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EDEXCEL A ECONOMICS: QUESTIONS BY TOPIC

Business Objectives (3.2)

A Level Economics Theme 3

16 questions · 112 marks · Mark schemes included

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 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.

QUESTION	SOURCE	MARKS	PAGE
3.2.1 BUSINESS OBJECTIVES		16 Qs · 112 marks	2
1. Q4(b)	A Level Paper 1 June 2018	1	3
2. Q5(c)	A Level Paper 1 October 2020	1	4
3. Q3(b)	A Level Paper 1 June 2024	1	5
4. Q1(b)	A Level Paper 1 June 2025	1	6
5. Q5(a)	A Level Paper 1 October 2020	2	7
6. Q5(b)	A Level Paper 1 October 2020	2	8
7. Q4	A Level Paper 1 June 2018	5	9
8. Q5	A Level Paper 1 October 2020	5	11
9. Q3	A Level Paper 1 June 2024	5	12
10. Q1	A Level Paper 1 June 2025	5	13
11. Q6(c)	A Level Paper 1 November 2021	10	15
12. Q6(c)	A Level Paper 1 June 2022	10	21
13. Q1(b)	A Level Paper 3 June 2018	12	26
14. Q2(c)	A Level Paper 3 June 2023	12	33
15. Q6(e)	A Level Paper 1 November 2021	15	39
16. Q8	A Level Paper 1 June 2017	25	46



QUESTIONS

16 questions · 112 marks · 1 sub-topic

SUB-TOPIC 3.2.1

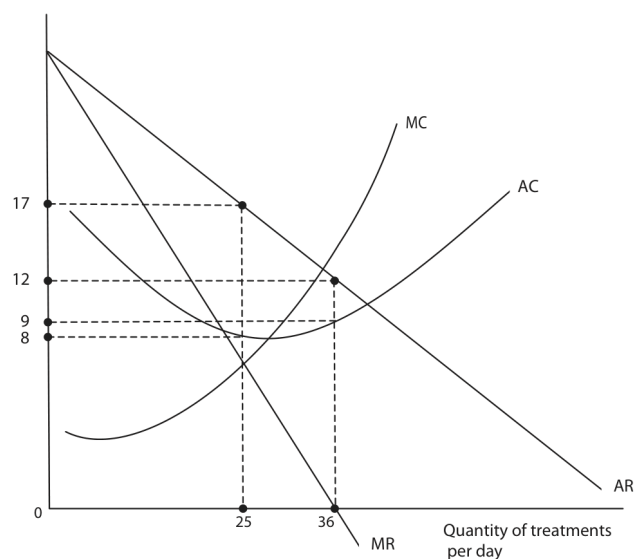
BUSINESS OBJECTIVES

Sub-topic 3.2.1 · 16 questions · 112 marks · lowest tariff first



- 4 Emily owns and operates a nail ink salon. The diagram shows the cost and revenue curves for treatments at her nail ink salon. Initially, Emily sets her price to maximise profits.

Costs, Revenue
per treatment (£)



- (b) Emily now decides to change her objective from revenue maximisation to sales maximisation. This change will lead to:

(1)

- ☐ A a decrease in the number of customers
☐ B a decrease in the price of treatments
☐ C an increase in productive efficiency
☐ D an increase in the level of profit

(Total for Question 4(b) = 1 mark)



- 5 'Bettys' is a luxury café, first opened in Harrogate in 1919 specialising in afternoon tea service. Since then it has opened a further five branches in Yorkshire. It has no plans to increase the number of cafés. The six branches have 2 million customers a year.

(Source adapted from: <https://www.forbes.com/sites/sarahturner/2018/03/22/the-famed-yorkshire-cafe-that-blends-nostalgia-with-profits-and-conservation/#7eb50cec7a4e>)

- (c) Assume 'Bettys' merges with a major tea leaf supplier. Which **one** of the following is most likely to be an advantage as a result of this merger?

(1)

- ☐ A External economies of scale will increase efficiency
- ☐ B Greater control to lower prices of tea
- ☐ C Industrial diversification increases risks
- ☐ D Lower monopoly power in the café market

(Total for Question 5(c) = 1 mark)



- 3** Peloton is a firm which makes exercise bikes. Peloton's objective is to prioritise selling fitness services rather than to achieve short-term profit maximisation.

(Source adapted from: <https://www.forbes.com/sites/shelleykohan/2022/01/26/peloton-prioritizes-access-and-acquisition-over-profits/?sh=13d8ee474f40>)

- (b) If Peloton changes its objective to sales maximisation, then without making a loss, it operates at an output where:

(1)

- ☐ **A** average cost equals average revenue
- ☐ **B** average cost is minimised
- ☐ **C** price elasticity of demand is equal to -1
- ☐ **D** price equals marginal cost

(Total for Question 3(b) = 1 mark)



SECTION A

Answer ALL questions. Write your answers in the spaces provided.

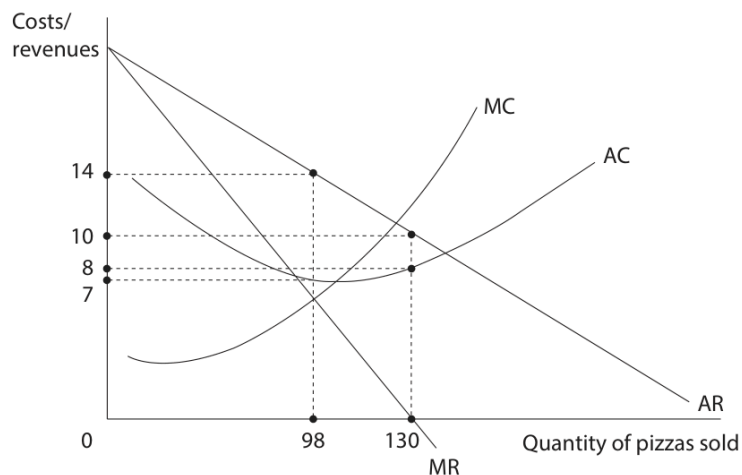
Some questions must be answered with a cross in a box ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

You are advised to spend 30 minutes on this section.

Use the data to support your answers where relevant.

You may annotate and include diagrams in your answers.

- 1 The diagram below shows the cost and revenue curves for a pizza in a popular high street restaurant. The restaurant currently pursues an objective of revenue maximisation.



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- (b) Refer to the previous diagram. There is a reduction in the demand for pizza.

Ceteris paribus, which **one** of the following will happen to the restaurant's average revenue and marginal revenue as a result of this change?

(1)

- ☐ A Average revenue and marginal revenue both fall
- ☐ B Average revenue and marginal revenue stay the same
- ☐ C Average revenue falls and marginal revenue increases
- ☐ D Average revenue increases and marginal revenue falls

(Total for Question 1(b) = 1 mark)



- 5 'Bettys' is a luxury café, first opened in Harrogate in 1919 specialising in afternoon tea service. Since then it has opened a further five branches in Yorkshire. It has no plans to increase the number of cafés. The six branches have 2 million customers a year.

(Source adapted from: <https://www.forbes.com/sites/sarahturner/2018/03/22/the-famed-yorkshire-cafe-that-blends-nostalgia-with-profits-and-conservation/#7eb50cec7a4e>)

- (a) Explain **one** likely reason why this business has remained small.

(2)

(Total for Question 5(a) = 2 marks)



- 5** 'Bettys' is a luxury café, first opened in Harrogate in 1919 specialising in afternoon tea service. Since then it has opened a further five branches in Yorkshire. It has no plans to increase the number of cafés. The six branches have 2 million customers a year.

