PEARSON EDEXCEL IAL ECONOMICS · YEC11

ECONOMICS



MARK SCHEME

UNIT 3: MARKET STRUCTURES AND CONTESTABILITY

SCORE	PERCENTAGE
/361	%

STEMUP

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Mark Scheme

Q1.

Question Number	Quantitative skills assessed	Answer	Mark
	QS2: Calculate, use and understand percentages, percentage changes and percentage point changes. **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is B** **A** *is not correct because this is the 3-firm concentration ratio* **C** *is not correct because this is the sum of the market shares of the largest 3 firms and 'others'* **D** *is not correct because this is the 5-firm concentration ratio*	**(1)**

Q2.

Question	With reference to Figure 2 and Extract A, analyse **two** barriers to entry that might prevent a new firm from entering the UK energy market. **Answer**	Mark
	Knowledge 2 Application 2 Analysis 2 **Quantitative skills assessed: QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge and analysis** **Up to 2 knowledge marks for identifying two reasons and 1 analysis mark for each linked expansion e.g.** • Few dominant firms **(1K)** make it harder for a new firm to compete because of brand loyalty **(1AN)** • Significant increase in the wholesale price of natural gas **(1K)** causing an increase in cost of production for new entrants **(1AN)** • Economies of scale **(1K)** allows incumbent firms to achieve lower average costs enabling them to lower prices if new firms enter **(1AN)** • Increased regulation **(1K)** increases costs to a new firm wanting to enter the market to meet new production standards **(1AN)** • Price cap **(1K)** may deter new firms from entering the market if it is unlikely they may be able to make a profit **(1AN)**	

	Application Up to 2 marks for application to Extract A and/or Figure 2 e.g. • 31 small suppliers have left the market **(1)** • Six large companies account for 74.4% of the market in Q4 2020/ 82.3% Q4 2021 **(1)** • Market share of small-sized gas suppliers decreased from 7.2% in Q4 2020 to 3.2% in Q4 2021 **(1)** • Reference to wholesale price of gas increasing using data from Figure 2 **(1)** • Price cap was £1 277 in 2021/£1 971 in 2022 **(1)** **NB if more than two barriers considered, credit the best two**	**(6)**

Q3.

Question	With reference to Extract A, analyse **two** barriers that Stellantis are likely to experience when trying to increase market share in China. **Answer**	Mark
	Knowledge 2 Application 2 Analysis 2 **Quantitative skills assessed: QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge and analysis** **1 mark for a definition of barriers to entry-** factors that prevent or make it difficult for new firms to enter a market **(1)** **Up to 2 marks for identifying two barriers and 1 mark for linked expansion of each e.g.** • Lack of knowledge/experience/ language/cultural awareness of the market **(1)** makes it more difficult for Stellantis to adapt cars to meet consumer's needs **(1)** • High levels of competition in the Chinese market **(1)** increases marketing costs and risks **(1)** • Brand loyalty **(1)** consumers will have habitual consumption of cars making it difficult to sell in the market **(1)** • High sunk costs **(1)** makes it more expensive to enter the new market/gain market share **(1)** **Application** Up to 2 marks for application to Extract A • In 2020 the two firms had a total 1% market share in China **(1)** • Chinese car firms had a 40% market share **(1)** • The Chinese car market is dominated by many well-established firms including Volkswagen/Honda/Toyota **(1)**	**(6)**

Q4.

Question	With reference to the information provided and your own knowledge, discuss the likely barriers that might prevent a new company from entering the pharmaceutical industry. Indicative content
	Indicative content guidance Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited. **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms.

	Knowledge, Application, Analysis (8 marks) – indicative content Barriers to entry are factors that make it difficult or expensive for new companies to enter an industry to compete profitably with existing companies. • High R&D costs: Developing new medicines involves extensive research and clinical trials, might spend up to 25% of their revenue. In 2022 Johnson & Johnson spent $14.6 bn, Roche spent $14.8 bn and AstraZeneca spent $9.8 bn • Strong competition: a number of very large firms dominating the pharmaceutical industry in Ireland, including Pfizer with global revenue of $100.3 bn • Regulatory approval processes: The pharmaceutical industry is highly regulated, and the Regulatory Authority will need to approve products, making it more difficult for new firms to enter • Intellectual property protection: Patents provide up to 20 years legal protection in the EU, giving the established firms monopoly power over their products • Economies of scale: Established pharmaceutical companies benefit from economies of scale, allowing them to produce medicines at lower costs per unit. New entrants may struggle to achieve similar efficiency • Distribution networks: Established companies have well-developed channels for distributing and marketing their products, while new entrants may face challenges in establishing such networks • Complexity of medicine development: This involves large amounts of industry knowledge and may deter new entrants that lack experience and expertise • Pricing strategies e.g. limit pricing or predatory pricing may deter new entrants • High number of mergers, acquisitions and collaborations between incumbent firms • High sunk costs, e.g. advertising and promotion, that are irrecoverable when leaving the pharmaceutical industry may discourage new entrants

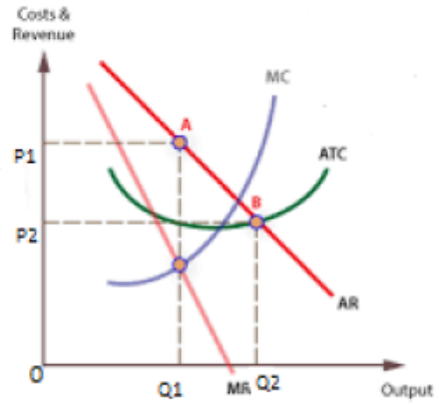
Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 3	7–8	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using relevant examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
	Evaluation (6 marks) – indicative content • A new entrant might be able to collaborate with existing pharmaceutical companies • In Ireland over 85 companies exist in the market indicating a high level of contestability • There is limited brand loyalty in the market making it easier for new companies to compete • The significance of barriers to entry change over time • An existing multinational company might diversify into the pharmaceutical industry	

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–2	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	5–6	Evaluation recognises different viewpoints and/or is critical of the evidence. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

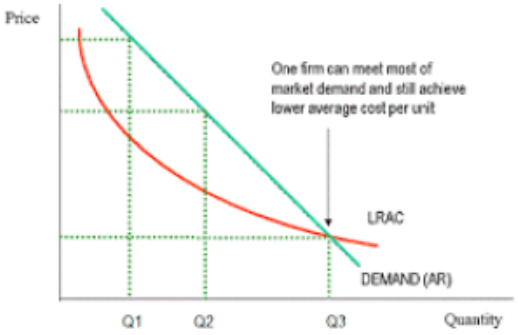
Q5.

Question	By 2017 Ethiopia was one of very few African countries that had not privatised its telecommunications market and introduced competition. The state-owned company, Ethio Telecom, was the only firm in the market. Evaluate the likely benefits of a monopoly to its consumers. Illustrate your answer with an appropriate diagram(s). **Indicative content**
	Indicative content guidance Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited. **Quantitative skills assessed:** **QS4**: Construct and interpret a range of standard graphical forms. **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge, Application, Analysis (12 marks) – indicative content** • Understanding of monopoly – the firm is the sole supplier in the market **Benefits to consumers** • A monopoly could offer new services with the knowledge that it will have no competition • Dynamic efficiency: Ethio Telecom might use supernormal profits for investment in new technology • If the monopoly is required by a government to produce the allocatively efficient level of output, then the price will reflect marginal cost and ensure that the goods produced reflect consumer demand • Some consumers may benefit if the monopolist price discriminates. This may reduce deadweight loss associated with a single price monopolist • A monopoly may need to keep prices low and continue to introduce new products in order to deter new entrants (contestable market) - price lowered from P1 to P2 and only normal profit made

Award relevant diagram e.g.



- Falling LRAC diagram. Greater productive efficiency – production will be at a lower point on LRAC curve than if there were more firms in the market. This may lead to a reduction in prices for consumers and higher consumer surplus
- If the monopoly is state-owned it may have an obligation to keep prices low and provide subsidised products/services to consumers



Restrict to a maximum of 9 marks for Knowledge, Application and Analysis if no diagram provided.

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context. A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.

Evaluation (8 marks) – indicative content

- Consumers might suffer from higher prices, so moving away from the allocatively-efficient level of output
- A monopoly might result in X-inefficiency, resulting in higher costs and higher prices
- Profits may be used for dividends rather than for investment and innovation in the products or services of the business
- Lack of competition may lead to less incentive to innovate and develop. Hence lack of choice. In terms of technological change, telecommunications is a fast moving market. The lack of competition could mean that products are out-dated and of relatively poor quality
- A state-owned monopoly may not have a profit motive and may be inefficient
- Any profits made by a state-owned monopoly may not be reinvested into the business because the government may cream off profits
- The size of benefit/problems depends on level of regulation

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Q6.

