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AQA A-LEVEL ECONOMICS: QUESTIONS BY TOPIC

Perfect Competition, Imperfectly Competitive Markets and Monopoly

AQA A-level Economics 7136 — Topic 4.1.5

31 questions · 318 marks · Mark schemes included

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 info@guidemygrades.com

 Piccadilly Business Centre, Unit C, Aldow Enterprise Park
Blackett Street, Manchester, M12 6AE

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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QUESTION	SOURCE	MARKS	PAGE
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QUESTIONS

31 questions · 318 marks · 9 sub-topics



SUB-TOPIC 4.1.5.1

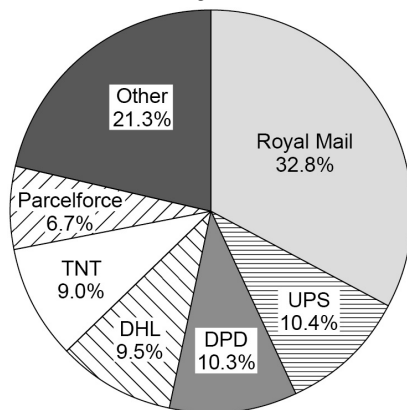
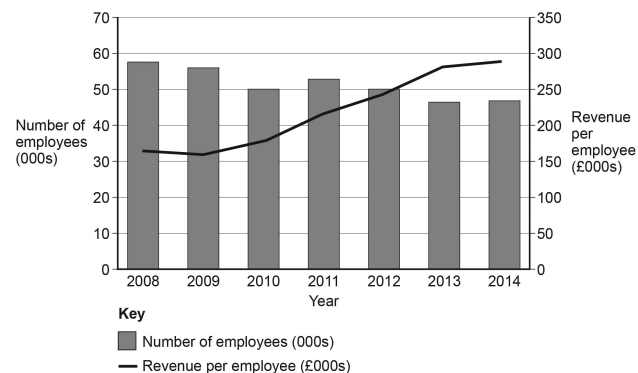
MARKET STRUCTURES

Sub-topic 4.1.5.1 · 1 question · 2 marks · lowest tariff first



2

Section A

Answer **EITHER** Context 1 **OR** Context 2.**EITHER****Context 1****Total for this context: 40 marks****Privatisation of Royal Mail**Study **Extracts A, B and C** and then answer **all** parts of Context 1 which follow.**Extract A: UK parcels delivery market****Figure 1: UK parcels delivery market shares by revenue, 2015****Figure 2: Employees and revenue per employee in the UK parcels delivery market**

Source: Apex Insight Industry Report, 2015

Extract B: The privatisation of Royal Mail

Royal Mail has started a new chapter after the government ended 499 years of public ownership by selling off its remaining stake. Although critics have suggested that the government undervalued the company, total proceeds of the sale amount to £3.3 bn. The newly privatised company will have to cope with structural decline in the number of letters sent in the UK (Royal Mail has a near monopoly in this market), as well as fierce competition in the parcels delivery market, which is rapidly growing because of the growth of online shopping.

1

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A review of Royal Mail is under way by the regulator Ofcom, triggered by concerns that the withdrawal of Whistl, a smaller rival in the door-to-door letters delivery market, means the postal operator has no competitive pressure to improve services and become more efficient. Ofcom is considering whether the price Royal Mail charges competing courier companies, such as Whistl or Amazon, to access its own delivery network are fair. It is also examining whether Royal Mail's Universal Postal Service obligations are reasonable. The Universal Postal Service obligations require Royal Mail to deliver letters and parcels to all parts of the country six days a week, unlike its competitors. Some consumer organisations have claimed that increased competition in the parcel market has led to a worsening service for rural and remote consumers, including problems such as non-deliveries and lengthy journeys to collect undelivered items.

10

15

Competitive pressures on Royal Mail's profits may require the firm to cut costs. Pay negotiations with workforce representatives are set to begin but the powerful Communication Workers Union is likely to fight any redundancies. Analysts say that this could make it harder for management to find cash for investments to boost competitiveness. 20

Source: News reports, October 2015

Extract C: Technological innovation in the postal market

Parcel operators compete with Royal Mail both on price, and technological and service innovations. Many competitors are using digital technology to drive innovation, such as notifying customers within a 15-minute window of delivery or interactive services to redirect deliveries. The parcel delivery firm DPD has recently built Europe's largest parcel distribution centre, a £100 million facility in Leicestershire that hints at a future where technology largely replaces labour. In the main, people are only involved in unloading and loading, as well as monitoring operations. This investment reveals the transformation under way in the UK's £8.3 bn parcel delivery market, which is rapidly expanding in response to the sharp growth in online shopping. Three conveyor belts loop its warehouse, where a parcel can enter the system, be scanned and sent to one of 172 possible exit doors within 90 seconds. Once running at full capacity, the facility will be capable of sorting 70 000 items an hour and the company expects to process more than 1 million parcels on its busiest nights. 1 5 10

By contrast, at Royal Mail's national distribution centre, workers wait for metal cages to be filled with parcels before rolling them across the warehouse floor. However, changes are afoot as Royal Mail clings to its dominant share of the parcel market, with some distribution centres accepting dispatches from retailers on Sundays. Royal Mail is also introducing equipment such as 'finger scanners' that allow workers to pick up and scan parcels more efficiently, as well as handheld smart devices for 76 000 frontline staff at a cost of £130 million. 15

Source: News reports, December 2015

0 1 Using the data in **Extract A (Figure 1)**, calculate the three-firm concentration ratio in the UK parcels delivery market. Give your answer, as a percentage, to **one** decimal place. [2 marks]

0 2 Explain how the data in **Extract A (Figure 2)** show that the UK parcels delivery market is displaying dynamic efficiency. [4 marks]

0 3 **Extract B** (lines 12–14) states that 'The Universal Postal Service obligations require Royal Mail to deliver letters and parcels to all parts of the country six days a week'. With the help of a monopoly diagram, explain how the Universal Postal Service obligations are likely to affect Royal Mail's costs **and** profits. [9 marks]

0 4 **Extract C** (line 2) states that 'Many competitors are using digital technology to drive innovation'. Use the extracts and your knowledge of economics to assess whether the benefits outweigh the costs when the Government privatises organisations such as Royal Mail and opens up the market to competition. [25 marks]

Turn over ►

SUB-TOPIC 4.1.5.2

THE OBJECTIVES OF FIRMS

Sub-topic 4.1.5.2 · 4 questions · 66 marks · lowest tariff first



8

08

An entrepreneur, and sole owner, has £300 000 invested in a firm. The same investment would generate an annual rate of return of 35% if it was transferred to a different market.

Table 2 shows the firm's annual total costs of production, not including the opportunity cost of the capital the entrepreneur has invested, and annual total revenue in the current market.

Table 2

Total costs of production	£370 000
Total revenue	£550 000

How much abnormal profit is the business making each year in its current market?

[1 mark]**A** £180 000☐**B** £125 000☐**C** £75 000☐**D** £22 500☐

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IB/M/Jun25/7136/3

7

OR**Essay 3**

In the United States, corporate profits since 2010 have averaged 9% of GDP, compared to 5% in the 1990s. This is causing concern that the US economy is increasingly dominated by companies with monopoly power.

1	3
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Explain the role of profit in a market economy.

[15 marks]

1	4
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Evaluate the view that a firm making low profits must be inefficiently managed.

[25 marks]**END OF QUESTIONS**

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

[15 marks]

1	0
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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
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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
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Discuss the validity of the traditional economic assumption that the main objective of firms is to maximise profits.

[25 marks]

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

EITHER**Essay 1**

Broadcasting used to be considered a public good, but the growth of on-demand television streaming services suggests that this is no longer the case. In 2023, 68% of UK consumers were subscribing to one or more oligopolistic providers of on-demand television streaming services.

0 9

Explain, with examples, the differences between a private good, a public good and a quasi-public good.

[15 marks]**1 0**

Evaluate the view that oligopolies serve society well.

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

In 2023, the UK government pledged to invest £960 million in green technologies, such as renewable energy schemes. The aim is to help reduce the cost of green technologies for businesses and to encourage their adoption by firms. Environmental groups suggest that currently only a small proportion of UK firms take environmental objectives seriously, preferring instead to focus on profit.

1 1

Explain how technological progress can affect productivity, efficiency and firms' costs of production.

[15 marks]**1 2**

Assess the view that the main objective of firms is to maximise profits.

[25 marks]

7

OR**Essay 3**

The UK government announced that the National Living Wage (NLW) would rise to £11.44 in April 2024 (for those aged 21 and over). This is around 66% of median hourly income, a big rise compared with its introduction in 1999, when it was only 45% of median hourly income. Some firms have warned that this increase in the NLW will lead to a fall in the number of workers they employ.

1 3

Explain the factors that determine a firm's demand for labour.

[15 marks]**1 4**

Assess the view that a national minimum wage, such as the UK's National Living Wage, contributes to an improvement in economic welfare.

[25 marks]**END OF QUESTIONS**

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SUB-TOPIC 4.1.5.3

PERFECT COMPETITION

Sub-topic 4.1.5.3 · 7 questions · 49 marks · lowest tariff first

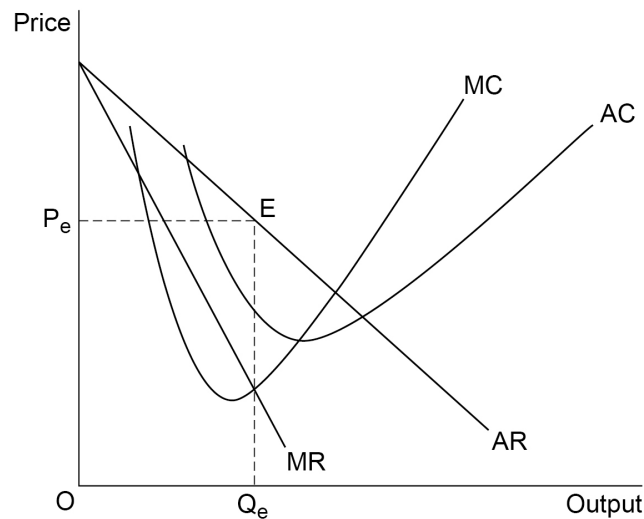


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Figure 7 shows the average and marginal revenue (AR and MR) curves and the average and marginal cost (AC and MC) curves for a firm. The firm is in equilibrium producing an output of Q_e .

