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EDEXCEL A ECONOMICS: QUESTIONS BY TOPIC

Revenues, Costs and Profits (3.3)

A Level Economics Theme 3

32 questions · 194 marks · Mark schemes included

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HOW TO USE THIS BOOKLET

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

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

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

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

QUESTION	SOURCE	MARKS	PAGE
3.3.1 REVENUE		8 Qs · 21 marks	3
1. Q4(b)	A Level Paper 1 June 2017	1	4
2. Q4(b)	A Level Paper 1 June 2018	1	5
3. Q4(c)	A Level Paper 1 November 2021	1	6
4. Q1(b)	A Level Paper 1 June 2025	1	7
5. Q4(a)	A Level Paper 1 November 2021	2	8
6. Q4	A Level Paper 1 June 2018	5	9
7. Q4	A Level Paper 1 November 2021	5	11
8. Q1	A Level Paper 1 June 2025	5	13
3.3.2 COSTS		8 Qs · 46 marks	15
9. Q5(a)	A Level Paper 1 June 2017	1	16
10. Q4(b)	A Level Paper 1 October 2020	1	17
11. Q5(b)	A Level Paper 1 June 2017	2	18
12. Q4(a)	A Level Paper 1 October 2020	2	19
13. Q5	A Level Paper 1 June 2017	5	20
14. Q4	A Level Paper 1 October 2020	5	22
15. Q6(a)	A Level Paper 1 November 2021	5	24
16. Q7	A Level Paper 1 June 2024	25	28
3.3.3 ECONOMIES AND DISECONOMIES OF SCALE		3 Qs · 16 marks	32
17. Q4(a)	A Level Paper 1 June 2019	1	33
18. Q4	A Level Paper 1 June 2019	5	34
19. Q6(c)	A Level Paper 1 June 2024	10	35
3.3.4 NORMAL PROFITS, SUPERNORMAL PROFITS AND LOSSES		13 Qs · 111 marks	40
20. Q5(c)	A Level Paper 1 June 2017	2	41
21. Q4(c)	A Level Paper 1 October 2020	2	42
22. Q4(b)	A Level Paper 1 November 2021	2	43
23. Q4	A Level Paper 1 June 2017	5	44
24. Q2(b)	A Level Paper 3 June 2018	8	45
25. Q2(b)	A Level Paper 3 November 2021	8	51
26. Q2(c)	A Level Paper 3 June 2017	12	56
27. Q6(d)	A Level Paper 1 June 2019	12	62
28. Q2(c)	A Level Paper 3 October 2020	12	68
29. Q6(d)	A Level Paper 1 November 2021	12	73



QUESTION	SOURCE	MARKS	PAGE
30. Q2(c)	A Level Paper 3 November 2021	12	79
31. Q6(d)	A Level Paper 1 June 2022	12	85
32. Q1(c)	A Level Paper 3 June 2023	12	90



QUESTIONS

32 questions · 194 marks · 4 sub-topics

SUB-TOPIC 3.3.1

REVENUE

Sub-topic 3.3.1 · 8 questions · 21 marks · lowest tariff first



4 In 2015 JCB, the construction equipment manufacturer, experienced a 6% fall in revenue. This resulted from a reduction in sales of construction equipment to emerging markets.

(b) In India JCB has a strong brand image and a 50% share of the market for construction equipment. This means the construction equipment market in India is likely to have a low level of:

(1)

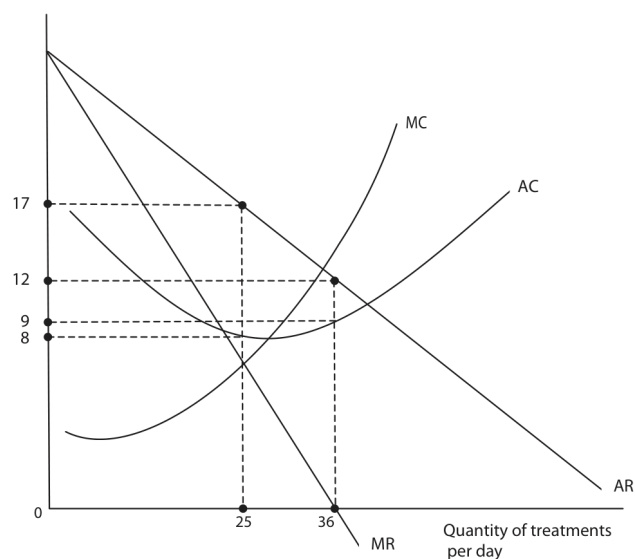
- ☐ **A** concentration
- ☐ **B** contestability
- ☐ **C** private ownership
- ☐ **D** specialisation