Question	With reference to Extract C, Figure 2 and your own knowledge, discuss the benefits of non-price competition for consumers and businesses in the Indian smartphone industry. **Indicative content**
	Indicative content guidance Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited. **Knowledge, Application, Analysis (8 marks) – indicative content** • Non-price competition occurs when firms use such factors as packaging, delivery, or customer service rather than price to increase demand for their products. • The Indian mobile phone industry is an oligopoly with the combined market share of the top 4 at 67% in 2021. Therefore they are unlikely to compete on price **Benefits to consumers:** • Better quality goods: Businesses are competing through innovation and design. This enables consumers to benefit from more choice/better quality goods, improving consumer welfare • Increased awareness through advertising. This enables consumers to make informed/rational decisions/maximising utility • Branding: this enables consumers to recognise the smartphones produced by each manufacturer • After-sales service: this enables consumers to resolve problems when using smartphones • New products may be developed through non-price competition allowing consumers to benefit from a greater range of smartphones with better technology

	Benefits for businesses: • Higher profits: non-price competition makes demand more price inelastic because of the better quality products. Businesses can charge higher prices and increase their profits • Avoids costly price wars • Better branding/customer loyalty as businesses are able to differentiate themselves from other smartphone producers. This can help businesses increase their sales and market share • Product differentiation through non-price competition helps these businesses to set their own prices **NB Level 3 response requires benefits to both business and consumers**

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 3	7–8	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using relevant examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.

Evaluation (6 marks) – indicative content

Consumers:

- Non-price competition may lead to higher prices for consumers as businesses will need to cover their innovation costs, reducing consumer surplus
- Consumers would most likely benefit from lower prices in a price war/price competition
- Non-price competition increases the complexity of the purchase
- Non-price competition acts as a barrier to entry reducing choice

Businesses:

- Non-price competition can be expensive. Businesses investing in new technology and innovation will increase their costs of production which may cause profits to fall
- Investing in innovation and technology can be risky and takes a long time. If unsuccessful, businesses may face increased costs and be unable to recover them with higher sales
- Smaller firms may not be able to operate in this market as non-price competition acts as a barrier to entry for them
- Non-price competition could contribute to allocative inefficiency as prices rise

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–2	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	5–6	Evaluation recognises different viewpoints and/or is critical of the evidence. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Q7.

Question	Quantitative skills assessed	Answer	Mark
	QS4: Construct and interpret a range of standard graphical forms **QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.**	**The only correct answer is B** A is incorrect because this occurs where MR=0 C is incorrect because this occurs where MC=MR D is incorrect because this occurs between profit maximisation and sales volume maximisation	**(1)**

Q8.

Question	With reference to Figure 1, calculate the four-firm concentration ratio for the US car market in 2019. **Answer**	Mark
	Application 2 **Quantitative skills assessed:** **QS2:** Calculate, use and understand percentages, percentage changes and percentage point changes **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms. Up to 2 marks for calculation: • 16.9 + 14 + 14 +13 **(1)** = 57.9% **(1)** NB: Award full marks for correct answer (57.9%) regardless of working. Award 1 mark without the percentage sign award e.g. 57.9 **(1)**	**(2)**

Q9.

Question	Quantitative skills assessed	Answer	Mark
	QS4: Construct and interpret a range of standard graphical forms **QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.**	**The only correct answer is C** A is incorrect because average revenue would never be below marginal revenue B is incorrect because this is not the shutdown point D is incorrect because the firm would continue to operate	**(1)**

Q10.

Question Number	Quantitative skills assessed	Answer	Mark
	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is D** ***A*** *is not correct because the firm is able to cover its average variable costs* ***B*** *is not correct because the firm has not covered its's average total costs* ***C*** *is not correct because the firm can cover average total costs and make normal profit*	**(1)**

Q11.

Question	Quantitative skills assessed	Answer	Mark
	QS2: Calculate, use and understand percentages, percentage changes and percentage point changes. **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is C** ***A*** *is not correct as it does not use the correct firms in calculation* ***A*** *is not correct as it does not use the correct firms in the calculation* ***D*** *is not correct because it includes 'others' in the calculation*	**(1)**

Q12.

Question	Quantitative skills assessed	Answer	Mark
	QS1: Calculate, use and understand ratios and fractions **QS2:** Calculate, use and understand percentages, percentage changes and percentage point changes. **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms	The correct answer is **B** **A** is incorrect because this is the four-firm concentration ratio **C** is incorrect because this is the four-firm concentration ratio plus others **D** is incorrect because this is the six-firm concentration ratio	**(1)**

Q13.

Question Number	Quantitative skills assessed	Answer	Mark
		The only correct answer is c ***A*** *is not correct because a high number of small firms can still operate in a market with a small number of large firms and significant entry barriers* ***B*** *is not correct because high sunk costs increase barriers to entry* ***D*** *is not correct because imperfect information makes it more difficult for firms to enter the market*	**(1)**

Q14.

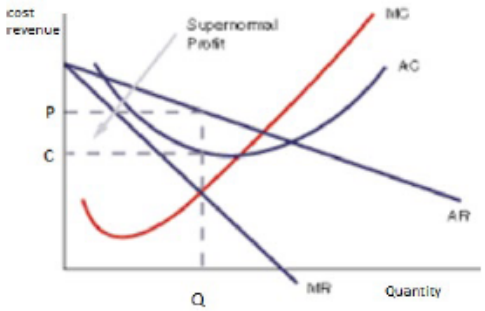
Question	With reference to Extract B, examine **two** barriers to entry into the US coffee shop market.	Mark
	Knowledge 2 Application 2 Analysis 2 Evaluation 2 **Quantitative skills assessed: QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge and Analysis** **Up to 1 mark for the correct definition of barriers to entry** Definition of Barriers to entry – obstacles that prevent new firms from entering the market **(1)** **up to 2 knowledge marks for identification of two barriers to entry and 1 mark for the linked expansion of each barrier to entry (2+2)** • A number of well-known firms operating in the coffee chain market **(1K),** making it more difficult for a new firm to establish itself because of brand loyalty, this increases barriers to entry **(1AN)** • Firms compete using non-price competition such as advertising. **(1K)** This increases the costs of operating in the market and may prevent new firms entering if they cannot afford to cover the costs of large advertising campaigns **(1AN)** • New firms will need to develop high quality coffee beans to compete with established coffee chains **(1K)** This requires expertise that a new firm may not have **(1AN)** • Firms will need to compete using social media **(1K).** This requires knowledge of social media and the ability to finance the campaign. This would increase barriers to entry to new firms **(1AN)**	

	Application Up to 2 marks for relevant application to Extract B (1+1) • Starbucks, Tim Hortons, Dunkin' Donuts, Dutch Bros Coffee and Peet's Coffee operate in the market **(1)** • US coffee shop market is likely to be oligopolistic **(1)** • Starbucks large with 27 000 stores worldwide **(1)** • The firms compete using special offers, large advertising budgets and loyalty schemes **(1)** • Investing heavily in developing mobile phone apps and online ordering systems **(1)** • Social media advertising is the most effective form of marketing for coffee shops **(1)** **Evaluation** **Up to 2 marks for evaluative comments (2+0 or 1+1), e.g.:** • A large number of successful, small independent coffee shops in the USA **(1)** A new firm can enter the market as it does not need to operate at the same size and scale as the bigger coffee chains **(1)** • Product differentiation such as different drinks and food options, require limited skills **(1)** reducing barriers to entry **(1)** • New firms can locate in different areas to well-known coffee chains **(1)**. These areas might be lower cost, reducing start-up costs and barriers to entry **(1)** • Social media marketing may be free if using apps such as Instagram and Facebook **(1)** reducing the costs of advertising **(1)**	**(8)**

Q15.

Question	Quantitative skills assessed	Answer	Mark
	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is B** A is incorrect because high legal costs reduce contestability C is incorrect because patent protection would reduce contestability D is incorrect because regulatory capture is a form of government failure	**(1)**

Q16.

