

# Mark Scheme (SAM)

## Pearson Edexcel International Advanced Level in Economics

### Unit 3: Business Behaviour

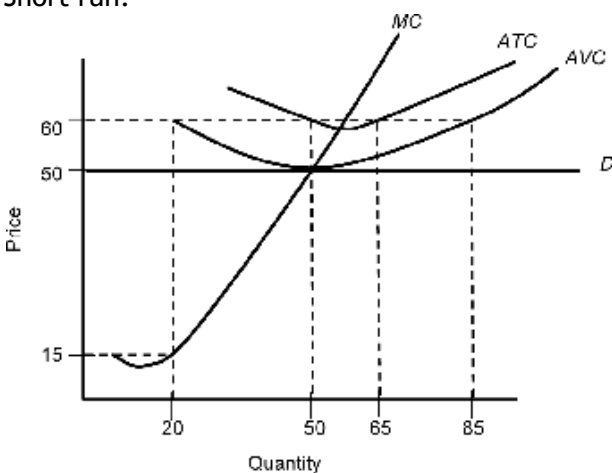
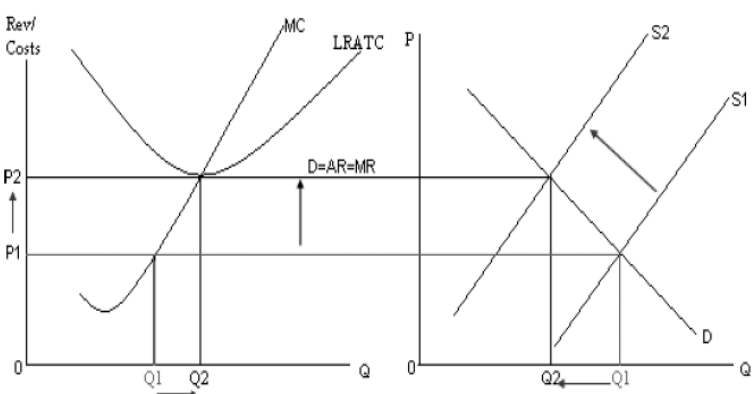
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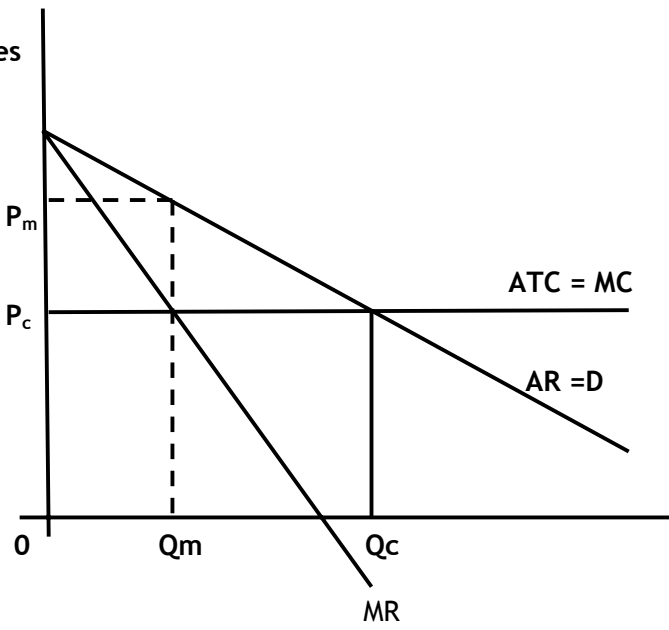
## General marking guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed-out work should be marked UNLESS the candidate has replaced it with an alternative response.