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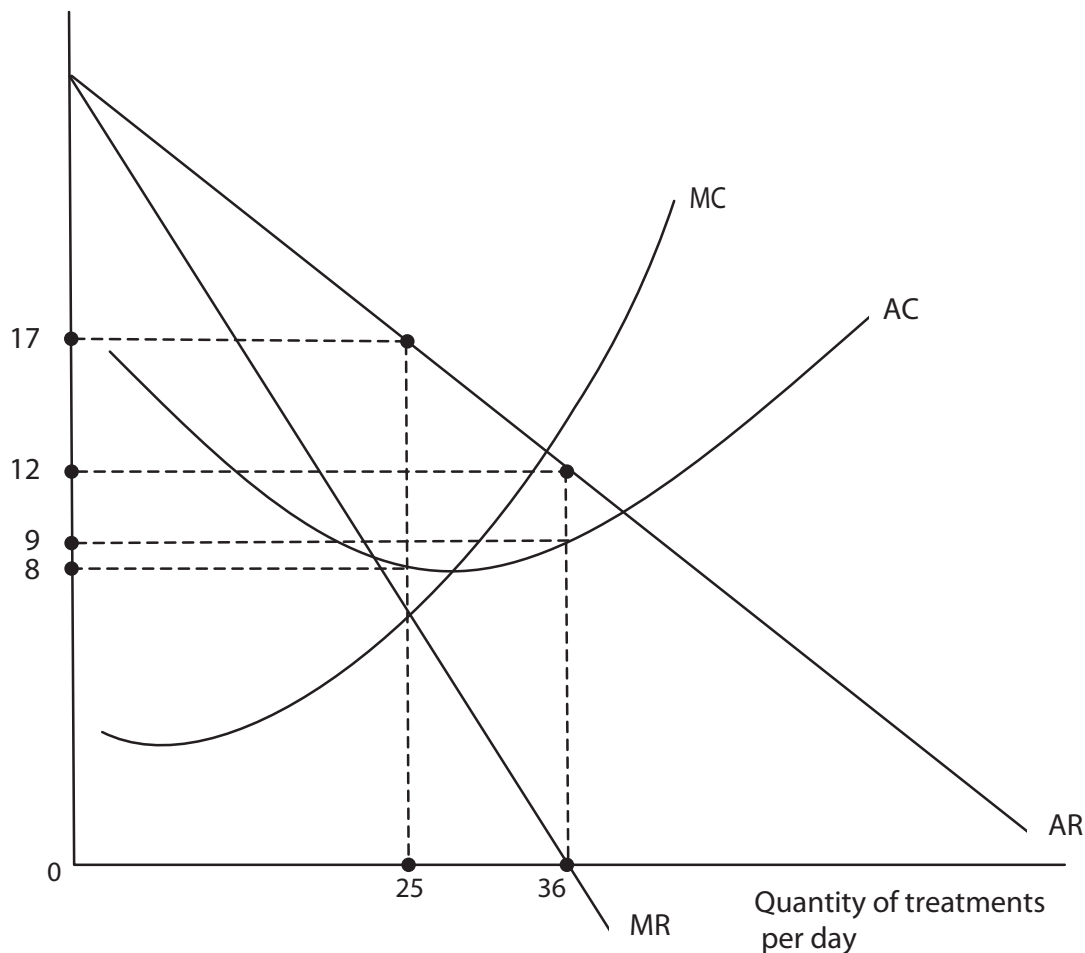
- (b) Explain why the previous expansion of this business could be described as 'organic growth'.
(2)

(Total for Question 5(b) = 2 marks)



- 4 Emily owns and operates a nail ink salon. The diagram shows the cost and revenue curves for treatments at her nail ink salon. Initially, Emily sets her price to maximise profits.

Costs, Revenue
per treatment (£)



- (a) Calculate the **change in total supernormal profit** if Emily changes her objective from profit maximisation to revenue maximisation. You are advised to show your working.

(4)

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(b) Emily now decides to change her objective from revenue maximisation to sales maximisation. This change will lead to:

(1)

- ☐ **A** a decrease in the number of customers
- ☐ **B** a decrease in the price of treatments
- ☐ **C** an increase in productive efficiency
- ☐ **D** an increase in the level of profit

(Total for Question 4 = 5 marks)



- 5 'Bettys' is a luxury café, first opened in Harrogate in 1919 specialising in afternoon tea service. Since then it has opened a further five branches in Yorkshire. It has no plans to increase the number of cafés. The six branches have 2 million customers a year.

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(2)

- (b) Explain why the previous expansion of this business could be described as 'organic growth'.

(2)

- (c) Assume 'Bettys' merges with a major tea leaf supplier. Which **one** of the following is most likely to be an advantage as a result of this merger?

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- ☐ B Greater control to lower prices of tea
- ☐ C Industrial diversification increases risks
- ☐ D Lower monopoly power in the café market

(Total for Question 5 = 5 marks)

TOTAL FOR SECTION A = 25 MARKS

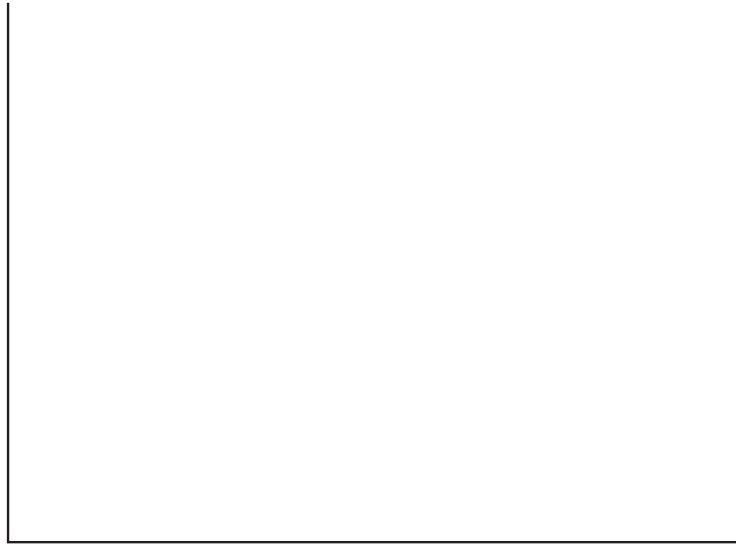


- 3** Peloton is a firm which makes exercise bikes. Peloton's objective is to prioritise selling fitness services rather than to achieve short-term profit maximisation.

(Source adapted from: <https://www.forbes.com/sites/shelleykohan/2022/01/26/peloton-prioritizes-access-and-acquisition-over-profits/?sh=13d8ee474f40>)

- (a) Draw a cost and revenue diagram to illustrate the different business objectives: profit maximisation and revenue maximisation.

(4)



- (b) If Peloton changes its objective to sales maximisation, then without making a loss, it operates at an output where:

(1)

- ☐ **A** average cost equals average revenue
- ☐ **B** average cost is minimised
- ☐ **C** price elasticity of demand is equal to -1
- ☐ **D** price equals marginal cost

(Total for Question 3 = 5 marks)

SECTION A

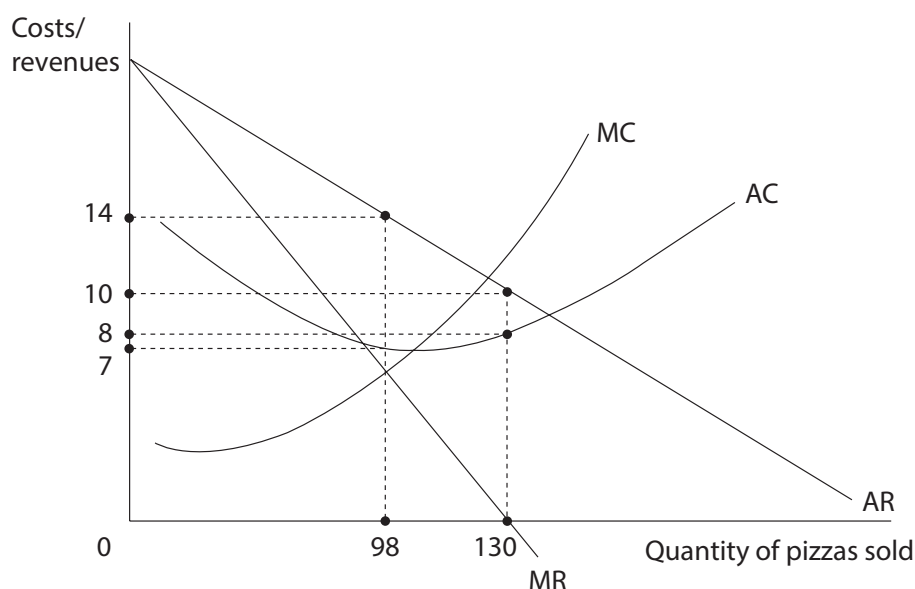
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Use the data to support your answers where relevant.
You may annotate and include diagrams in your answers.

- 1 The diagram below shows the cost and revenue curves for a pizza in a popular high street restaurant. The restaurant currently pursues an objective of revenue maximisation.



- (a) Calculate the **change** in total supernormal profit if the restaurant changes its objective from revenue maximisation to profit maximisation. You are advised to show your working.

(4)

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(b) Refer to the previous diagram. There is a reduction in the demand for pizza.

Ceteris paribus, which **one** of the following will happen to the restaurant's average revenue and marginal revenue as a result of this change?

(1)

- ☐ **A** Average revenue and marginal revenue both fall
- ☐ **B** Average revenue and marginal revenue stay the same
- ☐ **C** Average revenue falls and marginal revenue increases
- ☐ **D** Average revenue increases and marginal revenue falls

(Total for Question 1 = 5 marks)

SECTION B

Read Figures 1 and 2 and the following extracts (A to C) before answering Question 6.

