PEARSON EDEXCEL IAL ECONOMICS · YEC11

ECONOMICS



MARK SCHEME

UNIT 3: TYPES AND SIZES OF BUSINESSES

SCORE	PERCENTAGE
/374	%

STEMUP

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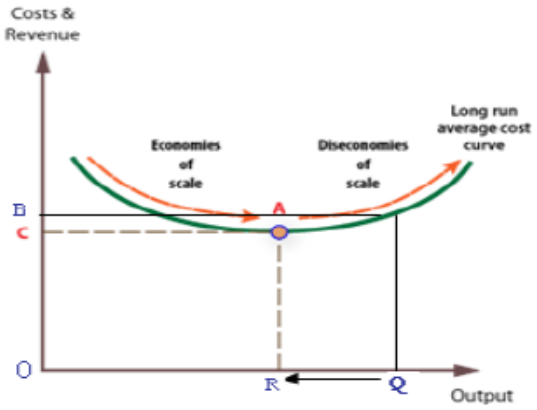
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Mark Scheme

Q1.

Question	With reference to the second paragraph of Extract A, analyse **two** reasons why Uniqlo has been very successful in establishing itself in international markets. **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 why Uniqlo has been very successful in establishing itself in international markets and 1 analysis mark for each linked expansion of each reason: • Price competition/Low prices **(1K)** consumers are more able to afford to purchase Uniqlo's clothes **(1AN)** • Non price competition **(1K)** differentiates the product improving competitiveness • More innovative products/improving quality **(1K)** better meeting consumer needs and increasing consumer welfare **(1AN)** • Increased brand awareness/Advertising/Celebrity endorsements **(1K)** better marketing increases brand awareness and increases demand for Uniqlo's products.**(1AN)** **Application** Up to 2 application marks for reference to the second paragraph of Extract A: • Uniqlo competes with other brands such as Zara and H&M **(1)** • Uniqlo uses ultra-lightweight and heat-generating fabrics (HeatTech) **(1)** • Uniqlo works with well-known designers and celebrities/Alexander Wang **(1)** • Uniqlo has also invested heavily in advertising **(1)** • Uniqlo was the first business in this market to use fast-moving digital images in its stores **(1)**	**(6)**

Q2.

Question	In July 2017 the German retailer Metro Group demerged into two independent companies. Its wholesale and food division became New Metro and a separate consumer electronics business, CECONOMY, was formed. Evaluate the possible benefits of a demerger for the business **and** its workforce. 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 demerger- separation of one business into two or more independent businesses/this would apply in the case of the dissolution of a previous merger Award relevant diagram e.g. 

	Benefits for the business: • Lower LRAC as the business was previously experiencing diseconomies of scale • Greater efficiency/less x-inefficiency • Increase in profits (or reduced losses) as a result of lower LRAC • An increase in funds through the sale of assets - which may be used to invest in R & D or to pay off debts • Avoid intervention from competition authorities - the business may have been dominant in certain markets • Focusing on the core business may lead to higher profits • Specialised workforce enable efficiency/productivity gains • Reduced risk of culture clash between different parts of the business
	Benefits for the workforce: • A demerger may result in greater job security if the previously larger business had been experiencing inefficiencies and diseconomies of scale • More job opportunities - e.g. specialist staff will be needed for a food business and a consumer electronics business • Pay rises - if one or both companies find it difficult to recruit new staff • Working for smaller business units can be more motivating as communication improves (e.g. fewer layers of management) • A more focused business is able to provide more specialist training to improve skills making workers more employable **Restrict to a maximum of 9 marks for Knowledge, Application and Analysis if no appropriate diagram provided or only one economic agent is considered.**

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

Drawbacks to businesses

- Raising of funds through the sale - the impact depends on how the funds are used – e.g. pay outstanding costs or debts (more short-term) compared with using for further investment (more long-term)
- The business may regret decision (in long-run) – if the demerged firm performs well under new ownership and/or was undervalued at the time of sale
- The business may experience a rise in LRAC and a reduction in economies of scale - size of business now below point of minimum efficient scale
- The cost of the demerger may outweigh the potential benefits e.g. legal fees, dispute in breaking up, possible redundancy costs, new IT systems required etc
- Less access to sources of finance
- More specialisation may lead to issues retaining staff
- Possible fall in market power leading to lower supernormal profit

Drawbacks to workers

- A demerger may result in rationalisation and some job losses/unemployment
- Workers may feel less secure in their jobs and de-motivated
- Possible loss of benefits as no longer working for very large business
- Tasks become monotonous as more specialised
- Fewer opportunities for promotions as the business is smaller

General points e.g.:

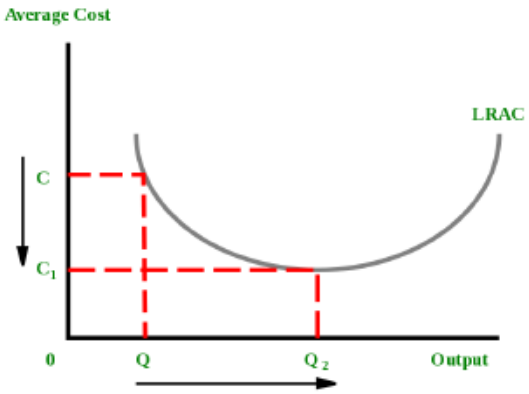
- Short-run vs long-run impacts
- Depends on the size of the demerger

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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.

Q3.

Question	Evaluate the benefits of growth by merger. 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 • Definition of merger: joining of two or more firms to form one organisation • Businesses such as PhotonLens and Shadow Creator would benefit from sharing resources, human capital, and expertise, to enable them to develop new products more quickly • Growth by merger enables businesses such as PhotonLens and Shadow Creator to enter new markets that they do not operate in such as moving from VR glasses into the software needed for these to work. This allows these firms to diversify and benefit from risk bearing economies of scale • Mergers increase market share more quickly than organic growth. This would increase sales, revenue, and profits • Businesses may benefit from increased profits through economies of scale if the merger allows production to rise and costs to fall. PhotonLens and Shadow Creator may be able to share development and innovation costs, reducing overall costs and increases profits • Firms may merge to guarantee supplies/lower costs of supplies (backward vertical integration) • Firms may merge to increase market share • Firms may merge to become more competitive • Firms may merge to eliminate competitors (horizontal integration) • Businesses can benefit from economies of scale and a fall in long-run average total costs. Long-run average total costs fall as output rises. Reducing costs and reaching the MES, improving productive efficiency



Benefits to economic agents- e.g. consumers benefit from higher quality goods

Accept reverse argument
NB if no diagram candidate can achieve a maximum of Level 3.

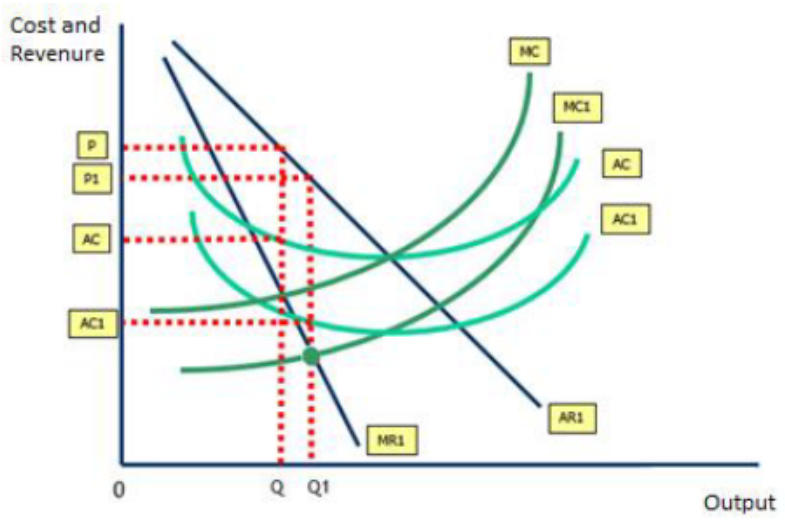
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Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to 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 • Growth by merger is more costly than organic growth, which may reduce profits for the firm • If there is a culture clash, the merger may not be successful and harmful to the business's profits and reputation • Some businesses may not have the option to grow by merger as it may be blocked by the competition authorities • If communication problems occur between the firms, diseconomies of scale may set in • Entering new markets where the business does not have expertise may cause the business's costs to rise • If the merger causes job losses, employees may become demotivated, reducing productivity

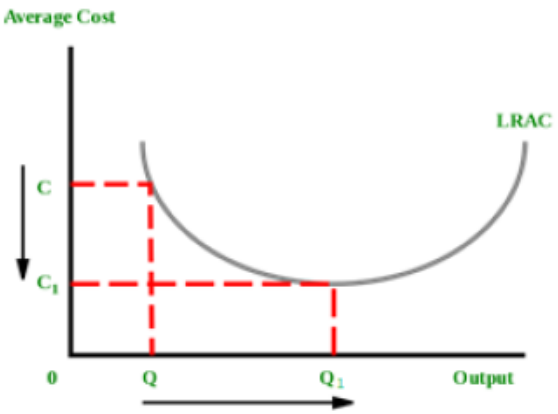
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Q4.