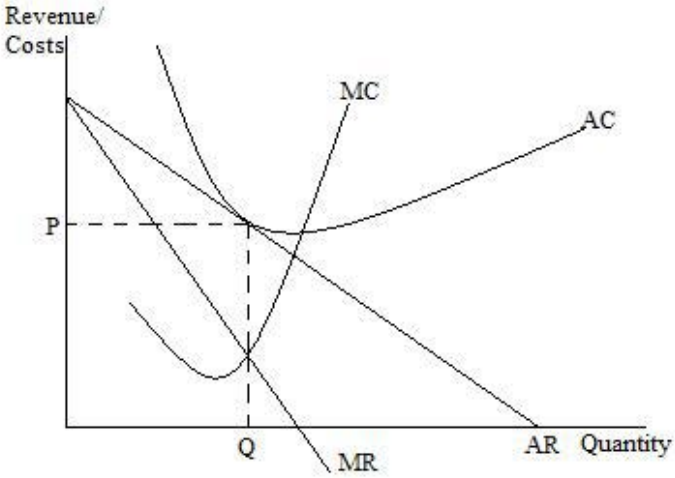
## Section A: Essay questions

N.B.: Use levels-based mark scheme (20 marks) to mark this section.

Question Number	Indicative content	Mark
1	<p>Distinction between fixed costs and variable costs, with examples of each.</p> <p>Clear verbal explanation of diagram.</p> <p>Diagram will probably show the case of the firm in perfect competition as this is how it appears in the specification. Diagram should show average variable, average total and marginal cost curves and marginal revenue line for different assumptions, showing short-run and long-run outcomes.</p> <p>Short run:</p>  <p>Long run:</p>  <p><b>Evaluation</b></p> <ul style="list-style-type: none"> <li>• Drawing appropriate conclusions, including limitations of this analysis, e.g. problem of distinguishing between fixed and variable costs.</li> <li>• Emphasis on distinction between short run and long run.</li> </ul>	<p><b>(20)</b></p>

Question Number	Indicative content	Mark
2	<p>Use of appropriate diagram.</p> <p>Definition of monopoly. Diagram(s) illustrating how profit-maximising monopoly makes supernormal profits at higher price/lower output combination than perfect competition.</p>  <p>Other issues with monopoly such as x-inefficiency and creation of artificial barriers to entry.</p> <p><b>Evaluation</b></p> <ul style="list-style-type: none"> <li>• ‘Benefits’ of monopoly - economies of scale (natural monopoly), research and development.</li> <li>• Arguments about contestability keeping supernormal profits down.</li> <li>• Idea of new entry from unexpected directions.</li> <li>• Case for regulation of monopoly rather than breaking it up.</li> </ul>	(20)

Question Number	Indicative content	Mark
3	<p>Measures of competitiveness include productivity, unit labour cost and relative export prices.</p> <p>Measures to improve competitiveness include allowing exchange rate to fall, deregulation of product and labour markets, boosting education and training and incentives for investment, including reducing taxes.</p> <p><b>Evaluation</b> Assessment of likely effectiveness of these methods, e.g. exchange rate manipulation short term; long-time lag with improving education; other countries may copy tax cuts.</p>	(20)

Question Number	Indicative content	Mark
4	<p>Product differentiation as a non-price strategy associated with monopolistic competition.</p> <p>Examples of product differentiation.</p> <p>Candidates likely to link product differentiation with monopolistic competition and produce appropriate diagram.</p> <p>Long run</p>  <p>Benefits to firms, e.g. reduces price elasticity of demand, possible short-run supernormal profits, increased market share.</p> <p>Benefits to consumers, e.g. variety, convenience.</p> <p><b>Evaluation</b></p> <ul style="list-style-type: none"> <li>• Monopolistic competition suggests lower output, higher price than perfect competition (but no supernormal profits in the long run).</li> <li>• However, some product differentiation (e.g. by location) may be highly valued by customers.</li> <li>• Higher cost to firms.</li> <li>• Too much consumer choice may lead to confusion.</li> </ul>	(20)

