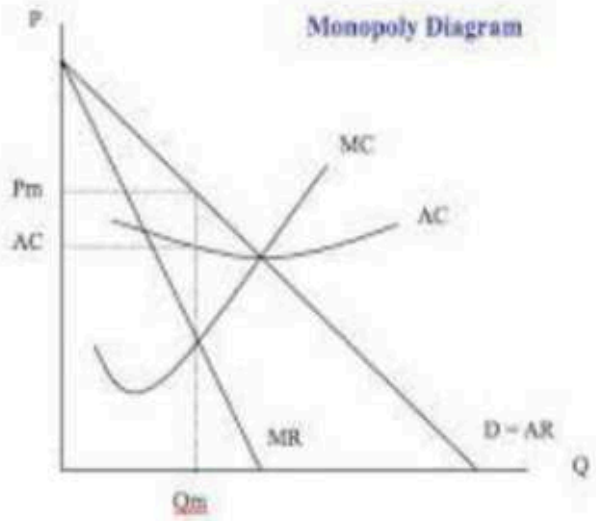
Q7.

Question Number	Indicative content	Mark
	Knowledge 4, Application 4, Analysis 8, Evaluation 9 • Definition of monopsony – single dominant buyer or bargaining power in their market • Identification of monopsony abuse • Explain the reason why suppliers will receive a lower price and/or lower sales • Cost to supplier – lower price, less revenue, less abnormal profit, reaching shut down point, less producer surplus, less finance for investment, 'delaying their delivery, raising their prices, and steering customers to other publishers' in the case of book publishers facing Amazon. • Cost to consumers – less choice, monopsony power may result in monopoly power so consumers do not benefit from lower prices passed on. • Cost to employees at supplier firms - wage cuts, job losses. **NB: for a Level 4 response, candidates must refer to a specific MARKET in their answer.**	
	• Difficult to assess the strength of monopsony power – buyers may make strategic partnerships with suppliers/other dominant buyers may exist or emerge/suppliers may work to establish their own monopoly power/bi-lateral negotiations. • Counterarguments made to the points raised • Lower prices for consumers, increased consumer surplus and choice. Monopsony acts as a counter-weight to the selling power of a monopolist. • Suppliers have a major buyer improving revenue, long term investment decisions, profit. • Monopsony firm benefits • Supplier and monopsony firm employees benefit • Government intervention to protect suppliers and employees • Government intervention to promote competition and contestability • Monopsony might be buying books from large publishers so creates a bilateral monopoly.	**(25)**

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

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

Q8.

Question Number	Answer	Mark
	Knowledge 4, Application 4, Analysis 8, Evaluation 9 • Understanding of monopoly (may be implicit). This may include natural monopoly or state imposed monopoly • Use of data e.g. Apple has 38% market share which exceeds CMA definition of 25% market share. • Understanding of operating in consumer interest: for example, impact on price, choice, product quality, customer service, improves allocative efficiency and investment. • Market structure diagram made relevant to argument presented: this is most likely to be a monopoly diagram. 	

	One firm may operate in consumer interest since: • Limit pricing/may act as a surrogate for competitive pricing. Revenue/sales maximisation may move closer to allocative efficient pricing and output. • Super normal profits may result in dynamic efficiency gains e.g. choice, product quality, customer service and investment. • Economies of scale resulting in lower cost passed on as lower prices	

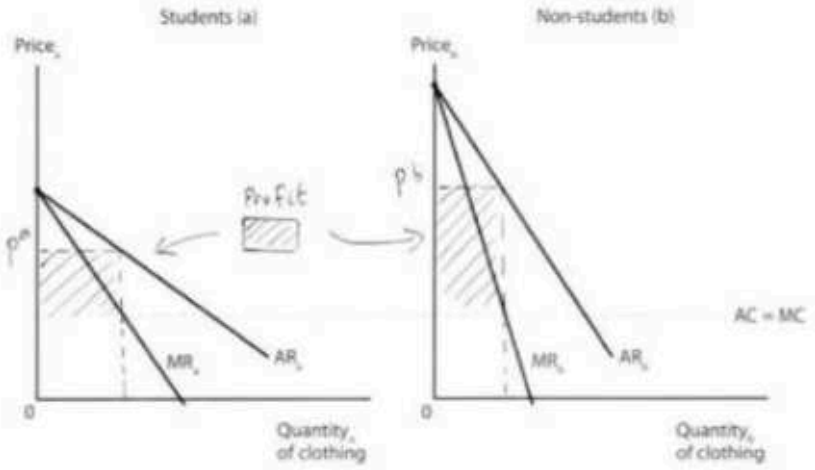
	One firm may operate against consumer interest since: • Consideration of profit maximisation pricing strategy as opposed to lower prices set in a competitive market. • There may be greater possibility of collusion (overt or tacit) due to the high market share. • One firm may use its market power to increase entry barriers e.g. for Apple by locking their phones and thus, reduce consumer choice. • Consideration of product quality or customer service. No significant innovation, quality updates or features added, but price has risen. Loss of consumer surplus/dead weight loss of monopoly argument. • X inefficiency resulting in higher costs and higher prices. • **NB: For a Level 4 response, candidates must include an accurate diagram** • **NB: Candidates can argue that one company acts in the consumer interest as KAA, and against consumer interest as evaluation or vice versa.**	