Question	For an industry of your choice, evaluate why many businesses have growth as their main objective. 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** • Businesses can grow either organically or inorganically through mergers and takeovers • Business objectives goals/targets for business including profit maximisation, revenue maximisation, sales maximisation and satisficing • Increase in demand leading to higher revenue and profits/higher profits generates more funds for investment, improves innovation, further increasing profits • Businesses such as Visinema would benefit from having more control over every aspect of their business allowing them to expand into new areas such as animated films • Businesses may benefit from increased profits by internalising new areas of the business that they previously outsourced. This reduces costs and increases profits. Fall in AC to AC1and MC to MC1 showing a new equilibrium with a higher profit level P1 x Q1 (TR) - AC1 x Q1 (TC)



- Businesses can benefit from economies of scale and a fall in long-run average total costs
- The cost savings could be passed onto the consumer in the form of lower prices increasing competitiveness



- Businesses may be able to achieve monopsony power over suppliers and labour enabling them to negotiate better terms when purchasing supplies and workers reducing costs
- Increased market share gives higher price-setting ability, potentially increasing prices and profits
- Businesses such as Visinema can benefit from risk diversification. If the animated film industry declined other areas of their film production may offset the losses

Accept reverse argument as KAA

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

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	Evaluation (8 marks) – indicative content
	• Firms may wish to stay small to avoid diseconomies of scale if they move beyond their MES • Some businesses benefit from operating in a niche market and are able to be profitable from selling at a higher price with a lower output • Small businesses can maintain high levels of flexibility/innovation as the market changes • Some businesses do not have the finances to grow and therefore getting bigger is not an option • Large businesses can attract the attention of the competition authorities. Therefore a business may wish to stop growing to stop any form of intervention • Business owners may have an objective of staying small and keeping total control of all aspects of the businesses • Alternative business objectives e.g. satisficing

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Q5.

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 A** **B** is incorrect because this is the lowest point on the AC curve **C** is incorrect because this is where change in TC is constant **D** is incorrect because this is the equilibrium for revenue maximisation	**(1)**

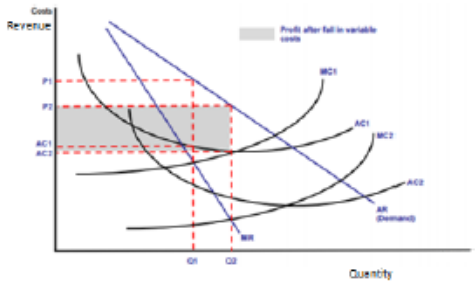
Q6.

Question	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 takeover would decrease contestability* ***B*** *is not correct as the takeover will combine the two businesses and is likely to increase total costs* ***C*** *is not correct because the takeover would reduce competition in the market*	**(1)**

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 D** A is incorrect because the firm is likely to increase employment B is incorrect because the price would be lower than at the profit maximising output C is incorrect because total fixed costs would not fall when output increases	**(1)**

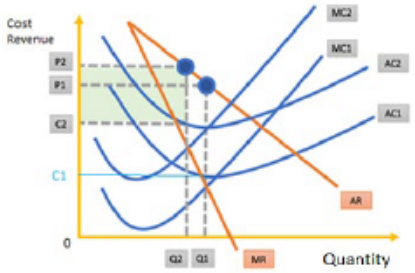
Q8.

Question Number	Answer	
	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. **Either Approach 1** **Knowledge**  Up to 2 marks for drawing a diagram that shows knowledge of: • Original AR, MR, AC1, MC1 and profit-maximising equilibrium **(1)** • Decrease in variable cost would cause downward shift from MC and AC curves to MC2 and AC2 **(1)**	

	Analysis Up to 2 marks for linked explanation of impact on car manufacturers' profits e.g.: • Car manufacturers face lower manufacturing costs **(1)** 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 reference to Extract B • The merger would result in savings of €400 million' **(1)** • 4000 reduction in staff from the merger **(1)** • The firms hoped to benefit from lower long-run average costs **(1)** **OR Approach 2**	

Knowledge

Merger causes increase in market power between the two firms. This enables them to increase prices.



Up to 2 marks for drawing a diagram that shows knowledge of:

•Original AR, MR, AC1, MC1 and profit-maximising equilibrium **(1)**
•Increase in variable cost would cause upward shift in MC and AC curves to MC2 and AC2 **(1)**

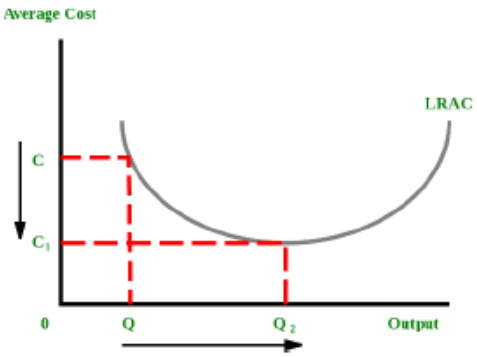
Analysis

Up to 2 marks for linked explanation of impact on car manufacturers' profits e.g.:

- Profit-maximising (loss-minimising) output would fall from 0Q1 to 0Q2 / price will rise from 0P1 to 0P2 **(1)**
- Final profit-maximising (loss-minimising) equilibrium showing higher price, lower output **(1)** and fall in supernormal profit (C1, P1, Q1 to C2, P2, Q2) **(1)**

	Application Up to 2 marks for reference to Extract B • The merged company would become the 2nd largest European steel manufacturer **(1)** • 48000 workers & generate €15 billion in sales **(1)** • Increased market power **(1)** **Evaluation 2** Up to 2 marks for evaluative comments, e.g.: • Increased market power of the merged firms creates price setting ability **(1)** firms could raise prices to car manufacturers reducing profits **(1)** • If demand is inelastic car manufacturers can raise prices **(1)** and increase revenues and profits **(1)** • If demand for cars is inelastic, car manufacturers will increase their prices **(1)** the increase in revenue will offset any increase in costs and profits remain the same **(1)** • It depends on the significance of steel as part of the production process. **(1)** If it is a small part of the total production costs the impact would be limited **(1)** • Merger may lead to lower average costs of production/economies of scale which may be passed on to car manufacturers **(1)** • Firms might be able to reduce costs elsewhere maintaining profits **(1)** • There is still competition in the steel market (oligopoly) **(1)** therefore prices may not increase significantly **(1)** • Car manufacturers may decide to switch to lower priced imported steel **(1)** steel costs may fall, increasing profits **(1)**	**(8)**

Q9.