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Figure 7

From the diagram it can be inferred that the

- A** firm is a price taker and will reduce its supply if the market price falls below P_e . ☐
- B** firm is making abnormal profits but this will not attract new firms into the market because the firm has a monopoly. ☐
- C** firm is maximising its abnormal profit and has no incentive to expand its production. ☐
- D** firm's abnormal profit will lead it to expand its production and shift its market supply curve to the right. ☐

[1 mark]

Turn over for the next question

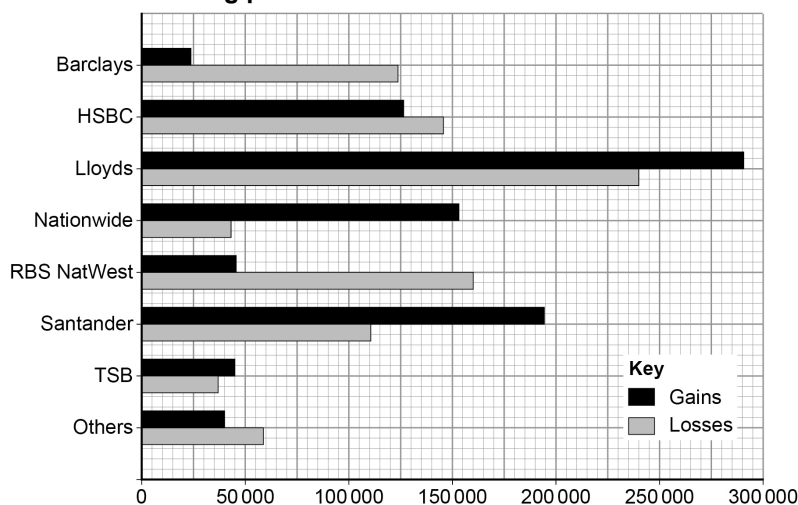
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IB/M/Jun21/7136/3

2

Section A

Answer **EITHER** Context 1 **OR** Context 2.**EITHER****Context 1****Total for this context: 40 marks****Competition in UK Banking**Study **Extracts A, B and C** and then answer **all** parts of Context 1 which follow.**Extract A: Customers switching personal bank accounts in 2016**

Source: BACS

Extract B: Gradual change in the UK banking market

There have been 11 separate inquiries into the banking sector in the past 17 years but not much has changed. As in 1999, the Big Four of HSBC, Barclays, RBS NatWest and Lloyds dominate the market with a combined market share of 75%. A 2017 inquiry by the Competition and Markets Authority (CMA) concluded that banks do not feel enough pressure to compete on price or quality, leading some to call for the Big Four to be split into a number of smaller banks. Nevertheless, the personal account market has changed, with an increase in product innovation, suggesting that competition is working. Whilst 'free if in credit' accounts remain dominant, a third of newly opened accounts charge fees in exchange for a premium rate of interest or cashback on purchases.

Last year fewer than 1 million customers (from a total 70 million) switched accounts, though switching rates may not be the best indicator of competition. The market lacks the same prompts to switch as other markets, such as the annual cost of renewing car and house insurance. The personal account market is therefore more static than energy, telecommunications and insurance. Ultimately, consumers do not operate like economists, rationally examining each product in detail and securing the best deal. Some of the stickiness in the market also derives from higher satisfaction rates (91%) than other sectors.

The CMA inquiry is unlikely to worry the Big Four as the most significant proposed reform amounts to little more than a new app to help customers switch accounts. The idea is that people will be more inclined to switch if they have transparency about charges and interest

IB/G/Jun18/7136/1

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rates. Greater contestability, with more customers switching and the entry of new players, has improved value for money for all customers, not only switchers. Revenue per active account has fallen by 17% in real terms since 2006, as banks offer higher rewards to keep or win customers. While the new entrants have yet to grow to a significant size, mid-sized providers like Santander have grown their market share. From this perspective, breaking up the Big Four may seem to be too extreme a measure. 20 25

Source: News reports, August 2017

Extract C: The rise of challenger banks

As the first new high street bank in 150 years, Metro Bank promises to operate distinctively: longer opening times than its rivals, instant debit cards for new account holders and eye-catching initiatives such as in-store dog water bowls. There are plans to grow its branch network from 48 to 110 by 2020. This bucks the UK trend for closing bank branches, more than 8000 of which have disappeared from high streets in the past 25 years. Metro Bank's Chief Executive Officer said of the big banks: "They act like oligopolies are supposed to: they under-invest; under-serve and they take you for granted." 5

Many of the major banks suffer from inefficient, outdated IT infrastructure which limits their ability to reduce prices. They may also suffer from diseconomies of scale, given the size of their workforce and the breadth of their operations. There is ample opportunity for new players to enter the sector. 10

Metro Bank may take years to grab meaningful market share in the UK. Its straightforward business model involves opening new branches, collecting deposits and lending these funds to borrowers. This is safer than the riskier funding methods deployed by some of the banks that failed during the financial crisis, but is unlikely to generate rapid growth. Even so, its customer focus puts pressure on dominant banks to improve their service. 15

Source: News reports, August 2017

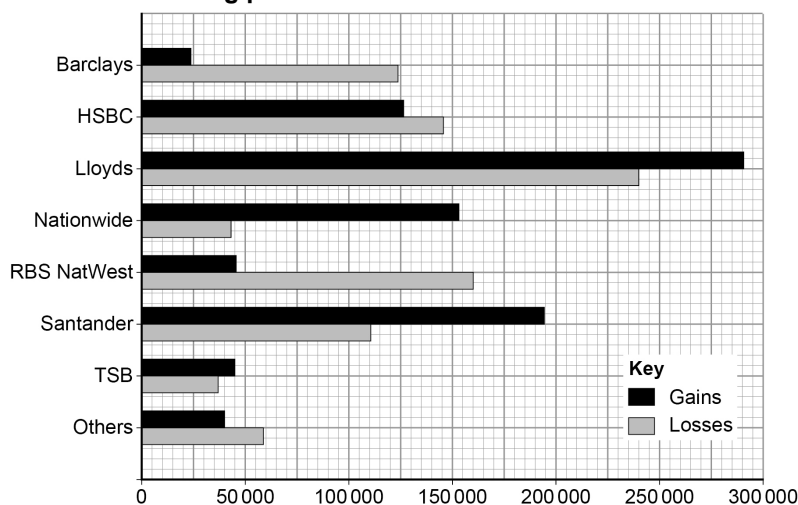
- 0 1** Using **Extract A**, calculate the ratio of customers gained to customers lost by Nationwide. Give your answer correct to **one** decimal place. [2 marks]
- 0 2** Explain how the data in **Extract A** show that the market power of the Big Four banks is weakening against competition from smaller rivals. [4 marks]
- 0 3** **Extract C** (lines 10–11) states that 'There is ample opportunity for new players to enter the sector.'
- With the help of a diagram, explain how the lowering of barriers to entry in the banking market might lead to lower prices and a situation in which banks make normal profit. [9 marks]
- 0 4** **Extract B** (lines 4–6) states that 'banks do not feel enough pressure to compete on price or quality, leading some to call for the Big Four to be split into a number of smaller banks.'
- Use the extracts and your knowledge of economics to assess the view that the government should intervene further in the banking sector to promote greater competition. [25 marks]

Turn over ►

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2

Section A

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3

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Source: News reports, August 2017

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Source: News reports, August 2017

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4

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

OR

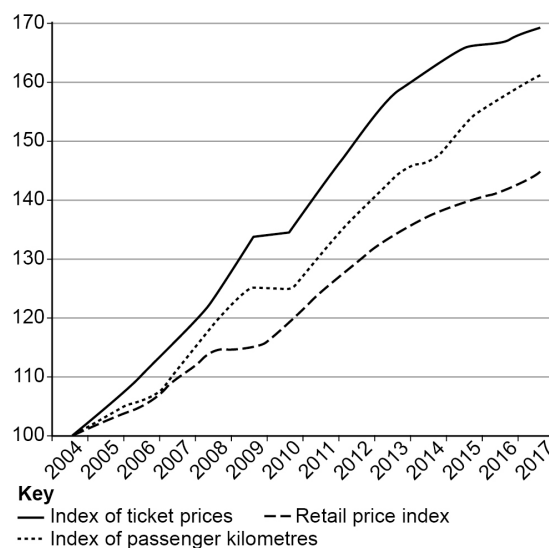
Context 2

Total for this context: 40 marks

The British railway systemStudy **Extracts D, E and F** and then answer **all** parts of Context 2 which follow.**Extract D****Figure 3: UK (excluding Northern Ireland) rail industry income, 2010–2016**

£ millions	2010–11	2015–16
Passenger income	7 588	9 160
Government funding	6 182	6 697
Network Rail income	2 565	2 300
Other income	793	833
Total	17 128	18 990

Passenger income as % of total	44%	48%
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Figure 4: Indices of UK rail ticket prices and passenger kilometres, 2004–2017 (2004=100)

Source: Office of Rail and Road, Feb 2017

Extract E: Privatisation of British Rail

'More competition, greater efficiency and a wider choice of services', proclaimed the 1992 Government white paper that advocated the privatisation of British Rail. Two decades on, passenger journeys have more than doubled from 735 million in 1994–5, to 1.7bn in 2016–17. But how much of this is due to the benefits of privatisation, rather than factors such as increasing urban congestion and a rising population? The UK's trains and tracks are more intensively used than in any other European market except the Netherlands. Investment is up, at around four times (in real terms) the £1.6bn a year it averaged in the late 1980s. The data on service quality are mixed. The UK performs well in terms of punctuality and reliability, but many journeys are uncomfortable. At peak hours 23% of London commuters have to stand.

