AQA

A-LEVEL
ECONOMICS

ECON3/Unit 3 Business Economics and the Distribution of Income
Mark scheme

2140
June 2014

Version/1.0: Final

Mark schemes are prepared by the Lead Assessment Writer and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation events which all associates participate in and is the scheme which was used by them in this examination. The standardisation process ensures that the mark scheme covers the students' responses to questions and that every associate understands and applies it in the same correct way. As preparation for standardisation each associate analyses a number of students' scripts: alternative answers not already covered by the mark scheme are discussed and legislated for. If, after the standardisation process, associates encounter unusual answers which have not been raised they are required to refer these to the Lead Assessment Writer.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of students' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

Further copies of this Mark Scheme are available from aqa.org.uk

June 2014 **ECON3**

Advanced Level Economics Unit 3

General Instructions

Marks awarded to students should be in accordance with the following mark scheme and examiners should be prepared to use the full range of marks available. The mark scheme for most questions is flexible, permitting the candidate to score full marks in a variety of ways. Where the candidate's response to a question is such that the mark scheme permits full marks to be awarded, full marks **MUST** be given. A perfect answer is not necessarily required for full marks. But conversely, if the candidate's answer does not deserve credit, then no marks should be given.

Occasionally, a candidate may respond to a question in a reasonable way, but the answer may not have been anticipated when the mark scheme was devised. In this situation, **OR WHENEVER YOU HAVE ANY DOUBT ABOUT THE INTERPRETATION OF THE MARK SCHEME**, you must in the first instance telephone your team leader to discuss how to proceed.

Two approaches have been used in the construction of the mark scheme.

(i)   **An issue based approach.** The mark scheme for parts **01**, **02**, **04** and **05** of the data response questions and the first part of each essay question adopts this approach. The mark scheme lists the marks that can be awarded for particular issues (and associated development) that the candidate might include in the answer.

A levels approach. This approach is used for parts **03** and **06** of the data response questions and the second part of each essay question. The Levels Mark Scheme on the next page identifies five levels representing differences in the quality of work. A range of marks is allocated to each level. First decide the level into which an answer falls. The level chosen should be the one which **best fits** the answer provided by the candidate. It is **not** intended that the answer should satisfy every statement in the level description. Then think in terms of awarding the mid-point mark which has been identified for that level (eg 13 marks for Level 3). Move up or down from this notional mark by considering the extent to which the answer meets the level description overall. Strength in one skill can outweigh weakness in another. When using the Levels Mark Scheme the marker **must** identify where a particular skill is being demonstrated. The **key** to be used to identify the skill is given after the level descriptions. The question-specific mark scheme summarises the information which could be used to answer the question, but without attaching marks to particular issues.

**AQA ADVANCED LEVEL (A2) ECONOMICS
LEVELS OF RESPONSE MARK SCHEME**

FOR USE WITH QUESTIONS 03, 06, 08, 10 AND 12 ONLY

A2 LEVELS OF RESPONSE	AO1 KNOWLEDGE and UNDERSTANDING of theories, concepts and terminology	AO2 APPLICATION of theories, concepts and terminology	AO3 ANALYSIS of economic problems and issues	AO4 EVALUATION of economic arguments and evidence, making supportive judgements
Level 5 22-25 marks (mid-point 24) **Good analysis <u>and</u> good evaluation**	Good throughout the answer with few errors and weaknesses	Good application to issues Where appropriate, good use of data to support answer	Relevant and precise with a clear and logical chain of reasoning Good awareness of the inter-relatedness of economic issues	Good with a clear final judgement
Level 4 17-21 marks (mid-point 19) **Good analysis <u>but</u> limited evaluation** **OR**	Good throughout the answer with few errors and weaknesses	Good application to issues Where appropriate, good use of data to support answer	Relevant and precise with a clear and logical chain of reasoning Good awareness of the inter-relatedness of economic issues	Limited but showing some appreciation of alternative points of view
Reasonable analysis <u>and</u> reasonable evaluation	Good throughout much of the answer with few errors and weaknesses	Some good application to issues Where appropriate, some good use of data to support answer	Largely relevant and well organised with reasonable logic and coherence Some awareness of the inter-relatedness of economic issues	Reasonable, showing an appreciation of alternative points of view
Level 3 10-16 marks (mid-point 13) **Reasonable answer, including some correct analysis but very limited evaluation**	Satisfactory but some weaknesses shown	Reasonable application to issues Where appropriate, reasonable use of data to support answer	Reasonably clear but may not be fully developed and is perhaps confused in places with a few errors present Quite well organised with some logical development	Superficial, perhaps with some attempt to consider both sides of the issue(s)
Level 2 4-9 marks (mid-point 7) **Weak with some understanding**	Limited and some errors are made	Partial application to issues with some errors Where appropriate, limited use of data to support answer	Partial but confused at times, lacking focus and development Limited logic and coherence	A very basic and simplistic attempt is made which is unsupported by analysis
Level 1 0-3 marks (mid-point 2) **Very weak**	Weak with a number of errors	Little, if any, application to issues Where appropriate, no use of data to support answer	Poor and lacking clarity and focus	No relevant evaluation