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



- 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)



- 4 Patrick Street Productions produces musicals. Its latest production is 'It's a Wonderful Life' and the total cost of this production is \$200 000. The ticket price is \$40. The theatre has a capacity of 300 seats. The company aims for revenue maximisation. If this is achieved, revenue from ticket sales will cover 30% of total costs. Charitable donations contribute 12.5% towards total cost and a government subsidy ensures the production covers all of its costs.

(Source adapted from: <https://www.cbc.ca/news/canada/british-columbia/a-bit-of-a-desperate-time-as-costs-rise-professional-theatre-companies-survive-rather-than-thrive-1.5489733>)

- (c) Which **one** of the following conditions is necessary for revenue maximisation to occur?

(1)

- ☐ A Average revenue equals average cost
- ☐ B Average revenue equals marginal cost
- ☐ C Marginal revenue equals average revenue
- ☐ D Marginal revenue equals zero

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



SECTION A

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

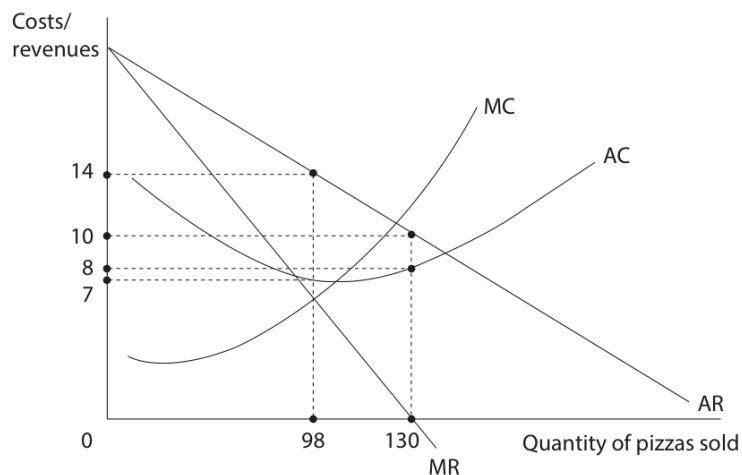
Some questions must be answered with a cross in a box ☐. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☐.

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)



- 4 Patrick Street Productions produces musicals. Its latest production is 'It's a Wonderful Life' and the total cost of this production is \$200 000. The ticket price is \$40. The theatre has a capacity of 300 seats. The company aims for revenue maximisation. If this is achieved, revenue from ticket sales will cover 30% of total costs. Charitable donations contribute 12.5% towards total cost and a government subsidy ensures the production covers all of its costs.

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- (a) Calculate the total revenue from ticket sales for 'It's a Wonderful Life', assuming it is shown only five times, all at full capacity. You are advised to show your working.