	Evaluation • Real price increases of products may be due to higher wholesale costs / production costs or an increased global demand. • It depends on how powerful the other firms are in the market. E.g. competition may make firm compete effectively even in a oligopoly or duopoly. • Depends on the effectiveness of regulation by CMA. • Depends on the objective of the firm. • Depends on how contestable the market is e.g. New entrant such as China's Huawei has recently joined the smartphone market and is expected to gain a large market share, offering new consumer choice. • Higher market share can benefit the consumers via lower prices (efficiency savings / scale economies can be passed on). • Higher profits could lead to higher investment producing innovative and high quality products	**(25)**

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

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

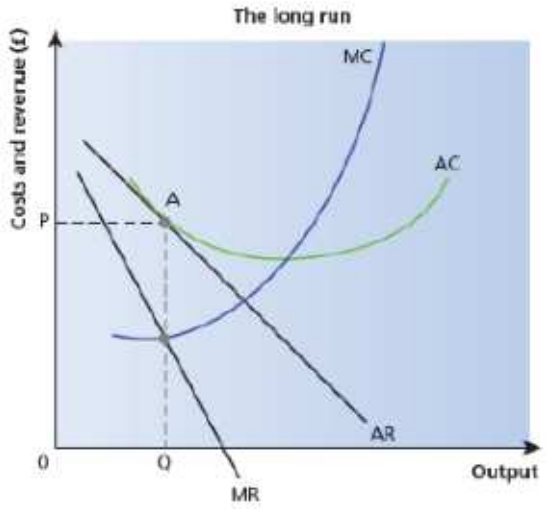
Q9.

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

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

Q10.

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

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

Q11.

Question Number	Answer	Mark
(a)	**Application 2** **Application:** 1 mark for applying the 3-firm concentration formula and 1 mark for accurate answer, e.g. **14.1+9.7+3.5 = 27.3** (1)**/47.6 x 100 = 57.4% (q3 13)** (1) NB if the answer given is 57.4% award 2 marks.	**(2)**

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

Question Number	Answer	Mark
(c)	**Knowledge 1, Analysis 1** **Knowledge/understanding:** 1 mark for identifying barrier to entry **Analysis:** 1 mark for a linked development, e.g. • economies of scale (1) large quantity for Apple, Samsung mean they are likely to reap marketing, purchasing economies (1) • limit pricing (1) where tablet producers lower price below profit maximisation to restrict entrance of competitors (1) • branding (1) significant marketing budgets spent by tablet manufacturers which it would be expensive for new entrants to afford (1) • patents (1) the technology including batteries will be protected meaning competitors cannot replicate (1) • sunk cost (1) costs a lot to invest in manufacturing units which small firms will not have the resources to do. (1)	**(2)**

Q12.

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)	

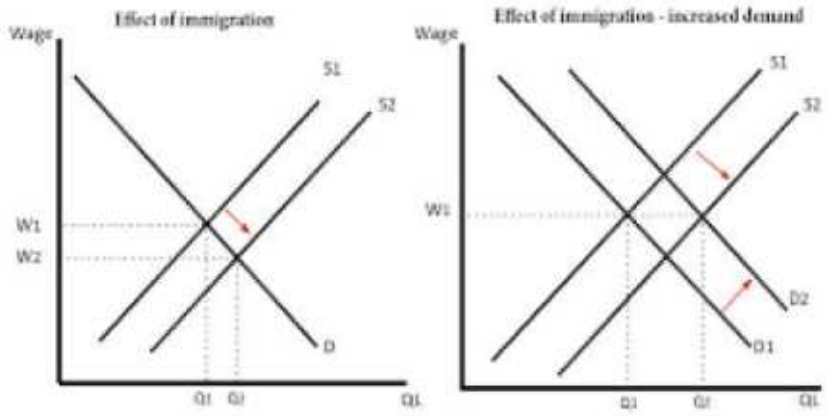
	Analysis (1 + 1): • Linked development of the two points made • Maybe shown by diagrammatic analysis **Evaluation:** (2 marks for any relevant point, two points 1 +1). Points might include: • Subjective happiness is yielded from an HCW, implying that it is rational to use an HCW/it is not rational as 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)**

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**	

	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)**

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**	

	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)**

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.