THE KEY TO BE USED WHEN USING THE LEVELS MARK SCHEME

D   Where a particular economic term is correctly **DEFINED** in order to help the candidate to answer the question properly.

I   Where a relevant **ISSUE** is raised by the candidate.

K   Where the candidate demonstrates **KNOWLEDGE** of recent developments or features of the economy which help enhance the candidate's response to the question. This should also be used where the candidate quotes relevant examples.

Ap   Where the candidate demonstrates the ability to **APPLY** knowledge and **CRITICAL UNDERSTANDING** to problems and issues.

An   Where the candidate demonstrates the ability to **ANALYSE** the problem using appropriate economic ideas.

E   Where the candidate **EVALUATES** and makes judgements about the significance of various issues and arguments.

Synoptic Assessment

All questions in this unit are synoptic. Therefore, students will need to demonstrate that they are able to think as an economist and to use effectively the economist's 'tool kit' of concepts, theories and techniques.

Students should demonstrate that they:
- understand the inter-relatedness of many economic issues, problems and institutions;
- understand how certain economic concepts, theories and techniques may be relevant to a range of different contexts;
- can apply concepts, theories and techniques in analysing economic issues and problems and in evaluating arguments and evidence.

QUALITY OF WRITTEN COMMUNICATION

Quality of Written Communication (QWC) will be assessed in Questions 03, 06, 08, 10 and 12 only.

Students will be assessed according to their ability to:

- ensure that text is legible, and that spelling, grammar and punctuation are accurate, so that meaning is clear
- select and use a form and style of writing appropriate to purpose and complex subject matter
- organise information clearly and coherently, using specialist vocabulary when appropriate.

No specific marks are awarded for QWC.

However, examiners should take into account QWC when determining the mark to be awarded for an answer. This means an answer could be taken either up (for exceptional QWC) or down (for very poor QWC) by 1 mark (and no more).

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1   THE GLOBAL CONTEXT   **Total for this Context: 40 marks**

01 Using **Extract A,** calculate to **two** decimal places the average monthly basic state pension in India as a percentage of the monthly pension in the UK, **and** identify **one** other significant feature of the data shown. **[5 marks]**	

Identifying one significant feature

For the correct answer (0.42 %). The 'unit', (per cent or %) **must** be shown.	**3 marks**
For the correct answer **without** a unit shown	**2 marks**
Any other answer between 0.4 and 0.5 (inclusive) irrespective of decimal places, **with** unit shown.	**2 marks**
Any other answer between 0.4 and 0.5 (inclusive) irrespective of decimal places, **without** unit shown.	**1 mark**
For showing the correct method but arriving at a wrong number, ie $\dfrac{4 \times 100}{960}$ = wrong number	**1 mark**

Identifying one significant feature

For identifying a significant feature (**1 mark**) and providing relevant and accurate supporting data (**1 mark**) with units (**1 mark**).	**Up to 3 marks**
For a 'trawl' through the numbers, or for simply providing an item of data seemingly chosen at random with no clear significance.	**0 marks**

Significant features include:
- India's average basic pension is the furthest below the poverty line, at 27%
- Australia has the highest basic pension in this group in money terms, $1558 per month
- The UK has the largest proportion of population over age 60, at 23%.

MAXIMUM FOR PART 01: 5 MARKS

02	Explain what is meant by 'market failure' (**Extract C**, line 13) **and** analyse **two** reasons why markets might fail to provide adequate pensions.
	[10 marks]

Explanation:	
For a relevant explanation of market failure, eg. in terms of markets failing to achieve socially optimum (**2 marks**) price (**2 marks**) or output (**2 marks**).	**Up to 4 marks**

Maximum of 4 marks for the explanation

Analysis of two reasons why markets can fail to provide adequate pensions.