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Instead of pushing British Rail into the private sector as a natural monopoly, the Government split it up and sold it in no less than 100 pieces between 1995 and 1997. Privatisation was supposed to unleash efficiencies that would justify the returns private operators demand for their services. However, a recent study shows that the cost of running the UK's railways is 40% higher than in the rest of Europe. "The train you catch is owned by a bank, leased to a private company, which has a franchise from the Department for Transport to run it on track owned by

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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]

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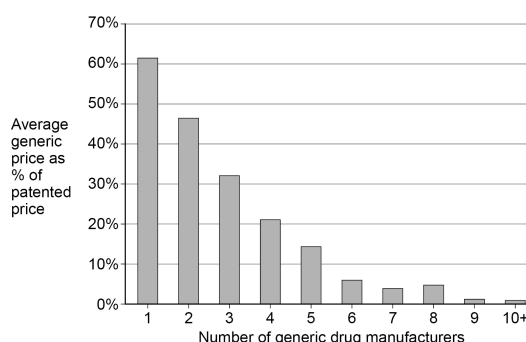
Section A

Answer **EITHER** Context 1 **OR** Context 2.**EITHER****Context 1****Total for this context: 40 marks****The pharmaceutical industry**Study **Extracts A, B and C** and then answer **all** parts of Context 1 which follow.**Extract A****Figure 1: Profitability of new patented drugs**

Year	Mean rate of return on new drugs (%)
2010	10.1
2011	7.6
2012	7.3
2013	4.8
2014	5.5
2015	4.2
2016	4.2
2017	3.7
2018	1.9
2019	1.8

Source: Deloitte report, 2019

Note: the mean rate of return is the average profit a pharmaceutical company can expect to make on a new drug over its lifetime, as a percentage of its development cost.

Figure 2: Price of generic drugs compared to patented drugs, and number of manufacturers

Source: Oxera report, 2019

Note: a generic drug is one which is no longer protected by a patent, and so can be made by any pharmaceutical firm, not only the original manufacturer.

Extract B: Rising prices in the global pharmaceutical market

Pharmaceutical drugs are very expensive to research and develop, costing an average of \$2.6bn. The most expensive, Zolgensma (a specialist gene therapy drug), costs \$2.1 million per patient. In order to encourage firms to invest in research and development, governments grant patents for new drugs. Patents preserve a company's intellectual property rights and give the company a legal monopoly that usually lasts for 20 years. Global drug prices have soared. The USA spent \$334bn on prescription drugs in 2017, up 41% from 10 years ago. Some price rises have been dramatic. The price of one antiparasitic drug, still protected by a patent, rose from \$13.50 to \$750 per pill.

After the monopoly's patent expires, other companies can manufacture and market the same drug under its generic name, usually at a lower price. For generic drugs, the UK government's policy is to rely on competition in the market between suppliers to control their price. Despite being a monopsony purchaser of these medicines in the UK, the NHS has relatively limited influence over their price in what is a global market. During 2017–18, the prices of certain generic drugs increased substantially, partly as a result of two large manufacturers having their production suspended because of quality issues. For example, the price of a generic mental health drug called Quetiapine peaked at £113.10 per 100mg, having previously cost £1.59.

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 ►

3

rates. Greater contestability, with more customers switching and the entry of new players, has improved value for money for all customers, not only switchers. Revenue per active account has fallen by 17% in real terms since 2006, as banks offer higher rewards to keep or win customers. While the new entrants have yet to grow to a significant size, mid-sized providers like Santander have grown their market share. From this perspective, breaking up the Big Four may seem to be too extreme a measure. 20 25

Source: News reports, August 2017

Extract C: The rise of challenger banks

As the first new high street bank in 150 years, Metro Bank promises to operate distinctively: longer opening times than its rivals, instant debit cards for new account holders and eye-catching initiatives such as in-store dog water bowls. There are plans to grow its branch network from 48 to 110 by 2020. This bucks the UK trend for closing bank branches, more than 8000 of which have disappeared from high streets in the past 25 years. Metro Bank's Chief Executive Officer said of the big banks: "They act like oligopolies are supposed to: they under-invest; under-serve and they take you for granted." 5

Many of the major banks suffer from inefficient, outdated IT infrastructure which limits their ability to reduce prices. They may also suffer from diseconomies of scale, given the size of their workforce and the breadth of their operations. There is ample opportunity for new players to enter the sector. 10

Metro Bank may take years to grab meaningful market share in the UK. Its straightforward business model involves opening new branches, collecting deposits and lending these funds to borrowers. This is safer than the riskier funding methods deployed by some of the banks that failed during the financial crisis, but is unlikely to generate rapid growth. Even so, its customer focus puts pressure on dominant banks to improve their service. 15

Source: News reports, August 2017

- 0 1** Using **Extract A**, calculate the ratio of customers gained to customers lost by Nationwide. Give your answer correct to **one** decimal place. [2 marks]
- 0 2** Explain how the data in **Extract A** show that the market power of the Big Four banks is weakening against competition from smaller rivals. [4 marks]
- 0 3** **Extract C** (lines 10–11) states that 'There is ample opportunity for new players to enter the sector.'
- With the help of a diagram, explain how the lowering of barriers to entry in the banking market might lead to lower prices and a situation in which banks make normal profit. [9 marks]
- 0 4** **Extract B** (lines 4–6) states that 'banks do not feel enough pressure to compete on price or quality, leading some to call for the Big Four to be split into a number of smaller banks.'
- Use the extracts and your knowledge of economics to assess the view that the government should intervene further in the banking sector to promote greater competition. [25 marks]

Turn over ►

IB/G/Jun18/7136/1

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6

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

EITHER**Essay 1**

Price comparison websites were used to purchase 53% of car insurance policies in 2017, improving competition and reducing prices for consumers. In other sectors, dominant firms such as Amazon have used innovation to capture market share. In the UK, 70% of online consumers say that Amazon is the first online retailer they visit when buying goods.

0	9
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 Explain how perfect competition should lead to outcomes which are **both** productively and allocatively efficient.
[15 marks]

1	0
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 Evaluate the view that technological change tends to bring industries closer to the market structure of perfect competition.
[25 marks]**OR****Essay 2**

Vaping, the use of e-cigarettes, is argued by many UK health experts to be a much less harmful substitute than smoking tobacco cigarettes. E-cigarettes contain fewer harmful chemicals such as tar, but they still contain addictive nicotine. The industry has been attacked for promoting sales amongst teenagers. This has led to San Francisco banning the sale of e-cigarettes.

1	1
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 Explain how the concept of cross elasticity of demand can be used to understand the relationship between markets.
[15 marks]

1	2
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 Discuss the view that individual economic agents will always act as rational decision makers so as to maximise their utility.
[25 marks]

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SUB-TOPIC 4.1.5.5

OLIGOPOLY

Sub-topic 4.1.5.5 · 2 questions · 2 marks · lowest tariff first



11

1 7

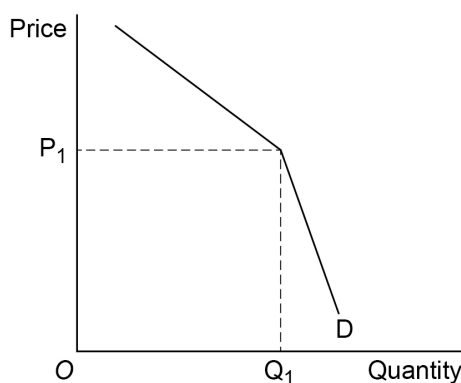
The UK's labour productivity increases by only 10% over a five year period. Over the same period its main trading partners increase their productivity by 25%. All other things being equal, the most likely consequence for the UK is

- A** a decline in UK imports from its main trading partners. ☐
- B** a 15% deterioration in its balance of trade on the current account. ☐
- C** a loss of competitiveness against its main trading partners. ☐
- D** the imposition of a 15% tariff on imports to maintain international competitiveness. ☐

[1 mark]

1 8

The diagram below shows the kinked demand curve (D) for a firm operating in a competitive oligopolistic market.



The kinked demand curve model provides an explanation of why the

- A** firm colludes with competitors to set the price of OP_1 . ☐
- B** firm's demand curve becomes more elastic as it lowers its price. ☐
- C** firm's price changes depend on competitors' pricing behaviour. ☐
- D** firm won't change its price from OP_1 even if competitors change their prices. ☐

[1 mark]

Turn over for the next question

Turn over ►



IB/M/Jun19/7136/3

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 ☐

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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

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SUB-TOPIC 4.1.5.6

MONOPOLY AND MONOPOLY POWER

Sub-topic 4.1.5.6 · 4 questions · 37 marks · lowest tariff first



14

2 3

Table 4 shows the value of the pound sterling in euros and Canadian dollars at the beginning of 2021 and 2022.

Table 4

	2021	2022
Value of £1 in euros	1.11	1.19
Value of £1 in Canadian dollars	1.76	1.71

According to the data in **Table 4**, between the beginning of 2021 and the beginning of 2022, the Canadian dollar

[1 mark]

- A** strengthened against the pound sterling and strengthened against the euro.
- B** strengthened against the pound sterling and weakened against the euro.
- C** weakened against the pound sterling and strengthened against the euro.
- D** weakened against the pound sterling and weakened against the euro.

☐☐☐☐**2 4**

Regulatory capture describes a situation in which

[1 mark]

- A** firms suffer a fall in supernormal profit due to the actions of regulators.
- B** government regulations reduce the impact of monopoly power.
- C** government removes regulations that have been acting as a barrier to entry.
- D** industry regulators grow too close to the firms they are regulating.