Question	Evaluate the benefits of growth by takeover for a business in an industry of your choice. Illustrate your answer with an appropriate diagram(s). **Indicative content**
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	• The firm may be able to reduce duplication e.g. where they both have a marketing department and so will be able to reduce costs • The firm may benefit from sharing expertise/research and development skills • A takeover may result in cost savings if the integration occurs with a supplier (backward vertical integration, fast food chain purchasing a farm) – • Takeover may create greater control over suppliers if backward integration which could increase barriers to entry in the industry • A takeover may enable a firm to spread its risk if moving into new markets/diversifying products (conglomerate integration) • If taking over a firm at a later stage of production (forward vertical integration, car manufacturer integrating with car show rooms), the firm may be able to increase revenue by selling directly to the consumer • Horizontal takeover would allow the firm to increase market share • A takeover enables a firm to expand quickly into new markets • A takeover may increase market power enabling the new firm to increase price/restrict output/ or allow an established firm to expand quickly **NB if no diagram candidate can achieve a maximum of level 3** **If no reference to an industry maximum level 3**

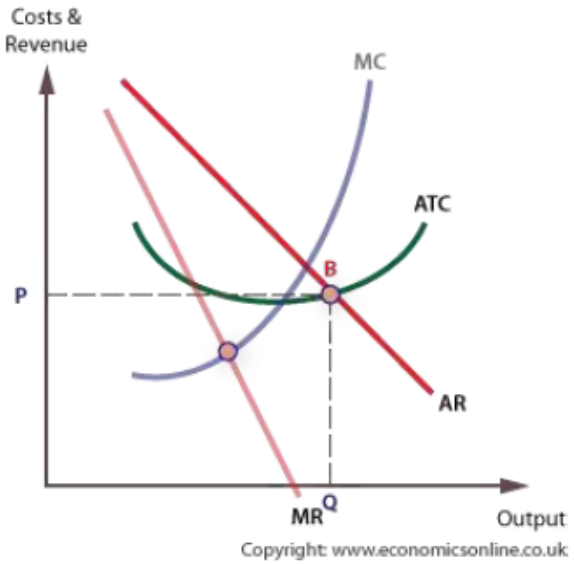
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	Evaluation (8 marks) – indicative content
	• Takeovers can be expensive, increasing costs and decreasing profits • Culture clashes may occur between the firms if they were run differently, causing diseconomies of scale • The larger firm may cause communication problems • The takeover may cause concern for competition authorities and lead to government intervention • The firm may enter into new markets where they have little or no expertise • The firm may grow too fast raising costs and lowering profits • Many takeovers may end up being unsuccessful, resulting in demergers

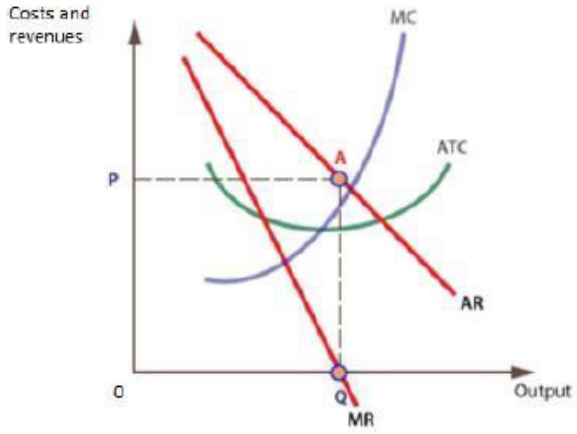
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Q10.

Question	Evaluate the likely impact of the divorce of ownership from control on business objectives. Illustrate your answer with an appropriate diagram(s). Indicative content
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- Revenue maximisation (output at which MR=0) may be pursued because of the principle- agent problem



- At point A the business is achieving supernormal profits, not as high as if the business was profit maximising. It is also reaching a higher level of output. However the sales are not as high as they would be under sales maximisation. Both managers and shareholders are satisficed
- Businesses in the private sector are likely to have shareholders who need dividends to be incentivised to invest because they are not employed by the business
- Allow profit maximisation if they connect to Jeff Baoes as a share holder

NB if no diagram candidate can achieve a maximum of level 3

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	Evaluation (8 marks) – indicative content
	• Divorce of ownership from control may not occur if managers are also shareholders such as Amazon. Many private sector firms offer shares to their managers • The type of business might be more important in determining the objective e.g. niche firms/specialist businesses are unlikely to have sales maximisation as an objective • Other objectives might be more important such as business survival if it is a small or new firm in the industry • Some shareholders may be investing for the long-run and would be willing to accept growth as a priority • Business objectives are influenced by other factors e.g. private vs public sector, not for profit • In most countries, directors have a legal responsibility to act in the best interests of shareholders so should be trying to fulfil their objectives rather than their own personal ones

Level	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.

Q11.

Question	Evaluate why the objectives of small and medium-sized enterprises may differ from those of large enterprises. 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.**

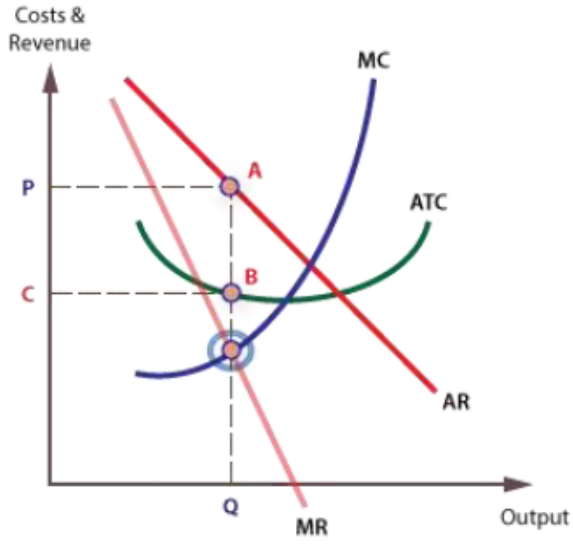
QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.

Small/medium-sized enterprises

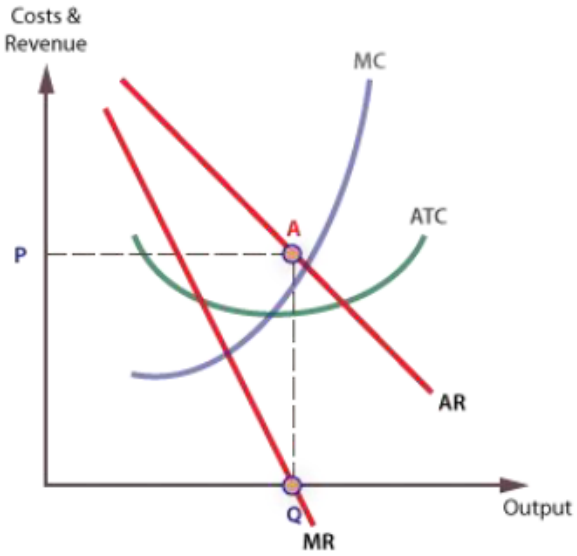
- Small businesses have less than 50 employees and a annual turnover under £10 million/ Medium sized business have less than 250 employees and an annual turnover under £50 million
- Smaller businesses in Malaysia are more likely to remain small and not have growth as an objective because they may lack the finances available to invest in new technologies to expand. This prevents them from increasing output and growth
- The high level of competition in the market for small and medium-sized enterprises making the business have survival as its objective survival
- Smaller/medium-sized enterprises may have survival as an objective as they lack the market power to influence the price or their profit levels
- They may remain small as the owners has the objective of retaining control of the business

Large enterprises

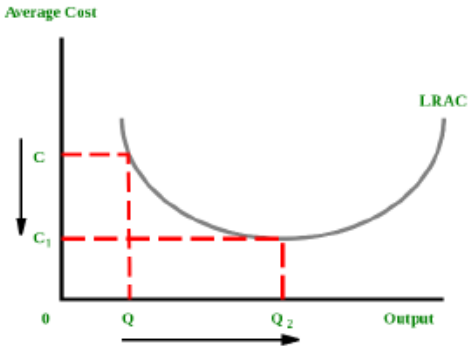
- Large enterprises are more likely to profit maximise because they have the market power to influence the price and quantity where MC=MR



- Large enterprises could also maximise revenues where MR=0 because they want to increase market share and/or to deter the entry of new firms and/or to force other competitors out of the market



- Large enterprises might have an objective to achieve economies of scale to reduce costs and increase supernormal profit. They will expand to reach their MES at Q2

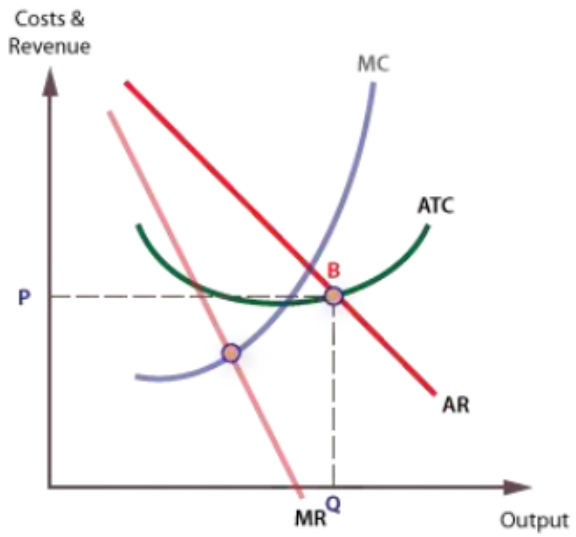


- Large enterprises are more likely to profit satisfice as they are more likely to experience divorce of ownership from control