Question Number	Indicative content
	Indicative content guidance Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited. **Quantitative skills assessed** **QS4:** Construct and interpret a range of standard graphical forms. **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge, application, analysis (12 marks) – indicative content**
	An oligopoly is when a few large firms dominate the market and there is interdependence between the firms Oligopolies may set prices using game theory **Firm A** **Firm B** **High price** / **Low Price** **High Price** / **Low price** *(collusion)* (A) £8m, (B) £8m (A) £1m, (B)£10m (A) £10m, (B) £1m *(non-collusion)* (A) £3m, (B) £3m If there is no collusion, then the outcome will be low price, low price. No firm will change its price from this as it would lose revenue/profit  Colluding firms act as a monopoly with price setting ability generating supernormal profits

	Disadvantages for Consumers: • A small number of producers limits competition, this limits choice for the consumer, reducing consumer welfare, e.g. limited number of mobile phone companies to choose from • Interdependence between firms may increase barriers to entry and high barriers to entry reduce the ability for new firms to compete. This reduces choice and consumer welfare • Firms may engage in anti-competitive practices such as price fixing or form cartels. These lead to higher prices, reducing consumer surplus. Disadvantages for Producers: • A large producer in the market may use price leadership to stop any price competition. This may stop other firms entering the market, as barriers to entry have increased. • Interdependence between firms may increase barriers to entry and reduce the ability for new firms to compete, e.g. no new entrants into the insurance industry • If few large firms dominate, they may all achieve economies of scale, making it difficult for new firms to enter the market and compete • Lack of competition may encourage more regulation in the market • Danger of price-cutting wars leading to lower profits or losses • Need for non-price competition which may require large marketing/advertising budget • Uncertainty in the market, e.g. ability to break the cartel agreement **NB if no industry referred to candidate can achieve a maximum of Level 3** **NB if no diagram candidate can achieve a maximum of Level 3.** **NB if producers or consumers are omitted the candidate can achieve a maximum of Level 3**

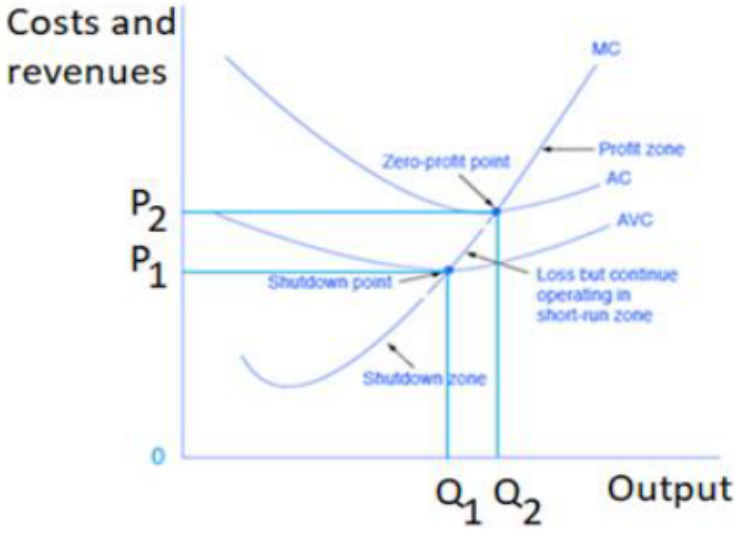
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Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context. A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.

	Evaluation (8 marks) – indicative content Possible benefits to consumers • If price wars occur, prices might fall for the consumer • Firms may achieve economies of scale, reducing costs and prices for the consumer, increasing allocative efficiency and consumer surplus. • Firms will need to compete to gain market share improving quality and lowering prices Possible benefits to producers • Collusion/cartels could lead to an increase in profits of firms • If goods are not homogenous there might be price competition and choice • Larger firms are more able to achieve dynamic efficiency, improving production and/or quality increasing sales • Greater profits from large firms enables them to have greater investment funds • Price wars reduce contestability • Competition laws may protect small businesses from being exploited • Small firms can still operate in some markets • Limited competition is preferable to a monopoly

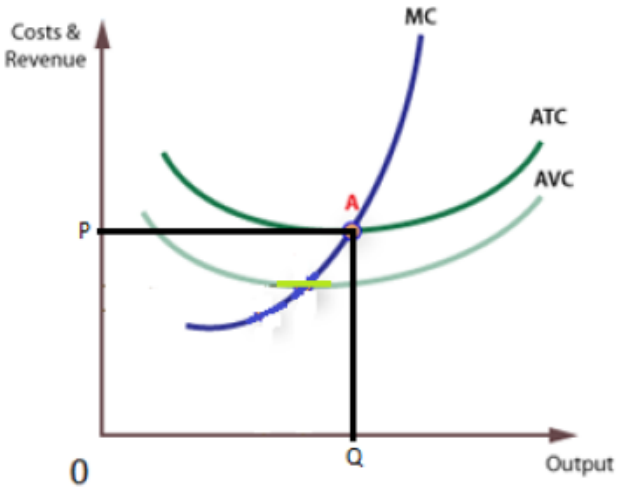
Level	Mark	Descriptor
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Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Q17.

Question	With reference to Extract B and your own knowledge, discuss reasons why many SMEs in South Africa shut down in 2020. Illustrate your answer with an appropriate diagram. **Indicative content**
	Indicative content guidance Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited. **Quantitative skills assessed:** **QS4:** Construct and interpret a range of standard graphical forms. **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge, Application, Analysis (8 marks) – indicative content** • Definition of shut-down point. ○ In the short-run a firm may shut down if the price it receives does not cover its average variable costs of production. ○ In the long-run firms will shut down as they cannot afford to produce more output therefore cannot make enough revenue to cover average total costs. • Reasons for shut down: ○ Fall in demand decreasing TR and AR ○ Increasing costs- ATC and AVC ○ Difficulties specific to SME- e.g. lack of retained profit



- Many SMEs are not receiving enough revenue to cover their variable costs. If this happens the firms will need to shut down in the short-run
- Diagram showing short-run price below AVC curve 0-P_1 and shut down output 0-Q_1
- The survey showed that small enterprises were 26 times more likely to close than larger enterprises
- SMEs required R1.1 trillion of government financial support if they were to have any chance of not shutting down in 2021



- When price is below P (ATC) the business would shut down in the long-run
- Reward diagrams that shift AR/MR appropriately

NB A diagram is required to achieve Level 3

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Chains of reasoning in terms of cause and/or consequence are evident, but they may not be developed fully, or some stages are omitted.
Level 3	7–8	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using relevant examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.

	Evaluation (6 marks) – indicative content
	• Not all firms were negatively impacted, essential services either increased profits or profits stayed the same • 64% of the enterprises that were closed indicated that they expected to reopen • If the R1.1 trillion of government financial support by the government is provided, enterprises would survive • 70% of enterprises reported that they cut back on business spending and possibly were able to survive by lowering costs • Half of medium-size enterprises were able to either close parts of their business or reduce capacity to decrease costs and prevent having to shut down

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–2	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches Some supporting evidence/reference to context. Evaluation is supported by a partially developed chain of reasoning.
Level 3	5–6	Evaluation recognises different viewpoints and/or is critical of the evidence. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Q18.

Question	Indicative content With reference to Extract C, Figure 2 and your own knowledge, discuss the likely barriers to entry for a business wishing to enter the global fashion retail market.
	Indicative content guidance Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited. **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge, Application, Analysis (8 marks) – indicative content** • Barriers to entry are any obstacle that makes it difficult for new firms to enter and compete in the fashion retail market • Barriers to entry can limit the entry of new competitors, reducing market competition and potentially enabling existing firms to maintain higher prices or market shares • Large firms are well-established, making them hard to compete with. Zara is the largest global retailer followed by Uniqlo. These brands have a high degree of brand loyalty • Uniqlo, H&M and Zara all offer low prices making it harder for new firms to compete and make a profit • The businesses have significant bargaining power over their suppliers enabling them to achieve economies of scale and reduce their average costs • The profits made in the fashion retail industry can be invested into market research and innovative design enabling these businesses to offer higher quality goods hence increasing the costs for new businesses entering the market • Businesses such as Zara and Uniqlo have a high market value. They are able to access funds for large amounts of investment • The businesses compete in stores that are costly to open and run

	• To operate in the fashion retail industry, businesses need to engage in advertising campaigns to establish themselves and compete. These can be very costly and not always effective • There is strong brand loyalty in the industry as companies such as H&M and Zara are well-established brands • New businesses may face supply chain challenges • Uniqlo, H&M and Zara invest heavily in advertising, this can be considered a sunk cost if ineffective

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 3	7–8	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using relevant examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.

	Evaluation (6 marks) – indicative content • The fashion industry in countries such as China, has a large number of firms in it, reducing brand loyalty. Uniqlo only has a 1.4% market share • There are limited capital requirements compared to industries that require substantial investment in manufacturing facilities or technology • There is easy market access because there are many online shopping and social media platforms on which clothes can be sold • Rapidly changing trends reduce brand loyalty to any one firm providing opportunities for new entrants to introduce fresh and innovative designs • There are many niche market opportunities that can be targeted by new entrants that do not compete with the larger businesses such as Uniqlo and Zara • Limited intellectual property rights reduce legal barriers to entry

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–2	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	5–6	Evaluation recognises different viewpoints and/or is critical of the evidence. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Q19.