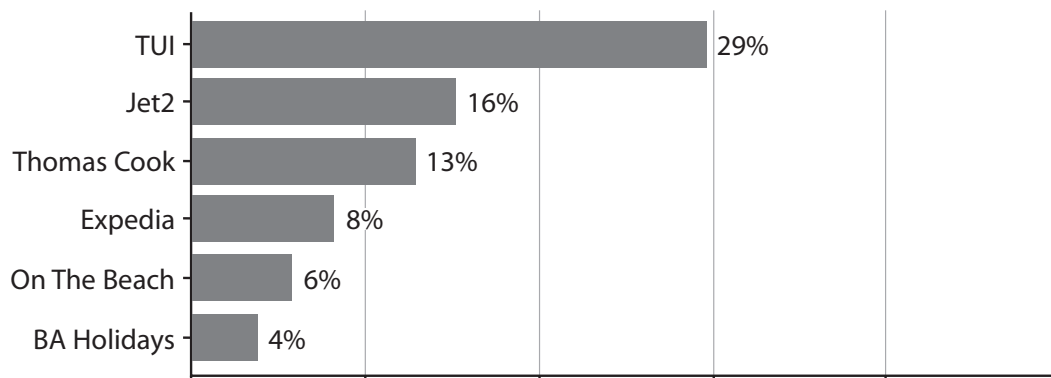
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 6

The travel and tourism industry

Figure 1: Package holiday market share of the six largest providers, booked by UK residents, 2019



(Source adapted from: <https://knowledge.sharescope.co.uk/2019/10/16/finding-companies-that-control-their-own-destinies/The Times/ATOL>)

Figure 2: Jet2 package holiday prices to Sorrento

Price before Thomas Cook shutdown

2 Adults for 7 Nights from Monday 25 May 2020

- Half Board
- 1 x Premium Double or Twin room
- Return flights from Edinburgh
[View flight times](#)
- 22 kg Bag Allowance
- 10 kg Hand Baggage
- ATOL Protected
- Coach Transfers

Holiday price from **£1,576** Per person price

£788

Price 12 hours after Thomas Cook shutdown

2 Adults for 7 Nights from Monday 25 May 2020

- Half Board
- 1 x Premium Double or Twin room
- Return flights from Edinburgh
[View flight times](#)
- 22 kg Bag Allowance
- 10 kg Hand Baggage
- ATOL Protected
- Coach Transfers

Holiday price from **£1,648** Per person price

£824

Data accessed: 22nd and 23rd September 2019



Extract A**Marginal productivity of cabin crew**

Cabin crew are responsible for loading passengers and providing in-flight meals. United Airlines is planning to reduce the number of its cabin crew members onboard international flights. The airline currently operates its planes with one more cabin crew member than its competitors. The marginal productivity of this additional crew member may be low. By reducing the number of its cabin crew members United Airlines will be able to operate more efficiently and compete more effectively.

5

(Source adapted from: <https://simpleflying.com/united-airlines-to-reduce-number-of-crew-on-international-flights/>)

Extract B**Thomas Cook's environmental impact**

Thomas Cook Group plc's operations included its airline and 560 high street travel agents providing flights, hotels and package holidays.

The environmental impact of the travel industry is significant. It accounts for 8% of all global carbon emissions. Thomas Cook recognised the risks presented by climate change and actively engaged in reducing their airline emissions. Its plans included using more efficient aircraft and using lower-carbon fuel. In 2018, Thomas Cook was included in the top 10 of the world's most fuel-efficient airlines.

5

(Source adapted from: https://www.thomascookgroup.com/investors/insight_external_assesst/Thomas+Cook+Sustainability+Report+2018.pdf)



Extract C**Why did Thomas Cook shut down?**

Thomas Cook Group plc ceased trading on 23 September 2019. The collapse of Thomas Cook left 600 000 travellers stranded overseas and approximately 21 000 worldwide employees were left without a job.

Thomas Cook's management said that the failure of rescue talks between banks, shareholders and the UK Government meant it had no choice but to shut down the business. 5

But in truth the tour operator's problems go back much further. A disastrous merger in 2007, increased debts, the internet revolution in holiday booking and Brexit uncertainty all contributed to the failure of the business. 10

In 2007 it merged with MyTravel. Thomas Cook directors had an objective of rapid company growth over short-term profitability. The merger was supposed to create a European giant, promising £75 million-a-year cost savings and a springboard to challenge emerging internet rivals. In reality, Thomas Cook was merging with a company that had only made a profit once in the previous six years, and the deal left the Group with huge debts. In May 2019, the firm reported a £1.5 billion loss. 15

The role of the management in Thomas Cook's collapse is being investigated by the UK Government. Thomas Cook executives' salaries and bonuses have been questioned. Directors received salaries totalling £20 million in the five years before its collapse. The Chief Executive Officer (CEO) earned a £500 000 cash bonus in 2017 and about £8.5 million in his five years with the company. It seems that around £4 million of this was in the form of shares. The share price reached £1.46 in 2018, but each share is now worthless. 20

The CEO said that the directors had worked "exhaustively" to rescue Thomas Cook and create a long-term turnaround strategy. "It is a matter of profound regret to me and the rest of the board that we were not successful." 25

The UK prime minister admitted that the government refused to grant £150 million as a subsidy to help rescue Thomas Cook in the short run. The UK prime minister stated: "Clearly, that is a lot of taxpayers' money and sets up, as people will appreciate, a moral hazard in the case of future such commercial difficulties that companies face. I have questions about whether it's right that the directors, or whoever, the board, should pay themselves large sums when businesses can go down the tubes like that. One is driven to reflect on whether the directors of these companies are properly incentivised to sort such matters out". 30

(Source adapted from: <https://www.theguardian.com/business/2019/sep/23/thomas-cook-as-the-world-turned-the-sun-ceased-to-shine-on-venerable-tour-operator>

and <https://www.ft.com/content/a7dd2554-de23-11e9-b112-9624ec9edc59>)



(10)





SECTION B

Read Figures 1 and 2 and extracts A and B before answering Question 6.

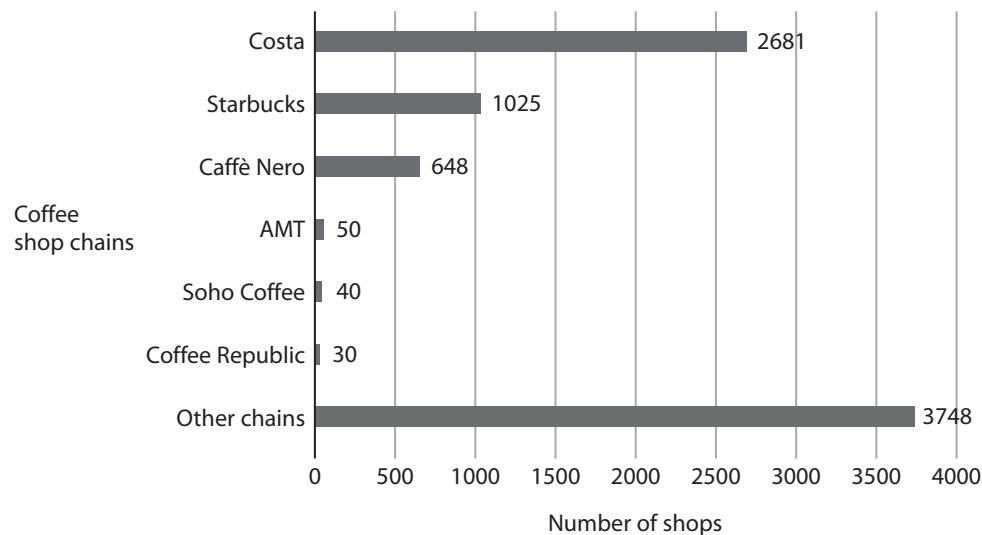
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 6

UK branded coffee shop chains market

Figure 1: Branded coffee shops by number of shops in the UK in 2021



(Source: adapted from <https://www.statista.com/statistics/297863/leading-coffee-shop-chains-in-the-united-kingdom-uk-store-number/>)

Figure 2: International coffee price (Arabica bean), US dollars per kilogram

Month	Price	Change
Jan 2020	3.13	–
Feb 2020	2.99	–4.47%
Mar 2020	3.27	9.36%
Apr 2020	3.41	4.28%
May 2020	3.30	–3.23%
Jun 2020	3.12	–5.45%
Jul 2020	3.24	3.85%
Aug 2020	3.60	11.11%
Sep 2020	3.67	1.94%
Oct 2020	3.35	–8.72%
Nov 2020	3.31	–1.19%
Dec 2020	3.48	5.14%

(Source: adapted from <https://www.indexmundi.com/commodities/?commodity=other-mild-arabicas-coffee&months=12>)



Extract A**Tough market conditions for coffee shops – but coffee quality is king**

UK coffee shop chains have experienced slow growth opportunities and rising costs. In 2019 the UK market leader, Costa Coffee, opened over 60% fewer stores than in 2018, while Starbucks opened just three new stores overall in 2019.