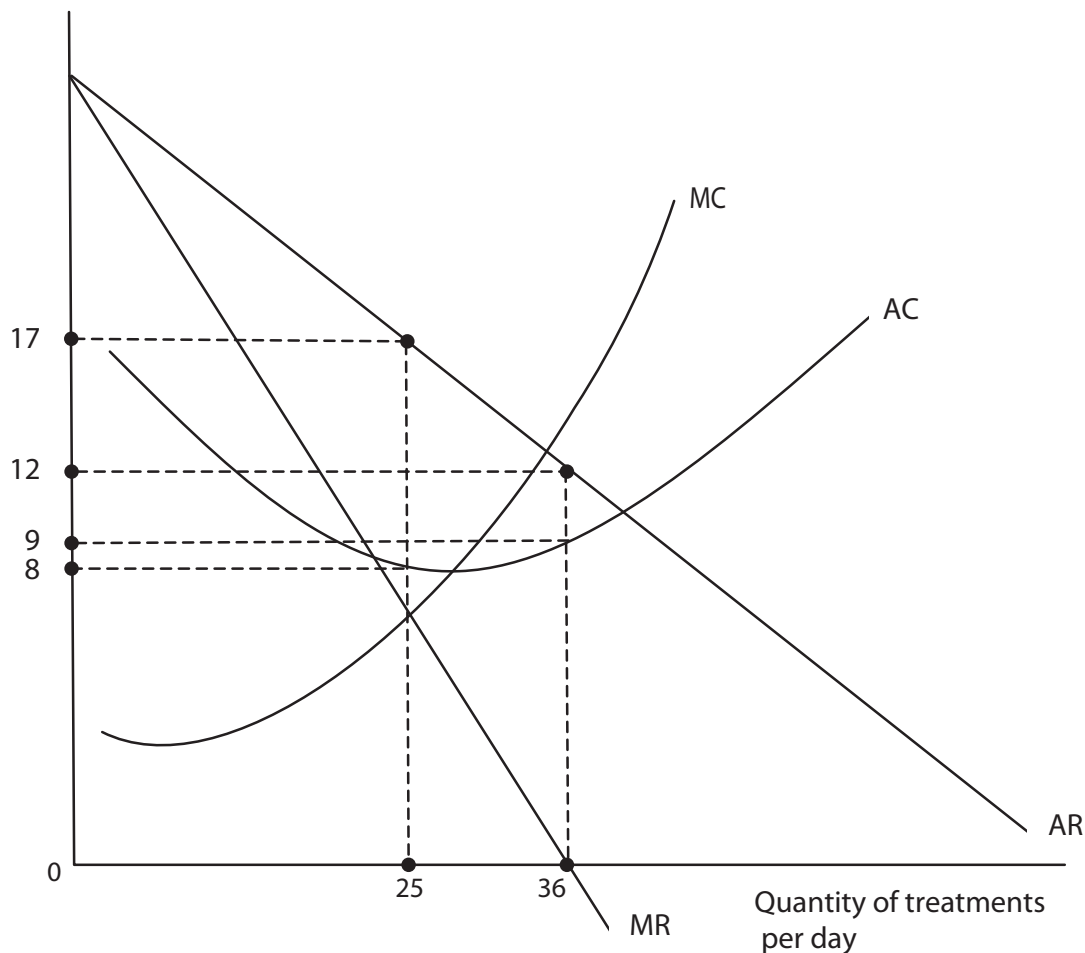
(2)

(Total for Question 4(a) = 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)



- (b) Calculate the value of the government subsidy necessary for this production to cover all of its costs.

(2)

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- (c) Which **one** of the following conditions is necessary for revenue maximisation to occur?

(1)

- ☐ **A** Average revenue equals average cost
- ☐ **B** Average revenue equals marginal cost
- ☐ **C** Marginal revenue equals average revenue
- ☐ **D** Marginal revenue equals zero

(Total for Question 4 = 5 marks)



SECTION A

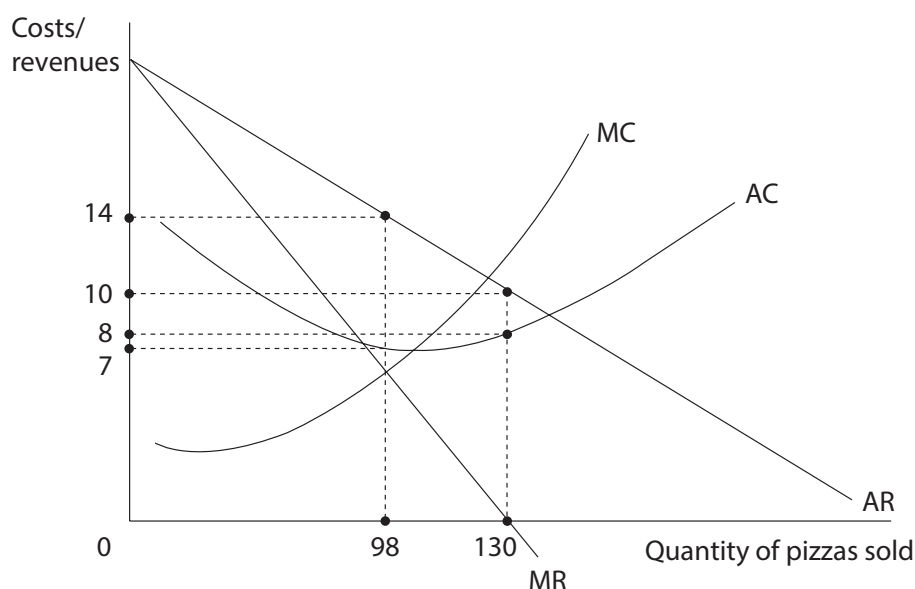
Answer ALL questions. Write your answers in the spaces provided.