Question	With reference to Extract A and your own knowledge, discuss the likely effects of Government policies on the productive efficiency of SMEs **Indicative content**
	Indicative content guidance **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms. Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited. **Knowledge, Application, Analysis (8 marks) – indicative content** • Productive efficiency occurs when the business is operating at its MES/lowest point on its AC curve • Training would improve the quality of management, enabling better decision-making and improving productive efficiency. Training the workforce would increase output and productivity, reducing production costs and increasing productive efficiency • The SME foundation's funding for R&D may create process innovations that could help to reduce the average cost of production • Creation of industrial parks creates external economies of scale for businesses that can allow them to lower their LRATC and move towards their MES • Investing in the quality of infrastructure within industrial parks will make running SMEs easier due to better broadband connections and power supplies lowering average costs for SMEs • Establishing loan schemes to support SMEs could result in more SMEs in being created/started increasing competition resulting in lower prices/higher productivity/more choice • Providing subsidies to SMEs lowers their average cost

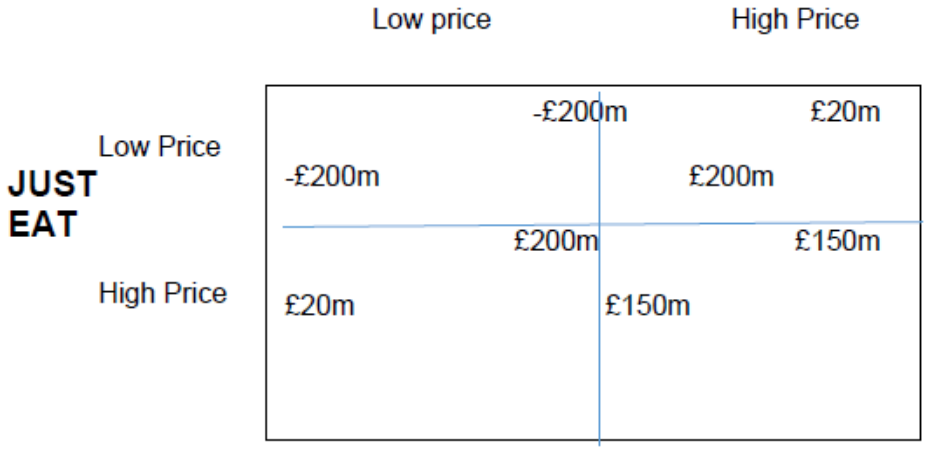
Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
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	Evaluation (6 marks) – indicative content • Many of these policies would only have an impact in the long-run because of time lags involved in training • The quality of labour is low and may not have sufficient skills to produce the newly innovated products/ if training is inefficient the quality of labour may not improve sufficiently • Research and development may help identify new areas of product development. However, if there are insufficient skills/capital the new products may not be developed • Subsidies are not available for all markets limiting the improvements in efficiency to all markets • Lower production costs may not be passed on to the consumer in the form of lower prices • The impact of the industrial parks will depend on the number of businesses willing/able to locate in these areas • Funds would be more effective if allocated to large enterprises that are more likely to experience economies of scale

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–2	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	5–6	Evaluation recognises different viewpoints and/or is critical of the evidence. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Q20.

Question	Indicative content With reference to the information provided, discuss the strategies used by food delivery businesses to increase their market shares. Refer to game theory analysis in your answer.
	Indicative content guidance Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited. **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge, Application, Analysis (8 marks) – indicative content** Understanding of non-price competition e.g. • Increase in advertising: aim is to increase demand and to make demand less price elastic • Offering more services to consumers e.g. differentiation through deliveries of grocery shopping along with takeaway orders • Use of app. Making it quicker and easier for customers to order takeaways Understanding of price competition • Deliveroo aims to increase market share - reference to sales volume/revenue maximisation through lowering prices • Reference to predatory pricing as an example of price war 'to force other competitors to leave the market' • Limit pricing to increase barriers to entry/forcing others to leave the market to increase market share • 'A price war' : suggests that there was no collusion between the businesses. Reference to game theory, with or without the diagram, to explain effect of no collusion between firms:



- The diagram above demonstrates that a price war would result in both businesses making a loss – reference to data in Figure 1

NB response must make reference to game theory in answer to achieve level 3

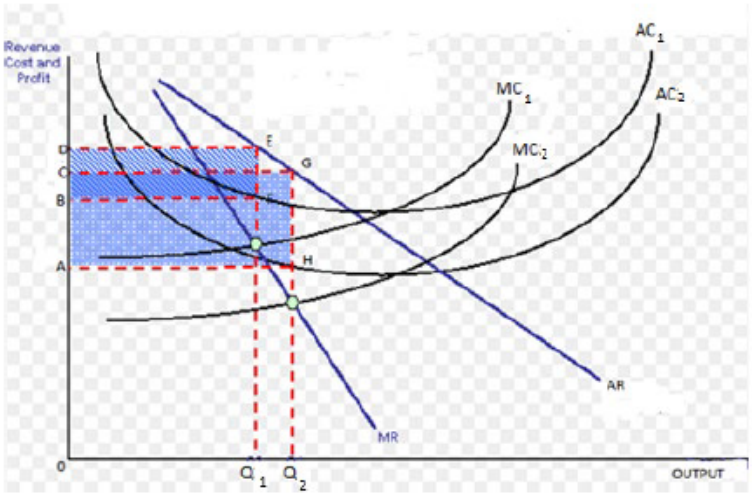
Level	Mark	Descriptor
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Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
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Level 3	7–8	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using relevant examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
	Evaluation (6 marks) – indicative content • Price competition likely to result in losses (use of game theory) • In long-run one or more businesses might exit the industry • Advertising likely to be very expensive – costs incurred might be less than the extra revenue gained • Non-price competition might be ineffective in increasing market share • Game theory suggests that there will be an incentive for businesses to collude to maximise profits • Collusion and predatory pricing are illegal in most countries and businesses could be fined	

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–2	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	5–6	Evaluation recognises different viewpoints and/or is critical of the evidence. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Q21.

Question	With reference to Extract B line 14 explain the term 'dynamic efficiency'. **Answer**	**Mark**
	Knowledge 2 Application 2 **Quantitative skills assessed:** **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge:** 1 mark for any of the following related to dynamic efficiency: • When firms develop new or better products **/** Where firms develop/find better/or cheaper methods of producing goods and services **/** Achieving productive efficiency **/** Where firms invest/innovate in new technology **(1)** 1 mark for any of the following related to dynamic efficiency: • Resulting in improved productivity **/** Where the long-run average costs/average total costs falls (may be shown diagrammatically)**/** Over time/ in the long-run **(1)** **Application:** Up to 2 marks for application to Extract B **(1+1)** e.g.: • AstraZeneca has a good reputation for R&D **(1)** • $400 million into building a new factory in Dublin **(1)** • In 2022 AstraZeneca invested $9.8 billion in R&D **(1)** • The business developed three new medicines **(1)** • AstraZeneca continues research on medical advancements **(1)** • 'investment was necessary' **(1)** **NB do not reward allocative efficiency over time**	**(4)**

Q22.

Question	With reference to Extract A, examine the likely effect of a decrease in variable costs on Tesla's profits. Illustrate your answer with an appropriate diagram(s). **Answer**	Mark
	Knowledge 2 Application 2 Analysis 2 Evaluate 2 Quantitative skills assessed: **QS4**: Construct and interpret a range of standard graphical forms **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms.  **Knowledge** Up to 2 marks for drawing a diagram that shows knowledge of: • Original supernormal profit/loss area **(1)** • New supernormal profit/loss area after MC and AC shift downwards **(1)**	
	Analysis Up to 2 marks for explanation of or diagrammatic representation of: • Profit maximising price will fall from 0D to 0C **(1)** • Increase in profit maximising output from 0Q1 to 0Q2 **(1)** • Revenue would rise from 0D x 0Q1 to 0C x 0Q2 **(1)** **N.B. Allow 1 mark for answers which have only shifted AC curve as follows** • Increase in supernormal profit/fall in loss **(1)** **Application** Up to 2 marks for reference to Extract A, e.g.: • Senior managers are considering ways of decreasing variable costs **(1)** • Lower cost car parts **(1)** • Reducing the number of workers on production lines **(1)** • Tesla making a quarterly loss of $709.6m in one quarter **(1)**	

	Evaluation Up to 2 marks for evaluative comments, e.g.: • Magnitude: depends on size of the fall in variable cost **(1)**, a small change will have little impact because Tesla's losses are significant **(1)** • Rise in profit (lower loss) will depend on Tesla's ability to meet demand **(1)** because there have been significant problems regarding failure to meet production targets e.g. a major shortfall in December 2017 **(1)** • Using cheaper car parts may result in a fall in consumer demand **(1)** as consumers switch to better quality cars sold by competitors **(1)** • Reducing workers on production line will reduce output levels further **(1)** leading to larger short-term losses **(1)** • Rise in profit (lower loss) may be offset by a rise in fixed cost/fall in demand **(1)**, which would cause an upward shift in AC curve/ downward shift in AR and MR curves **(1)**	**(8)**

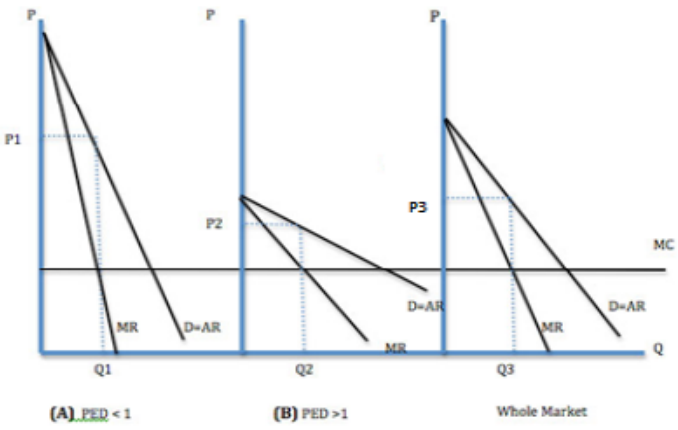
Q23.

