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AQA A-LEVEL ECONOMICS: QUESTIONS BY TOPIC

Production, Costs and Revenue

AQA A-level Economics 7136 — Topic 4.1.4

43 questions · 204 marks · Mark schemes included

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HOW TO USE THIS BOOKLET

Questions are grouped by specification sub-topic and run from the lowest mark tariff to the highest within each one.

Click any row below to jump straight to that sub-topic or question.

On every question page, click ANSWER in the top-right corner to jump to its mark scheme.

Diagrams, graphs, tables and data are printed exactly as they appeared in the original papers.

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QUESTIONS

43 questions · 204 marks · 7 sub-topics



SUB-TOPIC 4.1.4.1

PRODUCTION AND PRODUCTIVITY

Sub-topic 4.1.4.1 · 9 questions · 58 marks · lowest tariff first



5

Do not write
outside the
box

0 5

A firm employs three factors of production: capital, land and labour. The table below shows how the firm's output is affected by changing the amount employed of these factor inputs.

Units of output	Units of capital	Units of land	Labour (Number of workers)
500	20	40	60
1000	80	160	240
2000	140	280	420
3000	210	420	630
4000	300	580	860

The firm experiences constant returns to scale when it increases its output from

- A** 500 to 1000 units.
B 1000 to 2000 units.
C 2000 to 3000 units.
D 3000 to 4000 units.

☐☐☐☐

[1 mark]

0 6

The table below shows possible differences between the meanings of the terms invention and innovation. Which combination, **A**, **B**, **C** or **D**, correctly identifies the difference between the meanings of these terms?

	Invention	Innovation
A	Applies to changes in goods only	Applies to changes in services only
B	Applies to changes in services only	Applies to changes in goods only
C	Discovering something entirely new	Turns the results of invention into a product
D	Turns the results of innovation into a product	Discovering something entirely new

☐☐☐☐

[1 mark]

Turn over for the next question



0 5

Turn over ►

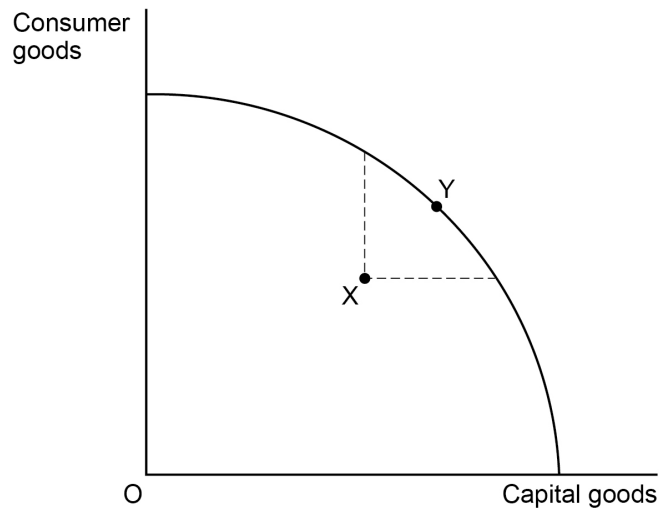
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3

0 3

The diagram below shows the production possibility frontier for an economy that produces consumer goods and capital goods. The economy is initially operating at point X within its frontier.

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If the economy now moves from point X to point Y on its frontier it will

- A** achieve both productive and allocative efficiency. ☐
- B** benefit from improved economies of scale in the production of both goods. ☐
- C** increase its underlying trend rate of growth. ☐
- D** obtain more consumer goods and capital goods at zero opportunity cost. ☐

[1 mark]

0 4

All other things being equal, an increase in the ratio of capital to labour resulting from an increase in investment is most likely to lead to a

- A** decline in labour productivity. ☐
- B** fall in the size of the labour force. ☐
- C** negative demand-side shock to the economy. ☐
- D** supply-side improvement. ☐

[1 mark]



0 3

Turn over ►

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7

07

Table 1 shows the amount of capital, land and labour employed and the output of a firm before and after it expands to increase its productive capacity.

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Table 1

	Before expansion	After expansion
Capital employed	500 units	800 units
Land employed	20 units	32 units
Labour employed	1 000 workers	1 600 workers
Output produced	200 000 units	350 000 units

Which one of the following do the data in **Table 1** show has resulted from the expansion?
[1 mark]

- A** Diseconomies of scale ☐
- B** Falling labour productivity ☐
- C** Increasing marginal returns ☐
- D** Increasing returns to scale ☐

Turn over for the next question

Turn over ►



07

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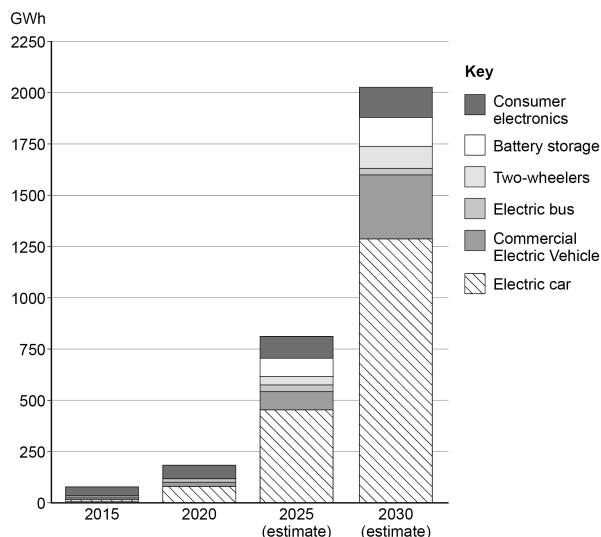
2

Section A

Answer **EITHER** Context 1 **OR** Context 2.**EITHER****Context 1****Total for this context: 40 marks****Electric cars and battery production**Study **Extracts A, B and C** and then answer **all** parts of Context 1 which follow.**Extract A****Table 1: Sales of cars by fuel type in the UK, 2020 and 2021**

	2020	2021
Diesel	261 772	135 773
Petrol	903 961	762 103
Battery Electric	108 205	190 727
Hybrid Electric*	357 126	558 578
Total	1 631 064	1 647 181

*Hybrid Electric cars use lithium-ion batteries and diesel/petrol

Figure 1: UK demand for lithium-ion batteries, Gigawatt hours (GWh), 2015 to 2030**Extract B: The electric vehicle revolution**

Sales of electric vehicles (EVs) in Europe have jumped from 198 000 in 2018 to an expected 1.17 million in 2021. They are an alternative to petrol and diesel vehicles, which create damaging emissions through air pollution and contribute to climate change. EVs still only make up about 1% of all cars on the road, but global sales of EVs are forecast to reach 10.7 million by 2025 and then 28.2 million by 2030. Carmakers have announced a total of \$330 billion of investment into electric and battery technology over the next five years. In fact, several manufacturers have begun to phase out petrol and diesel cars altogether.

5

Why is this happening now? Regulations are becoming tighter. Ambitious plans to expand the use of electric vehicles are one of the most obvious ways to meet emissions targets set by national governments. The UK has already announced plans to ban the sale of petrol and diesel cars by 2035. Meeting this target will require government spending to install the charging points needed to convince consumers to switch to electric vehicles.

10

Another reason for the EV revolution is the improved choice of such vehicles. There are around 330 EV models on sale today, compared with just 86 five years ago. While many are still more expensive than petrol vehicles, they boast substantially lower running costs, even more so as global petrol prices rise. Also, many governments still offer generous financial incentives to encourage people to purchase EVs.

15

3

Driving cars of all fuel types creates environmental problems, traffic congestion and road traffic accidents. Critics have suggested that, instead of governments offering subsidies and tax exemptions for electric vehicles, all vehicle owners should be forced to pay the full costs of their driving. This would incentivise people to consider using public transport, cycling or walking. 20

Source: News reports, 2021

Extract C: Are electric vehicles as green as claimed?

Redwood Materials, a US firm, recycles discarded batteries into a fresh supply of metals needed for new cars. Its goal is to solve the most glaring problem for electric vehicles. While they are 'zero emission' when being driven, the mining, manufacturing and disposal process for batteries could soon become an environmental disaster. Cobalt, one of the metals used in batteries, typically originates in the Democratic Republic of Congo, where it is extracted in large energy-intensive industrial mines and also dug by hand using basic tools. Then it might be shipped to Finland, home to Europe's largest cobalt refinery, before heading to China where the majority of the world's battery production occurs. From there it can be shipped to the US or Europe for packing, then shipped again to car factories. In all, the cobalt can travel more than 20 000 miles before becoming part of a 'zero emission' car. 5 10

Every day, about 60 tonnes of old smartphones, power tools and scooter batteries are delivered to Redwood's warehouse. The firm then separates out the nickel, cobalt and lithium, so that they can re-enter the supply chain as the building blocks for new lithium-ion batteries. Reclaiming these metals at scale is a massive task: roughly 10 000 smartphones need to be recycled to produce one EV battery. 15

Redwood hope to play a role in the emergence of 'the circular economy' – a grand hope born in the 1960s that society can re-engineer the way goods are designed, manufactured and recycled so as to avoid waste. It has been estimated that recycling batteries could account for 30% of the emissions cuts needed to meet the targets set in the Paris climate change agreement and 'create 10 million safe and sustainable jobs around the world' by 2030. 20

Source: News reports, 2021

0 1

Using the data in **Extract A (Table 1)**, calculate the index of total car sales in 2021 if, in the base year, total car sales were 1.25 million.

Give your answer to **two** decimal places.

[2 marks]**0 2**

Explain how the data in **Extract A (Table 1 and Figure 1)** show that developments in the car market are the main reason for the changing demand for lithium-ion batteries in the UK.

[4 marks]**0 3**

Extract C (lines 3–4) states that 'the mining, manufacturing and disposal process for batteries could soon become an environmental disaster.'

With the help of a diagram, explain why the production and sale of lithium-ion batteries might lead to market failure.

[9 marks]**0 4**

Extract B (lines 20–21) states that 'all vehicle owners should be forced to pay the full costs of their driving. This would incentivise people to consider using public transport, cycling or walking.'

Evaluate policies that could be used to reduce the environmental impact of all types of car.

[25 marks]**Turn over ►**

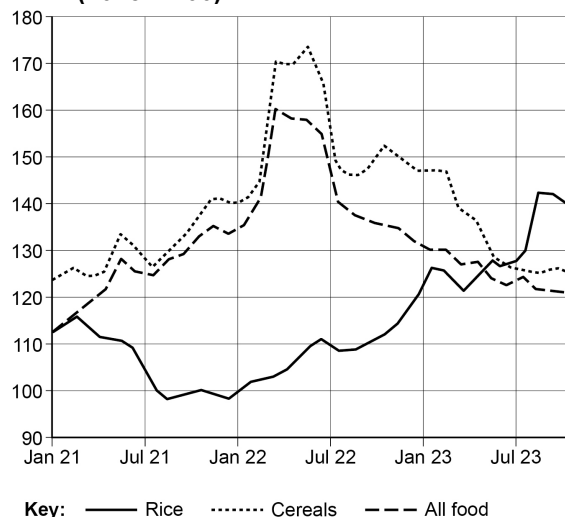
2

Section A

Answer **EITHER** Context 1 **OR** Context 2.**EITHER****Context 1****Total for this context: 40 marks****The international rice market**Study **Extracts A, B** and **C** and then answer **all** parts of Context 1 which follow.**Extract A:****Figure 1: Exports of rice (million tonnes) 2010 to 2022**

Country	2010	2022
India	2.8	22.5
Thailand	10.6	8.5
Vietnam	7.0	7.5
Pakistan	3.4	3.7
USA	3.5	2.0
Rest of the world	7.9	11.4
Total	35.2	55.6

Source: International Food Policy Research Institute, 2023

Figure 2: Index of world prices for rice, cereals and all food, 2021 to 2023 (2015 = 100)**Note:** 'Cereals' includes rice and six other cereals

Source: Food and Agriculture Organization, 2023

Extract B: A ban on Indian rice exports

In Nigeria, rice is the most commonly consumed food but the price of this imported cereal rose by 46% in the year to August 2023. The sharp increase in the price of rice follows a rice export ban by India, the world's largest exporter. The ban, introduced in August 2022, was in response to fears of a production shortfall in India and rising domestic prices.

Analysts warn that the world is on track for a repeat of the 2008 rice crisis when protectionist policies contributed to rice prices tripling. This time the crisis could be worse, as soaring demand, driven by population growth, combines with the effects of climate change, leading to poor harvests. In Thailand and Vietnam, the world's second and third largest rice exporters, prices have risen by 14% and 22% respectively since India imposed its ban. The United Nations World Food Programme (WFP) points out that the countries likely to be worst affected, such as Nigeria, are already suffering from sky-high food prices, soaring debt and depreciating currencies. This will result in "a staple commodity not being affordable for millions", said a spokesperson.

3

Not only has India's share of global rice exports grown, but the amount of rice traded around the world has doubled from 5% of global production in 1999 to over 10% today, making importing countries, such as Nigeria, more vulnerable to export bans. 15

Consumers in Nigeria spend a large share of their incomes on food. Thus, rising prices could force them to reduce the amount of food they eat, or they may have to cut consumption of other necessities like energy and healthcare. In Nigeria, the demand for rice is very price inelastic.

Source: News reports, 2023

Extract C: What options do rice-importing nations have?

The rise in the price of rice is not likely to have much impact on household food budgets in more economically developed countries (MEDCs), but the impact in less economically developed countries (LEDCs) will be more significant.

Governments of LEDCs may try to support people on low incomes with direct cash transfers or subsidise rice prices. However, these are costly options for governments with low tax revenues, already struggling to maintain public services. An alternative would be to impose a maximum price for consumers, as both Sri Lanka and the Philippines have done, but this creates problems for food suppliers facing high import prices. 5

Many countries are trying to increase farm productivity to be less exposed to global supply shocks such as the Indian rice export ban. Investment in irrigation, mechanisation and crop science can make a difference but typically suffers from long time lags. If countries can switch from producing other cereals to the production of rice, this may also help. 10

Source: News reports, 2023

0 1

Using the data in **Extract A (Figure 1)**, calculate the difference between India's share of world exports of rice in 2010 and 2022.

Give your answer to **one** decimal place.

[2 marks]

0 2

Explain how the data in **Extract A (Figure 1 and Figure 2)** show that the rice export ban by India in 2022 is likely to have had a significant impact on the world price of rice.

[4 marks]

0 3

Extract B (line 19) states: 'In Nigeria, the demand for rice is very price inelastic'.

With the help of a diagram, explain how the Indian export ban is likely to have affected the market for rice in Nigeria.

[9 marks]

0 4

Extract C (lines 6–7) states: 'An alternative would be to impose a maximum price for consumers, as both Sri Lanka and the Philippines have done'.

Using the data and your knowledge of economics, evaluate the view that imposing a maximum price for rice is the best way for a rice-importing nation, such as Nigeria, to ensure the affordability of a basic food for its citizens.

[25 marks]

4

Do **NOT** answer Context 2 if you have answered Context 1.