By 2020, many costs were rising: staff shortages meant rising wages for baristas (trained coffeemakers), a 6.2% National Minimum Wage increase for over 25-year-olds and rising rents. 5

In a challenging UK economy, consumers placed coffee quality ahead of convenient location when choosing a coffee shop. This demonstrates the need for coffee shops to match rising expectations in the UK's increasingly crowded coffee shop market in order to stay competitive. Independent coffee shops (total 25 892 shops in 2020) remain a threat to the branded coffee shops as they pursue a unique luxury experience for customers. This will often focus on the atmosphere and customer service, luxury food and drink ranges and being a part of the local community. Independent coffee shops run on average profit as low as 2% of revenue, and many go out of business as new chains arrive in a locality. 10 15

In January 2020, Coca-Cola finalised its £3.9 billion takeover of market leader, Costa Coffee. The Coca-Cola company's stated aims are to maximise long-term returns to shareholders while being mindful of overall responsibilities such as supporting sustainable communities. Major brands, such as Costa, continue to lead coffee shop expansion in 2020 as competition intensifies. 20

(Source: adapted from <https://www.worldcoffeeportal.com/Latest/InsightAnalysis/2020/February/5-UK-coffee-shop-market-dynamics-to-watch-in-2020>)

Extract B**Greggs aiming for 'coffee shop experience'**

Greggs is looking to increase its branded coffee shop market share after the British bakery chain achieved record profits and overtook Starbucks in the amount of coffee it served in the UK. Although Greggs will continue to focus on the food-to-go market, it will be investing in better coffee machines and providing WiFi. It wants one in three new outlets to have more seating. The company believes that it has the ability to take market share in two ways, by expanding its coffee range and at the same time enhancing the coffee shop experience. Greggs is modelling its plan on rival chain Pret A Manger, which has changed from focusing on food-to-go sales to mainly eating in. Greggs has transformed itself from an unremarkable seller of bread and pastries into one of the UK's most popular food-on-the-go chains, in part thanks to its embrace of vegan, gluten-free and healthy options as well as clever marketing that have changed its image. 5 10

(Source: adapted from Financial Times, 3 March 2020 <https://www.ft.com/content/6fb6d73a-5d24-11ea-8033-fa40a0d65a98>)



(10)







SECTION A

Read Figures 1 to 3 and the following extracts (A, B and C) before answering Question 1.

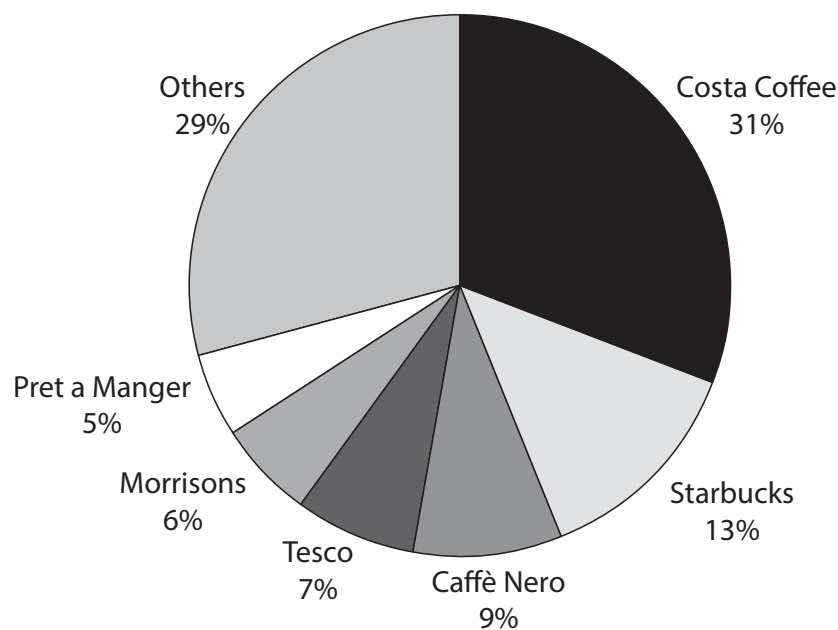
Answer ALL Questions 1(a) to 1(c), and EITHER Question 1(d) OR 1(e).

Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 1**Branded coffee shops**

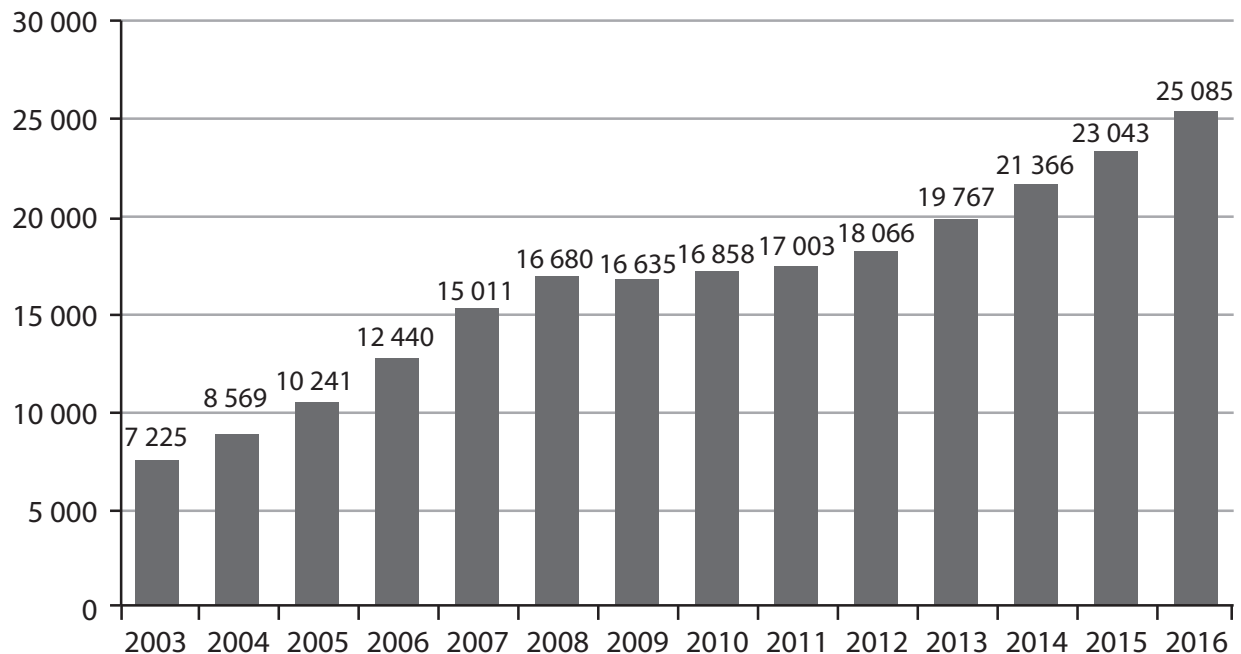
Figure 1: Market share of UK branded coffee shops, 2015, percentages



(Source: <http://metro.co.uk/2015/12/14/the-uks-most-popular-coffee-shop-has-been-revealed-5564569/>)

Figure 2: Number of Starbucks coffee shops worldwide, 2003–2016

Number of
coffee shops



(Source: <https://www.statista.com/statistics/266465/number-of-starbucks-stores-worldwide/>)

Figure 3: Price comparison in selected London coffee retailers, February 2017

Coffee style	Starbucks	Costa Coffee	Caffè Nero	Greggs	McDonald's
Espresso Double	£2.00	£2.00	£1.70	£1.65	£0.99
Latte Medium	£2.60	£2.50	£2.50	£1.80	£1.79
Latte Large	£2.80	£2.70	£2.80	£2.10	£2.09

(Source: data collected from coffee shops in Holborn, London on 25 February 2017)



Extract A**Starbucks in Britain – a loss-making business?**

Coffee shops are among the most profitable parts of the food and drink industry, and few are doing quite as well as Starbucks, a US-based transnational company. Starbucks may be complaining of adverse global market conditions but that did not stop the world's biggest coffee chain from reporting record annual profits in 2016. It made a profit of almost US\$4.2 billion for the year, up 16% on 2015. That was mainly the result of a strong performance in its biggest market, America, where revenue rose 11%. The fastest growth was in the China and Asia Pacific region, with revenue up 23%. Howard Schultz, the CEO of Starbucks, said its Chinese coffee shops were the most efficient and profitable. While Starbucks still makes most of its profit in the US, Mr Schultz has said expansion in China will secure its future for "decades to come" and announced plans to more than double the number of shops in China to 5 000 by 2021.

However its British subsidiary, at first glance, appears to be doing less well. It has announced its first ever profit in Britain in 2015 – of just £1 million – despite opening its first coffee shop in the UK in 1998. It now has 849 UK outlets. The main reason why Starbucks has reported persistent losses in the UK is not due to a lack of demand for its coffee, but to minimise its tax bill. It is claimed that some of Starbucks' revenue earned in the UK is transferred to its Dutch subsidiary, which is charged lower rates of tax.