NB if no diagram 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.
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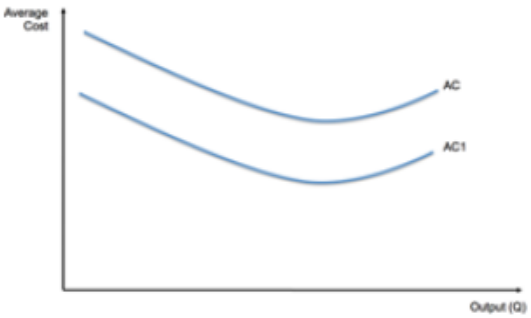
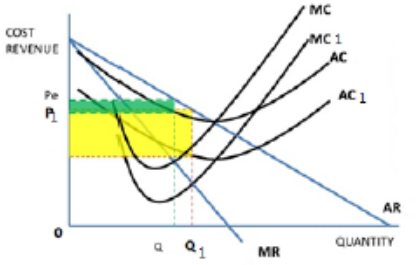
	Evaluation (8 marks) – indicative content
	• It depends on the nature of the good. Some enterprises firms in niche markets may have the objective of profit maximisation especially if demand for the product is inelastic • The objective depends on the level of competition, the more competitive the market the more likely sales volume maximisation is the objective even if the enterprise is large • Government support for small and medium-sized enterprises would help them to expand and overcome obstacles such as lack of finance • If the large enterprise is a charity or a government-owned enterprise, profits might not be the objective of the business/ large firms may have environmental and social objectives • Small/medium-sized enterprises may have sales volume maximisation as an objective as the level of competition would make the demand for their products more elastic. Therefore they are likely to set a price and quantity where AC=AR resulting in normal profits



	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.
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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.

Q12.

Question Number	In 2019 the Indian Government announced plans to privatise up to 25 airports across India. These airports are not the largest in India, but they each have annual passenger numbers between 1 million and 1.5 million. Evaluate the possible benefits of privatisation for the consumer. 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. **Knowledge, Application, Analysis (12 marks) – indicative content** Privatisation is the transfer of assets from public to private ownership

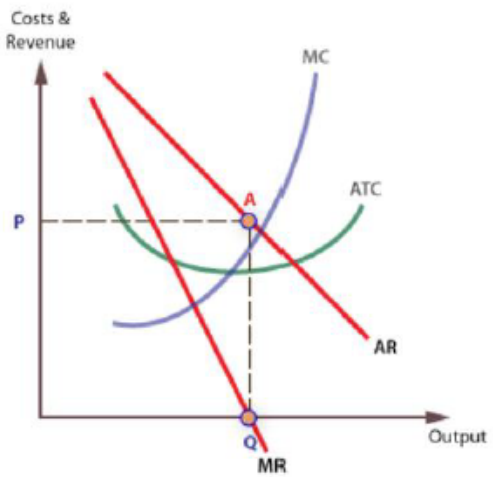
	•Privatised firms have an incentive to cut costs in order to maximise profits and the firm moves closer to productive efficiency/reduce X-inefficiency   C • Reduced costs as privatised firms will increase efficiency (falling MC and AC), leading to lower prices and increased output • Lower costs may be reflected in lower prices for consumers of flights, increasing consumer surplus
	• If privatisation increases competition there is an incentive for firms to deliver more choice and quality in order to boost sales. An increase in choice improves consumer welfare • Incentive to innovate in order to boost sales and, therefore, profit. Firms may become more dynamically efficient, improving the quality of products produced • Increased quality of goods and increased innovation increases consumer choice e.g. better quality airports or more flights • Wider share ownership – consumers may be able to buy shares in privatised firms to spread the rewards of capitalism to more people **Restrict to a maximum of Level 3 if no appropriate diagram provided**

Level	Mark	Descriptor
	0	No rewardable material.
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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 • Competition may not be increased if state-owned airports become privately owned by a private sector monopolist • Some public monopolies become private monopolies, with the objective of profit maximisation causing prices to increase and resulting in a reduction in consumer surplus and welfare • They may become X-inefficient if there is a lack of competition in the private sector • Market forces may not ensure greater efficiency • State-owned firms may provide loss making services that private firm would not, reducing choice and consumer welfare • Choice may be reduced if service becomes unprofitable

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.

Q13.

Question	Evaluate the view that revenue maximisation is always the main objective of a firm. 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 and Analysis (12 marks) – indicative content** • Business objectives defined or listed • Revenue maximisation MR=0 

	• This point allows the business to achieve the highest level of revenue • At point A the firm is maximising revenue • Firms in competitive markets may not maximise profits in order to increase their market share, therefore they operate where MR=0 • Revenue maximisation will increase the output and sales, helping to increase market share, compared with the profit maximisatin level of output • Increasing quantity may also help the firm to achieve economies of scale as it grows in size, lowering average costs • In the short-run firms might have a revenue maximising goal to establish themselves in the market e.g. in China

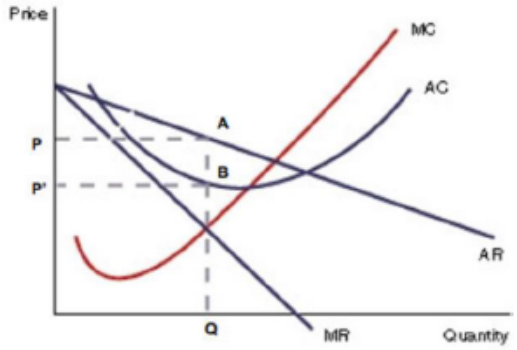
	• If there are low barriers to entry into the market a firm may have a revenue maximising objective to deter new entrants into the market • If demand is elastic firms may have a revenue maximising objective to maintain low prices • Firms may revenue maximise in the short-run to increase market share and build monopoly power in the long-run **NB if no diagram 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.
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Evaluation (8 marks) – indicative content

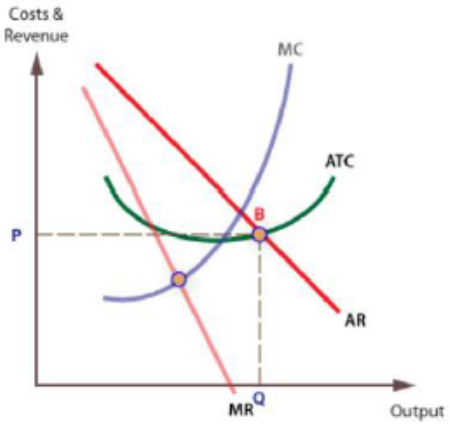
- Divorce between ownership control may occur and satisficing behaviour may cause the managers and owners to have different objectives
- Revenue maximisation may only be a short-run objective
- The firm may wish to change its objective in the long-run when the firm is more established and can increase prices more easily/market conditions may change
- Level of contestability will impact the objectives of the firm, the higher the barriers to entry the more likely the firm will be profit maximising
- Other objectives might be more significant:
- Firm survival for small or new firm in the industry

Profit maximisation occurs when MR=MC



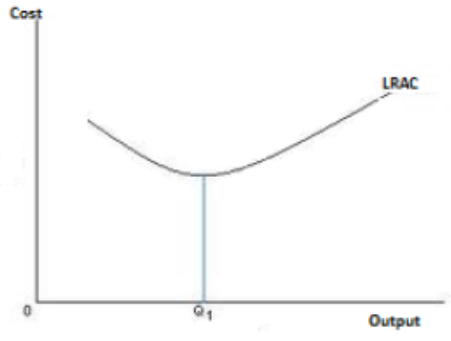
- This enables the firm to achieve supernormal profits PP^1AB

Sales volume maximisation occurs when ATC=AR



Level	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.
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Q14.