OR

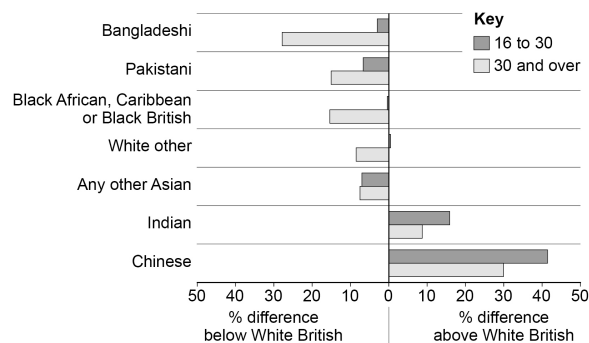
Context 2

Total for this context: 40 marks

The ethnic pay gapStudy **Extracts D, E and F** and then answer **all** parts of Context 2 which follow.**Extract D****Figure 3: Pay gap between ethnic groups and White British employees in the UK, 2018**

Ethnic group	% pay gap compared with White British employees
Bangladeshi	−20.2
Pakistani	−16.9
Black African, Caribbean or Black British	−9.2
White other	−5.8
Any other Asian	−4.0
Indian	+12.0
Chinese	+30.9

Source: ONS, 2019

Figure 4: Pay gap between ethnic minority groups, by age, UK, 2018

Source: ONS, 2019

Extract E: The Ethnic Pay Gap

UK workers of Bangladeshi heritage have the lowest pay of any ethnic group, earning 20.2% less than White British workers. Analysis by the Office for National Statistics (ONS) shows significant pay gaps remain, even when education and occupation are taken into account, particularly for those born outside the UK. The median pay of White British workers last year was £12.03 an hour, compared with £9.60 for people of Bangladeshi ethnicity and £10.00 for those of Pakistani ethnicity. These groups also had the lowest employment rate. British-born employees of Chinese ethnicity earned the most of all groups, earning 30.9% more than White British workers. 1 5

Evidence suggests that the ethnic pay gap is reducing as the UK labour market evolves over time. People aged 16 to 30 from ethnic minority groups tended to have narrower pay gaps than older ethnic minority groups. For instance, the difference for the Bangladeshi ethnic group compared with White British workers was 3.1% among 16 to 30-year-olds but 27.9% for those over 30. Women in some ethnic groups were significantly less likely to be in the labour force than women in other ethnic groups. The ONS suggested that this could be a result of cultural differences as 38.1% of women from a Bangladeshi ethnic group and 32.1% of women from a Pakistani ethnic group were found to be economically inactive. This may be because they were looking after their family or home. 10 15

Source: News reports, 2019

Extract F: Tackling the ethnic pay gap

It is illegal to pay someone less for doing the same job based on their ethnicity. Andy Haldane, the Bank of England's Chief Economist, said that "the ethnicity pay gap problem in the UK is every bit as acute as the gender pay gap problem". A report by the management consultants, McKinsey, found that businesses with employees from the most diverse backgrounds were 15% more profitable than those firms with the least diverse workforce. A government report in 2017 suggested equal participation and progression across ethnicities could boost the UK's economy by an additional £24bn a year. BAME (Black, Asian or Minority Ethnic) workers are more likely to be in low-paid sectors such as catering, hairdressing and retail. These occupations have limited opportunities for workers to progress to more responsible, higher-paid roles. This may represent a misallocation of workers across the economy.

Only a handful of firms currently publish ethnic pay data. One of these, ITN, found that its BAME workforce were paid 21% less than White workers. The Conservative Government has indicated that it may introduce compulsory reporting of the ethnic pay gap for large firms. The Runnymede Trust said: "as well as getting companies to publish the ethnicity pay gap, you have to legally ask them to publish plans as to how they are going to close that gap. Otherwise, to be honest, nothing is going to happen". The government can ensure that public services such as the police and NHS provide such plans, but it is not intending to require all firms to do so. It could also take steps to recognise foreign qualifications, thus removing obstacles for well-qualified foreign-born workers. Others think the government should go further and consider ethnicity quotas on the management boards of major companies. In the absence of other reliable solutions, quotas could provide an urgent intervention to address the fact that currently only 4 of the biggest 100 listed companies are led by BAME executives, despite BAME groups accounting for 14% of the population. However, such quotas are rejected by some as discriminatory, patronising and inefficient, leading to the risk of government failure.

Source: News reports, 2019

0 5

Using the data in **Extract D** (Figure 3), calculate how much a worker of Bangladeshi ethnicity earned on average in 2018, given that a White British worker earned £28 677. Give your answer **to the nearest pound**.

[2 marks]

0 6

Explain how the data in **Extract D** (Figure 4) show that the ethnic pay gap is more significant for older ethnic minority employees.

[4 marks]

0 7

Extract F (lines 18–19) states: the Government 'could also take steps to recognise foreign qualifications, thus removing obstacles for well-qualified foreign-born workers.'

With the help of a diagram, explain how UK firms not recognising foreign qualifications may lead to some ethnic groups receiving lower pay.

[9 marks]

0 8

Extract E (lines 3–4) states: 'significant pay gaps remain, even when education and occupation are taken into account, particularly for those born outside the UK.'

Using the extracts and your knowledge of economics, evaluate possible government policies to reduce the ethnic pay gap.

[25 marks]

Turn over ►

5

Network Rail, all regulated by another office, and paid for by taxpayers or passengers,” says Prof John Stittle.

Since 1996, government subsidies have almost doubled in real terms. Ticket prices are now 25% higher in real terms than in 1995 and 30% higher than in France, Sweden and Switzerland.

Source: News reports, February 2018

Extract F: A return to Government ownership?

In May 2018, the Government allowed Virgin and Stagecoach to end their East Coast mainline franchise three years early, after claims they had lost more than £100 million. This has led to accusations that private companies can just walk away whenever profits dry up. When their predecessor, National Express, gave up the East Coast line franchise in 2009, it was renationalised. During the following five years under state control, it increased ticket sales, returned about £1bn to the taxpayer and improved customer satisfaction. Encouraged by this success, the Labour Party has proposed rail renationalisation of the entire UK network. Recent polls suggest almost 75% of the UK population agree, although opponents contend that most of the British public really don't care about who runs the trains; what they care about is reliability, comfort and price. 5 10

Part of the appeal of rail renationalisation comes from the low up-front costs: by taking over operations as franchises expire, the Government would avoid having to spend billions in buying out private companies. The Labour Party's plan involves reversing the splitting up of the service so that customers receive a simplified ticketing system with improved efficiency, although this may impact on dynamic efficiency and innovation. 15

Opponents of nationalisation argue that the train operating companies are efficient and not making excessive profits. “Profits are about 3.4% across the industry”, says Mark Smith, a former government regulator. “So if you eliminated all profits overnight you would get a one-off 3.4% cut in fares, which isn't going to set the world on fire.”

Source: News reports, May 2018

0 5 Using the data in **Extract D** (Figure 3), calculate the amount of government funding per £ of passenger income in the UK rail industry for the year 2015–16. Give your answer correct to the nearest penny. [2 marks]

0 6 Explain how the data in **Extract D** (Figure 4) show that in the UK, between 2004 and 2017, changes in the demand for rail travel contributed to changes in the price of rail travel. [4 marks]

0 7 **Extract E** (lines 10–11) describes the British railway sector as a ‘natural monopoly’, which was split up into ‘no less than 100 pieces’ when it was privatised. With the help of a diagram, explain why breaking up a natural monopoly in rail may affect long-run average costs. [9 marks]

0 8 **Extract F** (lines 9–10) suggests that ‘the British public really don't care about who runs the trains; what they care about is reliability, comfort and price.’ Use the extracts and your knowledge of economics to evaluate the case for renationalising railways in the UK. [25 marks]

Turn over ►

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6

Section BAnswer **one** essay from this section.Each essay carries 40 marks.

EITHER**Essay 1**

Some believe that government intervention in markets is undesirable because market forces promote creativity, innovation and efficiency. Others believe that competition policy is needed to prevent firms abusing their market power.

0	9
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Explain why, in long-run equilibrium, monopolistically competitive markets are neither productively nor allocatively efficient.

[15 marks]

1	0
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Assess the view that competition policy is likely to lead to markets becoming less efficient in the long run.

[25 marks]**OR****Essay 2**

Since the 1980s, politicians have been freeing up one side of the labour market by reducing the power of trade unions and their influence over the supply of labour. Meanwhile, they have been doing very little about the monopsony power of employers.

1	1
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Explain the determinants of the supply of labour to an industry.

[15 marks]

1	2
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Evaluate the view that labour markets work best when strong monopsony power is balanced by trade union power.

[25 marks]

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3

The NHS budget of £138bn is not enough to meet all the demands for its services. Therefore, difficult allocation choices must be made. Rationing of care and treatment is inevitable. NHS spending on drugs in England has grown from £13bn in 2010–11 to £18.2bn in 2017–18, an average growth of around 5% per year. Policy on drugs in England aims to balance the competing goals of giving patients prompt access to effective treatments, incentivising the pharmaceutical sector to develop new products and ensuring that expenditure on drugs is affordable for the NHS. Today it is becoming harder to balance these objectives.

Source: News reports, 2019

Extract C: Is the market for pharmaceuticals working well?

The market for most generic drugs is oligopolistic, with just two or three manufacturers making each product. This enables significant economies of scale within firms, but also presents the risk of consumer interests being harmed. In 2019, US regulators accused 20 firms of colluding to raise generic drug prices by as much as 1000%. Combined with the monopoly for those drugs protected by patents, high prices and profits prevail in many parts of the industry. However, pharmaceutical firms argue that they take enormous financial risks in the search for new drugs. GlaxoSmithKline has spent just under £20bn on research and development over the past five years, while AstraZeneca spent nearly £30bn. These high development costs have led to new drugs becoming less profitable over the last decade. Pharmaceutical firms also provide thousands of highly skilled jobs and a reliable and safe product for consumers. Medicines and vaccines have played a crucial role in increasing UK life expectancy by 11 years since 1960. Over the last 40 years, cancer survival rates have doubled, and HIV/AIDS has been transformed into a manageable illness. UK firms are at the forefront of such developments and they make large profits in doing so. Many drugs have an extremely inelastic demand, as patients require them to maintain good health, which provides monopoly firms and collusive oligopolies with an opportunity to exploit their position. If this happens, the Competition and Markets Authority has the power to tackle the problem aggressively.

Source: News reports, 2019

- 0 1** Using the data in **Extract A** (Figure 1), calculate the mean amount of profit that pharmaceutical companies would have made on a new drug in 2019, given that the average development cost was \$2.6bn. Give your answer to the **nearest million dollars**. **[2 marks]**
- 0 2** Explain how the data in **Extract A** (Figure 2) show that greater competition leads to lower prices in the market for generic drugs. **[4 marks]**
- 0 3** **Extract B** (lines 9–10) states: ‘After the monopoly’s patent expires, other companies can manufacture and market the same drug under its generic name, usually at a lower price.’
- With the help of a diagram, explain why prices of pharmaceutical drugs supplied by a monopoly are likely to be higher than in markets which are more competitive. **[9 marks]**
- 0 4** **Extract C** (lines 1–3) states: ‘The market for most generic drugs is oligopolistic, with just two or three manufacturers making each product. This enables significant economies of scale within firms, but also presents the risk of consumer interests being harmed.’
- Using the extracts and your knowledge of economics, assess the view that the market structure of the pharmaceutical industry is damaging for consumers. **[25 marks]**

Turn over ►

4

Do **NOT** answer Context 2 if you have answered Context 1.

OR

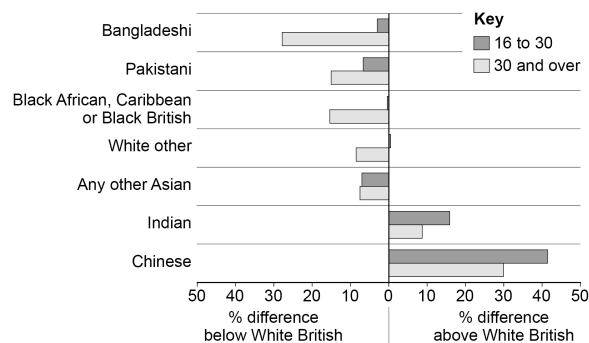
Context 2

Total for this context: 40 marks

The ethnic pay gapStudy **Extracts D, E and F** and then answer **all** parts of Context 2 which follow.**Extract D****Figure 3: Pay gap between ethnic groups and White British employees in the UK, 2018**

Ethnic group	% pay gap compared with White British employees
Bangladeshi	−20.2
Pakistani	−16.9
Black African, Caribbean or Black British	−9.2
White other	−5.8
Any other Asian	−4.0
Indian	+12.0
Chinese	+30.9

Source: ONS, 2019

Figure 4: Pay gap between ethnic minority groups, by age, UK, 2018

Source: ONS, 2019

Extract E: The Ethnic Pay Gap

UK workers of Bangladeshi heritage have the lowest pay of any ethnic group, earning 20.2% less than White British workers. Analysis by the Office for National Statistics (ONS) shows significant pay gaps remain, even when education and occupation are taken into account, particularly for those born outside the UK. The median pay of White British workers last year was £12.03 an hour, compared with £9.60 for people of Bangladeshi ethnicity and £10.00 for those of Pakistani ethnicity. These groups also had the lowest employment rate. British-born employees of Chinese ethnicity earned the most of all groups, earning 30.9% more than White British workers. 1 5

Evidence suggests that the ethnic pay gap is reducing as the UK labour market evolves over time. People aged 16 to 30 from ethnic minority groups tended to have narrower pay gaps than older ethnic minority groups. For instance, the difference for the Bangladeshi ethnic group compared with White British workers was 3.1% among 16 to 30-year-olds but 27.9% for those over 30. Women in some ethnic groups were significantly less likely to be in the labour force than women in other ethnic groups. The ONS suggested that this could be a result of cultural differences as 38.1% of women from a Bangladeshi ethnic group and 32.1% of women from a Pakistani ethnic group were found to be economically inactive. This may be because they were looking after their family or home. 10 15

Source: News reports, 2019

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SUB-TOPIC 4.1.4.2

SPECIALISATION, DIVISION OF LABOUR AND EXCHANGE

Sub-topic 4.1.4.2 · 2 questions · 2 marks · lowest tariff first



13

1 9

The table below shows the average exchange rate and currency valuation estimates for four nations in comparison to the US Dollar in January 2016.

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	Average exchange rate to US \$1	Currency valuation estimate
Australian Dollar	1.46	Undervalued by 24%
Brazilian Real	4.05	Undervalued by 32%
Chinese Yuan	6.57	Undervalued by 46%
Danish Krone	6.84	Undervalued by 12%

Which one of the following can be concluded from the data?

- A** The Australian Dollar has appreciated by 24% against the US Dollar. ☐
- B** The Brazilian Real has been devalued by 32% against the US Dollar. ☐
- C** The Chinese Yuan has depreciated the most against the US Dollar. ☐
- D** The Danish Krone has the closest purchasing power parity to the US Dollar. ☐

[1 mark]

2 0

A firm benefits from significant and persistent economies of scale as it increases output. Which one of the following is the most likely consequence as it grows in size?