☐☐☐☐

1 4

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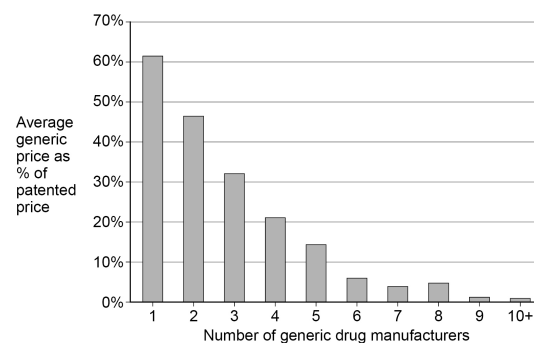
Section A

Answer **EITHER** Context 1 **OR** Context 2.**EITHER****Context 1****Total for this context: 40 marks****The pharmaceutical industry**Study **Extracts A, B and C** and then answer **all** parts of Context 1 which follow.**Extract A****Figure 1: Profitability of new patented drugs**

Year	Mean rate of return on new drugs (%)
2010	10.1
2011	7.6
2012	7.3
2013	4.8
2014	5.5
2015	4.2
2016	4.2
2017	3.7
2018	1.9
2019	1.8

Source: Deloitte report, 2019

Note: the mean rate of return is the average profit a pharmaceutical company can expect to make on a new drug over its lifetime, as a percentage of its development cost.

Figure 2: Price of generic drugs compared to patented drugs, and number of manufacturers

Source: Oxera report, 2019

Note: a generic drug is one which is no longer protected by a patent, and so can be made by any pharmaceutical firm, not only the original manufacturer.

Extract B: Rising prices in the global pharmaceutical market

Pharmaceutical drugs are very expensive to research and develop, costing an average of \$2.6bn. The most expensive, Zolgensma (a specialist gene therapy drug), costs \$2.1 million per patient. In order to encourage firms to invest in research and development, governments grant patents for new drugs. Patents preserve a company's intellectual property rights and give the company a legal monopoly that usually lasts for 20 years. Global drug prices have soared. The USA spent \$334bn on prescription drugs in 2017, up 41% from 10 years ago. Some price rises have been dramatic. The price of one antiparasitic drug, still protected by a patent, rose from \$13.50 to \$750 per pill.

After the monopoly's patent expires, other companies can manufacture and market the same drug under its generic name, usually at a lower price. For generic drugs, the UK government's policy is to rely on competition in the market between suppliers to control their price. Despite being a monopsony purchaser of these medicines in the UK, the NHS has relatively limited influence over their price in what is a global market. During 2017–18, the prices of certain generic drugs increased substantially, partly as a result of two large manufacturers having their production suspended because of quality issues. For example, the price of a generic mental health drug called Quetiapine peaked at £113.10 per 100mg, having previously cost £1.59.

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 ►

2

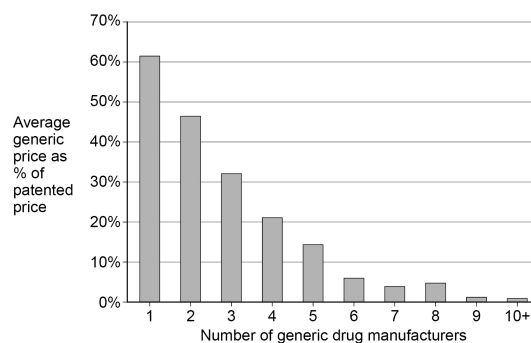
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Source: Deloitte report, 2019

Note: the mean rate of return is the average profit a pharmaceutical company can expect to make on a new drug over its lifetime, as a percentage of its development cost.

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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 ►**

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3

Competitive pressures on Royal Mail's profits may require the firm to cut costs. Pay negotiations with workforce representatives are set to begin but the powerful Communication Workers Union is likely to fight any redundancies. Analysts say that this could make it harder for management to find cash for investments to boost competitiveness. 20

Source: News reports, October 2015

Extract C: Technological innovation in the postal market

Parcel operators compete with Royal Mail both on price, and technological and service innovations. Many competitors are using digital technology to drive innovation, such as notifying customers within a 15-minute window of delivery or interactive services to redirect deliveries. The parcel delivery firm DPD has recently built Europe's largest parcel distribution centre, a £100 million facility in Leicestershire that hints at a future where technology largely replaces labour. In the main, people are only involved in unloading and loading, as well as monitoring operations. This investment reveals the transformation under way in the UK's £8.3 bn parcel delivery market, which is rapidly expanding in response to the sharp growth in online shopping. Three conveyor belts loop its warehouse, where a parcel can enter the system, be scanned and sent to one of 172 possible exit doors within 90 seconds. Once running at full capacity, the facility will be capable of sorting 70 000 items an hour and the company expects to process more than 1 million parcels on its busiest nights. 1 5 10

By contrast, at Royal Mail's national distribution centre, workers wait for metal cages to be filled with parcels before rolling them across the warehouse floor. However, changes are afoot as Royal Mail clings to its dominant share of the parcel market, with some distribution centres accepting dispatches from retailers on Sundays. Royal Mail is also introducing equipment such as 'finger scanners' that allow workers to pick up and scan parcels more efficiently, as well as handheld smart devices for 76 000 frontline staff at a cost of £130 million. 15

Source: News reports, December 2015

0 1 Using the data in **Extract A (Figure 1)**, calculate the three-firm concentration ratio in the UK parcels delivery market. Give your answer, as a percentage, to **one** decimal place. [2 marks]

0 2 Explain how the data in **Extract A (Figure 2)** show that the UK parcels delivery market is displaying dynamic efficiency. [4 marks]

0 3 **Extract B** (lines 12–14) states that 'The Universal Postal Service obligations require Royal Mail to deliver letters and parcels to all parts of the country six days a week'. With the help of a monopoly diagram, explain how the Universal Postal Service obligations are likely to affect Royal Mail's costs **and** profits. [9 marks]

0 4 **Extract C** (line 2) states that 'Many competitors are using digital technology to drive innovation'. Use the extracts and your knowledge of economics to assess whether the benefits outweigh the costs when the Government privatises organisations such as Royal Mail and opens up the market to competition. [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 gender pay gap

Study **Extracts D, E and F** and then answer **all** parts of Context 2 which follow.

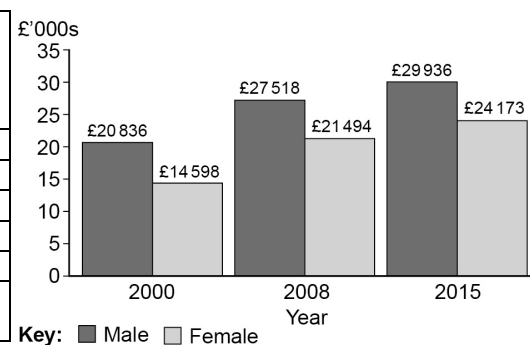
Extract D

Figure 3: Differences between male and female wages and employment in selected countries

Selected countries	Wage gap (%)	Female labour force participation rate (%)	Male labour force participation rate (%)
Japan	27	66	85
Norway	15	76	80
Slovenia	3	67	74
UK	18	72	83
USA	17	67	78
OECD* average	17	68	80

Source: Official statistics, 2016

Figure 4: Full-time annual earnings before tax, UK, 2000 to 2015



Source: Official statistics, 2016

*The OECD is the Organisation for Economic Co-operation and Development.

Extract E: Causes of the gender pay gap

Since the Equal Pay Act 1970, it has been illegal to pay men and women differently for the same work. Despite this, the overall pay gap is 19.2%, according to the Office of National Statistics. The pay gap for full-time workers is lower, at 9.4%, and the gap for part-time workers is actually negative, at -6.5%. In the UK, 41% of female workers are part-time, compared to only 11% of males. 1
5

Prior to the Equal Pay Act, it was common to find firms paying women less than men for comparable work, but since then discriminatory attitudes have lessened to the extent that some economists deny that the wage gap is a problem at all. A recent report found that women working in the same job, and at the same level, are paid just 0.8% less than their male equivalents. Certainly, the pay gap has been shrinking, partly due to demographic and social changes. In earlier times, most senior, highly paid jobs were held by men, while women of the same generation stayed at home. The Government claims that 2.2 million women who are not working want to work. They believe that increasing the female labour force participation rate could add 10% to the size of our economy by 2030, as well as benefiting women directly. 10

Interestingly, women in their twenties currently out-earn men and it is only when they reach their thirties, and perhaps start a family, that the pay gap starts to emerge. Is this due to employers undervaluing female staff once they have had a baby, or to outdated social conventions that women should be the main childcarers? Most of the highest paid jobs in 15

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SUB-TOPIC 4.1.5.7

PRICE DISCRIMINATION

Sub-topic 4.1.5.7 · 3 questions · 51 marks · lowest tariff first



7

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0 9 A firm charging different customers different prices for the same product is practising [1 mark]

- A limit pricing. ☐
- B marginal cost pricing. ☐
- C price discrimination. ☐
- D price leadership. ☐

1 0 In an economy, an index showing the change in the money supply multiplied by the velocity of circulation increases from 100 to 115.5. At the same time, the final output produced by the economy increases from 100 to 110.

According to Fisher's equation of exchange, the price level will increase by [1 mark]

- A 5% ☐
- B 5.5% ☐
- C 10% ☐
- D 15.5% ☐

1 1 Systemic risk is most likely to occur in financial systems when [1 mark]

- A investment banks have low capital-output ratios. ☐
- B most banks carry out both commercial and investment banking activities. ☐
- C the central bank acts as lender of last resort to financial institutions. ☐
- D the commercial banks have high liquidity ratios. ☐

Turn over ►



IB/M/Jun22/7136/3

6

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

EITHER**Essay 1**

In the UK, 64% of the population are considered to be overweight. Many policies have focused on promoting active lifestyles, whilst taxes have been introduced on sugary drinks and alcohol. There has also been regulation of advertising aimed at young children. Attention has recently turned to the use of behavioural economics techniques to change diets.

0	9
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Explain why imperfect and asymmetric information may lead to market failure in the market for food.

[15 marks]

1	0
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Evaluate the view that the consumption of unhealthy foods can best be reduced through the use of nudges and other techniques from behavioural economics.

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

In 2018, the Competition and Markets Authority issued a report which criticised a 'situation where businesses charge higher prices to existing customers who stay with them, than they do to new customers'. However, according to Citizens Advice, some broadband and mobile phone companies continue to charge existing customers more than they charge new customers.

1	1
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Explain the likely impact on consumer surplus and producer surplus as an industry moves away from a competitive market structure to one that is dominated by a few large firms.

[15 marks]

1	2
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Evaluate the view that price discrimination is damaging for consumers.