Question Number	Answer	Mark
	Knowledge 2 Application 2 Analysis 2 Quantitative skills assessed: **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge** Up to 2 marks for an understanding of predatory pricing eg: • Predatory pricing is a deliberate strategy of driving competitors out of the market **(1)** by setting very low prices or selling below AVC **(1)** • Predatory pricing is a strategy used by monopoly firms or firms with a degree of monopoly power **(1)**	

	Analysis Up to 2 marks for linked explanation: • In the short-run both Ola and Uber are likely to experience a fall in profits and may even suffer losses **(1)** a loss will certainly occur where price is below AVC/ATC **(1)** • Pricing below profit max where MC = MR **(1)** so profit is bound to fall **(1)** • Ola or Uber may be unable to sustain a lengthy period of price cutting **(1)** One of the firms may be forced out of the market or they cease to adopt predatory pricing strategies **(1)** Up to 2 marks for an accurate diagram to show predatory pricing **Application** Up to 2 marks for application to context of India's ride-hailing market: • If Ola or Uber remove competition they will be able to raise their price again **(1)** and secure higher long term profits **(1)** • Low prices and possibly making losses may force some or all of the smaller rail-hailing market eg: - Jugnoo, Ixigo and Meru **(1)** • The 3 small firms only have 4.2% of the market between them **(1)** • Diagram related to context (labelling) **(1)**	**(6)**

Q24.

Question Number	Indicative content
	Indicative content guidance Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited. Quantitative skills assessed: **QS4**: Construct and interpret a range of standard graphical forms **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms **Knowledge, Application, Analysis (8 marks) – indicative content** • Definition of price discrimination (third degree) – where a firm is charging different prices to different users for the same product/service • Conditions necessary for price discrimination - monopoly power (Zambia Sugar has over 90% of the market), different PED's, able to separate different consumer groups (domestic and overseas consumers) • A firm gains higher profits from price discrimination when it charges a higher price to consumers with inelastic demand and a lower price to consumers with elastic demand • Diagrams showing price dicrmination



- Consumers who are negatively affected by price discrimination - consumers with **inelastic** demand

- domestic consumers who were paying 40% more than consumers of Zambia Sugar's exports

- consumers of industrial sugar who were paying higher prices than others

- Consumers in Diagram A will lose out through price discrimination (extraction of consumer surplus by Zambia Sugar)
- Consumers who may benefit from price discrimination - consumers with **elastic** demand (Diagram B)

- consumers of Zambia Sugar's exports
- consumers of industrial sugar who were paying lower prices than others

Restrict to a maximum of Level 2 for Knowledge, Application and Analysis if no diagram is provided

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 3	7–8	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using relevant examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.

	Evaluation (6 marks) – indicative content
	• Price discrimination may not have a long-term effect on consumers. Zambia Sugar was fined ZK76 million by the CCPC and told that it must stop price discrimination and set fair prices • If price discrimination ends Zambia Sugar will earn lower profits and this may lead to a drop in product quality • Zambia Sugar may set uniform prices by raising them to the higher levels paid by those consumers whose demand is inelastic, especially as it has significant market share • Depends on the degree to which the CCPC is prepared to enforce its decision • Market conditions may change eg barriers to entry are lowered (more contestable market) and other sugar producers are attracted into the market

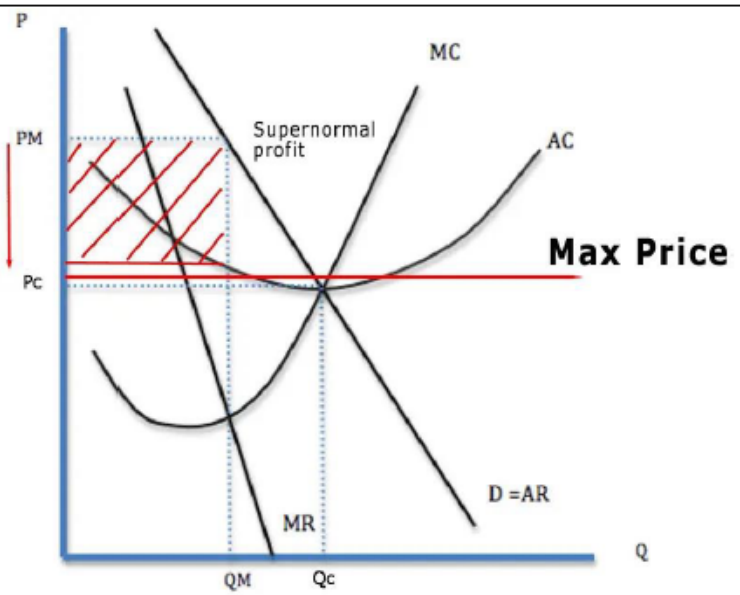
Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–2	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	5–6	Evaluation recognises different viewpoints and/or is critical of the evidence. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Q25.

Question	Quantitative skills assessed	Answer	Mark
	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is B** **A** is incorrect because this indicates that barriers to entry are low **C** is incorrect because this would encourage entry into the industry **D** is incorrect because this suggests that it is relatively easy for firms to enter the industry	**(1)**

Q26.

Question	Evaluate policies a government could adopt to control monopolies. Illustrate your answer with an appropriate diagram(s). **Indicative content**
	Indicative content guidance **Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited.** **Quantitative skills assessed:** **QS4:** Construct and interpret a range of standard graphical forms. **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms. • A monopoly is a sole supplier that exists in the market with high barriers to entry • A business may have monopoly power if it controls a high percentage of the market • Monopoly power enables a business to set prices, limit output and restrict competition • Profit regulation by imposing limits on the amount of profit a monopoly can earn, to ensure the business does not exploit its market power and to promote increased allocative efficiency and consumer welfare • Price regulation is a maximum allowable price for a particular good or service. This limits the amount that a monopoly can charge consumers and protects consumers from excessively high prices set by a profit-maximising monopolist



- Price is capped to Pc, reducing the price from PM. This would reduce supernormal profit and increase consumer surplus
- Performance targets: set specific objectives that the monopoly must meet, ensuring that it operates efficiently and provides quality services
- Quality standards can be used to control a monopoly by establishing specific criteria and requirements that the monopoly must meet to ensure the provision of high-quality goods or services
- Fines: competition authorities may impose fines for not meeting performance targets or quality standards
- Legislation to control mergers and takeovers: laws can block any integration that may result in an increase in monopoly power
- Nationalisation will transfer the business to the state sector where the objectives of the business may change e.g. reducing profit incentives, leading to lower prices
- Tax on profits encourages firms to invest more to reduce supernormal profits, increasing dynamic efficiency
- Tax incentives/Subsidies for new firms to enter the market increases competition and reduces monopoly power
- Government policies to promote competition and contestability e.g. deregulation

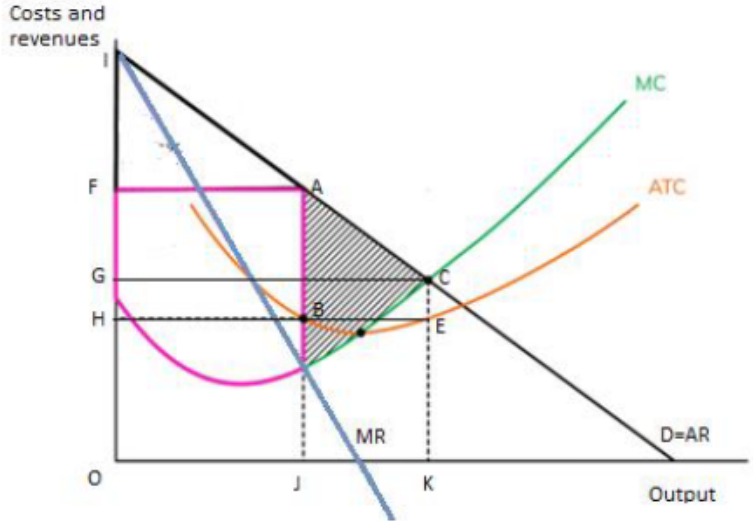
NB: If diagram does not show the impact of a policy then candidate can achieve a maximum of level 3

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context. A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.