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** • **Lack of managerial skills** -so the business remains small • **Lack of availability of suitable labour** • **Lack of scope for growth within the market-** because of limited market demand • **Limits on the extent to which the firm is able to diversify** **ALL OF THE POINTS ABOVE MEAN THAT THE FIRM'S ABILITY TO GAIN FROM ECONOMIES OF SCALE IS LIMITED. Minimum efficient scale (MES) is reached at a low level of output**
	 • MES is reached at a relatively low level of output of Q_1. Any growth in size and output beyond Q_1 means that the small firm is less efficient and experiences diseconomies of scale

- The **objectives** of the owners/managers. Owner(s) may be **satisfied** with keeping the business small:
  - growth is risky
  - expensive
  - time-consuming
  - profit satisficing objective
  - owner's complacency

- **Limited access to finance:**
  - relatively small amount of retained profits
  - banking sector may be unwilling to lend
  - fewer options when raising external finance

- **High financial costs of growth:**
  - legal and administration costs
  - capital costs
  - hiring new staff

- **Many other firms competing in the market** - may be perfectly competitive or monopolistically competitive

- **Small firms may be able to group together to share resources** - no real need to grow

- **A small firm can offer specialised products/service -** appeals to consumers

- **The macroeconomic climate:**
  - Slow growth or recession in the economy
  - Low effective demand, low consumer purchasing power
  - Future uncertainty in the economy – economic, political etc.
  - High interest rates
  - High inflation rates
  - High unemployment rates

Points above should be illustrated with relevant examples

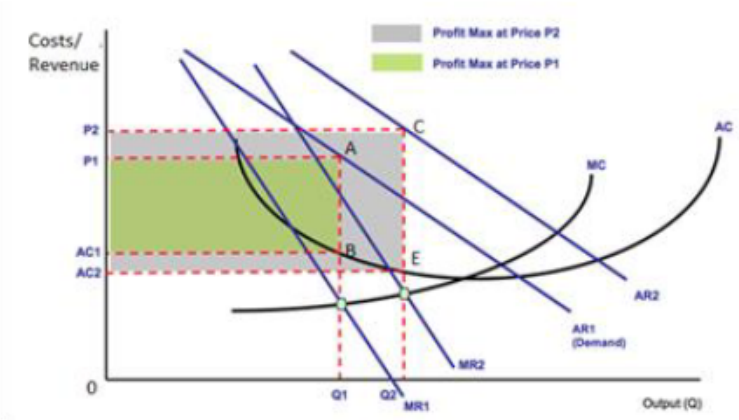
Restrict to a maximum of 9 marks for Knowledge, Application and Analysis if no diagram provided.

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	Evaluation (8 marks) – indicative content • Short-run/long-run: most businesses start out small. Over time many will grow • Factors such as macroeconomic climate and limited market demand can change over time • Government financial support and a more favourable attitude from the banking & the finance sectors may result in small firms having the necessary funds to expand • A change of ownership may lead to a change of objectives, with the new owners keen to grow the business • Small firms may be prone to takeover bids by larger businesses

Level	Mark	Descriptor
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Q15.

Question	With reference to Extract A, examine the impact of an increase in car sales in the USA on the profits of Stellantis. Illustrate your answer with an appropriate diagram. **Answer**	**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.  	**(8)**

Knowledge

Up to 2 marks for drawing a diagram that shows knowledge of:

- Original AR, MR, AC, MC with profit maximising output **(1)**
- Outward shift of AR to AR_1 and MR to MR_1 **(1)**

Analysis

Up to 2 marks for the impact of the merger on the new firms profits e.g.:

- Original supernormal profit A B AC1 P1 **(1)**
- New supernormal profit C E AC2 P1 **(1)**
- The increase in revenue increases supernormal profit **(1)**

Application

- Following the merger/in Q1 2021 Stellantis experienced a 25% increase in revenue **(1)**
- PSA Group will gain access to Fiat Chrysler 3 000 car showrooms **(1)**

Evaluation

Up to 2 marks for evaluative comments, e.g.:

- Growing into new markets may be difficult to manage causing diseconomies of scale **(1)** increasing costs and reducing profits **(1)**
- Car sales growth may help achieve economies of scale (1) helping increase profits further (1)
- The USA is only one of a number of markets for Stellantis **(1)** so profit levels could be impacted from other markets **(1)**
- Changes in costs may impact the profit levels **(1)**
- The increases in car sales may be temporary **(1)**

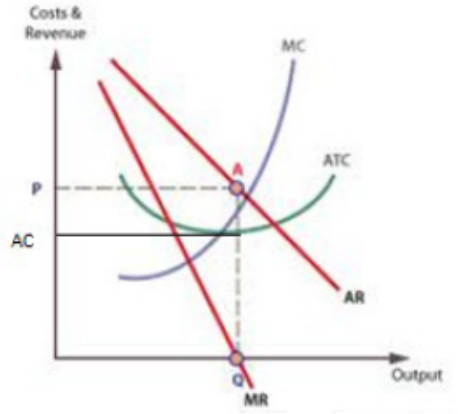
Q16.

Question	With reference to Extract A, explain what is meant by 'horizontal integration'. **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 the definition of horizontal integration: When two firms merge at the same stage of the production process **(1)** in the same industry **(1)** **Application:** Up to 2 marks for application to context of PSA Group and Fiat Chrysler merger • PSA Group and Fiat Chrysler merge to create Stellantis **(1)** • PSA Group and Fiat Chrysler merge to create the world's third biggest car manufacturer by volume **(1)** • PSA Group and Fiat Chrysler both produce cars **(1)**	**(4)**

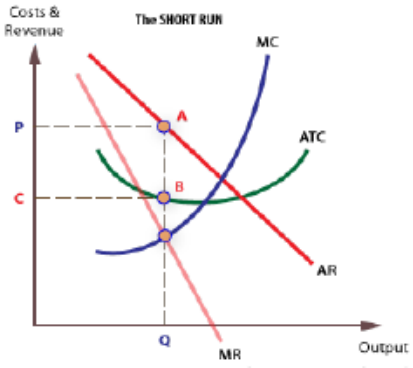
Q17.

Question	With reference to the first paragraph of Extract A, explain what is meant by the term 'organic growth'. **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 marks for correct definition and development of the term 'organic growth' **(1+1)** e.g.: • Organic growth refers to the expansion of a company's operations **(1)** Internally/ e.g. Marketing/opening more stores/ hiring more workers / without relying on mergers/acquisitions/integration **(1)** **Application:** Up to 2 marks for application to context of Uniqlo's organic growth **(1+1)** e.g.: • Uniqlo started to sell in other countries such the USA /China/UK/ Australia/South Korea **(1)** • Uniqlo expanded through a process of organic growth **(1)** • The company opened stores in large cities within each country **(1)**	**(4)**

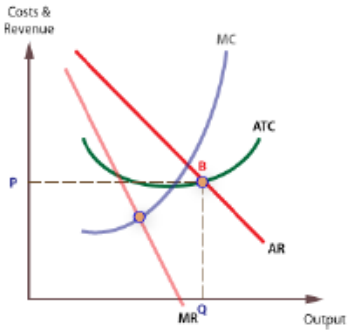
Q18.

Question Number	Indicative content
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- Profit maximisation objective where MC = MR (Accept perfect competition or monopoly diagram). Firm makes highest possible supernormal profit.