[25 marks]

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7

OR**Essay 3**

In December 2018, the Competition and Markets Authority (CMA) announced a range of policies to prevent firms charging existing customers more than new customers. Firms supplying financial services, mobile phones and broadband are no longer allowed to discriminate against loyal customers renewing their contracts.

1	3
---	---

 Explain why imperfect information can lead to market failure. **[15 marks]**

1	4
---	---

 Assess the view that price discrimination is always damaging. **[25 marks]****END OF QUESTIONS**

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SUB-TOPIC 4.1.5.8

THE DYNAMICS OF COMPETITION

Sub-topic 4.1.5.8 · 1 question · 1 marks · lowest tariff first



6

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09

In 2020, the market leader sold around three times as many vacuum cleaners in the UK as its closest rival. The market leader's dominance was built on technical innovation, protected by legal patents.

However, rivals have developed their own designs and are now challenging the market leader.

What feature of competitive markets does this illustrate?

[1 mark]

A Collusive oligopoly

☐

B Creative destruction

☐

C Hit and run competition

☐

D Static efficiency

☐

10

A £2 billion rise in government spending has led to an increase of £5 billion in national income.

All other things being equal, what is the value of the marginal propensity to consume?

[1 mark]

A 0.4

☐

B 0.6

☐

C 2.5

☐

D 3.0

☐

11

An economy operating at its long-run productive capacity at the start of 2020 has a trend rate of growth of 6% per year. Real GDP increases by 2% in 2021 and 10% in 2022.

Which one of the following accurately describes the position of the economy at the end of each year?

[1 mark]

	2021	2022	
A	Negative output gap	Negative output gap	☐
B	Negative output gap	No output gap	☐
C	Positive output gap	No output gap	☐
D	Positive output gap	Positive output gap	☐



06

IB/G/Jun23/7136/3

SUB-TOPIC 4.1.5.9

CONTESTABLE AND NON-CONTESTABLE MARKETS

Sub-topic 4.1.5.9 · 1 question · 15 marks · lowest tariff first



7

OR**Essay 3**

Some argue that privatisation of government-owned industries is necessary to improve efficiency. However, there are several cases where privatisation has simply transferred a monopoly from the state to the private sector. Nevertheless, such private monopolies are vulnerable to the threat of new entrants challenging their dominance.

1	3
---	---

Explain how market contestability affects the performance of an industry.

[15 marks]

1	4
---	---

Discuss the view that privatisation is always beneficial because it leads to improvements in efficiency.

[25 marks]**END OF QUESTIONS**

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SUB-TOPIC 4.1.5.10

MARKET STRUCTURE, EFFICIENCY AND RESOURCE ALLOCATION

Sub-topic 4.1.5.10 · 8 questions · 95 marks · lowest tariff first



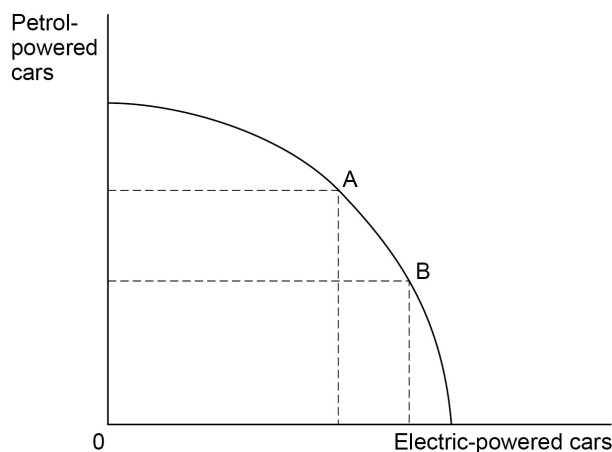
3

0 3

Figure 1 shows the production possibility boundary for petrol-powered cars and electric-powered cars in a country's car industry.

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Figure 1



If production has moved from Point A to Point B, which one of the following must be true?

[1 mark]

- A Allocative efficiency in the car industry is unchanged
- B Demand for electric-powered vehicles has increased
- C Productive efficiency in the car industry is unchanged
- D Static efficiency in the car industry has improved

☐
☐
☐
☐

0 4

A household's annual income increases from £35 000 to £38 500. All other things being equal, if the household's income elasticity of demand for Good X is -0.2 and its income elasticity of demand for Good Y is 0.4 , which one of the following statements is correct?

[1 mark]

- A Spending on Good X will fall by £70 and spending on Good Y will increase by £140
- B Spending on Good X will fall by £700 and spending on Good Y will increase by £1400
- C Spending on Good X will fall by 2% and spending on Good Y will increase by 4%
- D Spending on Good X will fall by 20% and spending on Good Y will increase by 40%

☐
☐
☐
☐

Turn over ►



0 3

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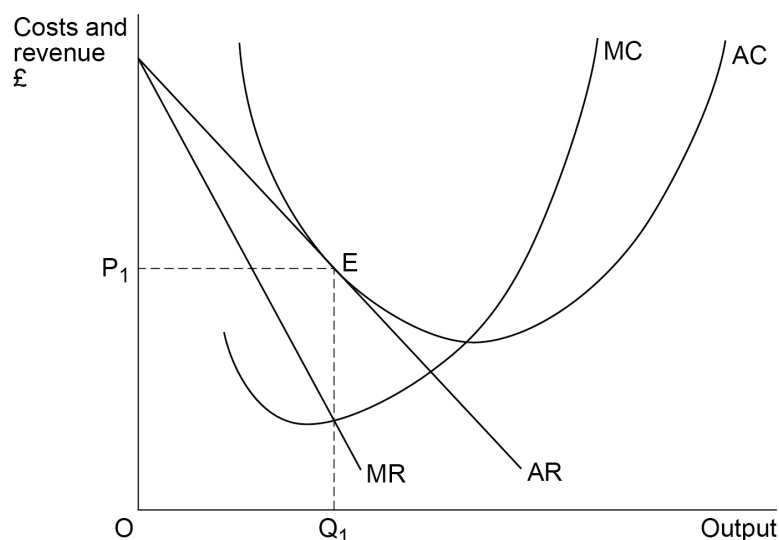
5

0 8

Figure 2 shows the equilibrium position, point E, of a profit-maximising firm in a monopolistically competitive industry.

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outside the
box

Figure 2



All other things being equal, which one of the following applies to the firm's equilibrium at point E? The firm is

A in short-run equilibrium, but not in long-run equilibrium.

☐

B making normal profit because $AC = AR$.

☐

C making supernormal profit because $MC = MR$.

☐

D productively efficient but not allocatively efficient.

☐

[1 mark]

0 9

A long-dated £100 government bond with a coupon rate of 5% has a current market value of £125. This implies that the

A current yield on the bond is 4%.

☐

B current yield on the bond is 5%.

☐

C market rate of interest is 2.5%.

☐

D market rate of interest is 5%.

☐

[1 mark]

Turn over ►

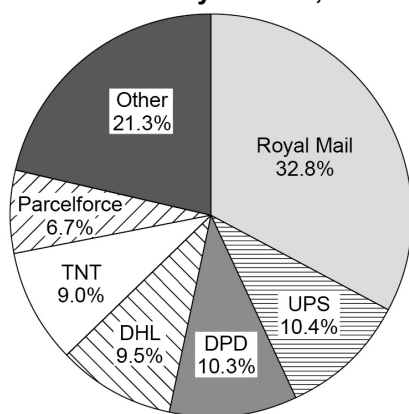
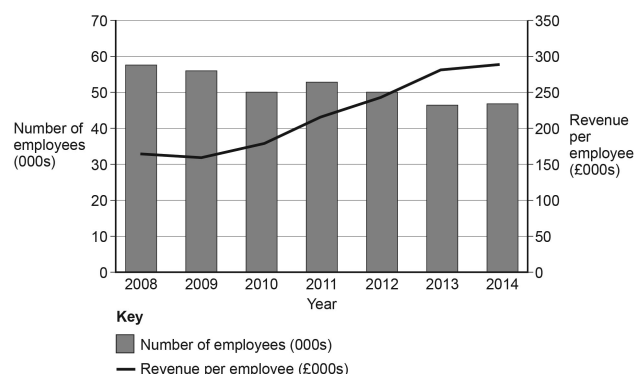


0 5

IB/M/Jun20/7136/3

2

Section A

Answer **EITHER** Context 1 **OR** Context 2.**EITHER****Context 1****Total for this context: 40 marks****Privatisation of Royal Mail**Study **Extracts A, B and C** and then answer **all** parts of Context 1 which follow.**Extract A: UK parcels delivery market****Figure 1: UK parcels delivery market shares by revenue, 2015****Figure 2: Employees and revenue per employee in the UK parcels delivery market**

Source: Apex Insight Industry Report, 2015

Extract B: The privatisation of Royal Mail

Royal Mail has started a new chapter after the government ended 499 years of public ownership by selling off its remaining stake. Although critics have suggested that the government undervalued the company, total proceeds of the sale amount to £3.3 bn. The newly privatised company will have to cope with structural decline in the number of letters sent in the UK (Royal Mail has a near monopoly in this market), as well as fierce competition in the parcels delivery market, which is rapidly growing because of the growth of online shopping.

1

5

A review of Royal Mail is under way by the regulator Ofcom, triggered by concerns that the withdrawal of Whistl, a smaller rival in the door-to-door letters delivery market, means the postal operator has no competitive pressure to improve services and become more efficient. Ofcom is considering whether the price Royal Mail charges competing courier companies, such as Whistl or Amazon, to access its own delivery network are fair. It is also examining whether Royal Mail's Universal Postal Service obligations are reasonable. The Universal Postal Service obligations require Royal Mail to deliver letters and parcels to all parts of the country six days a week, unlike its competitors. Some consumer organisations have claimed that increased competition in the parcel market has led to a worsening service for rural and remote consumers, including problems such as non-deliveries and lengthy journeys to collect undelivered items.