The firm's

- A** ability to set its own prices will increase. ☐
- B** long-run average cost curve will become 'U' shaped. ☐
- C** increasing profitability will attract many new entrants. ☐
- D** total cost of production will decrease. ☐

[1 mark]

Turn over for the next question



1 3

Turn over ►

IB/G/Jun18/7136/3

8

1 | 4

Increased output results from specialisation and the division of labour because they enable

A countries to produce outside their production possibility boundary. ☐

B more efficient use of the available resources. ☐

C people to exchange goods and services with each other. ☐

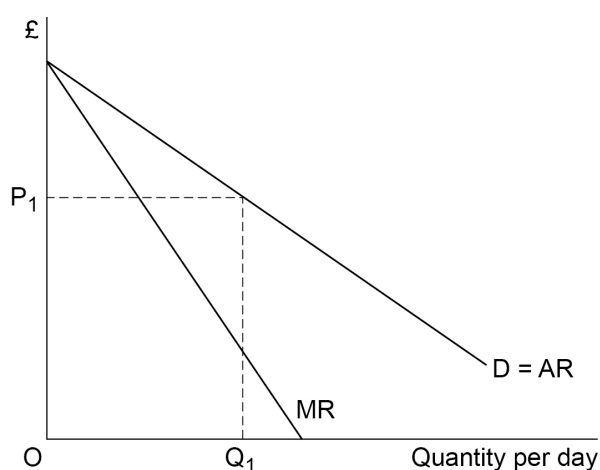
D the use of money as a medium of exchange and store of value. ☐

[1 mark]

1 | 5

Figure 4 shows a firm's demand (D) curve and its marginal revenue (MR) curve for good X. The firm initially sells OQ_1 units of X per day at a price of OP_1 .

Figure 4



If the firm increases its price by 10%

A price elasticity of demand will decrease. ☐

B price elasticity of demand will not change. ☐

C total revenue will decrease. ☐

D total revenue will increase. ☐

[1 mark]



IB/M/Jun20/7136/3

SUB-TOPIC 4.1.4.4

COSTS OF PRODUCTION

Sub-topic 4.1.4.4 · 7 questions · 7 marks · lowest tariff first



13

1 9

The table below shows the average exchange rate and currency valuation estimates for four nations in comparison to the US Dollar in January 2016.

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box

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- D** The Danish Krone has the closest purchasing power parity to the US Dollar. ☐

[1 mark]

2 0

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The firm's

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- B** long-run average cost curve will become 'U' shaped. ☐
- C** increasing profitability will attract many new entrants. ☐
- D** total cost of production will decrease. ☐

[1 mark]

Turn over for the next question



1 3

Turn over ►

IB/G/Jun18/7136/3

8

1 | 1

The table below shows how a firm's total cost of producing handbags changes as output increases.

Output (handbags per month)	Total cost per month (£)
0	45 000
1 000	165 000
2 000	250 000
3 000	360 000

What is the average fixed cost of producing 3 000 handbags per month?

A £15

☐

B £105

☐

C £110

☐

D £120

☐

[1 mark]

1 | 2

The existence of negative externalities in consumption results in a misallocation of resources. This is because at the free market level of output the

A marginal private benefit is greater than the marginal private cost.

☐

B marginal private cost is greater than the marginal social cost.

☐

C marginal social benefit is less than the marginal social cost.

☐

D marginal social cost is less than the marginal private benefit.

☐

[1 mark]

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0 8

IB/M/Jun19/7136/3

5

07

Following flooding, described by the Environment Agency as a 'once in a century event', there is a sharp increase in the number of residents of a large town who buy additional flood insurance.

Which one of these combinations of biases in decision making are the residents most likely to have experienced?

[1 mark]

- A Anchoring and framing bias
- B Availability bias and social norms
- C Rules of thumb and anchoring
- D Social norms and rules of thumb

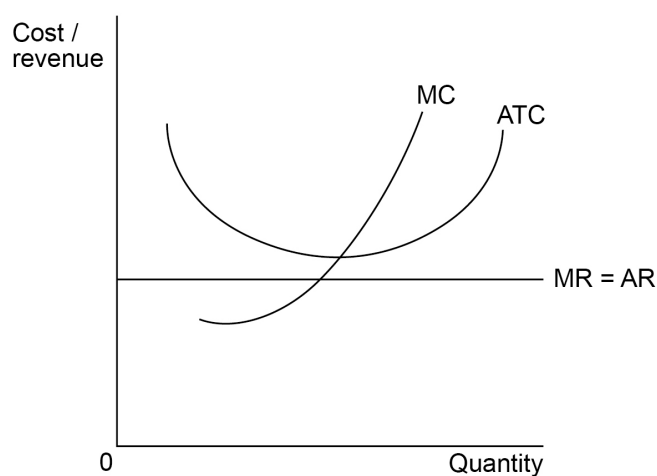
☐☐☐☐

08

Figure 3 shows the marginal cost (MC) and average total cost (ATC) curves for a firm in the short run in a perfectly competitive market.

It also shows the firm's marginal revenue (MR) and average revenue (AR) curves.

Figure 3



What changes can be expected as the market moves into the long run?

[1 mark]

- A New firms will enter the market, increasing supply
- B Some firms will leave the market and the price will rise
- C The firm will reduce its output to reduce its average total cost
- D The firm will reduce its price to increase its market share

☐☐☐☐

Turn over ►



05

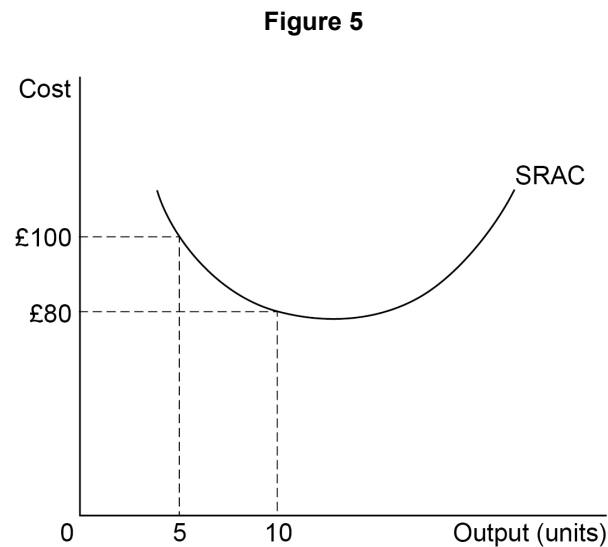
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13

1 8

Figure 5 shows the short-run average cost curve (SRAC) for a firm producing electrical components.

*Do not write
outside the
box*



Which one of the following is most likely to explain the change in short-run average cost when output rises from 5 units to 10 units?

[1 mark]

A Falling total costs of production

☐

B Increasing marginal returns to labour

☐

C Increasing returns to scale

☐

D Technical economies of scale

☐

Turn over for the next question

Turn over ►



IB/G/Jun24/7136/3

14

1 | 9

Table 6 shows the national debt and gross domestic product (GDP) for the UK in the second quarters of 2020 and 2022.

Table 6

Year	National debt (£bn)	GDP (£bn)
2020	2069	2190
2022	2437	2391

All other things being equal, which one of the following is most likely to help the government manage the impact of the changes shown in **Table 6**?

[1 mark]

- A** Contractionary monetary policy by the Bank of England
- B** Falling demand for government bonds from foreign investors
- C** Rising interest rates in global financial markets
- D** Sustained rises in nominal national income in future years

☐☐☐☐

2 | 0

A firm has a downward-sloping average revenue curve and a U-shaped average total cost curve. Which one of the following meets the condition required for the firm to be productively efficient?

The firm is producing the quantity at which

[1 mark]

- A** average revenue equals average total cost.
- B** average revenue equals marginal cost.
- C** marginal cost equals average total cost.
- D** marginal revenue equals marginal cost.

☐☐☐☐

1 4

IB/G/Jun24/7136/3

15

21

All other things being equal, **Table 7** shows how the number of workers employed by a profit-maximising firm affects its total output per hour and the price it is able to charge for the product produced.

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Table 7

Number of workers	Total output per hour	Price (£)
1	3	5.00
2	7	4.50
3	15	4.20
4	20	4.10
5	24	4.00

The firm pays its workers £18 per hour. It does not have any other variable costs and its fixed costs are £3 per hour.

How many workers will the firm employ?

[1 mark]

- A 2

☐
- B 3

☐
- C 4

☐
- D 5

☐

Turn over for the next question

Turn over ►



16

2 **8**

Table 5 contains data for a firm's marginal cost of producing different outputs of shirts per day. The firm operates in a perfectly competitive market.

*Do not write
outside the
box*

Table 5

Output of shirts per day	Marginal cost (£s)
800	8
900	9
1000	10
1100	11

If the market price is £10 per shirt, at which one of the following outputs per day, **A**, **B**, **C** or **D**, will the firm maximise its profit?

A 800☐**B** 900☐**C** 1000☐**D** 1100☐**[1 mark]**

IB/M/Jun20/7136/3

SUB-TOPIC 4.1.4.5

ECONOMIES AND DISECONOMIES OF SCALE

Sub-topic 4.1.4.5 · 3 questions · 39 marks · lowest tariff first



4

Do **not** answer Context 2 if you have answered Context 1.

OR

Context 2

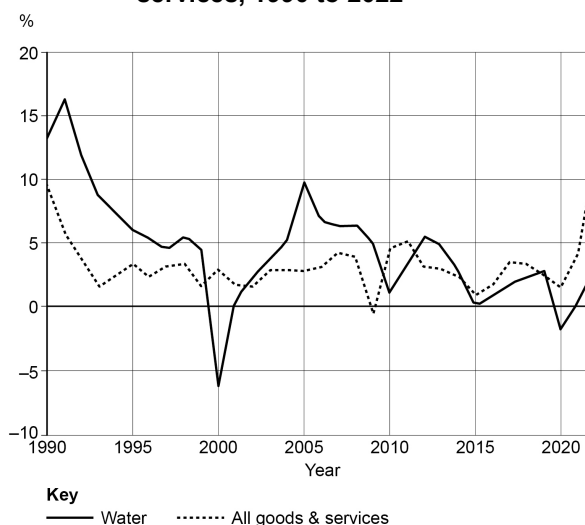
Total for this context: 40 marks

The UK water industryStudy **Extracts D, E and F** and then answer **all** parts of Context 2 which follow.**Extract D:****Figure 3: Number of storm overflow hours, by water company, 2022**

Water company	Number of storm overflows (000s of hours)
United Utilities	425
South West Water	290
Severn Trent Water	249
Yorkshire Water	232
Southern Water	147
Wessex Water	130
Northumbrian Water	108
Anglian Water	90
Thames Water	75
Welsh Water	9
Total	1755

Note: The data in **Figure 3** show the number of hours that each company released harmful sewage into rivers and the sea.

Source: Ofwat, 2023

Figure 4: Annual percentage change in price indices for water and all goods & services, 1990 to 2022

Source: ONS, 2023

Extract E: England's privatised water companies run into trouble

Water companies have repeatedly poured large quantities of harmful, untreated sewage and storm water into Britain's rivers and seas. Pressure on the government and regulators to act has increased. Ofwat, the water regulator, said that none of the 17 water companies achieved its targets in 2022. Leakages and burst pipes both increased, as did the likelihood of companies missing targets for clean drinking water. Customer service also deteriorated.

5

Many water companies are struggling. When England privatised its formerly publicly-owned regional water companies in 1989, the companies started without any debt. Since then, water companies have borrowed heavily, yet infrastructure is crumbling.

Inflation has increased labour, energy and financing costs, putting some companies at risk of collapse. The minimum efficient scale in the water industry is large and substantial investment is needed to build and maintain the network of sewers and pipes. To fund investment, water companies have asked Ofwat to allow them to increase prices by around 60% between 2025 and 2030. Because the water companies are local monopolies, Ofwat decides on price increases. It also has to approve water company plans for upgrading and maintaining

10

5

infrastructure over the 5-year period. However, Ofwat said that 12 of the 17 companies had missed their investment targets. Water companies cited high inflation and labour shortages as obstacles to investment, but critics argue that shareholders' dividends are too high, totalling £72bn since privatisation. 15

Source: News reports, 2023

Extract F: What next for the water industry?

Water companies are regulated by Ofwat and the Environment Agency (responsible for regulating their environmental impact). Critics suggest that the water companies have too close a relationship with regulators, resulting in weak regulation. Nevertheless, regulators have issued fines: in 2021, Southern Water was given a £90m fine for dumping billions of litres of raw sewage into rivers and the sea. However, if regulators impose fines, these costs may be passed on to consumers or reduce investment. Some argue that the investment needed to improve the sewage infrastructure is too expensive for the water companies to make alone. A government report estimated the cost of eliminating storm overflows at between £350bn and £600bn, adding almost £1 000 to customers' annual bills. 5

Ofwat has warned about the financial health of four water companies in England. Ofwat's concerns arise despite industry investment of £4.6bn since 2020. This ability to attract private sector investment, along with improved efficiency and technological innovation, has been a positive aspect of water privatisation. For example, 60% of homes now have a water meter installed, reducing water consumption. Nevertheless, some are calling for the industry to be renationalised. However, nationalisation would be expensive as shareholders would need to be compensated. The estimated cost is £14.7bn, rising to over £90bn if the industry's debts are included. 15

Source: News reports, 2023

0 5

Using the data in **Extract D (Figure 3)**, calculate the median number of storm overflow hours by water company in 2022.

[2 marks]**0 6**

Explain how the data in **Extract D (Figure 4)** show that household water bills have increased in real terms since privatisation in 1989.

[4 marks]**0 7**

Extract E (line 10) states: 'The minimum efficient scale in the water industry is large'.

With the help of a diagram, explain why the large minimum efficient scale in the water industry is likely to lead to the market being supplied by a few large firms with monopoly power.

[9 marks]**0 8**

Extract F (lines 5–6) states: 'if regulators impose fines, these costs may be passed on to consumers or reduce investment'.

Using the data in the extracts and your knowledge of economics, assess the view that stronger regulation would be a better policy than bringing the water industry back into public ownership.

[25 marks]

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7

OR**Essay 3**

Britain's energy market was plunged into chaos in 2021 as surges in wholesale electricity and gas prices exposed the weaknesses of many companies. Since deregulation in 2016, 49 energy supply companies have collapsed, with customers taken on by larger firms. This market chaos has led to renewed calls for the government to nationalise the energy industry.

1	3
---	---

Explain, using examples, how the existence of economies and diseconomies of scale affect firms' average costs of production.

[15 marks]

1	4
---	---

Assess the view that privatised industries, such as electricity and gas, should be taken back into public ownership.

[25 marks]**END OF QUESTIONS**

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7

OR**Essay 3**

Aston Martin, the luxury car manufacturer, became a publicly listed company on the London Stock Exchange in October 2018, being valued at £3.89bn. The company had hoped to expand into new markets, enabling it to exploit economies of scale. However, following poor sales and weak profits, the company had lost 75% of its value by February 2020.

1	3
---	---

 Explain how a firm may benefit from **both** internal and external economies of scale.
[15 marks]

1	4
---	---

 Discuss how the divorce of ownership from control may affect **both** the conduct and performance of firms.
[25 marks]**END OF QUESTIONS**

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SUB-TOPIC 4.1.4.6

MARGINAL, AVERAGE AND TOTAL REVENUE

Sub-topic 4.1.4.6 · 16 questions · 16 marks · lowest tariff first



6

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box

0 7

The table below shows the output, average total cost and average revenue for a firm.