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.



- (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)

SUB-TOPIC 3.3.2

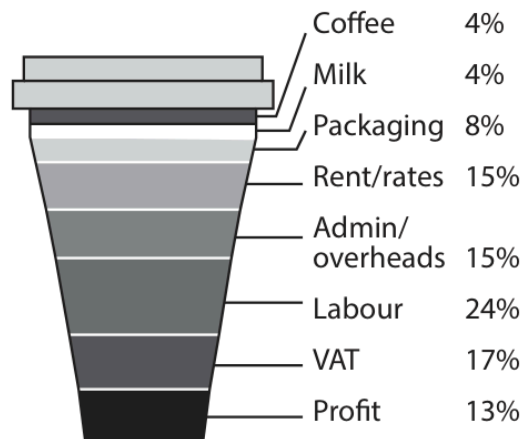
COSTS

Sub-topic 3.3.2 · 8 questions · 46 marks · lowest tariff first



- 5 Figure 1 shows the distribution of the revenue received from the sale of a Starbucks cappuccino drink priced at £2.27 in 2015.

Figure 1



(Source: adapted from Allegra strategies research and analysis, reported in The Times, 27th January 2015)

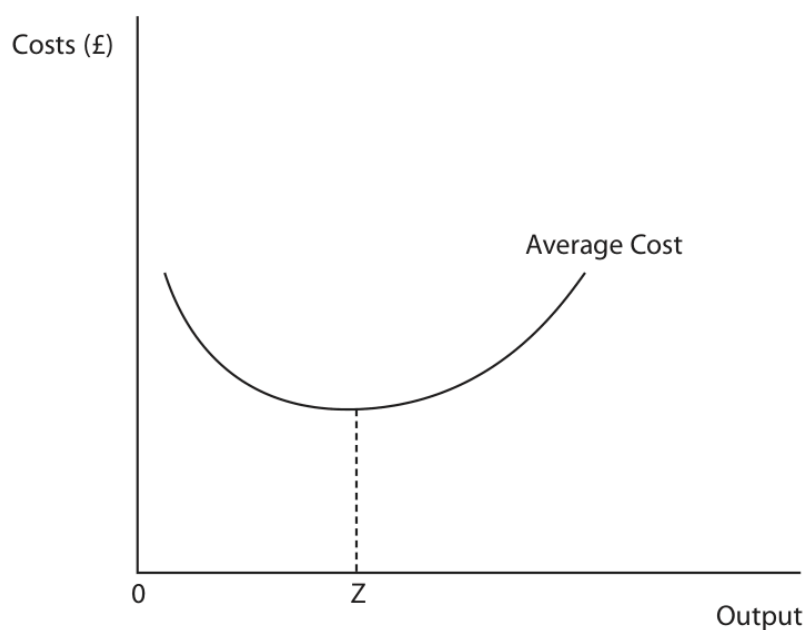
- (a) Which **one** of the following is a fixed cost to Starbucks?

(1)

- ☐ **A** Coffee
- ☐ **B** Milk
- ☐ **C** Packaging
- ☐ **D** Rent

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

4 The following illustrates the daily average cost curve for a doughnut producer:



(b) At output levels greater than Z, which **one** of the following correctly identifies what will happen to the cost?