Starbucks is not finding life as easy in Britain as in the USA. It faces competition from home-grown chains such as Costa and Caffè Nero. Accusations of tax avoidance have also damaged Starbucks' sales to the benefit of its competitors. A survey found that a third less people rated Starbucks as their preferred coffee shop than they did before the tax-avoidance allegations were first published.

These issues have forced Starbucks to change its strategy. It has slowed down its expansion plans in the UK and has closed 67 underperforming coffee shops over the past year. It has also tried to repair its reputation by transferring its European headquarters from Amsterdam to London.

(Sources: adapted from *The Economist* 14 February 2015 <http://www.economist.com/news/business-and-finance/21643271-tax> and Starbucks company report 2016 and http://s21.q4cdn.com/369030626/files/doc_financials/2015/Starbucks-Fiscal-2015_Financial-Highlights.pdf)

Extract B**Tax on disposable coffee cups?**

Two and a half billion disposable cups are thrown away every year in the UK, that is, seven million every day. Only one in 400 is recycled. The UK Environment Minister has suggested that a coffee cup tax could work in a similar manner to the plastic bag charge. The 5 pence a bag charge has led to an 85% reduction in the number of bags being given out since October 2015. It is estimated that introducing a tax on disposable coffee cups would cut usage by two billion every year. One environment spokesperson, Kate Parminter, said: "We've seen how dramatically a small charge has affected public behaviour when it comes to the plastic bags and it is clearly time to extend it to coffee cups. Most people purchase a tea or coffee and throw away the cup without even thinking about it, but a charge would increase our awareness of the environmental impact."

In response, another MP welcomed her comments but said he did not believe a tax was the solution. He said: "My initial reaction is charging 5p or 10p for the cup will not work. It will not encourage people to take their own cups in if a coffee goes up from £2.60 to £2.65. I suspect a more technological answer is what we need – either the composition of the disposable cups being changed so they're more easily recyclable, or changing the technology in the recycling."

Disposable coffee cups contain a plastic coating inside the cups which prevent them from becoming soggy, making them difficult to recycle. There are just two specialist facilities in the UK that have the required equipment to separate plastic from paper for recycling. Almost no recycled paper is used in the production of disposable cups, meaning that some 43 000 trees must be cut down annually to keep up with the demand. CO₂ emissions of around 83 000 tonnes are generated every year for their production.

(Sources: adapted from <http://www.independent.co.uk/news/uk/politics/disposable-coffee-cups-could-be-taxed-like-plastic-bags-environment-minister-says-a6938126.html> 05/09/16 and <https://www.cchdaily.co.uk/lib-dems-call-5p-plastic-bag-tax-coffee-cups>)

Extract C**German city of Freiburg takes action on cutting the use of disposable coffee cups**

The 'Freiburg cup', made from dishwasher-proof plastic, can be reused hundreds of times. Cups are issued with a one-euro deposit, and can be returned to any of the participating coffee shops in the German city. The cups, which are provided to coffee shops by local councils, are washed in the cafés and bakeries that have signed up to the scheme before being reused. 56 coffee retailers have signed up, and 10 000 cups are being used.

One of the main obstacles facing a wider-reaching scheme, however, is the number of café chains in Germany that are unwilling to use unbranded multi-use cups, particularly Starbucks and McDonald's. Starbucks already offers a discounted coffee for customers with a multi-use cup, but only if it is bearing the unmistakable Starbucks logo.

(Source: adapted from <http://www.dw.com/en/germanys-love-for-coffee-to-go-leaves-environmental-groups-demanding-action/a-36689719>)



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SECTION B

Read Figures 3 and 4 and the extracts (C to E) before answering Question 2.

Answer ALL Questions 2(a) to 2(c), and EITHER Question 2(d) OR 2(e).

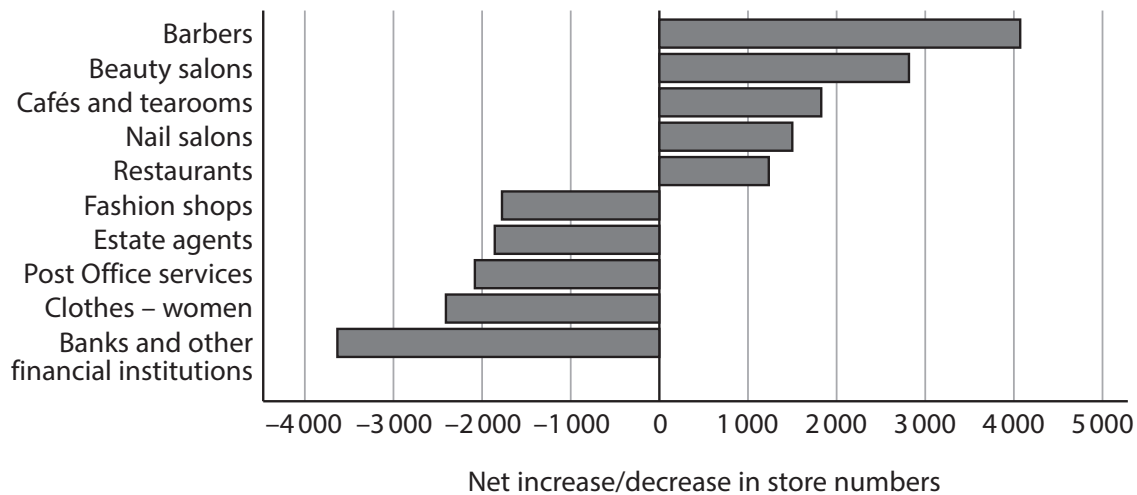
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 2

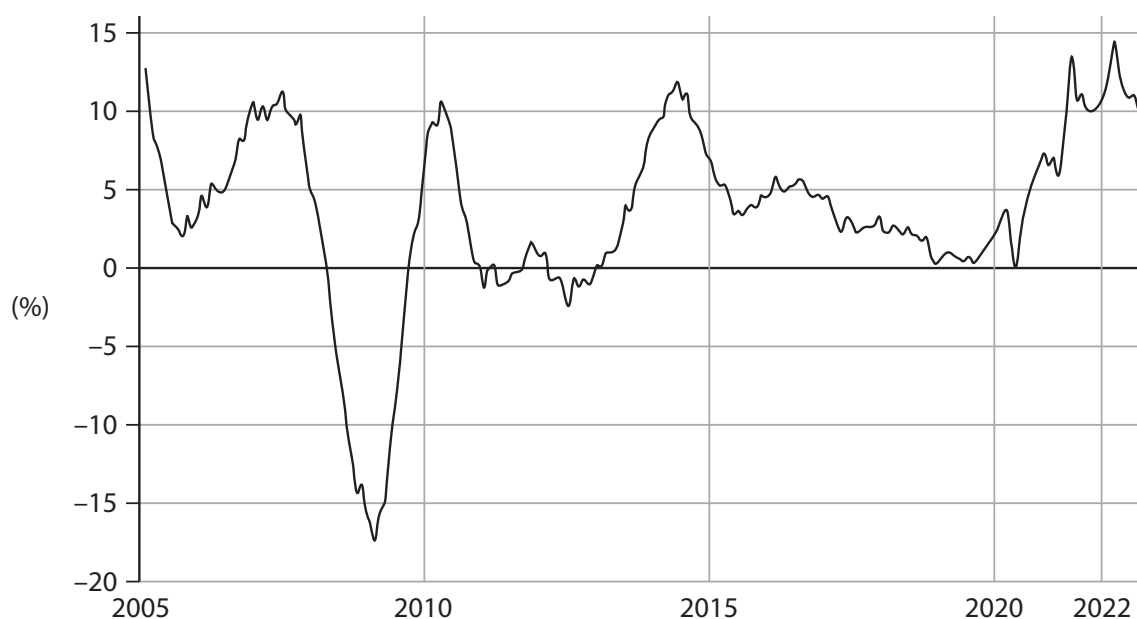
Changes in the nature of UK towns and cities

Figure 3: Growing and declining high street firms – net change in store numbers, 2013–2022



(Source: adapted from <https://www2.deloitte.com/uk/en/pages/consumer-business/articles/what-next-for-the-high-street.html>)

Figure 4: House price changes in the UK (%), 2005 to 2022



(Source: adapted from <https://www.theguardian.com/money/2022/sep/28/uk-house-prices-may-fall-20-amid-mortgage-carnage-warn-experts>)



Extract C**What next for the high street?**

A high street is typically found in all UK towns and cities. Shops normally encountered in a typical UK high street can include successful small firms such as independent food retailers, cafés, nail and beauty salons, restaurants and charity shops. They differ from out-of-town shopping centres by being more diverse, family-run and offering local or personalised services. Customers are often very loyal. However, the high street may often have limited access by car or expensive parking facilities. 5

The rise of online retailers such as Amazon and eBay have placed huge pressures on UK high streets, with many well-known shops – and even successful retail chains – forced to close due to lost business. Many high street firms cannot compete on price with online retailers who – because they frequently have very low fixed costs – can significantly undercut the high street shops on price. 10

Even before online shopping, competition was eroding high street activity, with out-of-town retail parks that were not necessarily cheaper but provide a larger range of shops and offer plentiful parking. They offer a shopping experience that other retailing cannot match – pleasant, safe pedestrian shopping, a clean environment, fun activities for children and spend-the-day-there potential. 15

While the list of retail and leisure failures might suggest that the high street does not have a future, some analysts argue the opposite. Many believe that the high street is ideally placed to reinvent itself in response to the structural shift in working and shopping patterns that has resulted from the global health crisis 2020–22. The perceived weaknesses of the high street model – its fragmented ownership, lack of centralised coordination and high vacancy rates – become strengths as they lower the barriers to entry for new concepts and operators. They also enable risk taking and innovation that will ultimately lead to a more flourishing and diverse environment on our local high streets. 20 25

It should be possible for small firms to flourish even when staff shortages are pushing up wages in the high street, and house price falls damage consumer confidence and spending on perceived luxuries.