Award one mark for each step in a logical chain of reasoning. NOTE: As long as there is a continuation in the logical chain of reasoning, continue awarding marks for development of the first reason up to **8 marks max** for analysis. In other words, maximum marks for analysis can be achieved from two distinct reasons **OR** from a more fully developed analysis of one reason

For Example:

- There is a lack of consumer information **(1 mark)**. Consumers do not know when they are likely to need a pension **(1 mark)**. They might have a high rate of time preference **(1 mark)**, ie prefer current consumption to saving for future consumption **(1 mark)**, because pensionable age seems a long way off **(1 mark)**.

- Assymetric information between consumers and pension providers (mis-selling of inappropriate pension products)

- Strong externalities give pensions some characteristics of merit goods; there is an argument that they are more efficiently provided by the state

- Inability of insurance-based pension providers to produce results in adverse economic conditions; eg falling pension fund returns due to low interest rates

- Failure of occupational pension schemes due to weak regulation, the raiding of pension funds by directors during hard times.

	Up to 8 marks for the analysis
For making appropriate use of diagrams, eg marginal private benefit, marginal social benefit.	**Up to 2 marks per diagram (1 mark for labelling, 1 mark for correct information shown) to a maximum of 3 marks**

Maximum of 6 marks for the **analysis** if the **explanation** has not been attempted.

MAXIMUM FOR PART 02: 10 MARKS

03	'…children from poor families are likely to grow into poor adults, and remain poor into old age.' (**Extract B**, lines 7–8). Using the data and your economic knowledge, evaluate whether it is better for the UK government to reduce poverty by using policies to improve people's ability to earn higher wages during their working lives, rather than through the provision of state benefits to those who are poor for various reasons**.** **[25 marks]**

In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 15 marks**.

Where there is no **explicit** reference to the data, award a maximum of **21 marks**.

Level 5	**Good analysis <u>and</u> good evaluation**	**22–25 marks** *Mid-point 24*
Level 4	**Good analysis <u>but</u> limited evaluation** **OR** **Reasonable analysis <u>and</u> reasonable evaluation**	**17–21 marks** *Mid-point 19*
Level 3	**Reasonable answer, including some correct analysis but very limited evaluation**	**10-16 marks** *Mid–point 13*
Level 2	**Weak with some understanding**	**4–9 marks** *Mid-point 7*
Level 1	**Very weak**	**0–3 marks** *Mid-point 2*

Candidates can approach the question with a focus on the UK government or government in general. Either approach can gain full marks.

Issues and areas for discussion include:

Introduction	• Definitions/descriptions of, eg
	  o absolute poverty
	  o relative policy
	  o welfare benefits.

Developing the response to the question (application)	• Comments from own economic knowledge or based on the data, eg
	  o further comments on Extract A (international comparisons)
	  o various reasons for poverty **(Extract B)**, eg
	    • child poverty
	    • working poverty
	  o labour market failure: lack of earning power due to skills, etc
	  o trade unions in the labour market
	  o dependence on state benefits to subsidise low wages
	  o poverty and pensions **(Extract C)**
	    • 'social costs' of inadequate pensions **(Extract C)**
	    • policies of other countries **(Extract C)**.

Developing the response to the question (analysis)	- Re-distribution (taxes and benefits) and 'pre-distribution' (education, training, skills, life chances). Note; the phrase 'pre-distribution' need not be expected - Relationships between benefits and poverty - Low wages and poverty - Examples of policies on the supply side of the labour market, eg - education and training - minimum wage/living wage 'workfare' - Example of pensions as a merit good - pensions are not a public good, but they could be treated as if they were: arguments for/against - externalities imply under supply/under consumption, and an argument for direct government provision or subsidy.
Evaluation	- Different policies for the state sector and private sector - External influences, eg life expectancy, policies to balance government budgets, high income countries and low income countries - Spending on education and training: consumption or investment? - Market failure versus government failure, eg - poor/asymmetric information - markets tend to assess what is happening now, and are not good at looking ahead - governments can look ahead, but can make incorrect assumptions, or come up with inaccurate forecasts. *Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.*
Also give credit for	- Relevant diagrams - An overall judgement on the issues raised.

It will only be possible for candidates to consider a few of the above. They may also discuss issues not discussed above.