Q13.

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

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

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

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

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

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

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

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

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

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

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

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

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

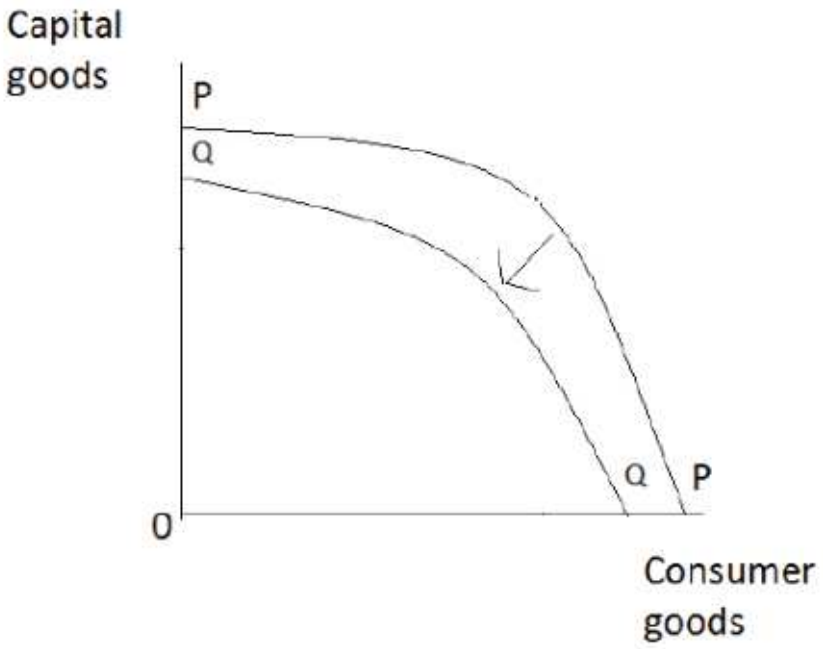
	NB environmental impacts, labour markets, taxation or incomes can be seen as a micro or macro approach. **Evaluation points may include:** • Extent of negative externalities depends on whether new processing plants for cups are set up/how alternatives are produced. • Depends on the extent of the increase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

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

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

Q1.

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)	



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.

Q2.

<table>
<tr><th>Question Number</th><th>Indicative content</th><th>Mark</th></tr>
<tr><td></td><td>

Knowledge 4, Application 4, Analysis 8, Evaluation 9

- Definition of collusion
- Recognition of the concept of interdependence likely to exist in an oligopolistic market structure
- Identification of the format in which collusion may take

Likely reasons:

- Reduce the level of competition & the cost of direct competition e.g. – marketing or price wars
- Increase revenue and joint profit maximisation
- Use of game theory and pay off matrix to show the benefits of collusion v competition, e.g

Firm B

Revenue	High Price	Low Price
High Price	£7.7 bn , £7.7 bn	£1 bn , £10bn
Low Price	£10bn , £1 bn	£5bn , £5bn

Firm A

- To restrict choice and increase price setting power
- To enable the cost of regulations & taxation to more easily be passed on to the consumer
- To protect market share/dominance against new entrants and rivals
- To reduce uncertainty within the market
- To control supply
- Higher producer surplus and shareholder value
- Market rigging to allocate work between contractors
- Anti-competitive practices to restrict access to the supply chain
- Poor regulation/asymmetric information/regulatory capture so lack of detection/difficult to find evidence of tacit collusion.

NB for a Level 4 response, candidates must refer to a specific INDUSTRY in their answer.