Units of output	Average total cost (£)	Average revenue (£)
10	15	26
11	14	24
12	13	23
13	12	21

At which one of the following levels of output will the firm maximise its profits?

A 10 units

☐

B 11 units

☐

C 12 units

☐

D 13 units

☐

[1 mark]



0 6

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2

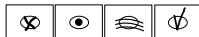
Section AAnswer **all** questions in this section.Do not write
outside the
boxOnly **one** answer per question is allowed.

For each answer completely fill in the circle alongside the appropriate answer.

CORRECT METHOD



WRONG METHODS



If you want to change your answer you must cross out your original answer as shown.

If you wish to return to an answer previously crossed out, ring the answer you now wish to select as shown.

0 1

A monopolistically competitive firm's demand curve is

A also the market demand curve.☐**B** inelastic throughout its length.☐**C** the firm's average revenue curve.☐**D** the same as its marginal revenue curve.☐**[1 mark]**

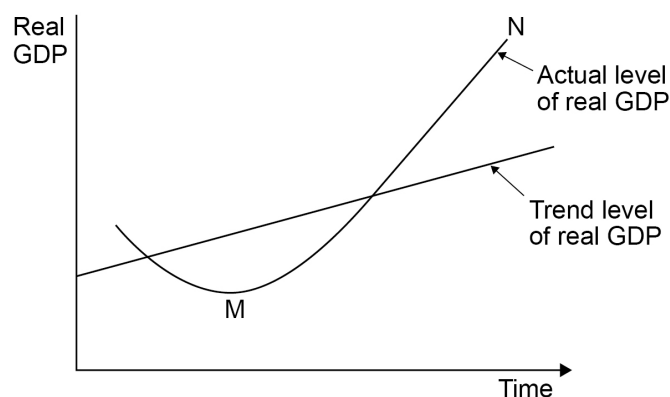
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9

1 | 3

The diagram below shows the actual level of real GDP and the trend level of real GDP over time for an economy. The economy starts its recovery from recession at point M. After several years of growth the economy reaches point N.



All other things being equal, which one of the following is the most likely consequence of the economy's growth path between points M and N?

- A A decrease in the level of interest rates due to deflation.
- B A decrease in the rate of inflation due to increased output.
- C An increase in investment due to the accelerator process.
- D An increase in the value of the multiplier due to a rise in the savings ratio.

☐☐☐☐

[1 mark]

1 | 4

All other things being equal, which one of the following would be most likely to result in a reduction in inequality in the distribution of income in the UK? An increase in the

- A amount of government tax revenue.
- B average standard of living.
- C level of median income.
- D share of income of the lowest quintile.

☐☐☐☐

[1 mark]

Turn over for the next question

Turn over ►



0 9

IB/M/Jun19/7136/3

15

2 | 6

All other things being equal, which one of the following is most likely to cause the marginal revenue product of labour curve in the shoe manufacturing industry to shift to the right?

A A decrease in money wage rates in the shoe industry.

☐

B A decrease in the number of workers employed in the shoe industry.

☐

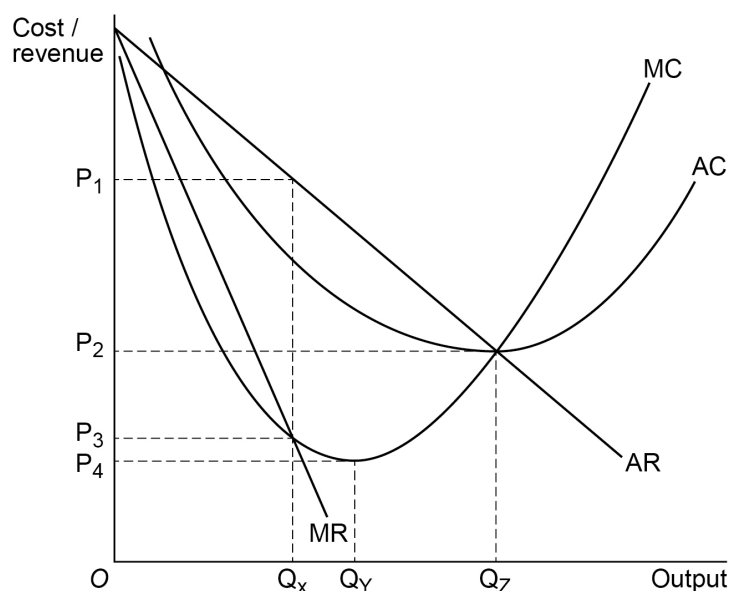
C An increase in the market demand for shoes.

☐

D An increase in the number of firms competing in the shoe industry.

☐**[1 mark]****2 | 7**

The diagram below shows the average revenue and marginal revenue (AR and MR) curves, and the average cost and marginal cost (AC and MC) curves, for the only firm in an industry.



If the market is highly contestable, in the long run, the firm is most likely to set its price at

A OP_1

☐

B OP_2

☐

C OP_3

☐

D OP_4

☐**[1 mark]****Turn over ►**

1 5

IB/M/Jun19/7136/3

9

1 3

Which one of the following is a role of the World Trade Organisation?

[1 mark]

- A** Helping countries settle disputes over tariffs and quotas
- B** Lending money to countries with balance of payments problems
- C** Monitoring the stability of the international monetary system
- D** Providing loans at low rates of interest to low-income countries

☐☐☐☐**1 4**

Which one of the following is a reason why the supply of cars is likely to be price elastic in the short run when the price of cars increases?

[1 mark]

- A** Car manufacturers' stocks of unsold cars are low
- B** The demand for cars is also price elastic
- C** The marginal cost of producing cars increases significantly with output
- D** There is considerable spare capacity in the car industry

☐☐☐☐**Turn over for the next question***Do not write
outside the
box***Turn over ►**

0 9

IB/M/Jun22/7136/3

12

1 8

Which one of the following is a supply-side policy aimed at reducing the natural rate of unemployment?

[1 mark]

A Government retraining schemes for structurally unemployed workers

☐

B Increasing legal protection against unfair dismissal for employees

☐

C Increasing the real value of the national minimum wage

☐

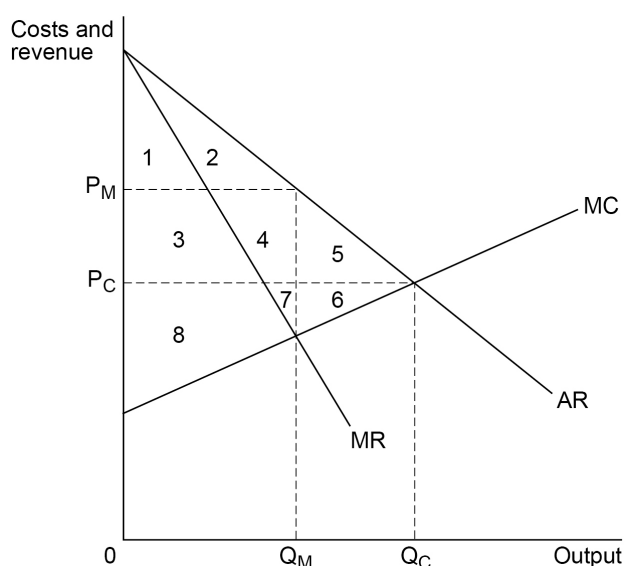
D New government subsidies for developers of artificial intelligence

☐

1 9

Figure 5 shows the average revenue (AR), marginal revenue (MR) and marginal cost (MC) curves for an industry which was perfectly competitive but is now a monopoly. The cost and revenue curves remain unchanged.

Figure 5



Which of the following areas shows the total deadweight loss of consumer and producer surplus resulting from the structure of the industry changing from perfect competition to monopoly?

[1 mark]

A 1 + 2

☐

B 3 + 4

☐

C 5 + 6

☐

D 7 + 8

☐

1 2

IB/M/Jun22/7136/3

13

2 0

There is a reduction in the market demand for the product supplied by firms operating in a perfectly competitive industry.

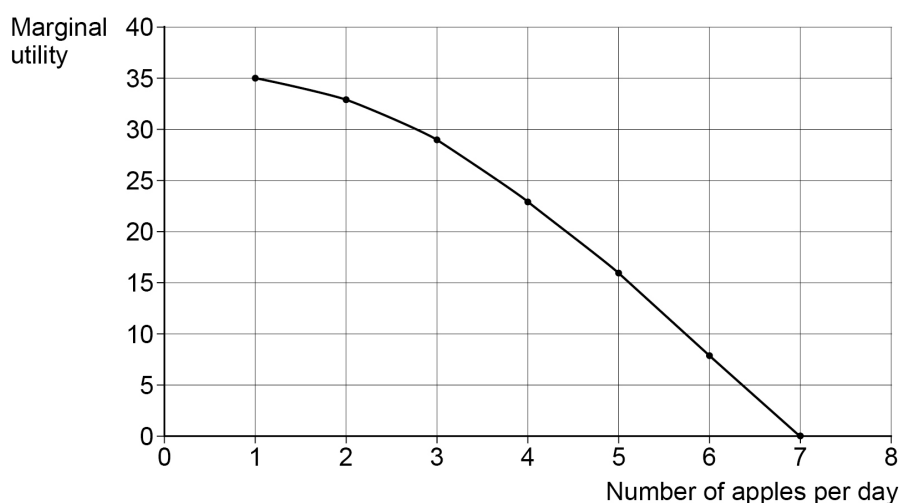
All other things being equal, which one of the following will happen to firms' average and marginal revenue as a result of this change?

[1 mark]

- A** Average revenue and marginal revenue will both fall.
- B** Average revenue and marginal revenue will not change.
- C** Average revenue will fall and marginal revenue will increase.
- D** Average revenue will increase and marginal revenue will fall.

☐☐☐☐**2 1**

Figure 6 shows the marginal utility that a consumer gains from eating apples.

Figure 6

When 7 apples per day are consumed

[1 mark]

- A** average utility is maximised.
- B** marginal utility is maximised.
- C** opportunity cost is minimised.
- D** total utility is maximised.

☐☐☐☐**Turn over ►**

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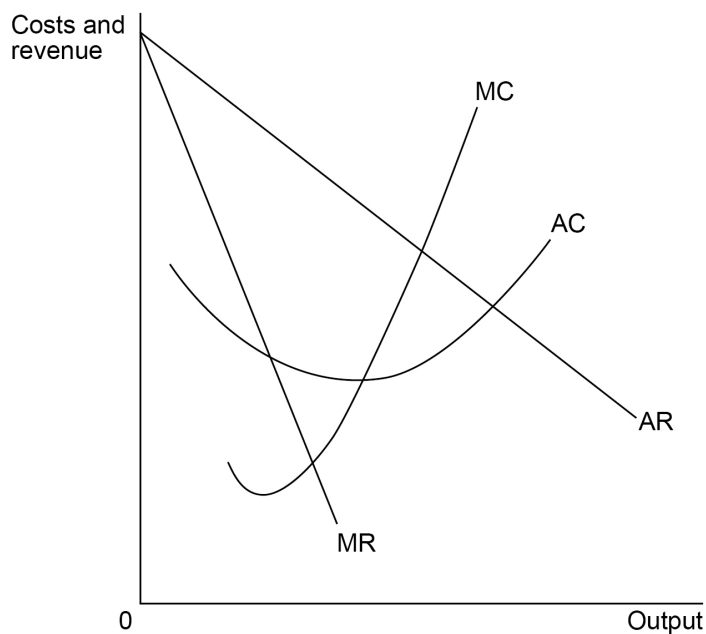
15

2 4

Figure 7 shows the average revenue and marginal revenue (**AR** and **MR**) curves and the average cost and marginal cost (**AC** and **MC**) curves for a firm in monopolistic competition in the short run.

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Figure 7



At the profit maximising price and output the firm will

[1 mark]

- A** make supernormal profits.
- B** produce the allocatively efficient output.
- C** produce where average revenue = average cost.
- D** set price equal to minimum average costs.

☐
☐
☐
☐

Turn over for the next question

Turn over ►



1 5

IB/M/Jun22/7136/3

8

1 4

A firm faces a downward sloping demand curve. The firm discovers that any increase or decrease from its current level of output leads to a fall in total revenue. This means that at its current output marginal revenue is

[1 mark]

A equal to average revenue.

☐

B negative.

☐

C positive.

☐

D zero.

☐

1 5

Which one of the following is the most likely result of a divorce of ownership from control in an organisation?

[1 mark]

A Profits are maximised

☐

B Shareholders make all organisational decisions

☐

C The adoption of satisficing behaviour

☐

D The free-rider problem

☐

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0 8

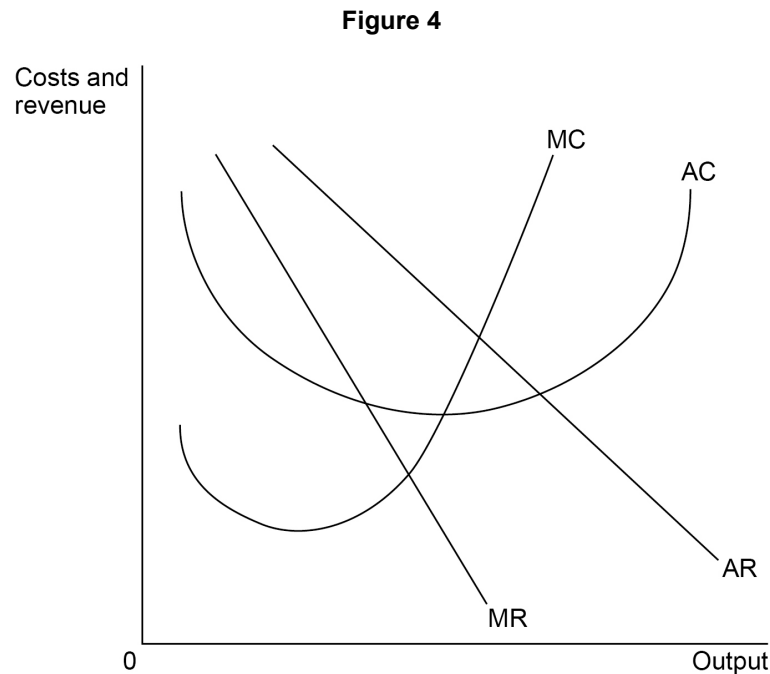
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8

1 1

Figure 4 shows the short-run average costs (AC), marginal costs (MC), average revenue (AR) and marginal revenue (MR) curves for a typical firm in a monopolistically competitive market.

Do not write
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box



In the long run, market forces are most likely to cause the firm's revenue curves to

[1 mark]

- A** shift left and become flatter.
- B** shift left and become steeper.
- C** shift right and become flatter.
- D** shift right and become steeper.

☐
☐
☐
☐


0 8

IB/G/Jun24/7136/3

9

1 | 2

According to the kinked demand curve model of oligopoly, which one of the following would be most likely to explain price stability in an oligopolistic market?

[1 mark]

- A** A firm's revenue would fall with any change in price ☐
- B** Collusion between firms is likely to lead to price-fixing ☐
- C** Firms do not seek to maximise their profits ☐
- D** Individual firms do not have the ability to set prices ☐

Do not write
outside the
box

1 | 3

Table 3 shows how the price affects the number of shirts a shop sells in a week.