USE THE DETAILED LEVELS MARK SCHEME ON PAGES 4 AND 5 FOR FURTHER CLARIFICATION MAXIMUM FOR PART 03: 25 MARKS

MAXIMUM FOR PART 03: 25 MARKS

2   THE EUROPEAN UNION CONTEXT   **Total for this Context: 40 marks**

04	Using the table in **Extract D**, calculate to **two** decimal places the increase in annual productivity (tonnes of output per dairy cow) when 2013 is compared with 2007, **and** identify **one** significant feature of the data shown in graph**.**
	[5 marks]

The calculation

For the correct answer (0.70 tonnes per cow). The 'unit' (tonnes per cow) **must** be shown.	**3 marks**
For the correct answer **without** a unit shown	**2 marks**
Any other answer between 0.6 and 0.8 (inclusive) irrespective of decimal places, **with** unit shown.	**2 marks**
Any other answer between 0.6 and 0.8 (inclusive) irrespective of decimal places, **without** unit shown.	**1 mark**
For showing the correct method but arriving at a wrong number, ie $\frac{151}{22} - \frac{148}{24}$ = wrong number	**1 mark**

Identifying one significant feature

For identifying a significant feature (**1 mark**) and providing relevant and accurate supporting data (**1 mark**) with units (**1 mark**).	**Up to 3 marks**
For a 'trawl' through the numbers, or for simply providing an item of data seemingly chosen at random with no clear significance.	**0 marks**

Significant features include:

- Between 1995 and 2003 production fluctuates around the 13 800 million litres mark

- From 1995 to 2010 there is a steady decline in production from just over 13 700 to 12 800 million litres

- From 1995 to 2013 production falls from just over 13 700 to just under 13 000 million litres.

MAXIMUM FOR PART 04: 5 MARKS

05	Explain the distinction between 'monopsony power' and 'oligopoly' (**Extract E**, line 5) **and** analyse how the market power of supermarkets can affect the profitability of dairy farms.
	[10 marks]

Explanation For defining/distinguishing, for example between monopsony (a single buyer) **(2 marks)** and oligopoly (competition among a few sellers) **(2 marks)**. **See note * below**	**Up to 4 marks**

Analysis of the effects on profitability: Award 1 mark for each step in a logical chain of reasoning.

For Example:

- Monopsony: profitability depends on costs and revenues **(1 mark)** while firms face rising costs (**1 mark**), changing with market forces **(1 mark),** revenues may be depressed by uncompetitive practices by dominant buyers **(1 mark)** in the supply chain. Perfect competition theory assumes a large number of buyers and sellers **(1 mark)** buyers and sellers reach an equilibrium price through market forces **(1 mark)** and no individual buyer or seller is able to influence price by their own actions**. (1 mark)** Monopsony swings the balance of power from the sellers to buyers **(1 mark)** who are able to bid down the price **(1 mark)** since buyers know that sellers have fewer alternatives **(1 mark)**.

- Oligopoly: Price seeking behaviour, price stickiness, etc on the part of supermarkets, and their effects on producers further along the supply chain.

- The power exerted by a handful of supermarket buyers

- Answer can address the profitability of farms or dairies (processors) or both.

	Up to 8 marks for the analysis
Make appropriate use of diagrams, eg demand curves related to monopsony/oligopoly.	**Up to 2 marks per diagram (1 mark for labelling, 1 mark for correct information shown) to a maximum of 3 marks.**

Maximum of 6 marks for the **analysis** if the **explanation** has not been attempted.

*NOTE
Explanation: allow 2 definition marks here if monopsony is defined in terms of labour markets.
Analysis: However, the subsequent analysis should deal with product markets, as this is the focus of the data

MAXIMUM FOR PART 05: 10 MARKS

06	In recent years the EU has decided that the agricultural sector must become 'more responsive to market forces' (**Extract F**, line 12). Using the data and your economic knowledge, discuss whether UK farming would benefit from greater responsiveness to market forces and less intervention by the UK government and the EU. **[25 marks]**

In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 15 marks**.

Where there is no **explicit** reference to the data, award a maximum of **21 marks**.

Level 5	**Good analysis <u>and</u> good evaluation**	**22–5 marks** *Mid-point 24*
Level 4	**Good analysis <u>but</u> limited evaluation** **OR** **Reasonable analysis <u>and</u> reasonable evaluation**	**17–21 marks** *Mid-point 19*
Level3	**Reasonable answer, including some correct analysis but very limited evaluation.**	**10–16 marks** *Mid-point 13*
Level 2	**Weak with some understanding**	**4–9 marks** *Mid–point 7*
Level 1	**Very weak**	**0–3 marks** *Mid–point 2*

Issues and areas for discussion include:

Introduction	• Definition/explanation of 'more responsive to market forces' • Basic reasons why governments of developed countries support agriculture.