- If the firm's objective is sales maximisation this will be where AC=AR or TR=TC. In this case profit is lower but the firm is selling a higher quantity of goods. It is prioritising sales volume/market share over profit



- Some private sector organisations are non-profit making (eg charities), others may prioritise social responsibility eg co-operatives. Therefore profits are likely to be lower or non-existent

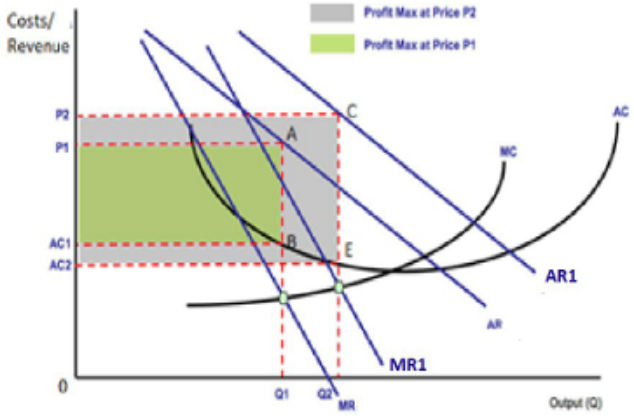
- **Restrict to a maximum of 9 marks for Knowledge, Application and Analysis if no diagram provided.**

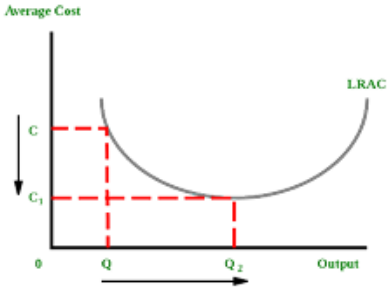
Level	Mark	Descriptor
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Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual 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 • For public sector organisations which can be financed through tax revenues, a profit objective may be non-existent or less important eg health, education, transport, postal services • There may be conflicting objectives in a large private sector organisation where there is a divorce of ownership and control. Eg shareholders want higher profits, managers want sales maximisation • Business objectives can change depending on circumstances - macroeconomic conditions (eg in a recession survival will be a prime objective) - changes within a market (eg more competitive conditions may involve sacrificing some profit in the short-run) - new government legislation (eg tightening up on environmental laws may emphasise social responsibility) - short-run & long-run distinction. Eg a business may seek to maximise revenue in the short-run aiming to remove competitors. This may then enable to business to raise prices and hence profits in the long-run

Level	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.

Q19.

Question	Evaluate the benefits of a takeover for businesses **and** 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.** **Benefits for businesses:** Revenue Growth: a takeover can help a business to achieve a higher market share, granting it more pricing power and access to new markets. For example, Mars being able to sell more products in the luxury chocolate market. This increases revenue and profit (MR/AR to MR1/AR1) and increase in supernormal profit as shown. •  Increased synergies, a takeover may enable a sharing of expertise. This can improve efficiency and output Cost reduction: a takeover can lead to economies of scale and the acquisition of new skills, leading to cost savings as AC will fall and output will rise. Some takeovers can also take advantage of lower corporate tax rates in certain countries. Can be shown on a diagram:



- Risk bearing economies: enables the business to spread the risk by operating in different countries/markets
- Creates a barrier to entry as the business grows, protecting the business against competition
- Takeover may eliminate a competitor and therefore lead to an increase in market share/market power
- A backward vertical integration may help to guarantee the quantity and quality of supplies/ help to minimise costs
- A forward vertical integration will enable the business to have a guaranteed outlet for its products

Benefits for Consumers:

- Enhanced product quality and variety: takeovers often lead to improved dynamic efficiency through synergies and shared research and development, resulting in a better product quality and a wider product range
- Lower prices: if productive efficiency improves, or rationalisation occurs, the business may pass this onto the consumers by setting lower prices

NB: A candidate can achieve a maximum of level 3 if only one economic agent is discussed

NB: A candidate can achieve a maximum of level 3 if no diagram is included

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 **Businesses** • Lower than expected profit: The acquired business may turn out to be less profitable than initially anticipated/costs involved in the takeover/ transaction may be higher than expected • Diseconomies of scale: the business may experience inefficient operations and reduced profitability due to a larger scale of operations/fall in productivity caused by culture clashes • X-inefficiency: results from reduced competition in the market • The takeover might attract the attention of competition authorities **Consumers** • Higher prices: the company with increased market power may impose higher prices, reducing consumer surplus • Reduced product variety: the takeover may result in a reduction in the range of available products, limiting consumer choice • Disincentive to innovate: less competition may result in complacency and less urgency to develop new products	

Level	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.

Q20.

Question	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 incorrect because the demerger would have no effect on external economies of scale **B** is incorrect because the demerger would result in GSK becoming more specialised **C** is incorrect because GSK would be unlikely to want its long-run average costs to increase	**(1)**

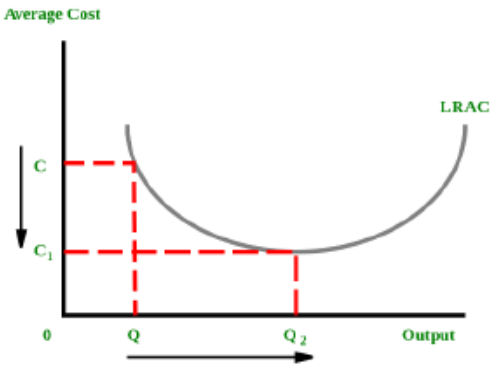
Q21.

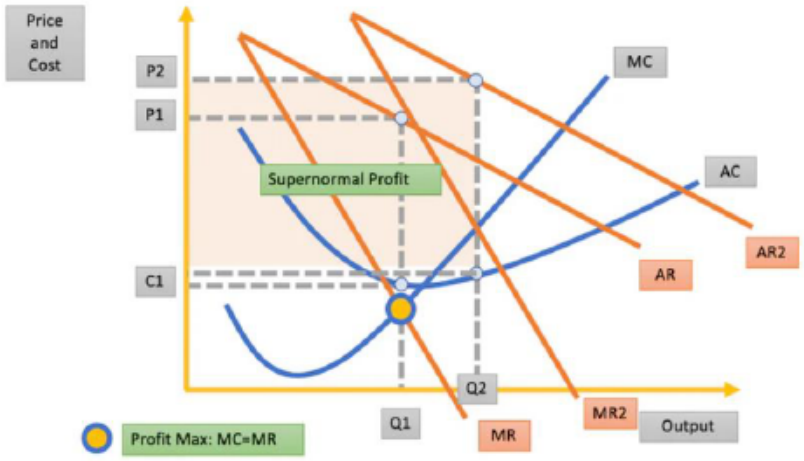
Question Number	Quantitative skills assessed	Answer	Mark
	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is B** **A** *is not correct because this is profit maximisation* **C** *is not correct because this is revenue maximisation* **D** *is not correct as this will not maximise sales*	**(1)**

Q22.

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 D** **A** is incorrect because at this level of output profits would be maximised **B** is incorrect because at this level of output total revenue will not be maximised **C** is incorrect because at this level of output average revenue will be greater than zero	**(1)**

Q23.

Question	Evaluate the benefits of organic growth to a business such as Lidl. 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.** • Organic growth is the expansion of a business achieved through internal means. It involves increasing sales, market share, and overall business activities using its own resources • Organic growth is where a business increases its size without merger or takeover **Benefits:** • Retain control and culture: Lidl may operate differently from other supermarkets. This can be crucial for maintaining the identity and brand loyalty of the business. • Increasing scale through organic growth enables achievement of economies of scale: By increasing output, long-run average total costs fall, increasing efficiency (LRATC fall as output rises)  • Retain all profits: Growing organically allows a business, such as Lidl, to retain all the additional profits gained from increased sales and revenue (increase in AR1-AR2 and MR1 to MR2 causing an increase in profits). No need to share profits with businesses involved in mergers takeovers



- Stable: For Lidl, this growth could be more stable than growth through acquisitions as the business is building on existing strengths in the supermarket industry
- Cost Efficiency: Organic growth for Lidl allows them to grow their operations without the immediate large financial costs associated with mergers or acquisitions
- Risk Management: Organic growth typically involves a lower level of risk compared to external growth strategies as there are likely to be fewer disagreements between managers
- Innovation and adaptability: to expand organically, a business frequently need to develop new products, services, or processes. This can improve the quality or range of products increasing sales and possibly profits
- Enhanced market competitiveness: Organic growth enables a business to gradually strengthen their position in the market. By focusing on improving efficiency, quality, and customer satisfaction, a business can become more competitive and better positioned to capture a larger market share.
- Increased market share- increased market power- price setting ability- increasing price and profit- allowing further investment
- Less likely to attract attention of competition authorities which would investigate mergers where market share is above certain level
- Employee development- the business growing creates more opportunities for staff to move to management positions

NB: A candidate can achieve a maximum of level 3 if no diagram
NB: A candidate can achieve a maximum of level 3 if no context 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. 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.
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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.