	Evaluation (8 marks) – indicative content • Regulatory capture may occur if the regulator becomes influenced or controlled by the monopoly that it is supposed to regulate, resulting in the regulator allowing the monopoly to abuse its dominant position • Government failure e.g. asymmetric information may lead to the government making inaccurate decisions on the level of a price cap or the level of profit control. This could cause the monopoly to shut down if it cannot cover costs/or allow the consumers to pay a high price for the goods • Government failure may lead to a misallocation of resources or unintended consequences, such as businesses shutting down • Inadequate resources may stop the government from being able to control and challenge the behaviour of a monopoly • Limited regulatory power may make it impossible to control the business. The regulator may not be able to impose a fine high enough to deter monopolies from abusing their power • Increased performance and quality targets may lead to an increase in the costs of production for the monopoly. These increases could be passed onto consumers • Price controls may cause the monopoly to cut costs which can lead to a reduction in quality for the consumer

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Q27.

Question	Evaluate the impact of a profit maximising monopolist being nationalised. Illustrate your answer with an appropriate diagram(s). **Indicative content**
	Indicative content guidance **Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited.** **Quantitative skills assessed:** **QS4:** Construct and interpret a range of standard graphical forms. **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms. • Nationalisation is the transfer of a business or industry from private to state ownership or control • Nationalised businesses do not have to make a profit, which could reduce the price of energy for the consumer in France from F to G, if marginal cost pricing is adopted • Output would also increase from J to K • Consumer surplus would increase from AFI to CGI • Producer surplus/supernormal profit would fall 
	• With nationalisation there would be a more secure supply of energy in France, even when costs are rising. This would ensure that energy companies would not exit the market • Natural monopoly diagram could also be included • Profits made by a nationalised business may be used for investment or to finance public services • Nationalised businesses may receive more finance for investment to ensure the stability of energy supplies. This might increase the level of dynamic efficiency in the energy market • The nationalised EDF is likely to be more regulated than a private energy business as it is run using tax revenues. This could lead to more productive and allocative efficiency • The energy produced might make more use of green technology as the government may have environmental objectives **NB if no diagram candidate can achieve a maximum of level 3** **Positive impacts of nationalisation may be regarded as KAA and negative impacts as evaluation or vice versa**

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
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	Evaluation (8 marks) – indicative content • A nationalised business may be more inefficient than a profit maximising monopolist, as it lacks a profit motive. Therefore there may be a reduction in allocative/productive/dynamic efficiency • Lack of efficiency may increase costs of production for energy, these would be passed onto the consumer with higher energy prices • There is no guarantee that nationalisation would ensure stability of supplies • Marginal cost pricing could result in losses if EDF is a natural monopoly • There might be an increase in diseconomies of scale caused by poor management as the French Government are not expert in energy provision allowing costs to rise • X-inefficiency may cause costs to increase caused by complacency and lack of competition, actual AC above potential AC • The energy firms might be under-funded as a result of the government preferring to invest in other aspects of the economy • EDF may run at a loss/deficit, which may force the government to divert funds from key areas of the French economy to provide support • Nationalised firms are not able to access commercial loans, restricting their access to finance, hindering investment

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Q28.

Question	With reference to an industry of your choice, evaluate the likely disadvantages for a business operating in an oligopolistic market structure Illustrate your answer with a payoff matrix diagram. **Indicative content**	
	Indicative content guidance Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited. Quantitative skills assessed: **QS4:** Construct and interpret a range of standard graphical forms. **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms. Knowledge, Application, Analysis (12 marks) – indicative content • An oligopoly is a market structure in which a small number of businesses dominate the market and compete with each other, such as the commercial aircraft industry • Each business has significant market power, meaning it can influence the market price and affect the behaviour of its competitors • Oligopolists sell similar goods, and there are substitutes available making consumers' demand more price elastic • Businesses in oligopolistic markets are interdependent. If there is no collusion they would reach the low price, low price quadrant. This would limit their ability to make supernormal profits **Firm B** **Firm A** **High price** | **Low Price** **High Price** | *(collusion)* (A) £8m, (B) £8m | (A) £1m, (B)£10m **Low price** | (A) £10m, (B) £1m | *(non-collusion)* (A) £3m, (B) £3m	

	as predatory pricing/limit pricing or exclusive dealing agreements to prevent competition • Increased pressure to compete using non-price competition such as quality, innovation, and marketing strategies to remain competitive and maintain market share. This might lead to increasing costs/sunk costs reducing profits • Regulatory scrutiny as anti-competitive behaviour can harm consumers and the overall economy. This can lead to costly legal battles and fines for businesses found to be engaging in anticompetitive behaviour • Small firms would be at a disadvantage compared to larger rivals because they are less able to exploit economies of scale and so have higher long-run average costs **NB if no industry explained candidate can achieve a maximum of level 3**	

Level	Mark	Descriptor	
	0	No rewardable material.	
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.	
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context. A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.	
Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.	
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.	

	Evaluation (8 marks) – indicative content • Interdependence between firms, may encourage collusion. If this occurs (high price, high price quadrant) then supernormal profit may be increased • If goods are differentiated, price may be sticky allowing for some price-setting ability in the market • Businesses in oligopolistic markets might make high supernormal profit because these markets are dominated by a few large businesses and competition is limited • High barriers to entry if established businesses engage in non-price competition and anti-competitive practices to prevent new businesses from entering the market. This can help established firms maintain their market share and profits • Stability can be higher in oligopolistic markets as there are fewer businesses competing for market share. This greater certainty makes budgeting and planning easier for businesses. Also, this stability might encourage businesses to increase investment	

Level	Mark	Descriptor	
	0	No rewardable material.	
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.	
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.	
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.	

Q29.

Question	Evaluate the likely effects of collusion on businesses **and** consumers in an industry of your choice. Illustrate your answer with reference to game theory. **Indicative content**
	Indicative content guidance **Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited.** **Quantitative skills assessed:** • **QS4:** Construct and interpret a range of standard graphical forms. • **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms. • Collusion occurs when businesses agree to cooperate in their pricing and output policies • This occurs when the market is an oligopoly and enables the businesses to act as a single business to fix prices and limit output, such as JD Sport and Leicester City Football Club

Effects on businesses

- Game theory suggests that the businesses can benefit from collusion by maximising joint profit e.g. in the following diagram the firms can make a joint profit of £40 as shown in the diagram



- The collusion may create barriers to entry to the market that enable the firms to restrict competition, such as limiting the supply of Leicester City sportswear
- Collusion reduces unpredictability and uncertainty in the market as prices and output are guaranteed. This may lead to increased investment as the level of risk is reduced

Effects on consumers

- Economic inefficiency causing higher prices: as prices are set above competitive levels this would lead to a deadweight loss in the economy
- Price fixing leads to a fall in allocative efficiency and economic welfare and to a fall in consumer surplus
- Reduced competition resulting from collusion may limit product choices for consumers

Effects on other businesses in the industry

- Collusion is likely to limit the ability of non-colluding firms to compete on price, quality, or innovation
- Higher barriers to entry for new firms trying to enter the market
- Pressure exerted on suppliers to maintain high input prices or engage in collusive behaviour themselves

NB: If no reference to game theory candidate can achieve a maximum of level 3

Candidates must include effects on both businesses and consumers to achieve a level 4

Accept advantages as KAA and disadvantages as evaluation or vice versa

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context. A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.

	Evaluation (8 marks) – indicative content Evaluation • Benefits are more likely to apply to businesses that collude rather than consumers because the producer surplus is rising at the expense of the consumer surplus • Benefits to businesses may occur in the short-run only, if one or more colluding businesses break away from the agreement • Collusion may be illegal. If caught the business may have to pay a fine and face damage to its reputation e.g. Leicester City FC having to pay £880 000 • The increase in supernormal profits of the colluding businesses may allow for greater dynamic efficiency as they have an increased ability to invest in quality and choice for consumers • Price stability will enable consumers to plan future expenditure • Effect on consumers depends on the value of PED. For example, if substitutes are available the impact will be reduced • The entry of new firms into the industry may break existing collusive agreements • Unstable market dynamics because the collusion agreement can break down at any time. When this happens, it can lead to sudden price wars • Some forms of collusion may be beneficial to both producer and consumer e.g. R&D cost savings and efficiencies or developing improved industry standards

	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Q30.

Question	Evaluate the likely impacts of monopsony power on employees and suppliers. Refer to a firm with monopsony power in your answer. **Indicative content**
	Indicative content guidance Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited. Quantitative skills assessed: **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms. • The definition of monopsony - a monopsony is where there is a single buyer in the market • The definition of monopsony power – where a firm has significant buying power over its suppliers

Impact on suppliers

- Lower prices for their goods because there is no-one else to sell their product to
- Decreasing revenue for the suppliers
- This causes a fall in supernormal profits for the suppliers and potentially puts them out of business if prices fall too low
- Lower producer surplus for suppliers that may prevent them from investing as much, reducing dynamic efficiency
- Less negotiating ability over contracts, which may prevent suppliers from being able to sell their agricultural products to other supermarkets
- Lack of bargaining power may allow monopsonists to pass costs onto suppliers, reducing profit margins
- Increased dependence on one main customer, making them more vulnerable if that customer were to go out of business

Impact on employees

- The monopsony employer has buying power over its potential employees. This gives it wage-setting power in the industry's labour market
- Employment might be lower in the industry as there are less opportunities for workers
- Monopsonies may pay lower wages and provide poorer working conditions compared to a competitive labour market

NB Maximum level 3 if no reference to a firm with monopsony power

Maximum of level 3 if only one economic agent is discussed

Accept reverse argument

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context. A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.