Developing the response to the question (application)	**NOTE**: Students are **not** confined to discussion of direct intervention on farm prices; they can discuss government intervention anywhere along the supply chain (e.g. government attempts to modify the behaviour of supermarkets/ powerful buyers), and they could then discuss effects working backwards along the chain to the farm source.
	• Comments from own economic knowledge or based on the data, eg
	• S & D theory (elasticities, shifts, potentially unstable prices; price support through quotas shifting S to left)
	• Possible policies for stabilising prices and incomes
	    o national government: competition policy, regulation
	    o EU level: quotas, intervention buying, buffer stocks
	    o milk as a staple foodstuff, an 'essential'
	    o effects of free trade and globalisation (imports are mentioned in **Extract E**)
	    o production and productivity (**Extract F**; further discussion of **Extract D**)

	o intensity of production (mentioned in **Extract F**) o economies of scale (**Extract F**)

Developing the response to the question (analysis)	• Arguments for markets, eg
	  o rationing/signalling
	  o consumer sovereignty and choice
	  o decentralisation
	  o opportunity costs
	  o efficiency
	  o problems with government failure.
	
	• Arguments against, eg
	  o market failure, externalities
	  o need for price and Income stabilisation
	  o imperfect information
	  o influence of supermarkets
	    o changes in demand and supply conditions
	    o globalisation, free trade
	    o need for government to act as a broker between producers and retail sector.

Evaluation	• Market failure versus government failure • Consequences of government involvement (eg costs to the taxpayer) versus consequences of non-involvement (eg costs to the consumer; danger of a break in supply) • Free trade versus protection • Power of the supermarkets/small number of processors • Policy appropriate at national level or EU level? • Difficulties of identifying and acting for public interest/interests of consumers/producers • Unintended consequences, eg effects of quotas; milk as a raw material, impacting on many other industries; environmental side-effects of intensive farming • There is information in the data regarding Spain and UK which appears to indicate that quotas discourage economies of scale, and lifting quotas therefore increases efficiency. *Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.*
Also give credit for	• Diagrams • An overall judgement on the issues raised.

It will only be possible for candidates to consider a few of the above. They may also discuss issues not discussed above.

USE THE DETAILED LEVELS MARK SCHEME ON PAGES 4 AND 5 FOR FURTHER CLARIFICATION

MAXIMUM FOR PART 06: 25 MARKS

SECTION B

Essay 1   **Total for this Essay: 40 marks**

07	Small, independent coffee shops face competition from large multinational companies with well promoted brands. In the High Street of a major British city, one such independent business advertises in the following way: 'Cappuccino or Pot of Tea: £1.19 before 12 noon; £1.39 during lunch time (12–2.30 pm), and only 99p after 2.30 pm.' Explain how such a pricing strategy is influenced by price elasticities of demand, revenues and costs. **[15 marks]**

For relevant definitions, eg p.e.d, total revenue, costs, price discrimination.	**Up to 2 marks per point defined or explained to a maximum of 4 marks**

For explanation of the pricing strategy. **Award 1 mark for each step in a logical chain of reasoning**, **up to 15 marks**.

Examples include:

- Price elasticity of demand can change with the time of day **(1 mark)** eg people on their way to work or on a timed lunch break have fewer alternatives **(1 mark)** and therefore lower p.e.d. **(1 mark)**. Afternoon customers are under less pressure and so have more alternatives **(1 mark)** and therefore higher elasticity **(1 mark)**. The café has large fixed costs, eg staff **(1 mark)** and therefore there are times of day when it works to full capacity **(1 mark)** and others where it is under capacity **(1 mark)**. It therefore needs to spread costs more evenly **(1 mark)** and then if it can maximise TR **(1 mark)** it will also maximise profit **(1 mark)**. Revenue is increased by increasing price when p.e.d is inelastic **(1 mark)** and reducing price when demand is elastic **(1 mark)**. In some ways this is a similar pricing strategy to that of the low cost airlines **(1 mark)**.

- This pricing strategy as an example of price discrimination.

- Explanation of geometrical relationships on a diagram.