Table 3

Price of shirts	Number of shirts sold
£40	10
£36	11
£33	12

The marginal revenue of the 12th shirt sold is

[1 mark]

- A** -£3 ☐
- B** £0 ☐
- C** £33 ☐
- D** £396 ☐

Turn over for the next question

Turn over ►



0 9

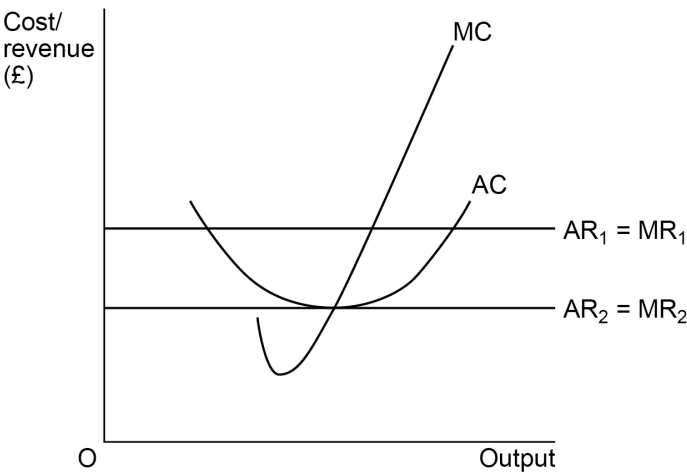
IB/G/Jun24/7136/3

1 9

Figure 5 shows the average cost (AC), marginal cost (MC), average revenue (AR) and marginal revenue (MR) curves for a firm in a perfectly competitive market. The entry of new firms shifts the AR and MR curves from $AR_1 = MR_1$ to $AR_2 = MR_2$.

Do not write
outside the
box

Figure 5



All other things being equal, which one of the following combinations of statements would be correct for a profit-maximising firm?

[1 mark]

	Allocatively efficient	Productively efficient	
A	Before and after new firms enter the market	Before and after new firms enter the market	☐
B	Before and after new firms enter the market	Only after new firms enter the market	☐
C	Only after new firms enter the market	Before and after new firms enter the market	☐
D	Only after new firms enter the market	Only after new firms enter the market	☐

Turn over ►

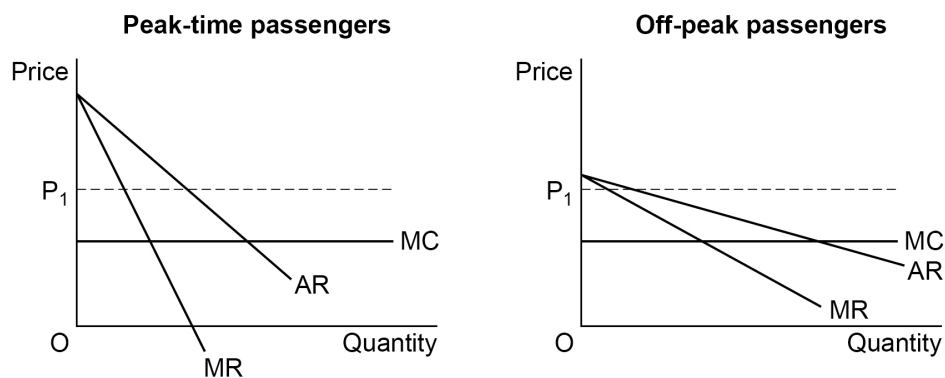


18

2 0

Figure 6 shows the average revenue (AR), marginal revenue (MR) and marginal cost (MC) curves of a train-operating firm for peak-time and off-peak passengers. It also shows the price (P_1) that all passengers currently pay.

Do not write
outside the
box

Figure 6

The train-operating firm introduces price discrimination to maximise profits. What is the effect on consumer surplus?

[1 mark]

- A** Falls for both off-peak and peak-time passengers
- B** Falls for off-peak passengers and rises for peak-time passengers
- C** Falls for peak-time passengers and rises for off-peak passengers
- D** Rises for both off-peak and peak-time passengers

☐
☐
☐
☐


1 8

IB/M/Jun25/7136/3

6

1 0

All other things being equal, in which one of the following circumstances is the Bank of England most likely to raise Bank Rate to maintain financial stability?

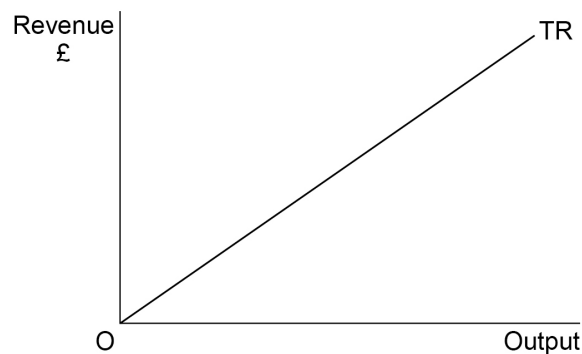
- A** A fall in bank liquidity and capital ratios following several years of rapid growth in bank lending and a boom in house prices ☐
- B** An increase in the government's target for the rate of inflation following a significant increase in the rate of productivity growth ☐
- C** An increase in the savings ratio as the economy recovers from a recession ☐
- D** A rise in share prices on global stock markets due to the growth in world trade ☐

[1 mark]

1 1

Figure 3 shows a firm's total revenue (TR) curve.

Figure 3



Which one of the following combinations, **A**, **B**, **C** or **D**, describes how the firm's average revenue and marginal revenue will change as the firm expands its output?

	Average revenue	Marginal revenue	
A	Increases	Increases	☐
B	Constant	Constant	☐
C	Decreases	Decreases	☐
D	Increases	Constant	☐

[1 mark]



0 6

IB/M/Jun20/7136/3

8

1 4

Increased output results from specialisation and the division of labour because they enable

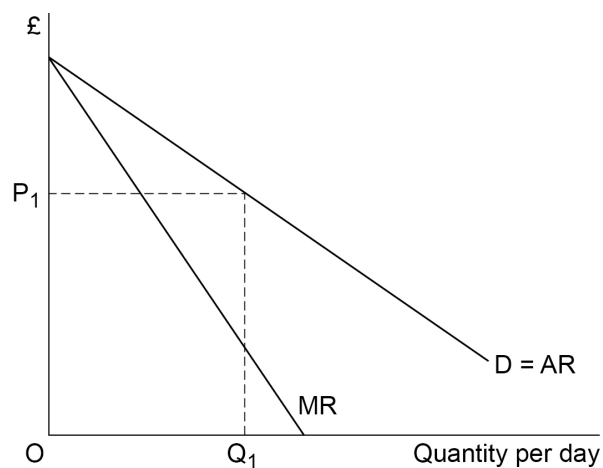
- A countries to produce outside their production possibility boundary. ☐
- B more efficient use of the available resources. ☐
- C people to exchange goods and services with each other. ☐
- D the use of money as a medium of exchange and store of value. ☐

[1 mark]

1 5

Figure 4 shows a firm's demand (D) curve and its marginal revenue (MR) curve for good X. The firm initially sells OQ_1 units of X per day at a price of OP_1 .

Figure 4



If the firm increases its price by 10%

- A price elasticity of demand will decrease. ☐
- B price elasticity of demand will not change. ☐
- C total revenue will decrease. ☐
- D total revenue will increase. ☐

[1 mark]



0 8

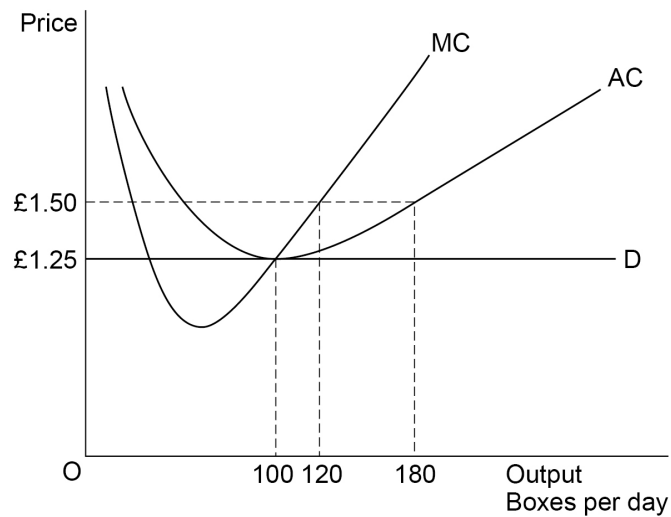
IB/M/Jun20/7136/3

11

1 | 6

Figure 5 shows the demand (D) curve and the average and marginal cost (AC and MC) curves for a firm operating in a perfectly competitive market for eggs.

Do not write
outside the
box

Figure 5

The firm is in equilibrium at the initial market price of £1.25 for a box of 6 eggs. If the market price increases to £1.50 for a box of eggs the firm will

- A** have a marginal revenue of £0.25.
- B** increase its average revenue by 20%.
- C** make supernormal profits in the long run.
- D** sell 180 boxes per day in the short run.

☐
☐
☐
☐

[1 mark]

Turn over for the next question

Turn over ►



1 1

IB/M/Jun21/7136/3

SUB-TOPIC 4.1.4.7

PROFIT

Sub-topic 4.1.4.7 · 5 questions · 81 marks · lowest tariff first



23

Do not write
outside the
box**2 | 6**

Which one of the following is a supply-side policy that is most likely to lead to an improvement in the balance of trade in goods and services on the current account of the UK's balance of payments?

[1 mark]

- A** A significant and sustained reduction in Bank Rate by the Monetary Policy Committee of the Bank of England ☐
- B** Deregulation that makes it easier for UK transnational corporations to invest abroad ☐
- C** Increasing the supply of pounds on the foreign exchange market to reduce the exchange rate and make exports cheaper ☐
- D** Tax breaks for manufacturing firms that invest in upgrading their machinery and other capital goods ☐

2 | 7

Which one of the following statements regarding UK competition policy is correct?

[1 mark]

- A** An objective of competition policy is to reduce firms' profits by preventing firms from charging prices that are higher than their marginal cost of production. ☐
- B** Competition policy aims to increase social welfare by discouraging existing firms from entering new markets that have a low concentration ratio and are already very competitive. ☐
- C** Competition policy recognises that a monopoly may be preferable to many small firms producing in a competitive market due to the existence of diseconomies of scale. ☐
- D** High concentration ratios and consumer complaints are examples of indicators which may suggest anti-competitive behaviour and prompt further investigation by the Competition and Markets Authority. ☐

Turn over for the next question**Turn over ►**

2 3

IB/M/Jun25/7136/3

6

Section BAnswer **ONE** essay from this section.Each essay carries 40 marks.

EITHER**Essay 1**

Roughly £18bn is forecast to be spent in the UK on advertising in 2017. Much of this will be spent by monopolistically competitive firms or oligopolies seeking to differentiate the products they sell to consumers.

0	9
---	---

Explain how price and output are determined for a firm in a monopolistically competitive market, in both the short run and the long run.

[15 marks]

1	0
---	---

Evaluate the view that government regulation of monopolistically competitive markets is unnecessary, and that policies to encourage competition and prevent the abuse of monopoly power should focus entirely on oligopolies and monopolies.

[25 marks]**OR****Essay 2**

Attempts by governments to equalise incomes are well-intentioned but counter-productive. They destroy incentives for people to lift themselves out of poverty.

1	1
---	---

Explain the main causes of poverty in the UK.

[15 marks]

1	2
---	---

To what extent can the problem of poverty in the UK be solved through the operation of market forces? Justify your answer.

[25 marks]

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Section B

Answer **one** essay from this section.

Each essay carries 40 marks.

EITHER

Essay 1

For a long time, supermarkets and other commercial firms have understood the benefits of behavioural economic concepts such as choice architecture and framing. The public sector has been slow off the mark, but at last governments are now taking advantage of the opportunities provided by nudging.

0	9
---	---

Explain how rules of thumb and irrationality can affect consumers' demand for goods and services.

[15 marks]

1	0
---	---

Using examples to illustrate your answer, assess the usefulness of behavioural economic theory compared to traditional economic policies in helping governments to correct market failures

[25 marks]

OR

Essay 2

Several loss-making retailers including Homebase, House of Fraser and Poundworld have had to decide whether to shut down operations or carry on while making losses. In contrast, the music-streaming firm Spotify was valued at \$27 billion in 2018, despite never having made a profit in any year since it was founded. Spotify has been more focused on expanding market share.

1	1
---	---

Explain the factors a profit-maximising firm will take into account when deciding whether to shut down or to carry on operating, both in the short run and in the long run.

[15 marks]

1	2
---	---

Discuss the validity of the traditional economic assumption that the main objective of firms is to maximise profits.

[25 marks]

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6

Section BAnswer **one** essay from this section.Each essay carries 40 marks.

EITHER**Essay 1**

Some believe that government intervention in markets is undesirable because market forces promote creativity, innovation and efficiency. Others believe that competition policy is needed to prevent firms abusing their market power.

0	9
---	---

Explain why, in long-run equilibrium, monopolistically competitive markets are neither productively nor allocatively efficient.

[15 marks]

1	0
---	---

Assess the view that competition policy is likely to lead to markets becoming less efficient in the long run.

[25 marks]**OR****Essay 2**

Since the 1980s, politicians have been freeing up one side of the labour market by reducing the power of trade unions and their influence over the supply of labour. Meanwhile, they have been doing very little about the monopsony power of employers.

1	1
---	---

Explain the determinants of the supply of labour to an industry.

[15 marks]

1	2
---	---

Evaluate the view that labour markets work best when strong monopsony power is balanced by trade union power.

[25 marks]

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7

OR**Essay 3**

Aston Martin, the luxury car manufacturer, became a publicly listed company on the London Stock Exchange in October 2018, being valued at £3.89bn. The company had hoped to expand into new markets, enabling it to exploit economies of scale. However, following poor sales and weak profits, the company had lost 75% of its value by February 2020.

1	3
---	---

 Explain how a firm may benefit from **both** internal and external economies of scale.
[15 marks]

1	4
---	---

 Discuss how the divorce of ownership from control may affect **both** the conduct and performance of firms.
[25 marks]**END OF QUESTIONS**

There are no questions printed on this page

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IB/M/Jun21/7136/1

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SUB-TOPIC 4.1.4.8

TECHNOLOGICAL CHANGE

Sub-topic 4.1.4.8 · 1 question · 1 marks · lowest tariff first



5

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outside the
box

0 5

A firm employs three factors of production: capital, land and labour. The table below shows how the firm's output is affected by changing the amount employed of these factor inputs.

Units of output	Units of capital	Units of land	Labour (Number of workers)
500	20	40	60
1000	80	160	240
2000	140	280	420
3000	210	420	630
4000	300	580	860

The firm experiences constant returns to scale when it increases its output from

- A** 500 to 1000 units.
B 1000 to 2000 units.
C 2000 to 3000 units.
D 3000 to 4000 units.

☐☐☐☐

[1 mark]

0 6

The table below shows possible differences between the meanings of the terms invention and innovation. Which combination, **A**, **B**, **C** or **D**, correctly identifies the difference between the meanings of these terms?

	Invention	Innovation
A	Applies to changes in goods only	Applies to changes in services only
B	Applies to changes in services only	Applies to changes in goods only
C	Discovering something entirely new	Turns the results of invention into a product
D	Turns the results of innovation into a product	Discovering something entirely new

☐☐☐☐

[1 mark]

Turn over for the next question



0 5

Turn over ►

IB/G/Jun17/7136/3

MARK SCHEMES

official mark schemes



MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2017

SECTION A

The following list indicates the correct answers used in marking the candidates' responses.