(1)

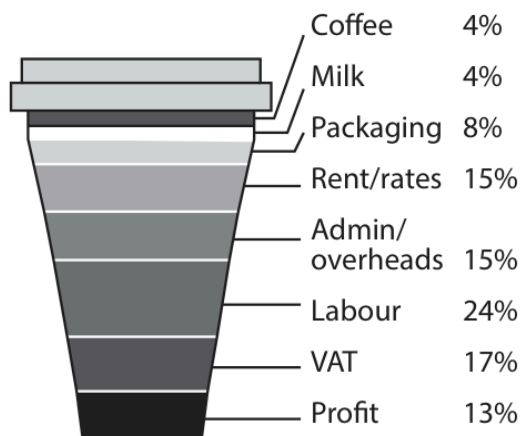
	Average fixed cost	Average variable cost	Marginal cost
☐ A	Falls	Falls	Rises
☐ B	Falls	Rises	Rises
☐ C	Rises	Rises	Falls
☐ D	Rises	Rises	Rises

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



- 5 Figure 1 shows the distribution of the revenue received from the sale of a Starbucks cappuccino drink priced at £2.27 in 2015.

Figure 1



(Source: adapted from Allegra strategies research and analysis, reported in The Times, 27th January 2015)

- (b) Explain the difference between fixed costs and variable costs.

(2)

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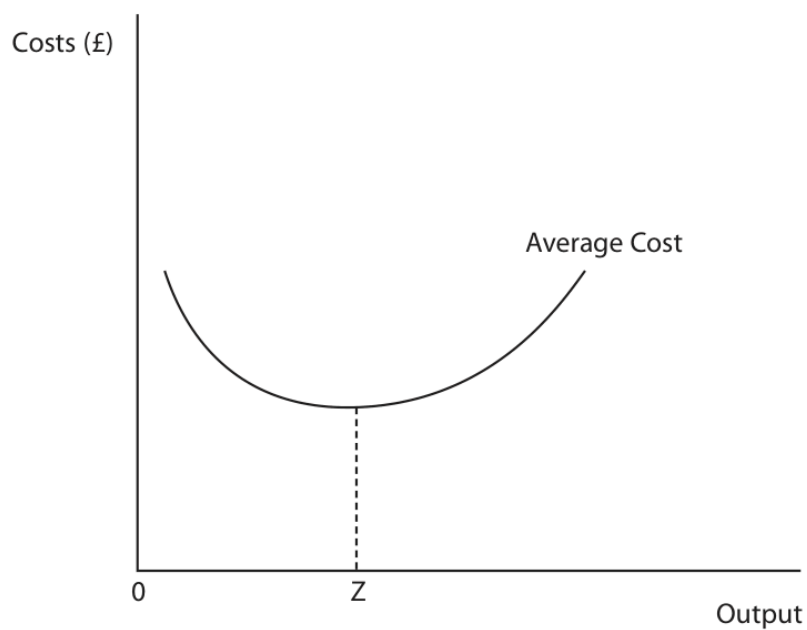
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(Total for Question 5(b) = 2 marks)

4 The following illustrates the daily average cost curve for a doughnut producer:



(a) Explain what happens to total cost at output levels greater than Z.

(2)

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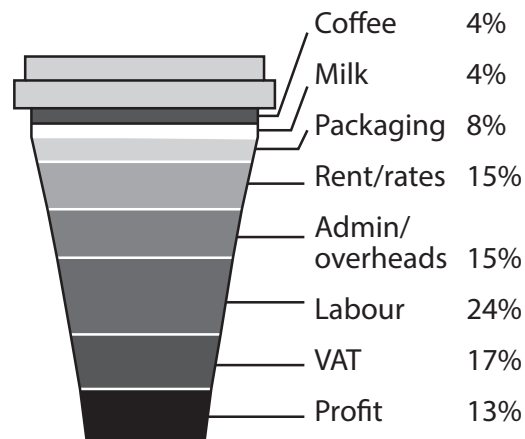
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(Total for Question 4(a) = 2 marks)



- 5 Figure 1 shows the distribution of the revenue received from the sale of a Starbucks cappuccino drink priced at £2.27 in 2015.

Figure 1



(Source: adapted from Allegra strategies research and analysis, reported in The Times, 27th January 2015)

- (a) Which **one** of the following is a fixed cost to Starbucks?

(1)

- ☒ **A** Coffee
- ☒ **B** Milk
- ☒ **C** Packaging
- ☒ **D** Rent

- (b) Explain the difference between fixed costs and variable costs.