NOTES: (1) PED, revenues and costs are mentioned in the stem of the question to assist students in focusing their answer. Do not penalise if any of these three items is not specifically discussed. Full marks can be achieved for a clear explanation which does not necessarily discuss all three of these items in any depth, although it can be expected that at least two will be necessary to convey a convincing explanation. **(2)** Scenarios other than the Cafe/ Coffee Shop can be credited here if they help the explanation (e.g. on-peak/ off peak rail travel can be used in a relevant way)

Use of diagrams to support the explanation, eg AR, MR, MC, price-elastic and inelastic demand.	**Up to 2 marks per diagram (1 mark for labelling, 1 mark for information shown) to a total of 4 marks**.

MAXIMUM FOR PART 07: 15 MARKS

08	Economists sometimes analyse small and large businesses through a 'structure, conduct, performance model' and consider such issues as a 'divorce' of ownership from control. Discuss ways in which the size of firms and the structure of the coffee shop market might affect the conduct **and** performance of the firms within it. **[25 marks]**

In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 15 marks**.

Candidates do **NOT** have to discuss the effects of both the size of firms and structure of the market for full marks.

Level 5	**Good analysis <u>and</u> good evaluation**	**22–25 marks** *Mid–point 24*
Level 4	**Good analysis <u>but</u> limited evaluation** **OR** **Reasonable analysis <u>and</u> reasonable evaluation**	**17–21 marks** *Mid-point 19*
Level 3	**Reasonable answer, including some correct analysis but very limited evaluation.**	**10–16 marks** *Mid–point 13*
Level 2	**Weak with some understanding**	**4–9 marks** *Mid–point 7*
Level 1	**Very weak**	**0–3 marks** *Mid–point 2*

Issues and areas for discussion include

Introduction	Basic definitions/descriptions of ownership, control, structure (eg. competition/monopoly) barriers), conduct (eg pricing behaviour); performance (eg productive/ allocative efficiency).

Developing the response to the question
 	
Application/ Analysis
	Application
	• Candidates might approach the information in the stem from the angle of perfect/ imperfect competition, price taking versus price making, or product differentiation.
	• They could also elaborate on the possibility of some element of price discrimination taking place here.
	
	Analysis
	• Using the basic information given in the quote, and making reasonable assumptions, candidates can analyse the Cafe scenario. They might also use examples from other industries to support the cafe example. They can comment, for example, on
	    ○ ownership and control together: profit maximising
	    ○ divorce of ownership from control: alternative objectives
	    ○ structure
	        • number of firms
	        • size of firms
	        • entry conditions
	        • location.

+	○ Conduct (Behaviour) - pricing taking/price making/ price seeking/ price leadership (barometric, dominant firm) - ownership/profit maximisation/ non-profit objectives - product differentiation/Advertising/ Marketing/ Brand image-making/Product differentiation - non–price competition (ambience, free wifi etc) ○ Performance (Efficiency) - productive - allocative - static - dynamic. NOTE: Monopolistic Competition is not on the current specification, but should be credited if used in relevant discussion
Evaluation	- Reasons why ownership and control might be related to structure, conduct and behaviour. - Reasons why size and structure might be closely related to behaviour and efficiency. ○ eg the assumptions of perfect competition: profit maximising behaviour and price taking, leading to long run equilibrium and productive and allocative efficiency. - The question of whether structure automatically governs behaviour and efficiency. ○ for example, a group of multinational coffee outlets in a town centre can look monopolistic, but actually behave very competitively, perhaps exhibiting 'price taking' behaviour ○ possibility of price leadership - following the dominant firm - the small independent firm setting the pace ○ possibility of collusion **PLEASE NOTE:** The strongest evaluative answers are likely to discuss the above concepts **in the context of the Cafe / Coffee Shop scenario**. *Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.*
Also give credit for	- Diagrams - An overall judgement on the issues raised - Examples

It will only be possible for candidates to consider a few of the above. They may also discuss issues not discussed above.

**USE THE DETAILED LEVELS MARK SCHEME ON PAGES 4 AND 5
FOR FURTHER CLARIFICATION**

MAXIMUM FOR PART 08: 25 MARKS

Essay 2   **Total for this Essay: 40 marks**

09	Thirty years ago the computer market was dominated by one huge monopoly called IBM (International Business Machines). Today, most people have never even heard of IBM. Newer companies like Microsoft, Apple and Google have grown rapidly to become very competitive giants. Explain the main sources of monopoly power. **[15 marks]**

For relevant definitions, eg monopoly, monopoly power	**Up to 2 marks per point defined or explained to a maximum of 4 marks**

For explanation of at least **two** distinct sources of monopoly power**.**

Award 1 mark for each link in a logical chain of reasoning to a maximum of 15 marks.