Section A Questions: performance criteria for mark base 20		
<b>Level 0</b>	0	<ul style="list-style-type: none"> <li>No rewardable material.</li> </ul>
<b>Level 1</b>	1-4	<ul style="list-style-type: none"> <li>Displays knowledge presented as facts without awareness of other viewpoints.</li> <li>Demonstrates limited understanding with little or no analysis.</li> <li>Attempts at selecting and applying different economic ideas are unsuccessful.</li> <li>Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.</li> </ul>
<b>Level 2</b>	5-8	<ul style="list-style-type: none"> <li>Displays elementary knowledge of well-learnt economic facts showing a generalised understanding, together with limited analysis, i.e. identification of points or a very limited discussion.</li> <li>Displays a limited ability to select and apply different economic ideas.</li> <li>Material presented has a basic relevance and lacks organisation, but is generally comprehensible. Frequent punctuation and/or grammar errors are likely to be present which affect the clarity and coherence of the writing overall.</li> </ul>
<b>Level 3</b>	9-12	<ul style="list-style-type: none"> <li>Displays knowledge and understanding of economic principles, concepts and theories as well as some analysis of issues, i.e. answer might lack sufficient breadth and depth to be worthy of a higher mark.</li> <li>Shows some ability to apply economic ideas and relate them to economic problems.</li> <li>Employs different approaches to reach conclusions.</li> <li>Material is presented with some relevance but there are likely to be passages that lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect clarity and coherence.</li> </ul>
<b>Level 4</b>	13-16	<ul style="list-style-type: none"> <li>Displays a good knowledge of economic principles, concepts and theories together with an analysis of the issues involved.</li> <li>Demonstrates an ability to select and apply economic ideas and to relate them to economic problems.</li> <li>Evidence of some evaluation of alternative approaches leading to conclusions.</li> <li>Material is presented in a generally relevant and logical way, but this may not be sustained throughout. Some punctuation and/or grammar errors may be found which cause some passages to lack clarity or coherence.</li> </ul>
<b>Level 5</b>	17-20	<ul style="list-style-type: none"> <li>Displays a wide range of knowledge of economic principles, concepts and theories, together with a rigorous analysis of issues.</li> <li>Demonstrates an outstanding ability to select and apply economic ideas to economic problems.</li> <li>Evaluation is well balanced and critical, leading to valid conclusions.</li> <li>Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found but the writing has overall clarity and coherence.</li> </ul>



## Section B: Data response

Question Number	Answer	Mark
5 (a)	<b>Knowledge and application (up to 4 marks)</b> <ul style="list-style-type: none"> <li>an oligopoly (1) - at least reference to one characteristic (1)</li> <li>identification of characteristics in evidence provided (2 marks)</li> </ul>	(4)

Question Number			Mark
5 (b)			(12)
<b>Knowledge, application and analysis - indicative content</b>			
	<ul style="list-style-type: none"> <li>Many businesses grow 'organically' by developing larger share of market and new products.</li> <li>Advantages - keep teams together, keep control, good relationship with investors, familiarity with customers reducing risk.</li> <li>Disadvantages - in pharmaceuticals new products are costly and take a long time to bring to market, shortage of funds may limit investment.</li> </ul>		
Level	Marks	Descriptor	
0	0	A completely inaccurate response.	
1	1-3	Shows some awareness of the advantages and disadvantages. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.	
2	4-6	Understanding of advantages and disadvantages with explanations. Material is presented with some relevance but there are likely to be passages that lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect clarity and coherence.	
3	7-8	Clear understanding of advantages and disadvantages with appropriate application to context. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found but the writing has overall clarity and coherence.	

<b>Evaluation - indicative content</b>			
	Balance of arguments may shift over time as a result of regulatory change, technical innovation, increased competition, changing cost structure.		
Level	Marks	Descriptor	
0	0	No evaluative comments.	
1	1-2	For identifying evaluative comments without explanation.	
2	3-4	For evaluative comments supported by relevant reasoning.	