</td><td></td></tr>
</table>

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

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

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

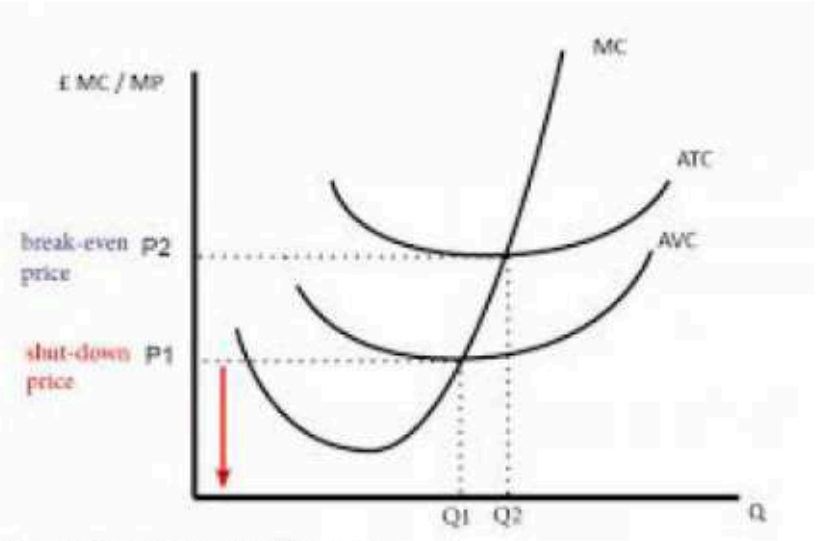
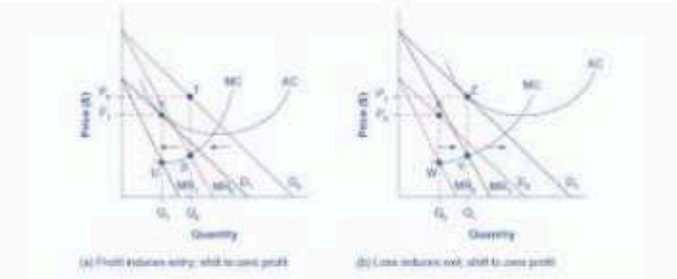
Q3.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Q4.

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

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

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

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

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

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

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

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

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

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

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

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

Q5.

Question Number	Indicative content	Mark
	Knowledge 4, Application 4, Analysis 8, Evaluation 9 Define minimum wage. Positive impacts: • above-inflation increase to the rate of £6.31 per hour/ real term rises – could help people cover the rising cost of living • a rise of more than 50p an hour – helps reduce poverty • lowers inequality • higher rewards may improve productivity. Negative impacts: • big rise could cost people their jobs • diagram- showing minimum wage above equilibrium – labelling unemployment • above-inflation increase to the rate of £6.31 per hour – could be inflationary • not supporting business – adds to costs/growth • may make informal/ grey economy more attractive for employers to pursue – less protection/less tax revenue **Evaluation** • May not be a problem in many markets where wages are well above minimum wage. • Depends on the proportion of costs that are allocated to wages. • Depends on how labour intensive production is – big impact if labour intensive. • Short term – firms may be slow to adjust to new cost conditions.	**(25)**

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

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

Q6.

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 line2) • 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)**

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.

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	

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	

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.

Q7.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Q8.

Question Number	Answer	Mark
(a)	**Knowledge 1, Application 1, Analysis 3** **Knowledge/Understanding:** (up to 1 mark) • Real price of gas and electricity refers to their price adjusted to remove the effects of inflation (1) • Increase in demand (1) • Decrease in supply. (1) • The lack of competition (1) **Application:** (up to 1 mark) e.g. • Figure 1 indicates the real price of gas and electricity has increased since 2004: electricity from 70 to 119 or rises 70% (accept approximations) (1) • Gas from 58 to 121 or rises by 108% (accept approximations) (1) **Analysis:** up to 3 marks for linked development of one reason e.g. • Rise in price (1) due to non price determinant of demand e.g. income, economic growth, population growth (1) explained using contraction in demand or extension in supply or other extended analysis of market forces (1) • Rise in price (1) due to non price determinant of supply e.g. increase in cost of production, finite resources (1) explained using contraction in demand or extension in supply or other extended analysis of market forces (1) • Energy firms have sought to increase profits (1) tacit collusion (1) provide more dividends and higher share prices for shareholders (1) directors salaries linked to profits (1) • Energy firms able to exploit consumers not behaving rationally due to: influence of other consumers (1) habitual behaviour (1) computation difficulties (1)	**(5)**

Question Number	Indicative content	Mark
(b)	**Knowledge 2, Application 2, Analysis 4** • **Measures referred to will increase competitiveness by removing imperfect information, addressing asymmetric information, reducing barriers to entry and exit.** • Customer database will help producers to directly contact consumers to offer better deals. *It may encourage firms to enter the market – the extract refers to recent new entrants having a combined market share of 12% for gas and electricity. Firms may enter as they have more market knowledge of customers for each energy supplier and are permitted to contact them directly offering their service.* • Smart meters will increase market information for consumers on their electricity consumption so may seek better deals. *Scope exists to enter as 70% of domestic customers of the six largest energy firms on an expensive standard tariff. Smart meters provide more information to customers on energy usage and price / reduce issue of asymmetric information / forcing energy suppliers to become more price competitive.* • Price cap for vulnerable customers on pre-paid meters will help limit increases in energy bills and so offer some protection as a surrogate for competition. *Price cap may offer some degree of certainty over the price firms could charge / encouraging market entry.* • Other evidence from Extract A demonstrates that measures have been successful in the past e.g. new entrants in the market **NB: Answers must relate to *effectiveness* of *measures*** **NB: Arguments that the measures are successful may be seen as KAA and unsuccessful as evaluation or vice versa**	**(8)**