Examples include:

- **Barriers to entry (1 mark)** affecting the **number of competitors (1 mark)** these can include legal barriers, such as patents/copyright **(1 mark)**; set up costs **(1 mark)**; economies of scale (**1 mark**). These barriers might be deliberate (**1 mark**), eg supported by government, or might be inherent in the nature of the product (**1 mark**) or a 'natural monopoly' such as water (**1 mark**). Monopolies might be a single firm (**1 mark**) or created by a 'collusive' or 'complex' (**1 mark**) monopoly during the production stage (**1 mark**) or a 'cartel' at the selling stage (**1mark**). Cartels are generally illegal (**1 mark**).
- **NOTE**: Several individual **barriers to entry**, for example economies of scale, minimum efficient scale, can be regarded as 'sources' and expanded for further marks.
- **Advertising and product differentiation** aimed at creating real or imagined differences between products through branding and image building, reducing the price elasticity of demand by convincing consumers that products are less homogeneous than they really are.
- **Other market imperfections**, eg lack of consumer information, minimum efficient scale, international trade barriers, a break in the chain of substitutes, natural monopoly

Award 1 mark per example to a maximum of 2 marks in the logical chain where a relevant example related to a 'company of this sort' is given in context. For instance, for mentioning huge main–frame computers in the context of 'minimum efficient scale'.

Maximum of 10 marks for the written explanation if only one distinct source is explained.

Use of diagrams to support explanations, e.g oligopoly/ monopoly/ minimum efficient scale (M.E.S.)	**Up to 2 marks per diagram (1 mark for labelling, 1 mark for information shown) to a total of 4 marks.**

                                        MAXIMUM FOR PART 09: 15 MARKS

10	Evaluate the view that competition policy is never necessary because, in the long run, market forces will ensure that monopolies cannot abuse their power and will not last. **[25 marks]**

In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 15 marks.**

Level 5	**Good analysis <u>and</u> good evaluation**	**22–25 marks** *Mid–point 24*
Level 4	**Good analysis <u>but</u> limited evaluation OR Reasonable analysis <u>and</u> reasonable evaluation**	**17–21 marks** *Mid–point 19*
Level 3	**Reasonable answer, including some correct analysis but very limited evaluation**	**10–16 marks** *Mid–point 13*
Level 2	**Weak with some understanding**	**4–9 marks** *Mid–point 7*
Level 1	**Very weak**	**0–3 marks** *Mid–point 2*

Issues and areas for discussion include

Introduction	• Definitions of, eg.
	     o monopoly policy
	     o long run
	     o abuse of power.

Developing the response to the question
 	
 Application/ Analysis
	Application
	 • Policy options, eg
	     o ending monopoly (losing advantages as well as disadvantages
	     o amending monopoly (keep advantages, control disadvantages, through regulation/taxation/other means)
	     o remove barriers to entry or other market imperfections.
	 Analysis
	 • basic criticisms of monopoly (eg efficiency, deadweight losses)
	 • basic defence (eg econs of scale)
	 • basic arguments in favour of competition policy
	 • relevant concepts, producer surplus, consumer surplus
	 • welfare transfers and welfare losses between producers and consumers when monopolies are broken up
	     o without consideration of scale economies
	     o with consideration of scale economies
	 • effects of wider considerations, eg technological change employment, international competition
	 • efficiency concepts: productive, allocative
	 • contestability;
	 • "creative destruction"

| Evaluation | Question of whether breaking up a monopoly leads to 'perfect' competition, or merely replaces a monopoly with an oligopoly. The role of government, regulators Occasions where monopoly is arguably in the consumer interest, eg when copyrights, designs, patents, grant a limited monopoly in order to encourage innovators to share their ideas Occasions when patents etc are used to restrict competition and work against the consumer interest The greater divisibility of many modern technologies, eg PCs and laptops replacing large business machines. MES moves to the left on a LRAC graph, when there is an absence of indivisibilities Market forces along with technical change have made computer technology affordable to the masses Similar experiences with other products, eg audio-visual, phones Whether the experience of the computer industry is of wider significance in all cases Question the 'will not last'. Is it the case they can't abuse monopoly power? Maybe IBM was effectively targeted by anti-monopoly policy This question is worded to allow high evaluation scores for a focus on examples other than the computer industry. *Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.* |
| Also give credit for | Diagrams An overall judgement on the issues raised. Examples. |

It will only be possible for students to consider a few of the above. They may also discuss issues not discussed above.