(Source: adapted from <https://www.designingbuildings.co.uk/> and <https://www2.deloitte.com/uk/en/pages/consumer-business/articles/what-next-for-the-high-street.html>)

Extract D**UK house prices may fall up to 20%**

Turmoil on the UK financial markets has prompted analysts to predict that house prices could fall dramatically, and many lenders in the mortgage sector are withdrawing deals. People coming to the end of their fixed-rate mortgages are seeing rises from 2% to over 5.5%, with increases in the cost of borrowing of over £5 200 a year by 2024 for the average mortgage in the UK. Many people think UK house prices will never fall, but analysts say the fall could be between 10% and 20%.

5

One mortgage lender said that a lack of housing supply will not keep house prices up when mortgage interest rates are somewhere between 5% and 7%. He claimed that 'the decade-long property bubble is about to burst [...] It's a buyer's market now'. The greatest impact will be seen in the southeast of England.

10

(Source: adapted from <https://www.theguardian.com/money/2022/sep/28/uk-house-prices-may-fall-20-amid-mortgage-carnage-warn-experts>)

Extract E**UK job vacancies hit record 1.1 million as labour shortages increase**

The ratio of jobless people to vacancies is 1.45 to 1, lower than at any point in the last 40 years. Social care for example has 300 000 current unfilled posts.

'Today's figures show that labour shortages are now affecting the whole economy,' said one analyst. 'There are almost a million people fewer in the labour market, largely due to younger people staying in education and older people dropping out of the workforce.' The inactivity rate is 21.1%, and many people are not returning to work after the global health crisis. 'People seeking work do not have the skills or availability that employers need,' said Kitty Ussher, chief economist at the Institute of Directors. Firms offering higher wages does not solve the issue.

5

10

(Source: adapted from <https://www.ft.com/content/463f4fbd-3a50-45b5-891c-5cb5ba623df8>)



(12)







SECTION B

Read Figures 1 and 2 and the following extracts (A to C) before answering Question 6.

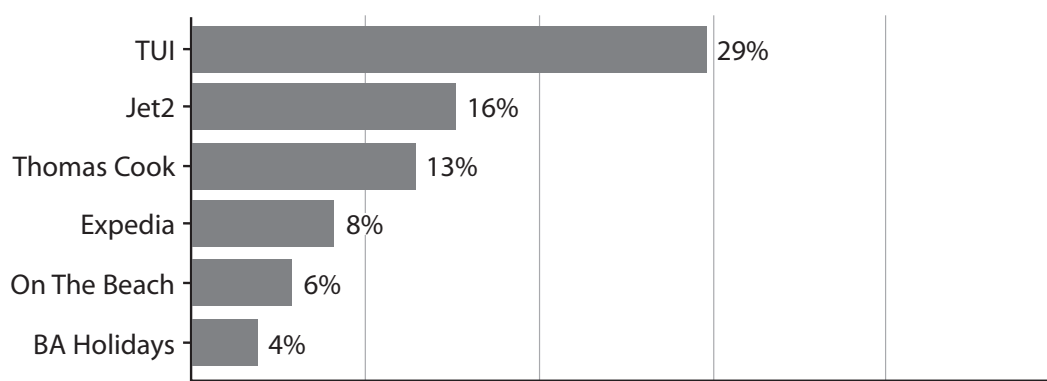
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 6

The travel and tourism industry

Figure 1: Package holiday market share of the six largest providers, booked by UK residents, 2019



(Source adapted from: <https://knowledge.sharescope.co.uk/2019/10/16/finding-companies-that-control-their-own-destinies/The Times/ATOL>)

Figure 2: Jet2 package holiday prices to Sorrento

Price before Thomas Cook shutdown

2 Adults for 7 Nights from Monday 25 May 2020

- Half Board
- 1 x Premium Double or Twin room
- Return flights from Edinburgh
[View flight times](#)
- 22 kg Bag Allowance
- 10 kg Hand Baggage
- ATOL Protected
- Coach Transfers

Holiday price from **£1,576** Per person price

£788

Price 12 hours after Thomas Cook shutdown

2 Adults for 7 Nights from Monday 25 May 2020

- Half Board
- 1 x Premium Double or Twin room
- Return flights from Edinburgh
[View flight times](#)
- 22 kg Bag Allowance
- 10 kg Hand Baggage
- ATOL Protected
- Coach Transfers

Holiday price from **£1,648** Per person price

£824

Data accessed: 22nd and 23rd September 2019



Extract A**Marginal productivity of cabin crew**

Cabin crew are responsible for loading passengers and providing in-flight meals. United Airlines is planning to reduce the number of its cabin crew members onboard international flights. The airline currently operates its planes with one more cabin crew member than its competitors. The marginal productivity of this additional crew member may be low. By reducing the number of its cabin crew members United Airlines will be able to operate more efficiently and compete more effectively.

5

(Source adapted from: <https://simpleflying.com/united-airlines-to-reduce-number-of-crew-on-international-flights/>)

Extract B**Thomas Cook's environmental impact**

Thomas Cook Group plc's operations included its airline and 560 high street travel agents providing flights, hotels and package holidays.

The environmental impact of the travel industry is significant. It accounts for 8% of all global carbon emissions. Thomas Cook recognised the risks presented by climate change and actively engaged in reducing their airline emissions. Its plans included using more efficient aircraft and using lower-carbon fuel. In 2018, Thomas Cook was included in the top 10 of the world's most fuel-efficient airlines.

5

(Source adapted from: https://www.thomascookgroup.com/investors/insight_external_assess/Thomas+Cook+Sustainability+Report+2018.pdf)



Extract C**Why did Thomas Cook shut down?**

Thomas Cook Group plc ceased trading on 23 September 2019. The collapse of Thomas Cook left 600 000 travellers stranded overseas and approximately 21 000 worldwide employees were left without a job.

Thomas Cook's management said that the failure of rescue talks between banks, shareholders and the UK Government meant it had no choice but to shut down the business. 5

But in truth the tour operator's problems go back much further. A disastrous merger in 2007, increased debts, the internet revolution in holiday booking and Brexit uncertainty all contributed to the failure of the business. 10

In 2007 it merged with MyTravel. Thomas Cook directors had an objective of rapid company growth over short-term profitability. The merger was supposed to create a European giant, promising £75 million-a-year cost savings and a springboard to challenge emerging internet rivals. In reality, Thomas Cook was merging with a company that had only made a profit once in the previous six years, and the deal left the Group with huge debts. In May 2019, the firm reported a £1.5 billion loss. 15

The role of the management in Thomas Cook's collapse is being investigated by the UK Government. Thomas Cook executives' salaries and bonuses have been questioned. Directors received salaries totalling £20 million in the five years before its collapse. The Chief Executive Officer (CEO) earned a £500 000 cash bonus in 2017 and about £8.5 million in his five years with the company. It seems that around £4 million of this was in the form of shares. The share price reached £1.46 in 2018, but each share is now worthless. 20

The CEO said that the directors had worked "exhaustively" to rescue Thomas Cook and create a long-term turnaround strategy. "It is a matter of profound regret to me and the rest of the board that we were not successful." 25

The UK prime minister admitted that the government refused to grant £150 million as a subsidy to help rescue Thomas Cook in the short run. The UK prime minister stated: "Clearly, that is a lot of taxpayers' money and sets up, as people will appreciate, a moral hazard in the case of future such commercial difficulties that companies face. I have questions about whether it's right that the directors, or whoever, the board, should pay themselves large sums when businesses can go down the tubes like that. One is driven to reflect on whether the directors of these companies are properly incentivised to sort such matters out". 30

(Source adapted from: <https://www.theguardian.com/business/2019/sep/23/thomas-cook-as-the-world-turned-the-sun-ceased-to-shine-on-venerable-tour-operator>

and <https://www.ft.com/content/a7dd2554-de23-11e9-b112-9624ec9edc59>)

(15)





TOTAL FOR SECTION B = 50 MARKS



(25)



This image shows a full page of white paper with horizontal dotted lines. The lines are evenly spaced and run across the width of the page, providing a guide for handwriting or typing. There are no margins, text, or other markings on the page.