Evaluation (8 marks) – indicative content

Suppliers:

- Monopsony may offer more stable contracts guaranteeing demand for the suppliers, this may encourage more investment and dynamic efficiency from the suppliers
- If the monopsony is socially responsible, suppliers may be paid a fair amount for their products
- If monopsony power is weak/not significant, prices might not be that different to a competitive market
- There is often government intervention in monopsony markets that prevents the monopsony from abusing its dominance
- Farmers may organise into cooperatives to increase their bargaining power against the monopsony
- Businesses will attempt to find other alternative routes to market eg, farmers market or farm shop

Employees:

- Job security is likely to be higher than in more competitive markets
- Walmart/the firm may not be the only employer of workers therefore they may pay higher wages than a pure monopsony
- If a trade union exists, wages may be higher depending on the relative bargaining power of the union/monopsony
- Many monopsony employers are governments that do not profit-maximise and may seek to prioritise other objectives such as well-being

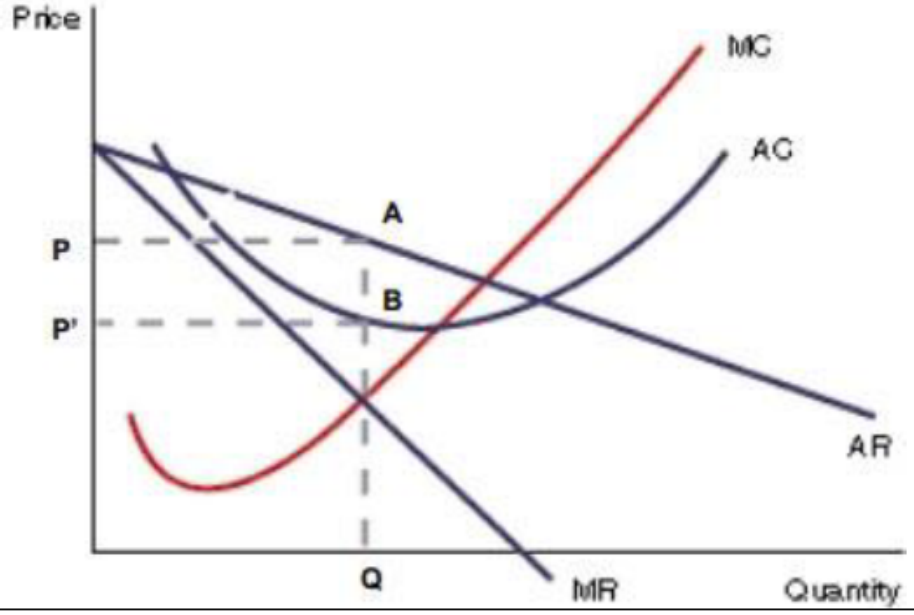
Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Q31.

Question	Evaluate the possible benefits of collusive behaviour between firms. Use a simple game theory model in your answer. **Indicative content**
	Indicative content guidance Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited. **Quantitative skills assessed:** **QS4:** Construct and interpret a range of standard graphical forms. **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge, Application, Analysis (12 marks) – indicative content** Indicative content • Definition of collusion – where firms agree to cooperate in their pricing and output policies. • Applies where the market is an oligopoly and the firms are interdependent. • Collusion provides the pharmaceutical companies with the ability to fix prices and limit output that wouldn't be possible if the firms were competing • Ability for each firm to increase its supernormal profit as consumers have to pay higher prices for goods • Collusive behaviour might increase entry barriers so enabling existing firms to increase their supernormal profits • Barriers enable firms to restrict competition increasing revenue and profits • Reduces unpredictability and uncertainty in the pharmaceutical market which may lead to higher levels of investment from firms/firms can save money by not competing helping to reduce costs and increase profits • Candidates provide an appropriate diagram e.g. below

	Firm B: High price	Firm B: Low Price
Firm A: High Price	*(collusion)* (A) £8m, (B) £8m	(A) £1m, (B)£10m
Firm A: Low price	(A) £10m, (B) £1m	*(non-collusion)* (A) £3m, (B) £3m

- Firm colluding will agree to sell at the high price, high price outcome to increase revenues
- Without collusion both firms will sell at the low price, low price outcome with lower revenues
- Collusive firms may act like a monopolist to increase supernormal profits. (May draw cost and revenue diagram)



- Super-normal profits are made at PP¹AB
- If the profits of the pharmaceutical firms increase, this may enable them to invest in more research and development, leading to new pharmaceutical drugs being produced
- Prices may be less volatile, making it easier for healthcare providers to plan their expenditure on pharmaceutical products
- Possible benefit to consumers is that sharing of information between firms can help with product development e.g. vaccine development, or safety data

NB if no game theory model candidate can achieve a maximum of level 3

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context. A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.

	Evaluation (8 marks) – indicative content • Higher prices after the agreement reducing consumer surplus • Less choice if firms reduce output, reducing standards of living • Exposure of illegal price fixing by the government may increase costs to the firm if they have to pay heavy fines (£1.2 million) • It negatively impacts firms trying to enter the pharmaceutical market as barriers to entry have increased • Breakdown of trust between colluders may lead to breakdown of any collusive agreements • Short run may be sustained but more problematic in the long run • Lack of coordination • New entry into the market

	• Collusive behaviour resulting in more non-price competition could increase costs of firms

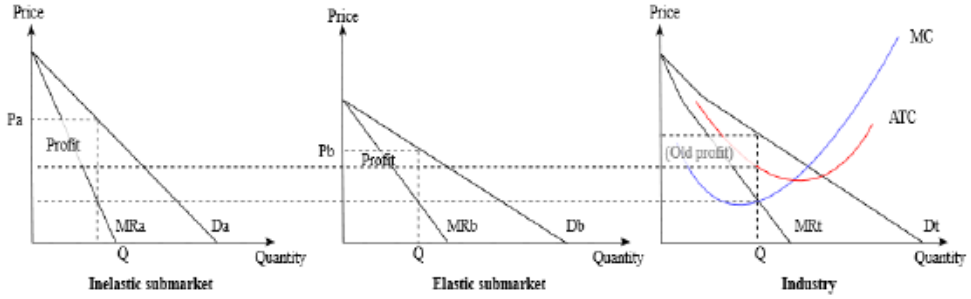
Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Q32.

Question Number	In the UK for any given rail journey, there are usually more than five different ticket prices depending on the time and day of travel. Evaluate the view that price discrimination is always beneficial for producers. Illustrate your answer with an appropriate diagram(s). Indicative content
	Indicative content guidance Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited. **Quantitative skills assessed:** **QS4:** Construct and interpret a range of standard graphical forms. **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms.

Knowledge, Application, Analysis (12 marks) – indicative content

- Price discrimination occurs when a firm charges different prices for the same product in different segments of the market e.g. business travellers and tourists
- Conditions necessary for price discrimination - monopoly power, different PED's in sub-markets, able to separate different consumer groups e.g. age, students and travelcard holders
- A firm gains higher profits from price discrimination when it charges a higher price to consumers with inelastic demand and a lower price to consumers with elastic demand
- REWARD MARKS FOR RELEVANT DIAGRAMS - showing separation of markets



Benefits to the producer

- Greater overall revenue and profits
- Producer is able to extract consumer surplus and turn it into producer surplus
- Lower prices in the market segment in which demand is elastic, makes the market less contestable, reducing the threat of competition
- Cross-subsidies may allow all areas of the business to survive
- Increase in economies of scale because of higher output
- Higher dividends to shareholders
- Increased profits would enable the firm to increase investment or could be distributed to the owners of the firms

Restrict to a maximum of Level 3 if no appropriate diagram provided

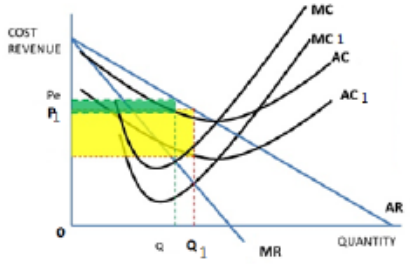
Accept reverse argument for KAA

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
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Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.

	Evaluation (8 marks) – indicative content
	• The increase in cost of keeping markets separate could exceed the additional revenue from price discrimination • Firms are exploiting consumers in markets where demand is inelastic who may not have an alternative which could lead to negative publicity or government action e.g. to price caps • Exploitation of consumers might attract the attention of regulatory authorities who might take action e.g. heavy fines • Higher prices are allocatively inefficient • Difficulty in discriminating between 5 or more markets • Businesses may not use additional profits to improve quality • Price discrimination might be difficult to maintain if it leads to the entry of new firms into the market • Price discrimination might be difficult to maintain if the PEDs are fairly similar in each of the sub-markets

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Q33.