USE THE DETAILED LEVELS MARK SCHEME ON PAGES 4 AND 5 FOR FURTHER CLARIFICATION

MAXIMUM FOR PART 10: 25 MARKS

Essay 3   **Total for this Essay: 40 marks**

11	The UK government is considering building a high speed train line (known as HS2) linking London with cities in the north. It is claimed that HS2 will enable significant reductions in journey times for passengers and goods.

Explain the likely short-run and long-run effects of investment in infrastructure projects such as HS2 on both labour **and** product markets in the UK.

[15 marks] |

For relevant definitions eg infrastructure, investment, product markets, labour markets, general technical definition of 'short run' or 'long run' (do not reward both)	**Up to 2 marks per point defined or explained to a maximum of 4 marks**

For explanation of effects on labour and product markets, **Award 1 mark** for each step in a logical chain of reasoning **up to 8 marks** for each type of market.

Examples include:

- Labour markets
    - o The short run (construction phase) (**1 mark**) will create a demand for the labour of workers directly involved in making the new railway (**1 mark**), and also spin-off jobs in firms supplying components and materials (**1 mark**).
    - o In the long run (operational phase) (**1 mark***)* reduced journey times for commuters (**1 mark**) will increase viable travel–to–work distances (**1 mark**). However, the increased demand might be London based rather than based in the northern cities, (**1 mark**) so might increase the north-south labour market divide (**1 mark**).

- Product markets
    - o Short run (construction phase) the demand for raw materials, components, rolling stock, etc.
    - o Long run (operational phase): more efficient HS2 line takes pressure of conventional lines, so all lines help get goods and freight to market, more quickly.

NOTE: Maximum of 10 marks for the explanation if either 'labour' or 'product' market is not mentioned. However no penalty if only 'short' or 'long' run is mentioned, full marks available if either of these is well explained.

Use of diagrams to help support explanations, eg supply of and demand for labour, and/or goods and freight.	**Up to 2 marks per diagram (1 mark for labelling, 1 mark for information shown) to a total of 4 marks.**

MAXIMUM FOR PART 11: 15 MARKS

12	Assess how useful a cost-benefit analysis (CBA) would be in helping to decide whether a project, such as a high-speed train line, should go ahead.
	[25 marks]

In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 15 marks**.

Level 5	**Good analysis <u>and</u> good evaluation**	**22–25 marks** *Mid-point 24*
Level 4	**Good analysis <u>but</u> limited evaluation** **OR** **Reasonable analysis <u>and</u> reasonable evaluation**	**17–21 marks** *Mid-point 19*
Level 3	**Reasonable answer, including some correct analysis but very limited evaluation**	**10–16 marks** *Mid-point 13*
Level 2	**Weak with some understanding**	**4–9 marks** *Mid-point 7*
Level 1	**Very weak**	**0–3 marks** *Mid-point 2*

Issues and areas for discussion include

Introduction	• Internal and external costs and benefits • CBA as investment appraisal.

Developing the response to the question
 	
 Application/Analysis
	Application
	 • General principles of CBA
	
	 Analysis
	 • Steps in conducting a CBA, together with problems/ challenges involved eg
	   o Identifying costs and benefits
	   o Assigning prices to external costs and benefits
	   o Allowing for the probabilities of costs and benefits materialising
	   o Distribution
	   o Current value of future money flows
	   o Discounting.

Evaluation	- Difficulties of CBA, eg - assigning arbitrary values to unquantifiable concepts - estimating probabilities - seeing into the future - predicting the distribution of costs and benefits - expenses of implementing CBA - the temptation to put political spin on findings - Advantages /strengths of CBA - arguments in favour of providing policy makers and the public with more information - greater transparency in making a case for large projects - encouraging an evidence based approach to policy making - Mitigating both market failure and government failure.

	Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.
Also give credit for	• Diagrams • An overall judgement on the issues raised • Examples.

It will only be possible for students to consider a few of the above. They may also discuss issues not discussed above.

**USE THE DETAILED LEVELS MARK SCHEME ON PAGES 4 AND 5
FOR FURTHER CLARIFICATION**

MAXIMUM FOR PART 12: 25 MARKS