This image shows a single sheet of white paper with horizontal dotted lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

Continue on separate paper if required.



MARK SCHEMES

official mark schemes



Question Number	Answer	Mark
4(a)	Knowledge 2, Application 2 Knowledge/Understanding: (up to 2 marks) 1 mark for identifying each correct price/output level e.g. Identify profit maximisation position: for example, where $MC=MR$ or output level 25 or price £17 (1) Identify revenue maximisation position: for example, where $MR=0$ or output level 36 or price £12 (1) Application: (up to 2 marks) Calculate total profit at profit maximisation position: for example, total revenue – total cost = total profit: $£425 - £200 = \textbf{£225}$ (1) OR $£17 - £8 = £9$, $£9 \times £25 = £225$ (1) OR Calculate total profit at revenue maximisation position: $£432 - £324 = \textbf{£108}$ (1) OR $£12 - £9 = £3$, $£3 \times £36 = £108$ (1) $£108 - £225 = \textbf{-£117}$ or £117 Award full 4 marks for -£117 or fall of £117 or £117	(4)

Question Number	Answer	Mark
4(b)	The only correct answer is B <i>A is not correct because sales maximisation occurs when AC equals AR which is at an output higher than revenue maximisation</i> <i>C is not correct because AC is higher at sales maximisation output than revenue maximisation</i> <i>D is not correct because abnormal profit is removed and only normal profit is now made</i>	(1)

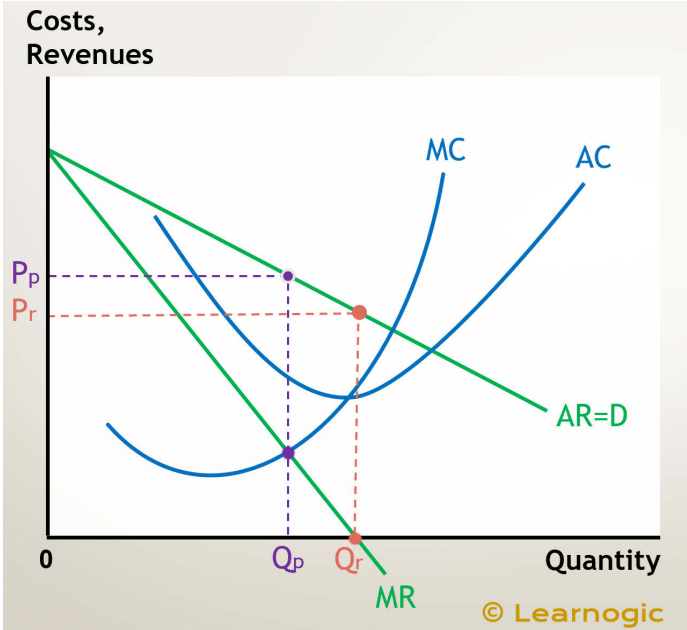


Question Number	Answer	Mark
5 (a)	Knowledge 1, Analysis 1 Knowledge and Analysis : 1 mark for likely reason for staying small e.g. • Owners wish to maintain control (1) • Avoiding diseconomies of scale (1) • Bettys offers a more personal service (1) • Bettys act as a regional monopoly in Yorkshire (1) • Lack of finance for expansion (1) 1 mark for linked development e.g. • 2 million customers allows them to profit satisfice (1) • Managerial diseconomies may settle in with many tea rooms (1) • As a regional monopoly they can charge higher prices (1) • Cost of opening an additional café (1)	(2)

Question Number	Answer	Mark
5 (b)	Knowledge 2 Knowledge: (1+1) marks for likely reason growth can be described as organic e.g. • Growth is internal (1) opening new tea rooms (1) • There is no evidence that growth is external (1) through integration, merger or takeover (1) • Reinvesting profits from 2 million customers (1) to open new café (1) • Borrowing from banks (1) rather than finance from a takeover (1) • The business has grown naturally (1) without the need to takeover or merge (1)	(2)

Question Number	Answer	Mark
5 (c)	Application 1 The only correct answer is B <i>A is not correct because external economies occur outside a firm but within an industry</i> <i>C is not correct because this is associated with a conglomerate merger whereas this is a vertical backwards merger</i> <i>D is not correct because it could result in greater monopoly power</i>	(1)



2(b)	The only correct answer is C A is not correct because $1.8/12$ is an incorrect use of the formula B is not correct because $1.8/1.2$ is an incorrect use of the formula D is not correct because 1.8×12 is an incorrect use of the formula	(1)
Question Number	Answer	Mark
3 (a)	Knowledge 2, Application 2 1 mark profit maximisation output where $MC=MR$ 1 mark profit maximisation price 1 mark revenue maximisation output where $MR=0$ 1 mark revenue maximisation price Diagram required e.g. 	(4)
Question Number	Answer	Mark
3(b)	The only correct answer is A B is not correct because this is associated with productive efficiency rather than sales maximisation C is not correct because this is revenue maximisation D is not correct because this is allocative efficiency	(1)

Question Number	Answer	Mark
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Question Number	Answer	Mark
1(a)	Knowledge 2, Application 2 Knowledge/Understanding: (up to 2 marks) 1 mark for identifying each correct price/output level e.g. Identify revenue maximisation position: for example, where $MR=0$ or output level 130 or price £10 (1) Identify profit maximisation position: for example, where $MR=MC$ or output level 98 or price £14 (1) Application: (up to 2 marks) Calculate total supernormal profit at revenue maximisation position: for example, total revenue – total cost = total profit: $£1300 - £1040 = \textbf{£260}$ (1) OR $£10 - £8 = £2, £2 \times £130 = £260$ (1) OR Calculate total profit at profit maximisation position: $£1372 - £686 = \textbf{£686}$ (1) OR $£14 - £7 = £7, £7 \times £98 = £686$ (1) $£686 - £260 = \textbf{£426}$ Award full 4 marks for £426 Award 3 marks if candidate writes -£426	(4)

Question Number	Answer	Mark
1(b)	The only correct answer is A <i>B is not correct because average revenue is the firm's demand curve</i> <i>C is not correct because average revenue and marginal revenue will both fall</i> <i>D is not correct because average revenue and marginal revenue will both fall</i>	(1)



Question Number	Indicative content		Mark
6(c)	Knowledge 2, Application 2, Analysis 2 Case for principal agent problem being significant. Conflict of interest between the principal (shareholder) and the agent (CEOs/directors/managers) creates problems for Thomas Cook: • Moral hazard – no consequences for the failings of management results in high-risk behaviour • Chief Executive incentivised by £500 000 bonus and £8.5 million salary possibly linked to sales or market share rather than the long-term profitability of Thomas Cook • To increase sales or market share the Chief Executive may have focussed on mergers with other Travel businesses, price wars with competitors or investing in buying new hotels and planes rather than keeping costs low and paying off debts • Chief Executive may have prioritised a greener image by reducing emissions or better pay to avoid pilots striking and sought to satisfy shareholders instead reducing the long-term profitability of Thomas Cook		(6)
Level	Mark	Descriptor	
	0	A completely inaccurate response.	
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no link between causes and consequences.	
Level 2	3–4	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or the answer may lack balance.	
Level 3	5–6	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are applied appropriately to the broad elements of the question.	



Question Number	Indicative content		Mark
6(c) continued	Evaluation 4 Case against ‘principal agent problem’ - Employee share-ownership schemes address the problem. £4m of the CEO’s £8.5m earning is in shares – so as an employee he is motivated by profit maximisation, bringing him in-line with shareholders. His shares are now worthless - CEO worked “exhaustively” to rescue Thomas Cook and create a long-term strategy. By owning planes and hotels they would have assets and not borrow to rent. In the long-run Thomas Cook could have moved its sales more on-line - Shareholders have lost capital value but the CEO has lost his job, earnings and his reputation - Shareholders can hold the CEO accountable at their AGM, reject pay and bonus awards and place the CEO on a short-term contract to avoid the long-term contract short-term gain problem - Other factors that caused closure – fuel prices, competition.		(4)
Level	Mark	Descriptor	
	0	No evaluative comments.	
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/ reference to context. No evidence of a logical chain of reasoning.	
Level 2	3–4	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.	