Question Number		Mark
5 (c)		(12)
Knowledge, application and analysis - indicative content		
	<ul style="list-style-type: none"> <li>• Identification of one <b>non-price</b> strategy and application and/or analysis. Strategies may include:               <ul style="list-style-type: none"> <li>○ investment in new technology to develop new products</li> <li>○ improve product quality</li> <li>○ marketing campaign to win business customers</li> <li>○ advertising</li> <li>○ promotion through other means, e.g. to doctors.</li> </ul> </li> <li>• Identification of one <b>price</b> strategy and application and/or analysis. Strategies may include:               <ul style="list-style-type: none"> <li>○ predator pricing</li> <li>○ limit pricing</li> <li>○ sales maximisation</li> <li>○ revenue maximisation</li> <li>○ buy one get one free.</li> </ul> </li> </ul>	
Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of a price and a non-price strategy with very limited development. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
2	4-6	Understanding and explanation of one price and one non-price strategy. Material is presented with some relevance but there are likely to be passages that lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect clarity and coherence.
3	7-8	Clear understanding of one price and one non-price strategy with appropriate application to context. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found but the writing has overall clarity and coherence.

Evaluation - indicative content		
	<p>A range of ideas could be developed, for example:</p> <ul style="list-style-type: none"> <li>• it may be harder to make further increases in efficiency; all firms trying to engage in R &amp; D</li> <li>• investment/R &amp; D is expensive and there is no guarantee of success</li> <li>• improving product quality is expensive</li> <li>• marketing is expensive and no guarantee of success.</li> </ul>	
Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation.
2	3-4	For evaluative comments supported by relevant reasoning.

Question Number		Mark
<b>5 (d)</b>		<b>(12)</b>
<b>Knowledge, application and analysis - indicative content</b>		
	<ul style="list-style-type: none"> <li>• Identification and explanation of advantages to consumers:                             <ul style="list-style-type: none"> <li>○ economies of scale mean lower LRAC and therefore lower prices</li> <li>○ greater R &amp; D budgets mean more breakthroughs</li> <li>○ reduction in completion may mean firms can divide up market to research particular areas of expertise.</li> </ul> </li> <li>• Identification and explanation of advantages to employees:                             <ul style="list-style-type: none"> <li>○ larger organisation with greater job security</li> <li>○ more opportunities for promotion.</li> </ul> </li> </ul>	
Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of advantages to consumers and/or employees. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
2	4-6	Understanding of advantages to consumers and to employees. Material is presented with some relevance but there are likely to be passages that lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect clarity and coherence.
3	7-8	Clear understanding of advantages to consumers and to employees with appropriate application to context. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found but the writing has overall clarity and coherence.

<b>Evaluation - indicative content</b>		
	Factors may include: <ul style="list-style-type: none"> <li>• greater possibility of collusion to raise prices</li> <li>• less incentive to innovate and produce better drugs</li> <li>• increased chance of x-inefficiency and exploitation or price discrimination</li> <li>• restructure might lead to job losses.</li> </ul>	
Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation.
2	3-4	For evaluative comments supported by relevant reasoning.

Question Number	Answer	Mark
<b>6 (a)</b>	<b>Knowledge and application (up to 4 marks)</b> <ul style="list-style-type: none"> <li>• Identify horizontal integration, firms at same stage of production, gain economies of scale <b>(2 marks)</b>.</li> <li>• Both offer similar flights, increased buying power (e.g. for planes), cost savings from office functions <b>(2 marks)</b>.</li> </ul>	<b>(4)</b>