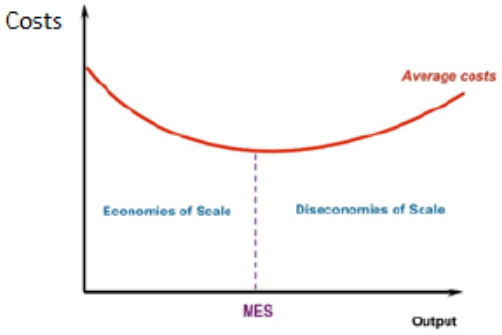
	Evaluation (8 marks) – indicative content • Diseconomies of scale through growing too large- too many new stores creating communication problems/operational complexity - reference to diagram • Limited access to finance if relying on internal funds. A business growing organically may face constraints on growth and capital investment if it relies solely on internal funds. This could limit the speed and scale of expansion or hinder the ability to invest in large-scale projects or initiatives • Slow growth rate: Organic growth tends to be a gradual process. Lidl will take two years to build another 50 stores. A business may experience a slower growth rate compared to one that pursues expansion through mergers or acquisitions • Limited expertise/networks: may stop a business from expanding more quickly as it takes time to build supply chains and conduct market research. The business may not have the expertise to move into a new location/or new market • If the business is struggling it may not be able to access finance or expertise to move into a new market • Organic growth through building new stores may be much more expensive than acquiring stores by merging with an established business

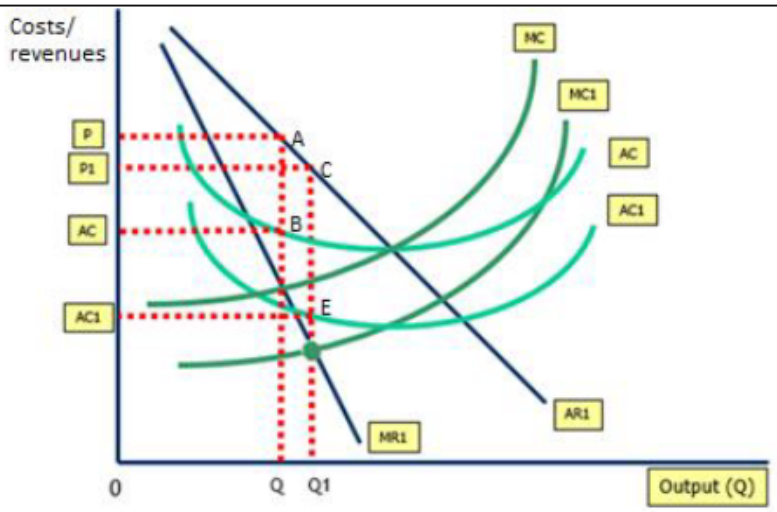
Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. 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.

Q24.

Question	With reference to Extract C, explain what is meant by organic growth. **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 correct definition: • Growing internally/ natural growth **(1)** • Expansion of a firm's operations/entering new markets/increasing sales/opening new stores **(1)** • Growth without merger/takeover/acquisition/integration **(1)** **Application:** Up to 2 marks for application to Extract C **(1+1)** e.g.: • McDonald's opened a new café - CosMc's **(1)** • It plans to open CosMc's in 10 different locations/in Texas, USA, by December 2024 **(1)** • It plans to expand CosMc's globally/open 10 000 new restaurants worldwide by 2027 **(1)** • McDonalds enter on the go market/beverage market **(1)**	**(4)**

Q25.

Question	Evaluate the possible benefits of a demerger. 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. • Definition of demerger – separation of a firm into two or more businesses Possible benefits include: • Lower LRAC as the business was previously experiencing diseconomies of scale  • By demerging, Peak Minerals is able to lower output reducing diseconomies of scale and moving closer to its MES • The business becomes more efficient – less x-inefficiency in the company as Peak Minerals are able to focus on the core strengths of the business, such as copper, reducing costs • Expected synergies between Peak Minerals and Vertex Minerals did not occur - hence the firm may reduce its LRAC



- Increase in profits (or a reduction in losses) as a result of lower MC and AC as communication/management improves. Changing the equilibrium position from Q to Q1 increasing supernormal profits from A,B,AC,P to C,E,AC1,P1
- The business has sold off parts which were higher risk – for example Vertex may not have been profitable, or in a high-risk market
- The firm may avoid intervention from competition authorities as it was becoming too dominant in the minerals market
- Shareholders may benefit if the company becomes more profitable in the future
- Workers may benefit from higher wages if the business has reduced its costs
- Consumers may benefit from lower prices

NB if no diagram 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 • The business may regret decision e.g. if the demerged firm performs badly under new ownership and/or was undervalued at time of sale • The business may experience a rise in LRAC and a reduction in economies of scale if the size of business is now below MES • The breaking up of the vertical integration may result in higher costs because of greater competition for resources • The cost of the demerger may outweigh the potential benefits e.g. legal fees, disputes between parties when breaking up, possible redundancy costs, new IT systems required etc. • If the demerged business is unprofitable then workers may lose their jobs • If the demerged business is unprofitable then consumers may face higher prices • If the demerged business is unprofitable then shareholders may face a fall in value of their shares and lower dividends • Consumers have to deal with more separate firms rather than one offering everything, causing more time and complexity in decision making

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.

Q26.

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 supernormal profit and price will change B is incorrect because supernormal profit and price will decrease D is incorrect because the business supernormal profit and price will decrease	**(1)**

Q27.

Question	Quantitative skills assessed	Answer	Mark
	QS9: Interpret, apply and analyse information in written, graphical tabular and numerical forms.	D	**(1)**

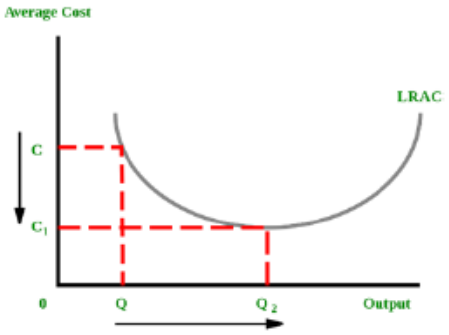
Q28.

Question Number	Quantitative skills assessed	Answer	Mark
		The only correct answer is B ***A*** *is not correct because they are in the same industry* ***C*** *is not correct because they are at the same stage of the production process* ***D*** *is not correct because they are at the same stage of the production process*	**(1)**

Q29.

Question	Quantitative skills assessed	Answer	Mark
	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is C** A is incorrect because the firms are in the same industry B is incorrect because the firms are at the same stage of production D is incorrect because the firms are at the same stage of production	**(1)**

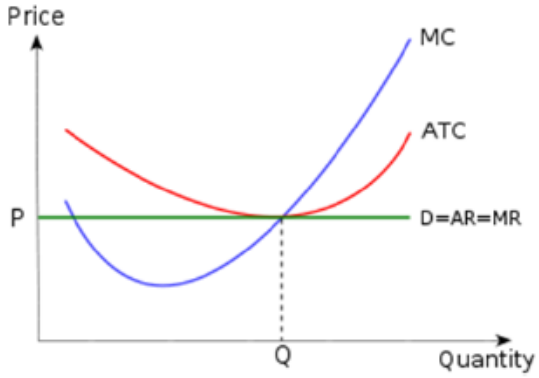
Q30.

Question	Evaluate the impact that the size of a business has on its efficiency. 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. • Larger businesses, such as Nestlé, might be more productively efficient than smaller businesses (producing at the MES) • Nestlé has access to more resources and economies of scale, which can lead to increased efficiency compared to smaller food-producing businesses • Large production runs in producing food and beverages will lower unit costs, and will enable fixed costs to be spread over a larger output. This may enable the business to produce at the productively efficient level of output 
	• The large businesses produce at Q_2 compared to Q and is able to produce at a lower cost C_1 • Large businesses, such as Nestlé, have specialised division of labour or capital equipment e.g. specialist packaging machines. These might improve efficiency in production, lowering average cost when producing at a higher level of output • Large businesses might be more dynamically efficient • The large business likely to have more price setting ability in the market allowing them to set higher prices and make supernormal profits. The supernormal profits can be reinvested into improving production or better-quality capital, investing in research and development • Small businesses in perfect competition/monopolistic competition are unable to make supernormal profits in the long-run and are therefore unable to invest in improving dynamic efficiency • Large businesses that are cross-subsidising might be more allocatively efficient than smaller firms as they can reallocate profits to lower the prices of essential goods **NB: award a maximum of level 3 if no appropriate diagram is drawn** **Accept reverse argument as 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.
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