Question Number	Indicative content		Mark
6(c)	Knowledge 2, Application 2, Analysis 2 - Profit maximisation for owners/shareholders, $MC=MR$ - Revenue maximisation for managers, $MR = 0$ - Sales Maximisation to increase market share, $AC=AR$ - Limit pricing by Costa - Profit satisficing by Independents - Coffee quality lowers profit - Relocating may allow more profit - Competitive market makes survival top objective - Unique premium experience lowers profits NB Allow use of diagrams to explain the above NB: For Level 3 response candidates must refer to coffee shops NB: Alternatives to profit maximisation may be seen as KAA and profit maximisation as evaluation or vice versa		(6)
Level	Mark	Descriptor	
	0	A completely inaccurate response.	
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no link between causes and consequences.	
Level 2	3–4	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or the answer may lack balance.	
Level 3	5–6	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are applied appropriately to the broad elements of the question.	



Question Number	Indicative content	Mark
6(c) continued	Evaluation 4 • Short-term objectives used to achieve long-term profitability e.g. better quality coffee raises costs • Use of profit satisficing to achieve other objectives e.g. customer satisfaction or environmental goals • Difficulty calculating precisely profit maximisation position • Depends on owners – Costa Coffee change in ownership change in objectives • Depends on owners - independent owners aim for normal profit/survival/Coca Cola support sustainable communities • Divorce of ownership and control/principal agent problem	(4)

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/ reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Indicative content	Mark
1(b)	Knowledge 2, Application 2, Analysis 4 Pricing strategies - must be linked to profit, and may include: • Price leadership/price matching – some brands seem very similar in pricing e.g. use kinked demand theory • Predatory pricing • Limit pricing (with view to higher future profits) • Price wars (with view to higher future profits) • Collusion/collaboration - reward the use of game theory/pay off matrix to support this • Undercutting close rival e.g. Costa (with view to higher profits) • Also award, if linked to profit: sales max, exploiting economies of scale, cost cutting, or competitive pricing linked to elastic demand, price rises and/or price discrimination Non-pricing strategies – linked to profit, might include: • Loyalty schemes, e.g. Starbucks only allow its own cup for reuse in store, • Paying for central and expensive locations for stores • Opening up new stores near to competitors to undermine the competition, e.g. at a London location there are many competitors • Closing down non-profitable stores as rationalisation policy • Strengthening the brand by advertising • improving reputation for recycling washable cups/fair trade coffee, sharing with other brands not just Starbucks coffee cups which can be washed in store and re-used • Extension of product range • Focus on quality NB Award collusion and BOGOF-style approaches as either pricing or non-pricing strategies. NB For a Level 3 answer, there must be both price and non-price strategies, and reference to the context of <i>profitability of Starbucks</i>.	(8)



Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	3–5	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	6–8	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.



Question Number	Indicative content	Mark
1(b) continued	Evaluation 4 • Weighing up of reasons for using price or non-price competition, e.g. • Not likely to use price competition - e.g. better to collude and keep higher joint profits. • Non-price competition can have very uncertain results/be expensive • Effects in the short run and long run might vary e.g. rising costs lead to falling profits, but long run demand rises leading to better results • Relative effectiveness of measures e.g. limit pricing may be static in long run and predatory pricing changes when other firms leave • Some of these strategies are illegal and could lead to fines, which might reduce overall profitability • Unstable nature of game theory equilibria • The effectiveness of the competition authorities might be considered e.g. regulatory capture • Depends on the strength of brand loyalty • Limitations of loyalty schemes, e.g. cost, consumer behaviour.	(4)

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.



Question Number	Indicative content	Mark
2(c)	Knowledge 2, Application 2, Analysis 4 Knowledge and analysis Policies might include: • Price competition ○ predatory pricing ○ revenue max pricing ○ limit pricing ○ price wars to raise market share ○ discount pricing promotions e.g. loss leader ○ price discrimination - higher prices for instore customers ○ collusion • Non-price competition ○ advertising ○ sales promotion e.g. BOGOF ○ loyalty cards ○ customer service e.g. opening times ○ product development ○ delivery services ○ sponsorship of local events/teams ○ development of online provision ○ relocation arguments e.g. out of town ○ collusion ○ mergers & takeovers ○ rationalisation to reduce price to be more competitive • NB an answer which does not include price and non-price competition is limited to Level 2. • NB for Level 3 answers there must be reference to higher sales value / revenue of high street stores • NB accept sales maximisation	(8)



Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	3–5	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	6–8	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.



Question Number	Indicative content	Mark
2(c) continued	Evaluation 4 • criticisms of effectiveness of strategies suggested • combination of strategies required • affordability arguments • use of oligopoly theory to argue against price competition • depends on the size of firm/level of economies of scale • degree of regulation • comparing price and non-price strategies e.g. why price competition more important • threat of investigation by CMA e.g. for predatory pricing • depends on level of competition in the market • depends on incomes, e.g. recession times would have a larger impact • magnitude of elasticity arguments • short run profit maximisation might reduce long run sales maximisation	(4)

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.



Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Indicative content	Mark
6(e)	Knowledge 3, Application 3, Analysis 3 Exploiting market power • Jet2 increases 'price per person' by £36 after Thomas Cook closes (Fig 2) • Thomas Cook, with a 13% market share in 2019, exits the market causing Jet2 to gain market share, possibly close to 25% - gaining monopoly power/duopoly/oligopoly (Fig 1) • Jet2 may be using its monopoly dominance to set a price above the market clearing/allocatively market price • Consumer surplus reduced, producer surplus gained. • With less competition for package holidays, Jet2's PED becomes relatively more price-inelastic resulting in greater price setting powers for package holidays • Jet2 may now be able to set its price at a profit maximising level of £824 rather than possible sales maximisation/revenue pricing/limit pricing/predatory pricing at £788 • Demand for Jet2 holidays increasing as a close substitute to Thomas Cook • Remaining companies colluding, use of game theory. N.B KAA may be used as EV and vice-versa.	(9)



Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–3	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	4–6	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	7–9	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
6(e) continued	Evaluation 6 Responding to market forces • Demand for Jet2 holidays increasing as a close substitute to Thomas Cook. This may have been happening before Thomas Cook closure • Thomas Cook exiting the package holiday may have removed a surplus of package holidays • At the price of £788 there is now a shortage of holidays to Sorrento, as shown by excess demand due to cancelled Thomas Cook holidays • Market forces resulting in Jet2 extending their supply at higher prices • As they increase the price to £824 the market may clear • Consumers may decide not to buy at higher price - to stay home or become anxious about firms closing and cancelled holidays • Other factors may have caused demand to rise or supply to shift inwards • Market share may not be reallocated to Jet2 • Jet2 is a distant substitute and may not go to same destinations as Thomas Cook • Companies do not collude as fear a whistle-blower and fines 10% of revenue • Rising marginal costs for Jet2 to reduce CO₂ emissions/ buy more fuel to new destinations/ costly take overs. NB KAA may be used as EV and vice-versa.	(6)

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches which is unbalanced. Evaluative comments with supporting evidence/reference to context and a partially-developed chain of reasoning.
Level 3	5–6	Evaluative comments supported by relevant chain of reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.



Question Number	Indicative content	Mark
8	Knowledge 4, Application 4, Analysis 8 - Explanation of revenue maximisation (for example, output position where $MR=0$) and profit maximisation (for example, output position where $MR=MC$). - Diagrammatic analysis may be offered depicting the two business objectives. NB revenue maximisation discussion may be considered as KAA and profit maximisation as EV or vice-versa. Mark the best approach as KAA and the other as EV. Revenue maximisation: - This could be more appropriate in large firms with a separation of ownership from control e.g. supermarkets / oligopoly. - Directors may have salaries linked to revenue growth rather than profits. - Directors may seek greater security through larger market share rather than higher profits. - Revenue maximisation may be less likely to draw attention of competition authorities, as price and profits will be lower. - Accept a game theory approach if relevant. - Short term need for cash e.g. to avoid bankruptcy or fund attractive new opportunities NB for a Level 4 response, candidates must refer to a specific INDUSTRY in their answer. Evaluation 9 Profit maximisation can be used as a counter argument to points above: - Profit maximisation could be more appropriate in smaller firms where there is no separation of ownership from control e.g. small independent grocery stores / monopolistic competition. - Profit maximisation could be more appropriate in a monopoly market with high entry barriers so little possibility of competition. - Rational business owners are expected to seek to maximise profits. Role of shareholders in expecting high share prices and dividend. Other points include - Depends on the type of industry e.g. hairdressing or banking may have different goals. - A contestable market may influence the objectives. - Business owners and directors are not always rational. - Conflicting objectives by different pressure groups within firms may lead to a compromise objective such as profit satisficing.	(25)



	• Difficulty in firms achieving revenue maximisation or profit maximisation in terms of calculating marginal revenues and marginal costs from production. • Revenue maximisation and profit maximisation may require frequent price changes which may lead to falling customer demand. • Lack of continuity in small businesses means profit maximisation may not be sustained even if a business objective.	
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Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	5–8	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two stage chains of reasoning only.
Level 3	9–12	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	13–16	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
Level 3	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