Question Number		Mark
6 (b)		(12)
Knowledge, application and analysis - indicative content		
	<ul style="list-style-type: none"> <li>A diagram or diagrams is/are expected showing cost and revenue functions and loss clearly marked.</li> <li>Factors that may have affected demand (e.g. business passengers decline, new budget competitors) and costs (fuel, wages).</li> </ul> <p>The top diagram illustrates a decrease in demand. The vertical axis is labeled 'Costs/ Revenues' and the horizontal axis is 'Output'. It shows a downward-sloping demand curve shifting from <math>AR_1</math> to <math>AR_2</math> and a corresponding downward-sloping marginal revenue curve shifting from <math>MR_1</math> to <math>MR_2</math>. The initial equilibrium is at the intersection of <math>MR_1</math> and <math>MC</math>, corresponding to price <math>P_1</math> and output <math>Q_1</math>. The new equilibrium is at the intersection of <math>MR_2</math> and <math>MC</math>, corresponding to a lower price <math>P_2</math> and lower output <math>Q_2</math>. A shaded rectangle between <math>P_1</math> and <math>P_2</math> and between <math>Q_2</math> and <math>Q_1</math> indicates a loss. The bottom diagram illustrates an increase in costs. It shows the same demand curve <math>AR_1</math> and marginal revenue curve <math>MR_1</math>. The initial equilibrium is at the intersection of <math>MR_1</math> and <math>MC_1</math>, corresponding to price <math>P_1</math> and output <math>Q_1</math>. The new equilibrium is at the intersection of <math>MR_1</math> and <math>MC_2</math>, corresponding to a lower price <math>P_2</math> and lower output <math>Q_2</math>. A shaded rectangle between <math>P_1</math> and <math>P_2</math> and between <math>Q_2</math> and <math>Q_1</math> indicates a loss.</p>	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Some awareness of the reasons for the loss and/or a partially accurate/incomplete diagram. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
2	4-6	Understanding and explanation of reasons for the loss and partially accurate/incomplete diagram. <b>OR</b> Some awareness of the reasons for the loss and an accurate diagram. Material is presented with some relevance but there are likely to be passages that lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect clarity and coherence.
3	7-8	Clear understanding and explanation of reasons for the loss supported by an accurate diagram. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found but the writing has overall clarity and coherence.

Evaluation - Indicative content		
	May bring in factors that mitigate Iberia's problems: other airlines in a similar position, improvements may come as economy recovers, long- and short-run elasticities, protectionism in USA.	
Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation.
2	3-4	For evaluative comments supported by relevant reasoning.

Question Number		Mark
<b>6 (c)</b>		<b>(12)</b>
<b>Knowledge, application and analysis - indicative content</b>		
	<ul style="list-style-type: none"> <li>• Can be argued to increase or decrease contestability.</li> <li>• Definition of contestability - low or zero sunk costs, low or zero barriers to entry/exit.</li> <li>• Factors suggesting lower contestability: increased barriers to exit and entry, economies of scale, concentration increased.</li> </ul>	
Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of the meaning of contestability with limited explanation. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
2	4-6	Understanding of the meaning of contestability and explanation of the impact of mergers. Material is presented with some relevance but there are likely to be passages that lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect clarity and coherence.
3	7-8	Clear understanding of contestability and explanation of the impact of mergers with appropriate application to context. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing has overall clarity and coherence.

<b>Evaluation - indicative content</b>		
	<ul style="list-style-type: none"> <li>• Counterarguments, e.g. suppliers of airplanes have monopoly power, this is reduced.</li> <li>• Brand loyalty reducing.</li> <li>• Low-cost entry remains a big issue.</li> </ul>	
Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation.
2	3-4	For evaluative comments supported by relevant reasoning.

Question Number			Mark
<b>6 (d)</b>			<b>(12)</b>
<b>Knowledge, application and analysis - indicative content</b>			
	<ul style="list-style-type: none"> <li>Economies of scale.</li> <li>Rationalisation.</li> <li>Governments get more tax from successful airlines.</li> <li>Increased buying power.</li> <li>Finance more easily available.</li> <li>Benefits to shareholders.</li> </ul>		
Level	Marks	Descriptor	
0	0	A completely inaccurate response.	
1	1-3	Shows some awareness of the benefits of the merger. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.	
2	4-6	Understanding and explanation of the benefits of the merger. Material is presented with some relevance but there are likely to be passages that lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect clarity and coherence.	
3	7-8	Clear understanding and explanation of the merger with appropriate application to context. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found but the writing has overall clarity and coherence.	

<b>Evaluation - indicative content</b>			
	<ul style="list-style-type: none"> <li>Reduced choice to consumer.</li> <li>Unemployment.</li> <li>Diseconomies of scale.</li> <li>Culture clashes/loss of synergy.</li> <li>Costs of redundancies.</li> <li>Lower morale among workforce.</li> <li>Risk of competition authorities intervening.</li> </ul>		
Level	Marks	Descriptor	
0	0	No evaluative comments.	
1	1-2	For identifying evaluative comments without explanation.	
2	3-4	For evaluative comments supported by relevant reasoning.	