10

15

3

Competitive pressures on Royal Mail's profits may require the firm to cut costs. Pay negotiations with workforce representatives are set to begin but the powerful Communication Workers Union is likely to fight any redundancies. Analysts say that this could make it harder for management to find cash for investments to boost competitiveness. 20

Source: News reports, October 2015

Extract C: Technological innovation in the postal market

Parcel operators compete with Royal Mail both on price, and technological and service innovations. Many competitors are using digital technology to drive innovation, such as notifying customers within a 15-minute window of delivery or interactive services to redirect deliveries. The parcel delivery firm DPD has recently built Europe's largest parcel distribution centre, a £100 million facility in Leicestershire that hints at a future where technology largely replaces labour. In the main, people are only involved in unloading and loading, as well as monitoring operations. This investment reveals the transformation under way in the UK's £8.3 bn parcel delivery market, which is rapidly expanding in response to the sharp growth in online shopping. Three conveyor belts loop its warehouse, where a parcel can enter the system, be scanned and sent to one of 172 possible exit doors within 90 seconds. Once running at full capacity, the facility will be capable of sorting 70 000 items an hour and the company expects to process more than 1 million parcels on its busiest nights. 1 5 10

By contrast, at Royal Mail's national distribution centre, workers wait for metal cages to be filled with parcels before rolling them across the warehouse floor. However, changes are afoot as Royal Mail clings to its dominant share of the parcel market, with some distribution centres accepting dispatches from retailers on Sundays. Royal Mail is also introducing equipment such as 'finger scanners' that allow workers to pick up and scan parcels more efficiently, as well as handheld smart devices for 76 000 frontline staff at a cost of £130 million. 15

Source: News reports, December 2015

0 1 Using the data in **Extract A (Figure 1)**, calculate the three-firm concentration ratio in the UK parcels delivery market. Give your answer, as a percentage, to **one** decimal place. [2 marks]

0 2 Explain how the data in **Extract A (Figure 2)** show that the UK parcels delivery market is displaying dynamic efficiency. [4 marks]

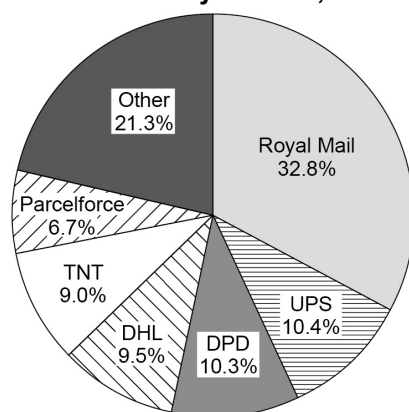
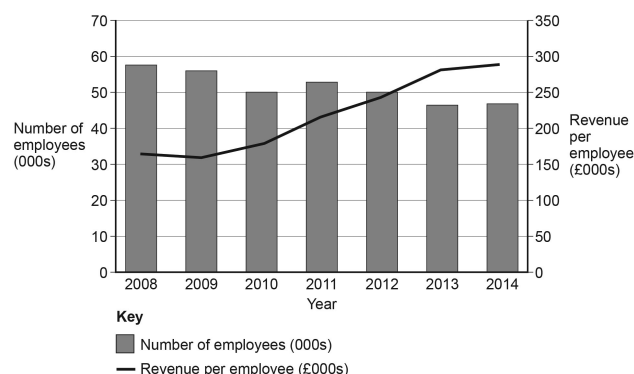
0 3 **Extract B** (lines 12–14) states that 'The Universal Postal Service obligations require Royal Mail to deliver letters and parcels to all parts of the country six days a week'. With the help of a monopoly diagram, explain how the Universal Postal Service obligations are likely to affect Royal Mail's costs **and** profits. [9 marks]

0 4 **Extract C** (line 2) states that 'Many competitors are using digital technology to drive innovation'. Use the extracts and your knowledge of economics to assess whether the benefits outweigh the costs when the Government privatises organisations such as Royal Mail and opens up the market to competition. [25 marks]

Turn over ►

2

Section A

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6

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

EITHER**Essay 1**

Broadcasting used to be considered a public good, but the growth of on-demand television streaming services suggests that this is no longer the case. In 2023, 68% of UK consumers were subscribing to one or more oligopolistic providers of on-demand television streaming services.

0 9

Explain, with examples, the differences between a private good, a public good and a quasi-public good.

[15 marks]**1 0**

Evaluate the view that oligopolies serve society well.

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

In 2023, the UK government pledged to invest £960 million in green technologies, such as renewable energy schemes. The aim is to help reduce the cost of green technologies for businesses and to encourage their adoption by firms. Environmental groups suggest that currently only a small proportion of UK firms take environmental objectives seriously, preferring instead to focus on profit.

1 1

Explain how technological progress can affect productivity, efficiency and firms' costs of production.

[15 marks]**1 2**

Assess the view that the main objective of firms is to maximise profits.

[25 marks]

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Section B

Answer **one** essay from this section.

Each essay carries 40 marks.

EITHER**Essay 1**

Price comparison websites were used to purchase 53% of car insurance policies in 2017, improving competition and reducing prices for consumers. In other sectors, dominant firms such as Amazon have used innovation to capture market share. In the UK, 70% of online consumers say that Amazon is the first online retailer they visit when buying goods.

0	9
---	---

Explain how perfect competition should lead to outcomes which are **both** productively and allocatively efficient.

[15 marks]

1	0
---	---

Evaluate the view that technological change tends to bring industries closer to the market structure of perfect competition.

[25 marks]

OR**Essay 2**

Vaping, the use of e-cigarettes, is argued by many UK health experts to be a much less harmful substitute than smoking tobacco cigarettes. E-cigarettes contain fewer harmful chemicals such as tar, but they still contain addictive nicotine. The industry has been attacked for promoting sales amongst teenagers. This has led to San Francisco banning the sale of e-cigarettes.

1	1
---	---

Explain how the concept of cross elasticity of demand can be used to understand the relationship between markets.

[15 marks]

1	2
---	---

Discuss the view that individual economic agents will always act as rational decision makers so as to maximise their utility.

[25 marks]

7

OR**Essay 3**

In the United States, corporate profits since 2010 have averaged 9% of GDP, compared to 5% in the 1990s. This is causing concern that the US economy is increasingly dominated by companies with monopoly power.

1	3
---	---

Explain the role of profit in a market economy.

[15 marks]

1	4
---	---

Evaluate the view that a firm making low profits must be inefficiently managed.

[25 marks]**END OF QUESTIONS**

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OR**Essay 3**

Some argue that privatisation of government-owned industries is necessary to improve efficiency. However, there are several cases where privatisation has simply transferred a monopoly from the state to the private sector. Nevertheless, such private monopolies are vulnerable to the threat of new entrants challenging their dominance.

1	3
---	---

Explain how market contestability affects the performance of an industry.

[15 marks]

1	4
---	---

Discuss the view that privatisation is always beneficial because it leads to improvements in efficiency.

[25 marks]**END OF QUESTIONS**

There are no questions printed on this page

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MARK SCHEMES

official mark schemes



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

Section A

Context 1

Total for this Context: 40 marks

- 0 1** Using the data in **Extract A (Figure 1)**, calculate the three-firm concentration ratio in the UK parcels delivery market. Give your answer, as a percentage, to **one** decimal place. **[2 marks]**

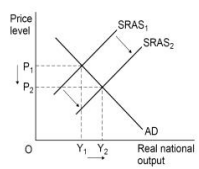
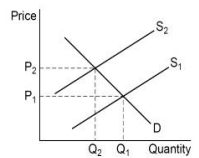
Calculation:

$$32.8\% + 10.4\% + 10.3\% = 53.5\%.$$

Response	Max 2 marks
For the correct answer to one decimal place	2 marks
For the correct answer without the % sign and/or not to one decimal place	1 mark

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 2018

Essay 3

Total for this essay: 40 marks

1 3 Explain the role of profit in a market economy.**[15 marks]****Areas for discussion include:**

- definition of profit, normal profit, supernormal profit, firm
- the need for firms to make at least normal profit to remain in their present use, including short run vs long run requirements
- firms use of supernormal profits as a necessary inducement for risk-taking, source of investment funds, as a reward to the owners of the firm, as an indicator of the firm's health as a going concern and as a source of working capital
- the role of profit in the wider economy
 - as the incentive to establish and run any enterprise in a free market economy
 - investment in technology and innovation, eg public benefits of new drugs
 - as a source of income, especially for pensioners
 - as a signalling device for high growth industries, to promote the efficient allocation of resources within an economy
 - as a source of tax revenue.

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 16 to award candidates marks for this question.

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

- 1 2** Discuss the validity of the traditional economic assumption that the main objective of firms is to maximise profits.

[25 marks]

Areas for discussion include:

- what is meant by 'firm'
- explanation of profit, drawing a distinction between normal and abnormal profit
- explanation of profit maximisation
- why profit is usually an important objective
 - o reward to enterprise
 - o source of finance for investment
 - o signalling corporate health to shareholders
- how firms in perfectly competitive sectors have little choice but to pursue profit-maximisation but firms with monopoly power have greater flexibility
- how ownership of the firm affects behaviour and performance
- how the divorce of ownership from control and the principal-agent problem affect behaviour and performance
- revenue maximisation and sales maximisation as alternative objectives
- limitations to the feasibility of pursuing profit maximisation, for example the difficulty many firms face in calculating marginal revenue and marginal cost
- discussion of profit satisficing rather than maximising
- sales growth as a goal in itself, or as a short-term means to a long-term goal of profit maximisation
- non-financial objectives such as environmental goals and corporate social responsibility
- whether the assumption of profit-maximisation is any more or less valid than in the past
- examples of firms which have/have not pursued the aim of profit maximisation.

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 12: 25 MARKS

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

1 2 Assess the view that the main objective of firms is to maximise profits.