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

Question Number	Indicative content	Mark
(b) continued	**Evaluation 4** • Some consumers may still not switch to cheaper energy tariffs / due to problem of computation, inertia or habit. • Customer database may lead to unintended consequences e.g. customer annoyance at telephone calls so they ignore calls, information overload resulting in making it harder to compute to make a decision. • Significant barriers to entry exist in the domestic energy market: large economies of scale/established firms have some customer loyalty / advertising costs / licences required to supply energy. • Price cap is only temporary and covers just 4 million customers / energy prices through pre-paid meters already exceed standard bills. • Price cap may discourage firms from entering the market / as less profit incentive. • Price cap may automatically become the price each company sets and so reduces competition and may increase prices. • CMA found no evidence of anti-competitive practice.	**(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 2** • Understanding of profit cap (a limit on profits as a percentage of total revenue). Linked development: profit cap is usually introduced in industries where supernormal profits are regarded as excessive / profit cap may be necessary where little competition exists or where collusion is possible. • Chair of CMA recommended 1.25% profit cap against industry return of 7%. Linked development: profit cap is proposed in the retail sector of the energy industry which involves just marketing, billing and metering energy. • Impact on consumers: lower energy bills and so households may be better off in real terms / may increase energy consumption / domestic firms that consume energy may become more competitive due to lower costs of production / rising consumer surplus. • Impact on energy producers: lower revenue and so lower profits / less funds for investment and so risk of energy supplies in future / falling share prices and dividends / change in objective e.g. from profit maximisation to sales maximisation. **NB: For Level 3 response candidates must refer to consumers and supplies** **NB: Negative effects on consumers and producers may be seen as KAA and positive effects as evaluation or vice versa**	**(6)**

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

Question Number	Indicative content	Mark
(c) continued	**Evaluation 4** • There may be upward effects on price for consumers as firms become more x-inefficient or reduce total investment. • Depends on the level of profit cap on energy firms / how long it may be applied: if it is 1.25% it may be too harsh compared to other industries such as supermarkets. • It is a vertically integrated industry – so energy companies can make profits in the generation of electricity and gas. • Energy firms appear to have made huge profits over previous years and so may be able to cope with lower profits. • Energy firms may increase sales revenue and so profit values may still be high. • Energy suppliers experience low levels of risk in their retail operations so necessary rewards are lower. • Unintended consequences such as a reduction in new entrants to the industry and less competition, risk of power shortages due to under investment or excess demand. • Multinational owners may use transfer pricing to avoid profit cap.	**(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
(d)	**Knowledge 2, Application 2, Analysis 2, Evaluation 2** **Accept answers based on switching between electricity suppliers as well as switching from electricity to other energy sources** **Knowledge/Understanding:** 2 marks for identification of two reasons (1+1) e.g. • It takes time for consumers to switch demand following price changes • Existing contracts make it difficult to switch in the short term • More substitutes available in the longer term **Analysis:** 1 mark for linked explanation of each reason (1+1) e.g. • Demand more price inelastic in short run as: takes time for consumers to adjust their consumption habits (habitual behaviour) / imperfect market information / no close substitutes. • Demand less price inelastic in long run as: some consumers are able to change their habits improved market information / substitutes may emerge such as greater use of gas appliances or installation of solar power panels.	
	Application: 2 marks for reference to data (1+1), e.g. • Idea that demand is price inelastic (1) becoming less inelastic / more elastic in the long run (1) • Use of Extract A e.g. 70% of domestic consumers do not switch (1) • Development of new technology that reduces electricity consumption / electricity saving lightbulbs or energy efficient kettles (1) • Increased awareness of measures to become more price sensitive (1) to become more energy efficient (1) • Costs and time involved in switching to energy-saving appliances (1)	

	• Improved consumer knowledge of consumption through smart meters (1) • New firms might enter the market using gas / biofuel / solar / wind / households producing their own rather than buying electricity (1) **Evaluation:** 2 marks for two evaluative comments, OR 2 marks for identification and linked development of one comment • The figures are averages for all households – but great variation exists between households; for example, there may be no effect on households who have little concern for energy saving measures. • High income households may not be affected by rising electricity prices as it comprises such a small part of total income - so demand remains very price inelastic. • Some households may suffer from imperfect market knowledge in long run or cannot change their habits – so demand remains very price inelastic. • Consideration of the magnitude of the change in elasticity (from -0.35 to -0.85); quite substantial in terms of doubling elasticity / or electricity demand still remains price inelastic in the long run as no suitable alternatives.	**(8)**