KEY LIST

1	D	16	B
2	B	17	C
3	A	18	B
4	A	19	C
5	C	20	A
6	C	21	D
7	C	22	B
8	C	23	A
9	D	24	D
10	A	25	B
11	D	26	D
12	A	27	A
13	A	28	D
14	C	29	C
15	D	30	D

	<u>Total</u>
A	8
B	5
C	8
D	9
	<u>30</u>

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2018

SECTION A

The following list indicates the correct answers used in marking the students' responses.

KEY LIST

1	B	16	C
2	A	17	A
3	D	18	A
4	D	19	D
5	D	20	A
6	A	21	C
7	D	22	D
8	C	23	C
9	D	24	A
10	B	25	A
11	B	26	C
12	B	27	D
13	C	28	C
14	C	29	C
15	B	30	C

Total: 30

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2025

SECTION A KEY LIST

1	B (Individuals are required by law to choose an option)	11	D (Point D)	21	B (5.3%)
2	C (ST)	12	C (Ireland's gross national income per capita was higher than Finland's.)	22	A (Situation A)
3	B (Create a hypothesis and test whether it can predict the behaviour of economic agents)	13	B (is more price inelastic when price increases from £8 to £10 than when it increases from £10 to £15.)	23	D (The rate of increase in the price of necessities, such as energy, is higher than for all goods and services)
4	D 	14	D (Some potential tenants who would like to rent a house at R ₁ cannot find a house to rent)	24	A (Country X has both an absolute advantage and a comparative advantage in producing canoes)
5	A (A fall in the number of Jobcentres provided by the government)	15	D (Profit maximisation is not the most important objective for all managers)	25	D (US\$5200 million)
6	B (A reduction in the tax on a good with positive consumption externalities)	16	B (the quarterly inflation rate fluctuated whilst the unemployment rate increased throughout the year.)	26	D (Tax breaks for manufacturing firms that invest in upgrading their machinery and other capital goods)
7	D (Increasing returns to scale)	17	C (Savings deposited with commercial banks that have more than a year to maturity)	27	D (High concentration ratios and consumer complaints are examples of indicators which may suggest anti-competitive behaviour and prompt further investigation by the Competition and Markets Authority.)
8	C (£75 000)	18	D (Bank Y is more profitable than Bank Z but is less secure.)	28	C (Over time, more firms will have an incentive to reduce their pollution)
9	D 	19	B (B)	29	A (The amounts outstanding on households' existing mortgages will fall in real terms)
10	D (The level of investment depends on the rate of change in national income)	20	C (Falls for peak-time passengers and rises for off-peak passengers)	30	C (£26 500)

MARK SCHEME – A-LEVEL ECONOMICS – 7136/1 – JUNE 2023

Section A

Context 1

Total for this context: 40 marks

0 1

Using the data in **Extract A (Table 1)**, calculate the index of total car sales in 2021 if, in the base year, total car sales were 1.25 million.

Give your answer to **two** decimal places.

[2 marks]

Calculation:

$$100 \times \frac{1.647181}{1.25} = 100 \times 1.317745$$

Correct answer: 131.77

Response	Max 2 marks
For the correct answer, to two decimal places	2 marks
For the correct answer, not rounded to two decimal places: eg 131.8 OR For the correct answer rounded to two decimal places with incorrect units: eg 131.77% OR For the correct method but wrong answer, rounded to two decimal places, but not with incorrect units: eg $100 \times A/B$	1 mark

MAXIMUM FOR QUESTION 01: 2 MARKS

MARK SCHEME – A-LEVEL ECONOMICS – 7136/1 – JUNE 2025

Section A

Context 1

Total for this context: 40 marks

0 1

Using the data in **Extract A (Figure 1)**, calculate the difference between India's share of world exports of rice in 2010 and 2022.

Give your answer to **one** decimal place.

[2 marks]

Calculation:

Market share in 2010: $2.8/35.2 \times 100 = 7.955\%$

Market share in 2022: $22.5/55.6 \times 100 = 40.468\%$.

Difference = $40.468 - 7.955 = 32.513$ (rounded answer using 3dp)

Correct answer: 32.5 percentage points (or 32.5%) (accept -32.5 percentage points)

Response	Max 2 marks
For the correct answer, to one decimal place, with the correct units: 32.5 percentage points or 32.5%	2 marks
For the correct answer but without the correct units and/or not to one decimal place: eg 32.51 OR For the correct method, but the wrong answer, to one decimal place, with the correct units	1 mark

MAXIMUM FOR QUESTION 01: 2 MARKS

MARK SCHEME – A-LEVEL ECONOMICS – 7136/1 – JUNE 2021

Context 2

Total for this context: 40 marks

- 0 5** Using the data in **Extract D** (Figure 3), calculate how much a worker of Bangladeshi ethnicity earned on average in 2018, given that a White British worker earned £28 677. Give your answer **to the nearest pound**.

[2 marks]

Calculation: £28 677 × 0.798 = £22 884.25

Answer: £22 884

Response:	Max 2 marks
For the correct answer, to the nearest pound, with units	2 marks
For the correct answer but not rounded to the nearest pound, and/or without units OR For the correct method, but the wrong answer, to the nearest pound, with units	1 mark

MAXIMUM FOR QUESTION 05: 2 MARKS

MARK SCHEME – A-LEVEL ECONOMICS – 7136/1 – JUNE 2019

0 7 *Extract E (lines 10–11) describes the British railway sector as a ‘natural monopoly’, which was split up into ‘no less than 100 pieces’ when it was privatised.*

With the help of a diagram, explain why breaking up a natural monopoly in rail may affect long-run average costs.

[9 marks]

Level of response	Response:	Max 9 marks
Level 3	• is well organised and develops one or more of the key issues that are relevant to the question • shows sound knowledge and understanding of relevant economic terminology, concepts and principles • includes good application of relevant economic principles and/or good use of data to support the response • includes well-focused analysis with a clear, logical chain of reasoning • includes a relevant diagram that will, at the top of this level, be accurate and used appropriately.	7–9 marks
Level 2	• includes one or more issues that are relevant to the question • shows reasonable knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles and/or data to the question • includes some reasonable analysis but it might not be adequately developed and may be confused in places • may include a relevant diagram.	4–6 marks
Level 1	• is very brief and/or lacks coherence • shows some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely • demonstrates very limited ability to apply relevant economic principles and/or data to the question • may include some very limited analysis but the analysis lacks focus and/or becomes confused • may include a relevant diagram but the diagram is not used and/or is inaccurate in some respects.	1–3 marks

MARK SCHEME – A-LEVEL ECONOMICS – 7136/1 – JUNE 2023

Section B

Essay 1

Total for this context: 40 marks

09

Explain why, in long-run equilibrium, monopolistically competitive markets are neither productively nor allocatively efficient.

[15 marks]**Areas for discussion include:**

- explanation of the features of monopolistic competition
- examples of markets which are monopolistically competitive
- the difference between the short run and the long run
- how a monopolistically competitive market is likely to evolve in the long run
- the impact of low barriers to entry and exit on profit, price and quantity
- explanation of the conditions for productive and allocative efficiency and why these are not likely to be met.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

Use the level mark scheme on page 15 to award students marks for this question.

MAXIMUM FOR QUESTION 09: 15 MARKS

MARK SCHEME – A-LEVEL ECONOMICS – 7136/1 – JUNE 2021

0 4

Extract C (lines 1–3) states: ‘The market for most generic drugs is oligopolistic, with just two or three manufacturers making each product. This enables significant economies of scale within firms, but also presents the risk of consumer interests being harmed.’

Using the extracts and your knowledge of economics, assess the view that the market structure of the pharmaceutical industry is damaging for consumers.

[25 marks]**Areas for discussion include:**

- explanation of pharmaceutical market structure
- discussion of consumer interests in this market: low and stable prices, safe and effective products, access to drugs (these are merit goods)
- discussion of the role the NHS plays in acting as a monopsonistic buyer of pharmaceuticals in the UK, whereas in the USA and elsewhere, there are many more buyers
- the oligopolistic nature of the generics market, with a small number of firms typically producing each drug, and the opportunity for collusion and price-fixing, especially as there is little or no branding of products
- the fact that monopoly power is legally granted to firms in order to encourage research and development into new drugs. The advantage of this is that new drugs are invented. The disadvantage is that it can take 20 years for lifesaving drugs to become more affordable
- the ability of pharmaceutical firms to exploit monopoly power and inelastic demand by massively increasing prices
- the importance of economies of scale
- the importance of dynamic efficiency and links to market structure
- the significance of productive and allocative efficiency
- in generic pharmaceutical markets, oligopoly power can lead to tacit or collusive price-setting
- very high levels of investment in research and development for new drugs and treatments, contributing to rising life expectancy and improved survival rates, for example cancer and HIV/AIDS
- discussion of possible policies at the national level which may impact on consumer interests, eg regulation by the CMA
- market failure arguments
- government failure arguments.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student’s response to the question.

Use the level mark scheme on page 4 to award students marks for this question.

MAXIMUM FOR QUESTION 04: 25 MARKS

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2018

SECTION A

The following list indicates the correct answers used in marking the students' responses.

KEY LIST

1	B	16	C
2	A	17	A
3	D	18	A
4	D	19	D
5	D	20	A
6	A	21	C
7	D	22	D
8	C	23	C
9	D	24	A
10	B	25	A
11	B	26	C
12	B	27	D
13	C	28	C
14	C	29	C
15	B	30	C

Total: 30

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2020

SECTION A**KEY LIST**

1	C	11	B	21	D
2	C	12	C	22	C
3	D	13	A	23	D
4	A	14	B	24	D
5	A	15	C	25	B
6	A	16	D	26	D
7	B	17	C	27	A
8	B	18	B	28	C
9	A	19	C	29	A
10	A	20	D	30	C

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2018

SECTION A

The following list indicates the correct answers used in marking the students' responses.

KEY LIST

1	B	16	C
2	A	17	A
3	D	18	A
4	D	19	D
5	D	20	A
6	A	21	C
7	D	22	D
8	C	23	C
9	D	24	A
10	B	25	A
11	B	26	C
12	B	27	D
13	C	28	C
14	C	29	C
15	B	30	C

Total: 30

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2019

SECTION A

KEY LIST

1	C	11	A	21	C
2	B	12	C	22	A
3	B	13	C	23	B
4	A	14	D	24	B
5	B	15	D	25	B
6	B	16	B	26	C
7	B	17	C	27	B
8	D	18	C	28	A
9	B	19	C	29	C
10	C	20	C	30	C

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2023

SECTION A

KEY LIST

1	D (favourable weather leading to a record harvest.)	11	A (A)	21	B (Emergency aid provided to another country following a natural disaster)
2	C (the environment has an opportunity cost.)	12	D (V and Q)	22	B (Country X has a comparative advantage in the production of coffee and an absolute advantage in the production of tea)
3	D (+12.5)	13	B (5th worker is employed.)	23	A (strengthened against the pound sterling and strengthened against the euro.)
4	C (the rate of inflation.)	14	D (zero)	24	D (industry regulators grow too close to the firms they are regulating.)
5	A (A)	15	C (The adoption of satisficing behaviour)	25	C (An increase in the minimum qualifications required for workers in the industry and a fall in the price of a complement for the output produced)
6	B (Bringing down the rate of inflation)	16	B (Economic agents have higher inflation expectations due to the intervention)	26	A (The proportion of employers' total costs which are made up by wages)
7	B (Availability bias and social norms)	17	C (Evaluating the government's performance against its own fiscal targets)	27	C (more equal and the Gini coefficient has decreased.)
8	B (Some firms will leave the market and the price will rise)	18	A (Increase its purchases of government securities)	28	B (An improvement in the balance of payments on current account)
9	B (Creative destruction)	19	D (The supply curve for potatoes shifts due to the incentive function of prices)	29	B (Banks may engage in more risky lending if they believe the central bank will support them in a crisis)
10	B (0.6)	20	C (4 units)	30	A (£50bn)

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2024

SECTION A

KEY LIST

1	B (Employment of factors of production has an opportunity cost)	11	A (shift left and become flatter.)	21	C (4)
2	D (The firm is unlikely to know everything about job applicants' skills, abilities and motivation)	12	A (A firm's revenue would fall with any change in price)	22	D (An increase in the price of the industry's product caused by changing tastes)
3	C (Productive efficiency in the car industry is unchanged)	13	B (£0)	23	B (A reduction in the geographical mobility of labour)
4	C (Spending on Good X will fall by 2% and spending on Good Y will increase by 4%)	14	B (government failure due to unintended consequences.)	24	D (Liquidity worsens and profitability improves)
5	C (Indirect taxes made the distribution of income more unequal)	15	C (Store of value)	25	D (Imports from other member countries will increase)
6	C (-£8.5bn)	16	C (2022)	26	C (A surplus will lead to excess demand for the country's currency and an appreciating exchange rate)
7	C (Investment)	17	C (Tax F is a regressive tax and Tax G is a proportional tax)	27	D (The rate of growth in the country's exports of copper was higher in 2021 than in 2022)
8	D (Marginal utility from consuming the 3rd banana is less than the 2nd)	18	B (Increasing marginal returns to labour)	28	C (2022)
9	A (An increase in real national income and a reduction in the balance of payments deficit)	19	D (Sustained rises in nominal national income in future years)	29	C (Privatising key industries)
10	D (joint supply)	20	C (marginal cost equals average total cost.)	30	C (8 000)

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2024

SECTION A

KEY LIST

1	B (Employment of factors of production has an opportunity cost)	11	A (shift left and become flatter.)	21	C (4)
2	D (The firm is unlikely to know everything about job applicants' skills, abilities and motivation)	12	A (A firm's revenue would fall with any change in price)	22	D (An increase in the price of the industry's product caused by changing tastes)
3	C (Productive efficiency in the car industry is unchanged)	13	B (£0)	23	B (A reduction in the geographical mobility of labour)
4	C (Spending on Good X will fall by 2% and spending on Good Y will increase by 4%)	14	B (government failure due to unintended consequences.)	24	D (Liquidity worsens and profitability improves)
5	C (Indirect taxes made the distribution of income more unequal)	15	C (Store of value)	25	D (Imports from other member countries will increase)
6	C (-£8.5bn)	16	C (2022)	26	C (A surplus will lead to excess demand for the country's currency and an appreciating exchange rate)
7	C (Investment)	17	C (Tax F is a regressive tax and Tax G is a proportional tax)	27	D (The rate of growth in the country's exports of copper was higher in 2021 than in 2022)
8	D (Marginal utility from consuming the 3rd banana is less than the 2nd)	18	B (Increasing marginal returns to labour)	28	C (2022)
9	A (An increase in real national income and a reduction in the balance of payments deficit)	19	D (Sustained rises in nominal national income in future years)	29	C (Privatising key industries)
10	D (joint supply)	20	C (marginal cost equals average total cost.)	30	C (8 000)

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2024

SECTION A

KEY LIST

1	B (Employment of factors of production has an opportunity cost)	11	A (shift left and become flatter.)	21	C (4)
2	D (The firm is unlikely to know everything about job applicants' skills, abilities and motivation)	12	A (A firm's revenue would fall with any change in price)	22	D (An increase in the price of the industry's product caused by changing tastes)
3	C (Productive efficiency in the car industry is unchanged)	13	B (£0)	23	B (A reduction in the geographical mobility of labour)
4	C (Spending on Good X will fall by 2% and spending on Good Y will increase by 4%)	14	B (government failure due to unintended consequences.)	24	D (Liquidity worsens and profitability improves)
5	C (Indirect taxes made the distribution of income more unequal)	15	C (Store of value)	25	D (Imports from other member countries will increase)
6	C (-£8.5bn)	16	C (2022)	26	C (A surplus will lead to excess demand for the country's currency and an appreciating exchange rate)
7	C (Investment)	17	C (Tax F is a regressive tax and Tax G is a proportional tax)	27	D (The rate of growth in the country's exports of copper was higher in 2021 than in 2022)
8	D (Marginal utility from consuming the 3rd banana is less than the 2nd)	18	B (Increasing marginal returns to labour)	28	C (2022)
9	A (An increase in real national income and a reduction in the balance of payments deficit)	19	D (Sustained rises in nominal national income in future years)	29	C (Privatising key industries)
10	D (joint supply)	20	C (marginal cost equals average total cost.)	30	C (8 000)

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2020

SECTION A**KEY LIST**

1	C	11	B	21	D
2	C	12	C	22	C
3	D	13	A	23	D
4	A	14	B	24	D
5	A	15	C	25	B
6	A	16	D	26	D
7	B	17	C	27	A
8	B	18	B	28	C
9	A	19	C	29	A
10	A	20	D	30	C

MARK SCHEME – A-LEVEL ECONOMICS – 7136/1 – JUNE 2025

0 7 **Extract E** (line 10) states: ‘The minimum efficient scale in the water industry is large’.