[25 marks]

Areas for discussion include:

- definition of 'firm' as an organisation that converts factors of production into goods and services via the production process, and how this can cover a wide range of organisations, including private companies, charities and public sector organisations
- explanation that the models that comprise the traditional theory of the firm are based upon the assumption that firms aim to maximise profits
- explanation of the profit-maximising rule ($MC=MR$)
- analysis and evaluation of whether firms, in practice, are able to identify or calculate their marginal costs and marginal revenue
- evaluation of whether it matters that firms may be unable to calculate MC and MR
- explanation of reasons for and the consequences of a divorce of ownership from control in terms of firms' objectives
- explanation of why firms may have a variety of other objectives including survival, growth, quality, maximising their sales revenue and increasing their market share
- analysis and evaluation of whether other objectives are likely to be more important than, or conflict with, the objective of profit maximisation
- explanation of the satisficing principle and an evaluation of the extent to which it is likely to conflict with the objective of profit maximisation
- evaluation of how objectives may differ between the short run and the long run
- analysis and evaluation of how market structures may influence objectives – for example a firm in a perfectly competitive industry has little option but to pursue profit-maximisation, whereas monopoly firms have greater flexibility
- analysis and evaluation of how different ownership structures may lead to different objectives, for example a family-owned firm versus a public listed company, at least in the short run
- use of examples
- an overall assessment of the view that the main objective of firms is to maximise profits.

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 12: 25 MARKS

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 – 7136/1 – JUNE 2018

Section A

Context 1

Total for this context: 40 marks

0 1 Using **Extract A**, calculate the ratio of customers gained to customers lost by Nationwide.
Give your answer correct to **one** decimal place.

[2 marks]

Calculation:

$$153000/43000 = 3.558$$

Correct answer is 3.6:1, also allow 3.5:1, 3.7:1; or 1:0.3

Response	Max 2 marks
For the correct answer to one decimal place	2 marks
For the correct answer but not expressed as a ratio and/or not to one decimal place and/or not reduced to its simplest form	1 mark
For the answer expressed as a ratio of customers lost to customers gained, ie 0.3:1; or 1:3.6, also allow 1:3.5, 1:3.7	1 mark

MARK SCHEME – A-LEVEL ECONOMICS – 7136/1 – JUNE 2018

- 0 2** Explain how the data in **Extract A** show that the market power of the Big Four banks is weakening against competition from smaller rivals.

[4 marks]

Response	Max 4 marks
- includes evidence that shows that the market power of the Big Four is weakening against competition from smaller rivals - clearly explains how this data is evidence of weakening Big Four market power.	4 marks
- includes evidence that shows that the market power of the Big Four is weakening against competition from smaller rivals - unclear explanation of how this data is evidence of weakening Big Four market power.	3 marks
- includes some limited evidence that shows that the market power of the Big Four is weakening against competition from smaller rivals - limited explanation of how this data is evidence of weakening Big Four market power.	2 marks
- includes evidence that does not clearly show that the market power of the Big Four is weakening against competition from smaller rivals - no explanation of how this data is evidence of weakening Big Four market power.	1 mark

Relevant issues include:

- explanation of the concept of market power
- factors that determine market power, eg market share, degree of competition
- the Big Four as a group have gained approximately 485 000 but lost 670 000, a net loss of 185 000
- Barclays and RBS Natwest have been the biggest net losers (100 000 and 115 000 respectively)
- Santander, TSB, Nationwide and others have gained approximately 435 000 but lost 253 000, a net gain of 182 000
- Nationwide and Santander are the biggest net gainers (110 000 and 83 000 respectively)
- Lloyds goes against the trend of the Big Four, by gaining customers.

Note: Please allow a margin of +/- 5000 customers per bank

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

- 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]

Response	Max 4 marks
- includes evidence that changes in the demand for rail travel have contributed to changes in the price of rail travel - clearly explains how this data is evidence that changes in the demand for rail travel have contributed to changes in the price of rail travel	4 marks
- includes evidence that changes in the demand for rail travel have contributed to changes in the price of rail travel - unclear explanation of how this data is evidence that changes in the demand for rail travel have contributed to changes in the price of rail travel	3 marks
- includes some limited evidence that changes in the demand for rail travel have contributed to changes in the price of rail travel - limited explanation of how this data is evidence that changes in the demand for rail travel have contributed to changes in the price of rail travel	2 marks
- includes evidence that does not clearly show that changes in the demand for rail travel have contributed to changes in the price of rail travel - no explanation of how this data is evidence that changes in the demand for rail travel have contributed to changes in the price of rail travel	1 mark

Relevant issues include:

- explanation of demand for rail travel
- explanation of the link between passenger kilometres travelled and the demand for rail travel
- explanation of the link between changes in the demand for rail travel and changes in the price of rail travel
- explanation of how rail companies have an incentive to raise prices when demand is rising
- identifying that the data shows rail fares have risen from an index of 100 in 2004 to 169 in 2017 (69%)
- identification that the number of passenger km has risen from an index of 100 in 2004 to 161 in 2017 (61%) showing an increase in the demand for rail travel

Some candidates may point out that prices have increased by around 24% in real terms rather than consider the increase in nominal terms, which is acceptable.

MAXIMUM FOR QUESTION 06: 4 MARKS

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

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]

Response:	Max 4 marks
- includes evidence that shows how greater competition leads to lower prices for generic drugs. - clearly explains how this data is evidence that greater competition leads to lower prices for generic drugs.	4 marks
- includes evidence that shows how greater competition leads to lower prices for generic drugs. - explanation of how this data is evidence that greater competition leads to lower prices for generic drugs.	3 marks
- includes some evidence that shows how greater competition leads to lower prices for generic drugs. - limited explanation of how this data is evidence that greater competition leads to lower prices for generic drugs.	2 marks
- includes evidence that does not clearly show how greater competition leads to lower prices for generic drugs. - no explanation of how this data is evidence that greater competition leads to lower prices for generic drugs.	1 mark

Relevant issues include:

- explanation of why greater competition may lead to lower prices for generic drugs
- explains that an increase in the number of firms (generic drug manufacturers) indicates that there is greater competition in the market
- generic prices are lower than prices of drugs still protected by patent (61% or less of the patent price on average)
- there is a steady decline in the price as % of patented price as more firms are added to a market, at least until the eighth firm
- the entry of the second firm to a market has the biggest impact on price as % of patented price (61% to 46%), followed by the third firm (46% to 32%) and then the fourth firm (32% to 21%) which suggests that the marginal impact on price of each additional firm reduces
- if there are 9 or 10+ firms in a market, prices are very low compared to patented prices (1.2% and 1.0% respectively).

MAXIMUM FOR QUESTION 02: 4 MARKS

MARK SCHEME – A-LEVEL ECONOMICS – 7136/1 – JUNE 2018

0 3 Extract C (lines 10–11) states that ‘There is ample opportunity for new players to enter the sector.’

With the help of a diagram, explain how the lowering of barriers to entry in the banking market might lead to lower prices and a situation in which banks make normal profit.

[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

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

1	0
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Evaluate the view that technological change tends to bring industries closer to the market structure of perfect competition.

[25 marks]

Areas for discussion include:

- definition of technological change, perfect competition
- discussion of the features of competitive markets in relation to technological change and market structure
- recognition that perfect competition is an unattainable ideal in many sectors, and is best thought of as one end of a spectrum of market structures to which sectors should (arguably) be guided
- in some sectors, the use of the internet and other technological innovation has hugely improved price transparency, thus minimising information asymmetry and getting closer to perfect information (eg price comparison websites, insurance brokers)
- in some sectors, firms have strengthened dominant positions by erecting barriers to entry such as massive economies of scale and advanced inventory systems (eg Amazon)
- the impact of artificial intelligence, robotics, and retention of personal data on markets, making markets less competitive, eg online customers now receiving personalised adverts
- the improvement of communications has led to improved information flows and made some markets more competitive, but has also led to the demise of other sectors, eg streaming replacing CDs and radio to an extent
- the impact of technology on reducing average costs and thus potentially reducing prices
- the impact of technology on the number of sellers in a market, eg possibility of starting a business with a laptop from a bedroom
- the impact of technological change on homogeneity of products and services
- discussion of productive, allocative and dynamic efficiency
- discussion of Schumpeterian creative destruction
- examples of markets that have become more competitive
- examples of markets that have become more concentrated
- overall assessment about whether technological change tends to bring industries closer to the market structure of perfect competition.

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 – 7136/3 – 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 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 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 – 7136/1 – JUNE 2021

Context 1

Total for this context: 40 marks

- 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]

Calculation: $\$2.6\text{bn} \times 1.8\% = \$46\,800\,000$

Correct answer is: \$47 million

Response:	Max 2 marks
For the correct answer, to nearest million, with \$ sign	2 marks
For the correct answer but without the \$ sign and/or not to nearest million OR For the correct method, but the wrong answer, to nearest million, with the \$ sign	1 mark

MAXIMUM FOR QUESTION 01: 2 MARKS

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

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]

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

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

0 4 **Extract C** (line 2) states that ‘Many competitors are using digital technology to drive innovation’.

Use the extracts and your knowledge of economics to assess whether the benefits outweigh the costs when the Government privatises organisations such as Royal Mail and opens up the market to competition.

[25 marks]

Areas for discussion include:

- explanation of privatisation and deregulation
- the arguments in favour of privatisation in general
 - efficiency
 - investment
 - greater responsiveness to customer needs
 - adoption of best practice (including from foreign firms)
 - building a shareholder culture
 - one-off impact on public finances
- the arguments against privatisation in general
 - higher prices due to monopoly/oligopoly power
 - reduced quality of service
 - reduced consistency of service
 - greater risk of externalities
 - difficulties in identifying the true value of state-owned assets at time of privatisation
 - costs incurred in the regulation of newly privatised industries
 - impact on employees and trade unions
- the arguments for and against introducing competition alongside privatisation
- impact on customer service quality, reliability and punctuality
- impact on customer price
- profitability of private operators
- impact on technological innovation and dynamic efficiency
- value for money for the taxpayer, perhaps with reference to the criticisms of the Government's handling of the sale of Royal Mail.
- impact on workers' job security, pay and conditions
- regulation of Royal Mail – the split model of competition in parcels but virtually a monopoly in letters allows for comparisons to be made about the different approaches
- reference to the fact that letter collection is more competitive than letter delivery, and the problems faced by Whistl in attempting to enter the latter market
- alternatives to nationalisation and privatisation: such as contracting out, subsidies
- the possibility of government failure, either in running a nationalised post service, or in organising the privatisation process
- market failure arguments.