Question Number	Indicative content	Mark
(e)	**Knowledge 3, Application 3, Analysis 3** Policies may include: • **Increase investment in training programmes** to raise quantity and quality of human capital and productivity / increase provision of modern apprenticeship schemes / it may involve government subsidies or tax breaks to firms. • **Recruit skilled workers from overseas** via careers fairs and trade journals / provides a ready supply of labour. Accept policies referring to geographical mobility of labour if linked to the energy sector. • **Change industry image** so it appeals to more female school leavers and graduates – this may involve restructuring of careers advice / marketing programmes and information on career paths and opportunities. • **Retain ageing workforce** by improving working conditions and rates of pay / offer flexible working hours and part-time work / raise state retirement age; older workers have higher levels of human capital and so productivity could be increased. **NB: For Level 3 response candidates must refer to at least one business policy and one government policy.** **NB: For Level 3 response candidates must refer to the energy sector.**	**(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.

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Question Number	Indicative content	Mark
(e) continued	**Evaluation 6** • **Training programmes** involve (opportunity) costs to businesses and government / time period to train labour, especially in higher order technical skills / quality of training programmes. • **Recruitment of skilled workers from overseas** may create problems such as access to UK jobs following Brexit decision / language barriers / differences in qualifications and skills to those required / possibility of higher staff turnover if overseas workers intend to return home / family ties and high house prices may create geographical immobility of labour. • **Changing energy sector image** may require high levels of marketing expenditure / some jobs may not suit parents with family commitments. • **Retain older workers** could lead to problems of poor health and low productivity and ability to learn new tasks. Also the underlying skilled labour shortage remains – eventually older workers will retire. • **Other policies** to overcome labour shortage for example, new technology to substitute labour with capital, means that reducing labour immobility is not a priority.	**(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.

Q9.

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)	

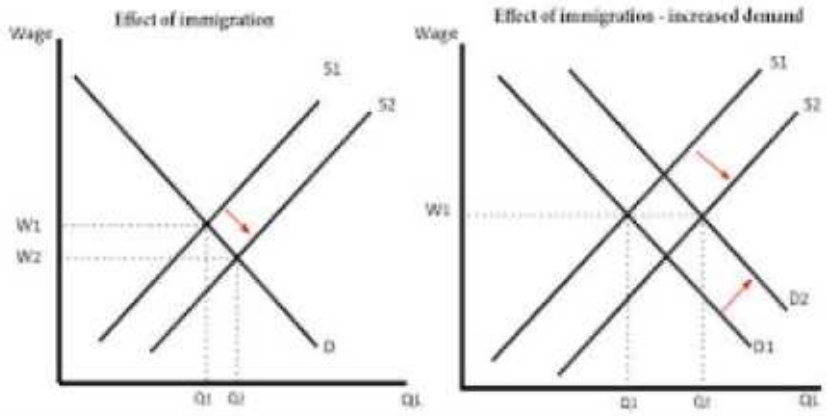
	Analysis (1 + 1): • Linked development of the two points made • Maybe shown by diagrammatic analysis **Evaluation:** (2 marks for any relevant point, two points 1 +1). Points might include: • Subjective happiness is yielded from an HCW, implying that it is rational to use an HCW/it is not rational as 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)**

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**	

	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)**

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**	

	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)**

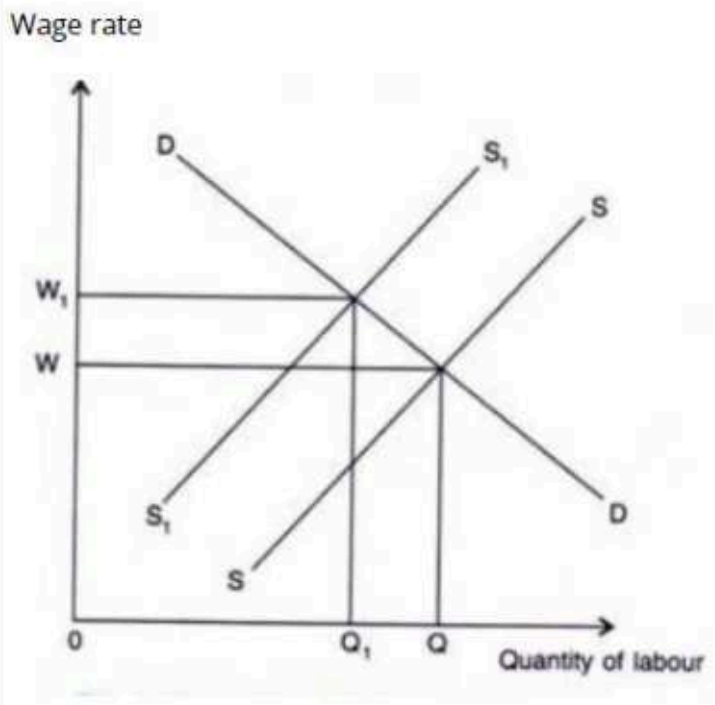
Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays ability to apply knowledge in context but will focus on small range of elements. Demonstrates understanding by identifying relevant information. Demonstrates knowledge and understanding 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.