Question Number	With reference to Extract A, examine the likely effects of the Chinese Government's subsidy on the profits of an electric car manufacturer. Illustrate your answer with an appropriate diagram.	Mark
	Knowledge 2 Application 2 Analysis 2 Evaluation 2 Quantitative skills assessed: **QS4**: Construct and interpret a range of standard graphical forms. **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms **Knowledge** **Up to 2 marks for drawing a diagram that shows knowledge of:** • Original AR, MR, AC_1, MC and profit-maximising equilibrium **(1)** • Subsidy would cause downward shift in AC and MC curves to AC_1 and MC_1 **(1)**  	

Analysis

Up to 2 marks for explanation of impact on Chinese electric car manufacturers, e.g.:

- Manufacturers face lower costs and if demand is unchanged then supernormal profits will increase **(1)**
- Diagram showing increase in output at new MC=MR **(1)** with new profit area shown **(1)**

Application

Up to 2 marks for application to context of electric car market from Extract A e.g.:

- The government are giving up to 90 000 yuan of subsidy per car **(1)**
- To encourage more production **(1)**
- Government is incentivising consumers to purchase electric cars **(1)**
- Explicit reference to data in diagram **(1)**

Evaluation

Up to 2 marks for evaluative comments (1+1 or 2+0) e.g:

- Size of subsidy as a proportion of average cost **(1)**, if it is a high proportion then profits may rise significantly **(1)**
- Subsidy may be offset by an increase in costs of producing cars **(1)** so profits may not increase **(1)**
- Magnitude of subsidy **(1)**, 90 000 Yuan is a significant amount **(1)**
- Electric car manufacturers may not pass on the full subsidy to the consumer **(1)** therefore prices may not change significantly, having a limited impact on demand and profit **(1)**
- If the demand for electric cars is inelastic, a fall in the price will cause a less than proportionate increase in quantity demanded **(1)** and, therefore, a limited impact on profits **(1)**
- Length of time subsidy is offered for **(1)**

(8)

Q34.

Question	With reference to Extract A (line 12), explain what is meant by 'short-run shutdown point.' **Answer**	Mark
	Knowledge 2 Application 2 **Quantitative skills assessed: QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge:** up to 2 marks for any two of the following: • Shut down point occurs were AR=AVC **(1)** • In the short-run a firm may shutdown if the price it receives does not cover its average variable costs of production **(1)** • Where AVC>AR then each additional item sold adds to losses **(1)** • Understanding of short-run (at least one fixed factor of production) **(1)** • Examples of variable costs **(1)** **Or** Accurate diagram to clearly show short-run shutdown **(1+1)** **Application - up to 2 marks for application to context of the coffee market** • Supply of coffee beans greater than demand/ surplus 4 million bags/global production **(1)** • By May 2019, the global price of coffee beans fell to its lowest level in over 10 years **(1)** • Caused serious problems for small coffee growers in coffee-producing regions/Central America/Africa **(1)** • Farmers in Africa and Central America were making large losses **(1)**	**(4)**

Q35.

Question	With reference to Figure 2, explain the market structure of cloud infrastructure providers. **Answer**	Mark
	Knowledge 2 Application 2 **Quantitative skills assessed: QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge:** One mark for identifying oligopoly **(1)** And one mark for understanding of the market structure e.g. An oligopoly is when a few large firms dominate the market/ There is interdependence in the market/ An oligopoly market structure is an imperfect market structure/ Oligopolies have some market power **(1)** **Reward for identifying legal monopoly (1) with understanding (1)** **Application** up to 2 marks for application to Figure 2 • Calculating: ○ two-firm concentration ratio is 51%/ ○ three-firm concentration ratio is 59%/ ○ four-firm concentration ratio 65%/ ○ five-firm concentration ratio is 70% **(1+1)** • Amazon web services has a 33% market share **(1)** • Microsoft Azure has an 18% market share **(1)**	**(4)**

Q36.

Question	With reference to Figure 2, explain the market structure of the UK food delivery market in 2021. **Answer**	Mark
	Knowledge 2 Application 2 **Quantitative skills assessed:** **QS1:** Calculate, use and understand ratios and fractions **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge:** 1 mark for the identification of the market structure: • Identification of oligopoly **(1)** 1 mark for identification of a characteristic of this market structure • A small number of firms dominate the market/interdependence/imperfect information/ differentiated goods/high barriers to entry/ high concentration ratio **(1)** **Application:** Up to 2 marks for application to context of the food delivery market **(1+1)** e.g.: • The 3-firm concentration ratio was 94%**(2)** • The 4-firm concentration ratio was 97% **(2)** • Deliveroo and Uber Eats combined market share was 54% in 2021 **(1)** • Just Eat had the largest market share (40%) **(1)**	**(4)**

Q37.

Question Number	With reference to the third paragraph of Extract B, explain what is meant by a 'takeover'. Answer	Mark
	Knowledge 2 Application 2 **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms **Knowledge** **1 mark for definition** • Definition of takeover- the acquisition of one business by another **(1)** **Plus one mark for development** • A business may decide to undertake a takeover as part of its strategy e.g. to increase market share/reduce competition/entry into new markets **(1)** • A takeover is an example of inorganic growth **(1)** • Can be friendly or hostile **(1)** **Any other valid knowledge point - 1 mark** **Application - up to 2 marks for application to context of China's car industry** • Geely has taken over Lotus/Geely bought a majority share in Lotus **(1)** • Geely hopes the takeover will increase its European sales **(1)** • Geely is trying to expand internationally through takeovers **(1)** • Horizontal integration as both are car manufacturers **(1)** **Any other valid application point - 1 mark for each**	**(4)**

Q38.

Question Number	Answer	Mark
	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge 2, Application 2** **Knowledge:** 1 mark for definition of monopsony employer: • Monopsony employer - where there is only one employer/buyer of labour in the market **(1)** **PLUS ONE MARK FOR DEVELOPMENT** • Monopsony employer has buying or bargaining power in the labour market **(1)** • Monopsony employer can exploit its bargaining power with employees to negotiate lower wages **(1)** **Application –** Up to 2 marks for application to context of Tata steel • Tata Steel and Thyssenkrupp would become a monopsony employer of steel workers in the UK and the Netherlands **(1)** • Employees expected job losses **(1)** and lower real wages if the merged company's monopsony strength grew **(1)** • Steel workers would have no alternative employer for their skill set **(1)**	**(4)**

Q39.

Question	With reference to Figure 2 and Extract A, explain what is meant by the term 'concentration ratio'. **Answer**	Mark
	Knowledge 2 Application 2 **Quantitative skills assessed:** **QS2:** Calculate, use and understand percentages, percentage changes and percentage point changes **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge:** Up to 2 marks for the definition of the concentration ratio: • Concentration ratio is the market share of the largest firms **(1+1)** • The n firm concentration ratio would show the market share of the top "n" firms **(1+1)** **Application:** Up to 2 marks for application to Figure 2 and/or Extract A e.g. • The six largest suppliers had a 82.3% of the market by the end of 2021 **(1)** • The six largest suppliers had a 74.4% of the market in Q4 2020 **(1)** • The four firm concentration ratio was 63.3% in Q4 2021 **(1)** • The concentration ratio of the larger gas suppliers increased **(1)** • The concentration ratio of the top six increased from 74.4% to 82.3% **(1+1)** • The six firm concentration ratio has increased **(1)** by 7.9 Percentage points **(1)**	**(4)**

Q40.

Question	With reference to Figure 1 and Extract A, explain what is meant by the term 'monopolistic competition' **Answer**	Mark
	Knowledge 2 Application 2 **Quantitative skills assessed:** **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge:** 1 mark for the reference to number of firms e.g.: • Monopolistic competition occurs when there are many small businesses in the same market **(1)** 1 mark for one appropriate characteristic e.g.: • Products that are similar/not homogenous/slightly differentiated/ • Freedom of entry and exit/ • Imperfect knowledge/information/ • Businesses face a downward sloping demand curve/highly elastic demand curve/ • Employ low skilled workers – therefore low entry barriers/ • Short-run supernormal profit/long-run normal profit/ • Businesses in monopolistic competition differentiate their products through non-price competition **(1)**	
	Application: 1 mark for application to Figure 1 e.g.: • There are 6 103 medium-sized businesses/ 14.3% of total number of businesses • There are 33 050 small-sized businesses/ 77.2% of total number of businesses **(1)** • There are 39153 SMEs / 91.5% of total number of businesses **(1)** 1 mark for application to Extract A: • Many SMEs compete in the agriculture, garment and textile industries • Most businesses in these industries operate in monopolistically competitive markets **(1)** • Restricted differentiation of (agricultural, garment and textile) products between business in these markets **(1)**	**(4)**