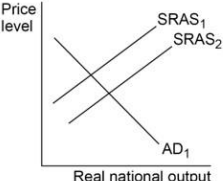
The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the candidate's response to the question.

Use the levels mark scheme on page 4 to award candidates marks for this question.

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 – 7136/1 – JUNE 2024

1 2 Evaluate the view that price discrimination is damaging for consumers.

[25 marks]

Areas for discussion include:

- definition of price discrimination
- conditions required for price discrimination, such as monopoly power, ability to segment the market and prevent cross-selling between market segments
- analysis and evaluation of the costs to the consumer of price discrimination
 - many consumers pay a higher price
 - consumer surplus likely to be very low in price discriminating markets
 - potentially unfair, unpredictable or opaque pricing structures
 - administration costs involved in segmenting the market may be passed on to consumers
- analysis and evaluation of the benefits to the consumer of price discrimination
 - price discrimination can lead to higher levels of output than otherwise so greater market access
 - lower prices for some consumers, with those consumers who have the incentive and means to compare suppliers are likely to get the lowest price
 - higher prices for peak demand can help smooth out consumption and avoid congestion, thus providing better quality goods and services
 - firms may use higher profits to invest in improving the supply of goods and services
 - firms may choose to cross-subsidise previously loss-making operations
- analysis and evaluation of the impact of price elasticity of demand on the consumer surplus and how consumers are affected by price discrimination
- evaluation of the impacts on consumers of price discrimination compared to the alternative of non-discriminating monopolist
- analysis and evaluation of the impact of technology, especially the internet, in making more markets susceptible to price discrimination via enhanced gathering of customer data
- discussion of whether regulation is possible or desirable
- use of examples
- market failure arguments
- an overall assessment of the view that price discrimination is damaging for consumers.

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 12: 25 MARKS

MARK SCHEME – A-LEVEL ECONOMICS – 7136/1 – JUNE 2020

1 4 Assess the view that price discrimination is always damaging.

[25 marks]

Areas for discussion include:

- definition of price discrimination
- the conditions necessary for price discrimination
- discussion of different types of price discrimination
- the disadvantages of price discrimination (higher price for many consumers, loss of consumer surplus, pricing seen as unfair eg for captive consumers such as rail season ticket holders)
- the advantages of price discrimination (lower prices for some customers with lower demand, typically those from low income households, customers with highest utility of a good or service likely to obtain the good, output likely to be higher than would be the case from a non-discriminating monopolist)
- price discrimination may be preferable to a single-price which results in secondary markets developing (eg ticket touts)
- price discrimination is good for the monopolist, increasing revenues and profits
- price discrimination is good for consumers who would otherwise have been unable to afford a good or service (eg last-minute holiday bookings) eases the impact of inequalities
- price discrimination may allow for cross-subsidisation of unprofitable goods or services
- the negative image of price discrimination, especially relating to accusations of exploitation levelled at monopolists in response to natural disasters
- discussion of the alternative to a discriminating monopolist (likely to be a non-discriminating monopolist rather than a competitive market)
- use of examples
- market 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 student marks for this question.

MAXIMUM FOR QUESTION 14: 25 MARKS

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 – 7136/1 – JUNE 2023

Essay 3

Total for this essay: 40 marks

1	3
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 Explain how market contestability affects the performance of an industry.**[15 marks]****Areas for discussion include:**

- explanation of what is meant by the performance of an industry, eg profit/impact on consumers/efficiencies
- explanation of contestability
- how in a contestable market there is freedom of entry and exit, low sunk costs and the credible threat of new firms entering
- how the threat alone can force incumbent firms to keep prices reasonably low even if they are the sole supplier
- why contestable markets will tend to have lower profits than markets where there are significant barriers to entry
- the impact of contestability on efficiencies
- the opportunity for economies of scale in contestable markets
- 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 15 to award students marks for this question.

MAXIMUM FOR QUESTION 13: 15 MARKS

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 2017

0 2 Explain how the data in **Extract A (Figure 2)** show that the UK parcels delivery market is displaying dynamic efficiency.

[4 marks]

Response	Max 4 marks
- includes evidence that shows that the UK parcels delivery market is displaying dynamic efficiency. - clearly explains how this data is evidence that the UK parcels delivery market is displaying dynamic efficiency.	4 marks
- includes evidence that shows that the UK parcels delivery market is displaying dynamic efficiency. - unclear explanation of how this data is evidence that the UK parcels delivery market is displaying dynamic efficiency.	3 marks
- includes evidence that shows that the UK parcels delivery market is displaying dynamic efficiency. - limited or no explanation of how this data is evidence that the UK parcels delivery market is displaying dynamic efficiency.	2 marks
- includes evidence that does not clearly show that the UK parcels delivery market is displaying dynamic efficiency. - weak or no explanation of how this data is evidence that the UK parcels delivery market is displaying dynamic efficiency.	1 mark

Relevant issues include:

- explanation of the concept of dynamic efficiency
- revenue per employee has grown from approximately £160 000 in 2008 to £290 000 in 2014
- the number of employees in the sector has fallen from approximately 58 000 in 2008 to 47 000 in 2014
- these trends suggest that each employee has become more productive over time
- explanation of how this is likely to have been caused by improvements in technology, organisation, investments in capital.

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

0 3 **Extract B** (lines 12–14) states that ‘The Universal Postal Service obligations require Royal Mail to deliver letters and parcels to all parts of the country six days a week’.

With the help of a monopoly diagram, explain how the Universal Postal Service obligations are likely to affect Royal Mail's costs and profits.

[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

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

Essay 2

Total for this essay: 40 marks

1 1*Explain how technological progress can affect productivity, efficiency and firms' costs of production.***[15 marks]****Relevant issues include:**

- definitions of productivity, efficiency and costs of production
- explanation of technological progress
- explanation of different types of cost
- recognition that production involves converting inputs, or the services of factors of production such as capital and labour, into final output
- explanation of different types of efficiency, eg productive, allocative and dynamic efficiency
- the difference between invention and innovation
- explanation of how technological change can lead to increases in productivity
- explanation of why increases in productivity reduce total/average/marginal costs
- explanation of how increases in productivity improve productive efficiency
- explanation of other ways in which increases in productivity and efficiency reduce costs of production such as energy usage, raw material wastage, hours of labour or supply chain inefficiencies
- explanation of how technological change can lead to the development of new products, new production processes, the development of new markets and may destroy existing markets, improving dynamic efficiency
- explanation of how technological change can affect the structure of markets and hence different types of efficiency
- explanation of how the process of creative destruction is linked to technological change and how this affects productivity, efficiency and costs 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 15 to award students marks for this question.

MAXIMUM FOR QUESTION 11: 15 MARKS

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

Section B

Essay 1

Total for this essay: 40 marks

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 Explain how perfect competition should lead to outcomes which are **both** productively and allocatively efficient.

[15 marks]

Areas for discussion include:

- definitions of perfect competition, productive efficiency, allocative efficiency
- explanation of the assumptions of perfect competition
- explanation of how and why firms are forced to be price-takers in perfect competition
- the ability to earn supernormal profits is restricted. In the short run, perfectly competitive firms may make some supernormal profit, in the long run such profits will be eroded by new entrants joining the market or existing competitors expanding output. This contributes to allocative and productive efficiency
- explanation of how firms must produce output at the lowest point on the average cost curve. Any productive inefficiency will be punished by other more efficient firms selling at a lower price
- explanation of the condition for allocative efficiency ($P=MC$) and how and why this will be ensured in perfect competition.

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 2018

1 4 Evaluate the view that a firm making low profits must be inefficiently managed.

[25 marks]

Areas for discussion include:

- explanation of 'inefficiently managed'
- distinction between firms operating in monopoly markets from those in competitive markets, and how profits may indicate monopoly power rather than good management
- discussion of objectives of firms, including the divorce of ownership from control, sales maximisation, revenue maximisation and other objectives
- in a profit-maximising monopoly firm, low profit may indicate the firm is badly run, perhaps due to x-inefficiency or diseconomies of scale
- alternatively, the firm could be attempting to prioritise scale, rather than profits at least in the short-run
- short-run vs long-run objectives of firms, and how these are influenced by the ownership of the firm, eg family firm vs listed firm vs nationalised firm
- in highly competitive industries, firms must be well run if they are to survive, but they are unlikely to be making any supernormal profits in the long run
- some industries are inherently less profitable, because of high costs, low degree of risk or low demand
- high levels of market contestability may result in low profits
- sometimes unexpected events can affect profitability (eg changing trends, environmental disasters, terrorism) which affect profits beyond the control of the firm's management)
- examples of firms which support the question's claim, and those which do not
- the impact of government intervention on profitability
- the practice by some firms of disguising profitability to avoid paying corporation tax.

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 5 to award candidates marks for this question.

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

1 4 Discuss the view that privatisation is always beneficial because it leads to improvements in efficiency.

[25 marks]

Areas for discussion include:

- explanation of privatisation and efficiency
- explanation of types of efficiency
- reasons for privatisation
 - to open up the industry to market forces and the profit incentive
 - greater efficiency
 - contestability
 - lack of political interference
 - raising revenue through sale of assets
 - improved competition (if deregulation alongside privatisation)
- disadvantages of privatisation
 - monopolies may well form and may need regulating
 - externalities less likely to be considered
 - government loses a source of ongoing revenue if the entity is profitable
 - fragmentation into multiple providers leading to rising costs
 - short-termist profit objectives leading to suboptimal long-term decisions
 - loss of economies of scale and natural monopoly arguments
- examples of privatisations that have involved deregulation and increased contestability (eg rail) and evaluation of whether they have been successful or not
- evaluation of the pros and cons of privatisation with deregulation/increased contestability
- discussion of how only some privatisations create markets in place of state-owned monopolies: others create non-contestable monopolies which are then regulated
- discussion of how some state-owned industries are of strategic/sensitive national importance, eg nuclear power and thus ought to remain in government hands
- market failure arguments
- government failure arguments
- assessment of whether privatisation is always beneficial and if so, whether the benefits are due to improved efficiency or other reasons.

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