Q10.

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

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



Q11.

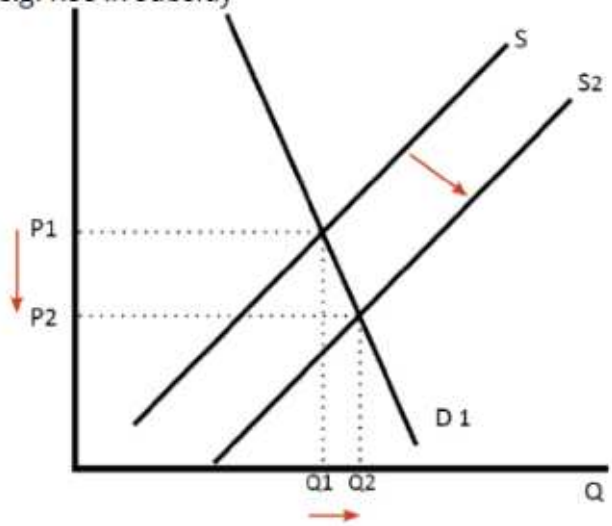
Question Number	Indicative content	Mark
	Knowledge 4, Application 4, Analysis 8, Evaluation 9 **Factors might include:** • Net-wage financial advantages including rise in NMW, benefits and tax (MTR); relative to other occupations/countries/leisure • Job satisfaction/safety - bonuses, employment rights • Skills required – cost and ease of education and training, qualifications needed, transferability of skills • Workforce demographics – early retirement, women entering workforce, cultural or social geographical ties • Housing costs in a particular area • Reduced net migration flows to UK from within EU • Infrastructure – ability to commute or work from home • Trade union power • Flexibility – willingness to sign up to zero-hour contracts to overcome barriers to work due to caring or study commitments **NB: allow application to any industry/occupation. To secure Level 4 requires application to at least one occupation.**	

	Evaluation • Prioritisation of factors. • Ease and cost of acquiring skills/language barriers • Barriers to work - social exclusion, study or care commitments, disability discrimination • State of economy – recession • Increase in non-EU net-migration • Information problems • Government measures to improve/limit supply • Short-run/long-run • Rate entering versus rate leaving market • Significance of factors change over time with short run and long run considerations • Combination of factors is likely to have a bigger impact on supply of labour	**(25)**

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

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

Q12.

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

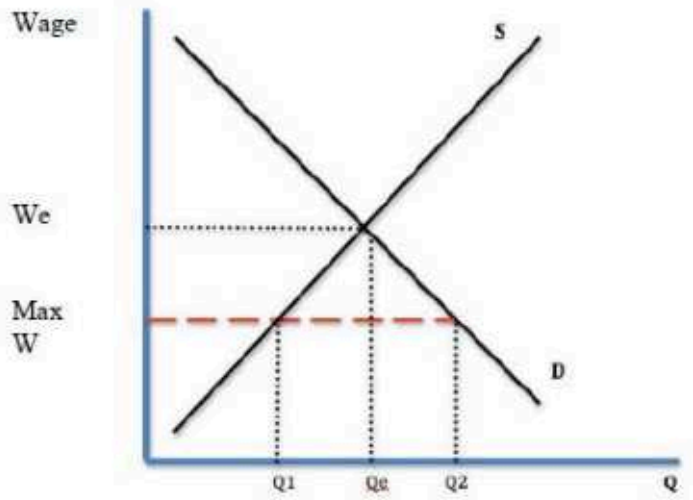
	Explanation that subsidy increase is a rise in financial assistance OR cut in cost of production OR additional cash grant (2) Explanation that decreasing costs borne by producers is passed on to consumers as a fall in rail fares OR excess supply results in fall in rail fares (2) **Application:** 1 for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