With the help of a diagram, explain why the large minimum efficient scale in the water industry is likely to lead to the market being supplied by a few large firms with monopoly power.

[9 marks]

Level of response	Response:	Max 9 marks
3	- is well organised and develops one or more of the key issues that are relevant to the question - shows sound knowledge and understanding of relevant economic terminology, concepts and principles - includes good application of relevant economic principles and/or good use of data to support the response - includes well-focused analysis with a clear, logical chain of reasoning - includes a relevant diagram that will, at the top of this level, be accurate and used appropriately.	7–9 marks
2	- includes one or more issues that are relevant to the question - shows reasonable knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present - includes reasonable application of relevant economic principles and/or data to the question - includes some reasonable analysis but it might not be adequately developed and may be confused in places - may include a relevant diagram.	4–6 marks
1	- is very brief and/or lacks coherence - shows some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely - demonstrates very limited ability to apply relevant economic principles and/or data to the question - may include some very limited analysis but the analysis lacks focus and/or becomes confused - may include a relevant diagram but the diagram is not used and/or is inaccurate in some respects.	1–3 marks

A diagram showing long run average cost falling as output increases is expected. Students are likely to indicate the Minimum Efficient Scale where the LRAC flattens out.

A U-shaped LRAC curve is also acceptable provided the MES is shown correctly.

MARK SCHEME – A-LEVEL ECONOMICS – 7136/1 – JUNE 2024

Essay 3

Total for this essay: 40 marks

- | | |
|---|---|
| 1 | 3 |
|---|---|
- Explain, using examples, how the existence of economies and diseconomies of scale affect firms' average costs of production.

[15 marks]**Areas for discussion include:**

- **definitions** of economies and diseconomies of scale
- the difference between marginal, average and total costs
- reasons for/examples of internal economies of scale
- explanation and analysis of how internal economies of scale can reduce average costs of production
- reasons for/examples of external economies of scale
- explanation and analysis of how external economies of scale can reduce average costs of production
- reasons for diseconomies of scale
- explanation and analysis of how diseconomies of scale can increase average costs of production
- explanation of the relationship between economies of scale, diseconomies of scale and the implications for the shape of the long-run average cost curve
- the concept of the minimum efficient scale of production
- use of examples.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

Use the level mark scheme on page 16 to award students marks for this question.

MAXIMUM FOR QUESTION 13: 15 MARKS

MARK SCHEME – A-LEVEL ECONOMICS – 7136/1 – JUNE 2021

Essay 3

Total for this essay: 40 marks

1 3 Explain how a firm may benefit from **both** internal and external economies of scale.
[15 marks]

Areas for discussion include:

- definition of economies of scale
- the difference between internal and external economies of scale
- explanation of types of internal economies of scale, eg purchasing, financial, networking, technical, risk-bearing
- the L-shaped long run average cost curve
- the concept of the minimum efficient scale of production
- explanation of types of external economies of scale, eg industry expertise, improved transport and communication links, connections with universities
- examples.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

Use the level mark scheme on page 15 to award students marks for this question.

MAXIMUM FOR QUESTION 13: 15 MARKS

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2017

SECTION A

The following list indicates the correct answers used in marking the candidates' responses.

KEY LIST

1	D	16	B
2	B	17	C
3	A	18	B
4	A	19	C
5	C	20	A
6	C	21	D
7	C	22	B
8	C	23	A
9	D	24	D
10	A	25	B
11	D	26	D
12	A	27	A
13	A	28	D
14	C	29	C
15	D	30	D

	<u>Total</u>
A	8
B	5
C	8
D	9
	<u>30</u>

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2019

SECTION A

KEY LIST

1	C	11	A	21	C
2	B	12	C	22	A
3	B	13	C	23	B
4	A	14	D	24	B
5	B	15	D	25	B
6	B	16	B	26	C
7	B	17	C	27	B
8	D	18	C	28	A
9	B	19	C	29	C
10	C	20	C	30	C

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2019

SECTION A

KEY LIST

1	C	11	A	21	C
2	B	12	C	22	A
3	B	13	C	23	B
4	A	14	D	24	B
5	B	15	D	25	B
6	B	16	B	26	C
7	B	17	C	27	B
8	D	18	C	28	A
9	B	19	C	29	C
10	C	20	C	30	C

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2019

SECTION A

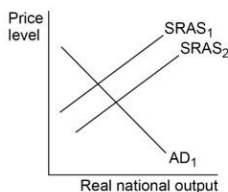
KEY LIST

1	C	11	A	21	C
2	B	12	C	22	A
3	B	13	C	23	B
4	A	14	D	24	B
5	B	15	D	25	B
6	B	16	B	26	C
7	B	17	C	27	B
8	D	18	C	28	A
9	B	19	C	29	C
10	C	20	C	30	C

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2022

SECTION A

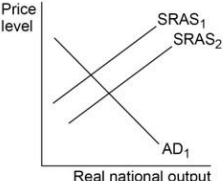
KEY LIST

1	D (may be true or false)	11	B (Most banks carry out both commercial and investment banking activities.)	21	D (Total utility is maximised.)
2	C (Moving products with a high sugar content away from supermarket checkouts)	12	C (A natural disaster, damaging productive capacity)	22	C (Increasing, Increasing, Increasing)
3	A (greater at X than Y)	13	A (Helping countries settle disputes over tariffs and quotas)	23	C (£264 billion)
4	C (3.3%)	14	D (There is considerable spare capacity in the car industry.)	24	A (make supernormal profits)
5	C (price levels)	15	B 	25	B $\left(\frac{1}{40}\right)$
6	C (Rates of income tax)	16	C (The income of some households is significantly less than the median household income.)	26	B (£100 bn)
7	B (Producers will be more likely to have to pay compensation for pollution.)	17	D (regressive tax)	27	B (The cost of living for people who live in UK seaside towns will fall.)
8	C (The firm's total revenue falls.)	18	A (Government retraining schemes for structurally unemployed workers)	28	A (The total amount paid in wages will fall from $(W_2 \times Q_2)$ to $(W_3 \times Q_1)$.)
9	C (price discrimination)	19	C (5 + 6)	29	C (Increasing life expectancy at birth)
10	A (5%)	20	A (Average revenue and marginal revenue will both fall.)	30	C (geographical immobility of labour)

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2022

SECTION A

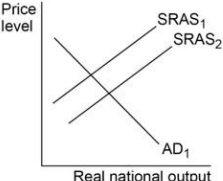
KEY LIST

1	D (may be true or false)	11	B (Most banks carry out both commercial and investment banking activities.)	21	D (Total utility is maximised.)
2	C (Moving products with a high sugar content away from supermarket checkouts)	12	C (A natural disaster, damaging productive capacity)	22	C (Increasing, Increasing, Increasing)
3	A (greater at X than Y)	13	A (Helping countries settle disputes over tariffs and quotas)	23	C (£264 billion)
4	C (3.3%)	14	D (There is considerable spare capacity in the car industry.)	24	A (make supernormal profits)
5	C (price levels)	15	B 	25	B $\left(\frac{1}{40}\right)$
6	C (Rates of income tax)	16	C (The income of some households is significantly less than the median household income.)	26	B (£100 bn)
7	B (Producers will be more likely to have to pay compensation for pollution.)	17	D (regressive tax)	27	B (The cost of living for people who live in UK seaside towns will fall.)
8	C (The firm's total revenue falls.)	18	A (Government retraining schemes for structurally unemployed workers)	28	A (The total amount paid in wages will fall from $(W_2 \times Q_2)$ to $(W_3 \times Q_1)$.)
9	C (price discrimination)	19	C (5 + 6)	29	C (Increasing life expectancy at birth)
10	A (5%)	20	A (Average revenue and marginal revenue will both fall.)	30	C (geographical immobility of labour)

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2022

SECTION A

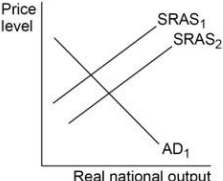
KEY LIST

1	D (may be true or false)	11	B (Most banks carry out both commercial and investment banking activities.)	21	D (Total utility is maximised.)
2	C (Moving products with a high sugar content away from supermarket checkouts)	12	C (A natural disaster, damaging productive capacity)	22	C (Increasing, Increasing, Increasing)
3	A (greater at X than Y)	13	A (Helping countries settle disputes over tariffs and quotas)	23	C (£264 billion)
4	C (3.3%)	14	D (There is considerable spare capacity in the car industry.)	24	A (make supernormal profits)
5	C (price levels)	15	B 	25	B $\left(\frac{1}{40}\right)$
6	C (Rates of income tax)	16	C (The income of some households is significantly less than the median household income.)	26	B (£100 bn)
7	B (Producers will be more likely to have to pay compensation for pollution.)	17	D (regressive tax)	27	B (The cost of living for people who live in UK seaside towns will fall.)
8	C (The firm's total revenue falls.)	18	A (Government retraining schemes for structurally unemployed workers)	28	A (The total amount paid in wages will fall from $(W_2 \times Q_2)$ to $(W_3 \times Q_1)$.)
9	C (price discrimination)	19	C (5 + 6)	29	C (Increasing life expectancy at birth)
10	A (5%)	20	A (Average revenue and marginal revenue will both fall.)	30	C (geographical immobility of labour)

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2022

SECTION A

KEY LIST

1	D (may be true or false)	11	B (Most banks carry out both commercial and investment banking activities.)	21	D (Total utility is maximised.)
2	C (Moving products with a high sugar content away from supermarket checkouts)	12	C (A natural disaster, damaging productive capacity)	22	C (Increasing, Increasing, Increasing)
3	A (greater at X than Y)	13	A (Helping countries settle disputes over tariffs and quotas)	23	C (£264 billion)
4	C (3.3%)	14	D (There is considerable spare capacity in the car industry.)	24	A (make supernormal profits)
5	C (price levels)	15	B 	25	B $\left(\frac{1}{40}\right)$
6	C (Rates of income tax)	16	C (The income of some households is significantly less than the median household income.)	26	B (£100 bn)
7	B (Producers will be more likely to have to pay compensation for pollution.)	17	D (regressive tax)	27	B (The cost of living for people who live in UK seaside towns will fall.)
8	C (The firm's total revenue falls.)	18	A (Government retraining schemes for structurally unemployed workers)	28	A (The total amount paid in wages will fall from $(W_2 \times Q_2)$ to $(W_3 \times Q_1)$.)
9	C (price discrimination)	19	C (5 + 6)	29	C (Increasing life expectancy at birth)
10	A (5%)	20	A (Average revenue and marginal revenue will both fall.)	30	C (geographical immobility of labour)

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2023

SECTION A

KEY LIST

1	D (favourable weather leading to a record harvest.)	11	A (A)	21	B (Emergency aid provided to another country following a natural disaster)
2	C (the environment has an opportunity cost.)	12	D (V and Q)	22	B (Country X has a comparative advantage in the production of coffee and an absolute advantage in the production of tea)
3	D (+12.5)	13	B (5th worker is employed.)	23	A (strengthened against the pound sterling and strengthened against the euro.)
4	C (the rate of inflation.)	14	D (zero)	24	D (industry regulators grow too close to the firms they are regulating.)
5	A (A)	15	C (The adoption of satisficing behaviour)	25	C (An increase in the minimum qualifications required for workers in the industry and a fall in the price of a complement for the output produced)
6	B (Bringing down the rate of inflation)	16	B (Economic agents have higher inflation expectations due to the intervention)	26	A (The proportion of employers' total costs which are made up by wages)
7	B (Availability bias and social norms)	17	C (Evaluating the government's performance against its own fiscal targets)	27	C (more equal and the Gini coefficient has decreased.)
8	B (Some firms will leave the market and the price will rise)	18	A (Increase its purchases of government securities)	28	B (An improvement in the balance of payments on current account)
9	B (Creative destruction)	19	D (The supply curve for potatoes shifts due to the incentive function of prices)	29	B (Banks may engage in more risky lending if they believe the central bank will support them in a crisis)
10	B (0.6)	20	C (4 units)	30	A (£50bn)

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2024

SECTION A

KEY LIST

1	B (Employment of factors of production has an opportunity cost)	11	A (shift left and become flatter.)	21	C (4)
2	D (The firm is unlikely to know everything about job applicants' skills, abilities and motivation)	12	A (A firm's revenue would fall with any change in price)	22	D (An increase in the price of the industry's product caused by changing tastes)
3	C (Productive efficiency in the car industry is unchanged)	13	B (£0)	23	B (A reduction in the geographical mobility of labour)
4	C (Spending on Good X will fall by 2% and spending on Good Y will increase by 4%)	14	B (government failure due to unintended consequences.)	24	D (Liquidity worsens and profitability improves)
5	C (Indirect taxes made the distribution of income more unequal)	15	C (Store of value)	25	D (Imports from other member countries will increase)
6	C (-£8.5bn)	16	C (2022)	26	C (A surplus will lead to excess demand for the country's currency and an appreciating exchange rate)
7	C (Investment)	17	C (Tax F is a regressive tax and Tax G is a proportional tax)	27	D (The rate of growth in the country's exports of copper was higher in 2021 than in 2022)
8	D (Marginal utility from consuming the 3rd banana is less than the 2nd)	18	B (Increasing marginal returns to labour)	28	C (2022)
9	A (An increase in real national income and a reduction in the balance of payments deficit)	19	D (Sustained rises in nominal national income in future years)	29	C (Privatising key industries)
10	D (joint supply)	20	C (marginal cost equals average total cost.)	30	C (8 000)