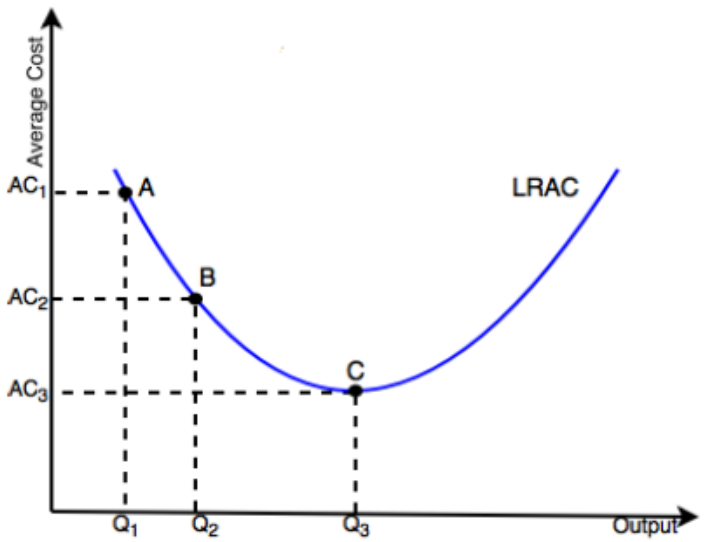
- A large business may suffer from diseconomies of scale making them less productively efficient
- If suffering from x-inefficiency, the large firms' average costs will rise increasing productive inefficiency
- Small businesses may operate in a niche market where they are able to set high prices and make super normal profits that can be reinvested back into dynamic efficiency
- Large businesses may have less incentive to innovate and find more efficient ways of doing things because of their dominant market position and economies of scale
- A large business may suffer from inertia and be slow to respond to changes in the market or to new opportunities because of their size and investments in their existing operations
- A small business can be more productively and dynamically efficient than large firms because they are often more flexible and responsive to market changes. They have lower overhead costs, less bureaucratic decision-making processes, and can quickly change their production processes to meet the needs of customers
- A smaller business might be more allocatively efficient (P=MC). A business in perfect competition has to take the market price where P=MC=AC=AR=MR therefore are allocatively efficient because of their lack of price setting ability. A larger business has price setting ability and can set at a price above MC



Level	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.

Q31.

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 horizontal integration- when two firms merge at the same stage of the production process in the same industry • Firms in the Indian steel industry are dynamically efficient • Tata steel is the largest producer in India • It would become Europe's second largest steel producer generating €15bn in sales • Firms would be able to recover the fall of profits of between 8% and 17% after the tariff was imposed by the US their biggest export market • The efficiency savings would be worth over €400m • Reducing the number of employees by 4000 in administration (reduction in X-inefficiency) and manufacturing would reduce costs, increasing profits • The firm would benefit from lower LRAC - economies of scale • The firm may reach their minimum efficient scale • The firm may become more productively efficient • Dynamic efficiency may increase • Stronger monopoly power gives the firm greater price setting ability and higher prices may increase profits

	Example of diagram showing LRAC falling as output increases 

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 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 • Culture clashes may make it difficult for the firms to merge • Uncertainty may reduce employees' motivation and productivity • Diseconomies of scale may occur, e.g. if communication is difficult within the merged firm • Legal costs are high when merging, reducing profits • The firm will not become the largest steel producer in the market, limiting their price setting ability • Short-run impacts are not as significant as long-run impacts on the firm, it will take time for the new firm to establish how it will operate to see the maximum benefit • Cost saving might not be big enough to recover costs from fall in profits after tariffs imposed by the US • Risk of government intervention • Magnitude of the benefits in terms of size of the new merged firm • Tata Steel is already dynamically efficient

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.

Q32.

Question	With reference to the information provided and your own knowledge, discuss the possible impact of the merger between PSA Group and Fiat Chrysler on workers and consumers. **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** **Workers** • If factories close to reduce costs, 3000 Vauxhall workers will lose their jobs making them unemployed and decreasing their standards of living • Workers are highly skilled, the factory closure could cause occupational immobility of labour in the sector. This may cause long-term unemployment • The government may need to increase training for these workers to provide more transferable skills • There may not be many job opportunities for car manufacturing employees. Workers may not want to move to areas with jobs available as a result of geographical immobility of labour

	Consumers • Stellantis may not lower prices in response to cost savings • If diseconomies of scale arise e.g. from managing a large number of brands, prices may rise • Development in technology only happens in the production process, quality may not improve • Increased market power may lead to increased prices • Choice may reduce as Stellantis reduce the models available **If only one economic agent is considered then limit KAA to Level 2** **Accept reverse argument**

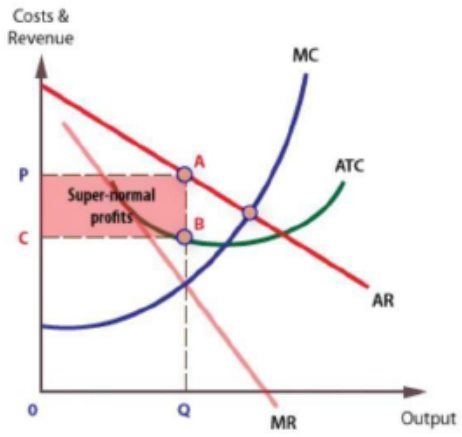
Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. 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 **Workers** • The trade union is in talks with Stellantis and there might not be any factory closures • Employees might have some transferable skills and find job opportunities in other industries	

	• If training programmes are available, employees may become employed in the long-run • If factory closures are limited then the significance may not be as great • High skilled workers have high productivity and therefore are likely to find employment in other occupations **Consumers** • Increase in consumer surplus if prices fall after the merger and the firm benefits from economies of scale • Increase choice as firms share research and development into areas such as electric cars; creating new cars for consumers to purchase • Increase in quality products from the sharing production expertise and technological knowledge • New cars take a long time to develop and may have little impact in the short-run

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.

Q33.

Question	Evaluate the view that the objectives of state-owned enterprises and private sector organisations always differ. 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 private sector organisation is one that is owned by individuals and not the state • State-owned enterprises are run by the government

	Private sector  • Private sector organisations may have an objective to profit maximise (where MC=MR) for example the private sector in America • At this point the firm is making the highest level of profit possible • Private sector organisations may be owned by shareholders who want dividends as reward for their investment • Private sector organisations need to make a profit to survive in the free market therefore will have profit as a key objective, universities need to set high prices to cover costs • Private sector organisations need to make at least normal profit if they are to remain in the industry. If they choose not to maximise profits, they may have either a revenue maximisation objective (MR=0) or a sales maximisation objective (AR=AC) • If there is a divorce between ownership and control private sector organisations may have a satisficing objective

	State-owned enterprises • State-owned enterprises may be run in order to provide public goods and services and not always to generate a Therefore, these organisations may have other objectives rather than profit • State-owned enterprises may have social objectives to improve standards of living and quality of life. For example health care and education • State-owned enterprises will have an objective to provide a service to the citizens of its country • The social objectives of state-owned enterprises may include greater equality, environmental considerations and social mobility • State-owned firms may have an objective to achieve allocatively efficient pricing, or pricing to avoid a loss **NB if no diagram candidate can achieve a maximum of level 3** **If only one economic agent discussed candidate can achieve a maximum of level 3** **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 • Many privately owned firms may have social objectives as consumers are more socially driven and this can increase demand • Pressure groups and regulators have increased consumers' awareness of the negative impacts of private firms encouraging them to have more social objectives • Nationalised firms often are regulated to cross-subsidise non-profitable parts of their business • Charitable organisations are privately run but do not make a profit and run to provide a service for society • State-owned enterprises may shut down if they are run at a loss • Some state-owned enterprises do aim to make a profit e.g. to create additional revenue for the government. For example governments investing in private partnerships or profit making businesses

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.

Q34.

Question	Quantitative skills assessed	Answer	Mark
	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is C** **A** is incorrect because the firms are at the same stage of production **B** is incorrect because the firms are at the same stage of production **D** is incorrect because the firms are in the same industry	**(1)**

Q35.

Question	Quantitative skills assessed	Answer	Mark
	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is C** **A** is incorrect because Sony and Honda are two different companies **B** is incorrect because they are privately owned companies **D** is incorrect because the two companies are at different stages of production in different markets	**(1)**