Question Number	Answer	Mark
(b)	**Knowledge 2, Analysis 2, Application 2, Evaluation 2** **Knowledge/understanding:** 2 marks for identification of two non price determinants (1+1) e.g. • Change in taste and preference/quality of service • Changes in income • Price of substitute has risen/substitute less attractive • Price of complement has fallen/complement more attractive • Increased population/migration • Lower price in real terms • Lower prices – special offers/off-peak/forward booking.	
	Analysis: 1 mark for linked explanation of each identified determinant to demand increasing/shifting right (this may be shown on a diagram) (1+1) Increase in population moved to commuter areas/improvement in rail stock e.g. wifi access. Income elasticity of demand Close substitute e.g. car travel, XED >+1 Close complement e.g. on-board meal, XED >-1 **Application:** 2 marks for reference to Figure 2 (1+1) or other data (1), e.g. • Approximately 50 billion rail passenger kilometres per year (1) to 65 billion (1) or increased by 15 billion rail passenger kilometres per year (2) or Increased by 30% (2) • Economic recovery post 2008 crisis (1) • Cost of car travel/road congestion (1) • Quality of train meals/on board Wi-Fi access (1)	

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

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

NB: Allow relevant diagram e.g.



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

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

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

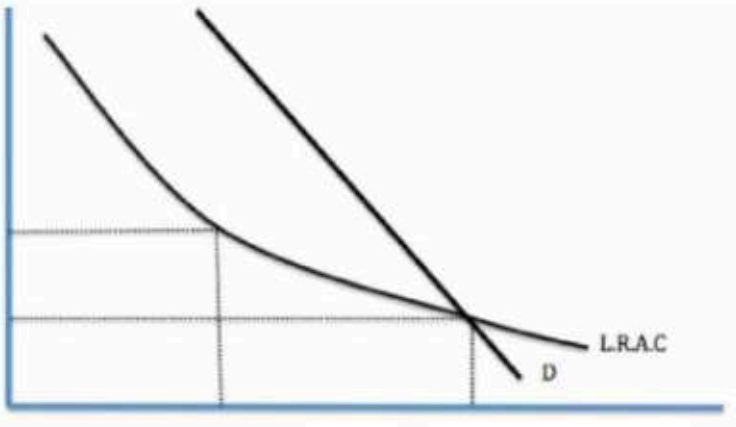
(6)

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

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

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

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

	AC  Output • Only one rail network company can fully exploit large internal economies of scale – technical, commercial, managerial. **NB: Case for can be seen as KAA and positive case against as evaluation or vice versa.**	(8)

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

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

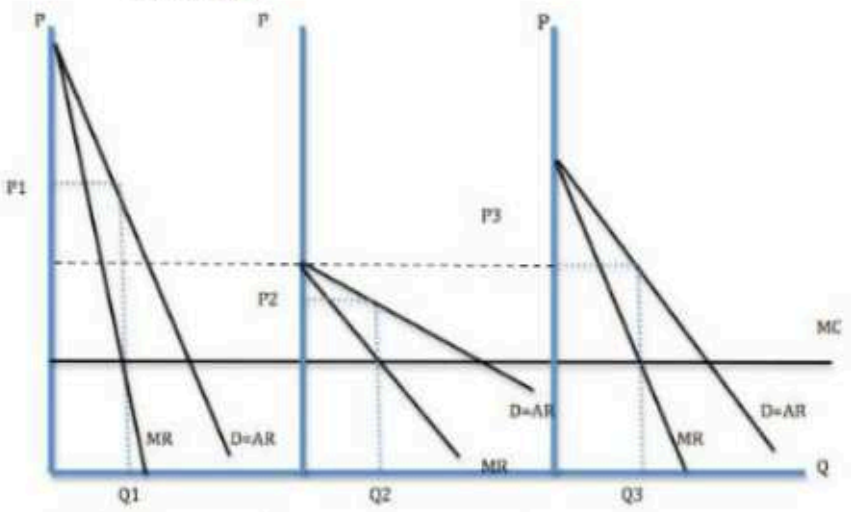
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	**1–2**	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	**3–4**	Evaluative comments supported by relevant reasoning and appropriate reference to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

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

- **Avoids overcrowding**
  Trail operators can use price discrimination to manage demand, preventing overcrowded train in peak travel times and encouraging rail travel by 16-25 year olds in less popular times off peak.

- **Improved customer service**
  Rail travellers receive a better-quality travelling experience thanks to additional revenue raised through price discrimination. Investment in new trains, station services, online ticketing, customer information, Improved food and drink service, Wi-Fi access, seating and storage space.

- **Price discrimination diagram** showing, for example:
  Market profit maximising price and output P3 and Q3. At which no service would be provided for 16-25 year old customers. Price discrimination enables a lower price of P2 (£69.50) for young persons' – so consumer surplus increases for consumers with relatively more price elastic demand



NB: Other correct diagrams accepted.

NB: For Level 3 a valid diagram such as above is required. Analysis must link to benefits to consumers. Allow other types of rail fare price discrimination e.g advance booking, Senior Railcard, 16-17 year olds half price travel.

(9)

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

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

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