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2024

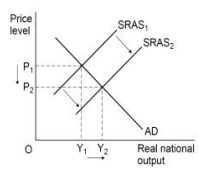
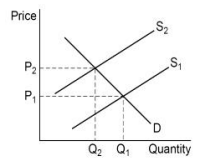
SECTION A

KEY LIST

1	B (Employment of factors of production has an opportunity cost)	11	A (shift left and become flatter.)	21	C (4)
2	D (The firm is unlikely to know everything about job applicants' skills, abilities and motivation)	12	A (A firm's revenue would fall with any change in price)	22	D (An increase in the price of the industry's product caused by changing tastes)
3	C (Productive efficiency in the car industry is unchanged)	13	B (£0)	23	B (A reduction in the geographical mobility of labour)
4	C (Spending on Good X will fall by 2% and spending on Good Y will increase by 4%)	14	B (government failure due to unintended consequences.)	24	D (Liquidity worsens and profitability improves)
5	C (Indirect taxes made the distribution of income more unequal)	15	C (Store of value)	25	D (Imports from other member countries will increase)
6	C (-£8.5bn)	16	C (2022)	26	C (A surplus will lead to excess demand for the country's currency and an appreciating exchange rate)
7	C (Investment)	17	C (Tax F is a regressive tax and Tax G is a proportional tax)	27	D (The rate of growth in the country's exports of copper was higher in 2021 than in 2022)
8	D (Marginal utility from consuming the 3rd banana is less than the 2nd)	18	B (Increasing marginal returns to labour)	28	C (2022)
9	A (An increase in real national income and a reduction in the balance of payments deficit)	19	D (Sustained rises in nominal national income in future years)	29	C (Privatising key industries)
10	D (joint supply)	20	C (marginal cost equals average total cost.)	30	C (8 000)

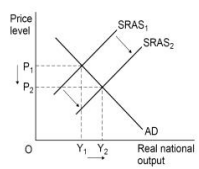
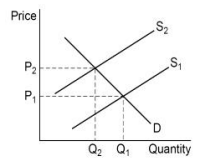
MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2025

SECTION A KEY LIST

1	B (Individuals are required by law to choose an option)	11	D (Point D)	21	B (5.3%)
2	C (ST)	12	C (Ireland's gross national income per capita was higher than Finland's.)	22	A (Situation A)
3	B (Create a hypothesis and test whether it can predict the behaviour of economic agents)	13	B (is more price inelastic when price increases from £8 to £10 than when it increases from £10 to £15.)	23	D (The rate of increase in the price of necessities, such as energy, is higher than for all goods and services)
4	D 	14	D (Some potential tenants who would like to rent a house at R_1 cannot find a house to rent)	24	A (Country X has both an absolute advantage and a comparative advantage in producing canoes)
5	A (A fall in the number of Jobcentres provided by the government)	15	D (Profit maximisation is not the most important objective for all managers)	25	D (US\$5200 million)
6	B (A reduction in the tax on a good with positive consumption externalities)	16	B (the quarterly inflation rate fluctuated whilst the unemployment rate increased throughout the year.)	26	D (Tax breaks for manufacturing firms that invest in upgrading their machinery and other capital goods)
7	D (Increasing returns to scale)	17	C (Savings deposited with commercial banks that have more than a year to maturity)	27	D (High concentration ratios and consumer complaints are examples of indicators which may suggest anti-competitive behaviour and prompt further investigation by the Competition and Markets Authority.)
8	C (£75 000)	18	D (Bank Y is more profitable than Bank Z but is less secure.)	28	C (Over time, more firms will have an incentive to reduce their pollution)
9	D 	19	B (B)	29	A (The amounts outstanding on households' existing mortgages will fall in real terms)
10	D (The level of investment depends on the rate of change in national income)	20	C (Falls for peak-time passengers and rises for off-peak passengers)	30	C (£26 500)

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2025

SECTION A KEY LIST

1	B (Individuals are required by law to choose an option)	11	D (Point D)	21	B (5.3%)
2	C (ST)	12	C (Ireland's gross national income per capita was higher than Finland's.)	22	A (Situation A)
3	B (Create a hypothesis and test whether it can predict the behaviour of economic agents)	13	B (is more price inelastic when price increases from £8 to £10 than when it increases from £10 to £15.)	23	D (The rate of increase in the price of necessities, such as energy, is higher than for all goods and services)
4	D 	14	D (Some potential tenants who would like to rent a house at R_1 cannot find a house to rent)	24	A (Country X has both an absolute advantage and a comparative advantage in producing canoes)
5	A (A fall in the number of Jobcentres provided by the government)	15	D (Profit maximisation is not the most important objective for all managers)	25	D (US\$5200 million)
6	B (A reduction in the tax on a good with positive consumption externalities)	16	B (the quarterly inflation rate fluctuated whilst the unemployment rate increased throughout the year.)	26	D (Tax breaks for manufacturing firms that invest in upgrading their machinery and other capital goods)
7	D (Increasing returns to scale)	17	C (Savings deposited with commercial banks that have more than a year to maturity)	27	D (High concentration ratios and consumer complaints are examples of indicators which may suggest anti-competitive behaviour and prompt further investigation by the Competition and Markets Authority.)
8	C (£75 000)	18	D (Bank Y is more profitable than Bank Z but is less secure.)	28	C (Over time, more firms will have an incentive to reduce their pollution)
9	D 	19	B (B)	29	A (The amounts outstanding on households' existing mortgages will fall in real terms)
10	D (The level of investment depends on the rate of change in national income)	20	C (Falls for peak-time passengers and rises for off-peak passengers)	30	C (£26 500)

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2020

SECTION A

KEY LIST

1	C	11	B	21	D
2	C	12	C	22	C
3	D	13	A	23	D
4	A	14	B	24	D
5	A	15	C	25	B
6	A	16	D	26	D
7	B	17	C	27	A
8	B	18	B	28	C
9	A	19	C	29	A
10	A	20	D	30	C

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2020

SECTION A

KEY LIST

1	C	11	B	21	D
2	C	12	C	22	C
3	D	13	A	23	D
4	A	14	B	24	D
5	A	15	C	25	B
6	A	16	D	26	D
7	B	17	C	27	A
8	B	18	B	28	C
9	A	19	C	29	A
10	A	20	D	30	C

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2021

SECTION A

KEY LIST

1	B (the higher marginal revenue productivity of graduates.)	11	D (not buy the motorbike because they do not know as much about the motorbike as the dealer.)	21	C (firm is maximising its abnormal profit and has no incentive to expand its production.)
2	A (can have microeconomic as well as macroeconomic effects on the economy.)	12	A (A decline in the capital stock resulting from a significant decline in bank funding for business investment)	22	D (the marginal propensity to consume combined with a fall in the exchange rate.)
3	B (negative externalities in production and positive externalities in consumption.)	13	A (accepting the default choice.)	23	B (A reduction in firms' unit costs of production.)
4	D (The government's budget deficit increases as the rate of unemployment is reduced)	14	C (Savings will increase as interest rates rise in real terms)	24	D (The removal of a subsidy to tea producers and a fall in the price of coffee)
5	D (Country 4 has the highest life expectancy and literacy rates)	15	B (inelastic.)	25	B (a negative output gap equal to £6 billion.)
6	D ($H_1 - H_2$)	16	B (increase its average revenue by 20%.)	26	D (short-term finance is provided for companies and governments.)
7	D (most likely to be a commercial bank because its main liabilities are customer deposits.)	17	C (3.8%)	27	A (job security for qualified workers in the industry.)
8	D (public goods.)	18	B (20/400)	28	C (£525 billion)
9	C (OPHJ)	19	A (level of investment.)	29	D (tariffs to raise the price of imports.)
10	D (projected tax revenue by more than £100 billion)	20	A (A decrease in the cost of producing the good) OR C An increase in the price of the good	30	B (A fall in the prices of raw materials and an increase in investment.)

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2025

SECTION A KEY LIST

1	B (Individuals are required by law to choose an option)	11	D (Point D)	21	B (5.3%)
2	C (ST)	12	C (Ireland's gross national income per capita was higher than Finland's.)	22	A (Situation A)
3	B (Create a hypothesis and test whether it can predict the behaviour of economic agents)	13	B (is more price inelastic when price increases from £8 to £10 than when it increases from £10 to £15.)	23	D (The rate of increase in the price of necessities, such as energy, is higher than for all goods and services)
4	D 	14	D (Some potential tenants who would like to rent a house at R ₁ cannot find a house to rent)	24	A (Country X has both an absolute advantage and a comparative advantage in producing canoes)
5	A (A fall in the number of Jobcentres provided by the government)	15	D (Profit maximisation is not the most important objective for all managers)	25	D (US\$5200 million)
6	B (A reduction in the tax on a good with positive consumption externalities)	16	B (the quarterly inflation rate fluctuated whilst the unemployment rate increased throughout the year.)	26	D (Tax breaks for manufacturing firms that invest in upgrading their machinery and other capital goods)
7	D (Increasing returns to scale)	17	C (Savings deposited with commercial banks that have more than a year to maturity)	27	D (High concentration ratios and consumer complaints are examples of indicators which may suggest anti-competitive behaviour and prompt further investigation by the Competition and Markets Authority.)
8	C (£75 000)	18	D (Bank Y is more profitable than Bank Z but is less secure.)	28	C (Over time, more firms will have an incentive to reduce their pollution)
9	D 	19	B (B)	29	A (The amounts outstanding on households' existing mortgages will fall in real terms)
10	D (The level of investment depends on the rate of change in national income)	20	C (Falls for peak-time passengers and rises for off-peak passengers)	30	C (£26 500)

MARK SCHEME – A-LEVEL ECONOMICS – 7136/1 – JUNE 2017

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

0 9 Explain how price and output are determined for a firm in a monopolistically competitive market, in both the short run and the long run.

[15 marks]**Areas for discussion include:**

- features of monopolistically competitive market including differentiated products, spare capacity, some influence over price, good information, no barriers to entry or exit, many producers and consumers
- pricing decisions are made independently of rivals' strategies
- short-run analysis explaining how firms set quantity by profit maximising ($MC=MR$), and the price they charge can be worked out from the AR curve. This leads to a degree of abnormal profit assuming $AC < AR$
- in the long run rival firms have an opportunity to enter the market, given absence of barriers to entry. This results in the existing firm's demand curve shifting left. The firms still profit maximise, but this is now at a lower level of output, where abnormal profit is likely to be lower/eliminated

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the candidate's response to the question.

Use the levels mark scheme on page 15 to award candidates marks for this question.

MARK SCHEME – A-LEVEL ECONOMICS – 7136/1 – JUNE 2019

Essay 2**Total for this essay: 40 marks****1 1***Explain the factors a profit-maximising firm will take into account when deciding whether to shut down or to carry on operating, both in the short run and in the long run.***[15 marks]****Areas for discussion include:**

- definitions of short run and long run
- definition of normal profit, awareness that it should be considered a cost and why it is required to remain in business in the long run
- explanation of profit maximisation
- explanation of what is meant by loss, in other words total costs exceeding total revenues
- explanation of why this is likely to be problematic in the short run (e.g. cash-flow problems) and long run
- analysis of breakeven point for a firm and the need for average revenue to cover average total costs at the profit-maximising point in the long run
- analysis of the need for average revenue to cover average variable costs at the profit-maximising point in the short run, to avoid the firm shutting down
- explanation of why a loss-making firm is able to carry on as long as it is covering its variable costs
- the availability of options for continuing if running operations at a loss, e.g. the existence of affordable credit or investment, or previously retained earnings
- analysis of barriers to exit such as sunk costs
- application to perfectly and/or imperfectly competitive markets
- impact of business cycles on a firm's profit – cycles may be caused by booms and recessions, or by seasons.
- firms may consider long-run profits rather than short-run profits and continue despite making losses
- in the short run the firm may be investing heavily in capital, R & D or marketing, which may lead to short-run losses but long-run profits
- in the short run the firm may be pursuing strategies to increase market share, and gain monopoly power in the long run
- use of examples, including those mentioned in the quote, to illustrate why a firm may to continue to produce in the short run, despite making losses

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

Use the level mark scheme on page 15 to award students marks for this question.

MAXIMUM FOR QUESTION 11: 15 MARKS

MARK SCHEME – A-LEVEL ECONOMICS – 7136/1 – JUNE 2023

1 0 Assess the view that competition policy is likely to lead to markets becoming less efficient in the long run.

[25 marks]

Areas for discussion include:

- explanation of competition policy
- what is meant by 'long run' and 'efficient'
- explanation of different types of efficiency
- the role of the Competition and Markets Authority in promoting competition in the UK (possibly including how this has changed since the UK left the EU)
- the aims of competition policy (preventing growth of monopoly power, preventing abuse of monopoly power, investigating allegations of monopoly power, reducing barriers to entry, safeguarding consumer/supplier interests)
- the tools of competition policy
- how competition policy may lead to more bureaucracy and 'red tape', thus leading to inefficiency
- how competition policy may prevent firms from growing or making supernormal profit, with consequences for dynamic efficiency
- how competition policy may impact economies/diseconomies of scale
- how the CMA looks at competition issues on a case-by-case basis rather than applying rigid rules
- examples of recent competition policy decisions
- examples of competition policy making markets more or less efficient
- market failure arguments
- government failure arguments.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

Use the level mark scheme on page 4 to award students marks for this question.

MAXIMUM FOR QUESTION 10: 25 MARKS

MARK SCHEME – A-LEVEL ECONOMICS – 7136/1 – JUNE 2021

- 1 4** Discuss how the divorce of ownership from control may affect **both** the conduct and performance of firms.

[25 marks]

Areas for discussion include:

- explanation of the divorce of ownership from control
- explanation of what is meant by conduct and performance of firms
- traditional theories of the firm rest on the assumption that firms are profit maximising
- explanation of the profit-maximising condition and discussion of other objectives such as revenue maximisation, sales growth maximisation and satisficing
- for all but the smallest firms, the owners are not the same economic agents as the managers and workers, leading to a classic principal-agent problem
- explanation of how the divorce of ownership from control affects the conduct of firms, eg pursuing objectives other than profit maximisation, as agents deviate from wishes of owners
- explanation of how the divorce of ownership from control affects the performance of firms, eg impact on efficiency, diseconomies of scale, and thus financial performance indicators such as profits/market share
- comparisons between family firms, listed firms and other types of organisations
- discussion of how owners may address the principal-agent problem by designing remuneration schemes to align objectives, eg payment in shares, use of performance-related pay
- discussion of how many owners are actively involved in controlling firms via seats on boards, and even small shareholders have opportunities to vote on key decisions made by the board at annual general meetings
- use of examples
- overall view on whether the divorce of ownership from control has a significant impact on the conduct and performance of firms.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

Use the level mark scheme on page 4 to award student marks for this question.

MAXIMUM FOR QUESTION 14: 25 MARKS

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2017

SECTION A

The following list indicates the correct answers used in marking the candidates' responses.

KEY LIST

1	D	16	B
2	B	17	C
3	A	18	B
4	A	19	C
5	C	20	A
6	C	21	D
7	C	22	B
8	C	23	A
9	D	24	D
10	A	25	B
11	D	26	D
12	A	27	A
13	A	28	D
14	C	29	C
15	D	30	D

	<u>Total</u>
A	8
B	5
C	8
D	9
	<u>30</u>