(2)

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- (c) With reference to Figure 1, calculate the profit (in pence) for a cappuccino drink.
You are advised to show your working.

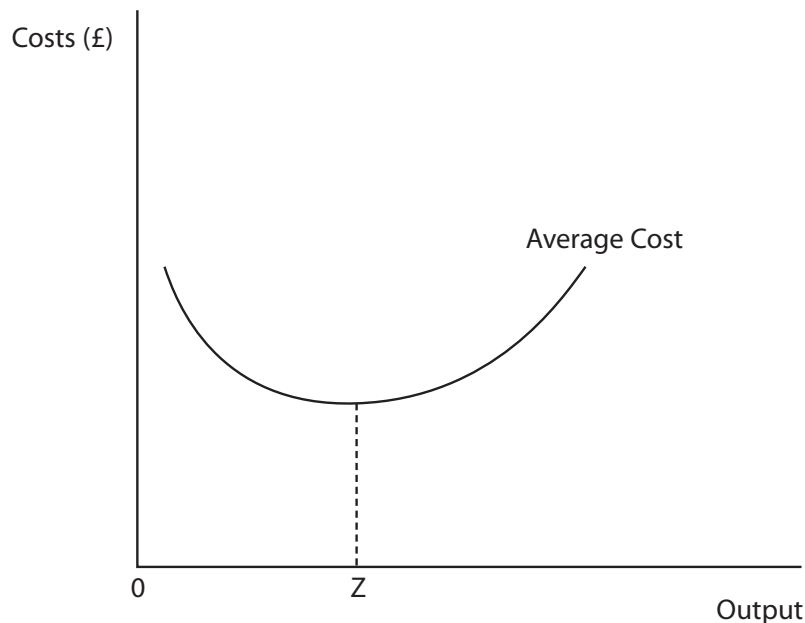
(2)

(Total for Question 5 = 5 marks)

TOTAL FOR SECTION A = 25 MARKS



4 The following illustrates the daily average cost curve for a doughnut producer:



(a) Explain what happens to total cost at output levels greater than Z.

(2)

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(b) At output levels greater than Z, which **one** of the following correctly identifies what will happen to the cost?

(1)

	Average fixed cost	Average variable cost	Marginal cost
☐ A	Falls	Falls	Rises
☐ B	Falls	Rises	Rises
☐ C	Rises	Rises	Falls
☐ D	Rises	Rises	Rises



(2)



SECTION B

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

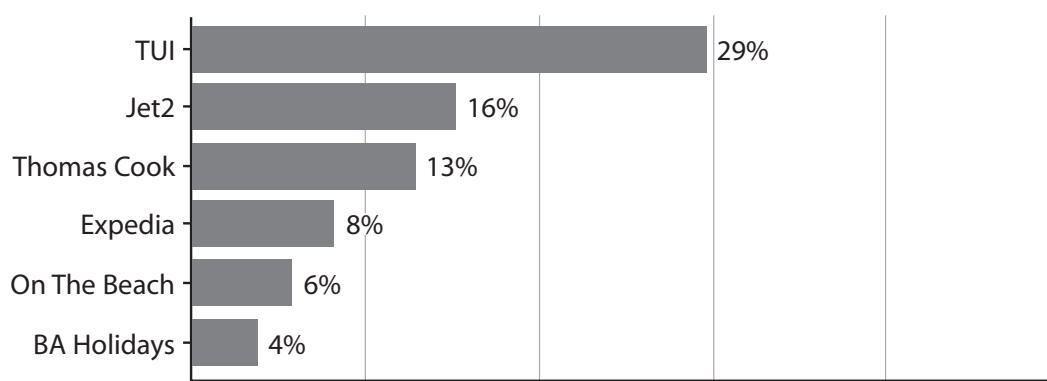
Write your answers in the spaces provided.

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>)



(5)



7 A small hotel in Scarborough has seen its energy bills increase from £2 000 to £8 000 per month. Small businesses do not have the energy management teams of larger companies to negotiate better deals.

(Source adapted from: <https://www.ft.com/content/d07797e7-2eb7-4240-b15d-692b39510def>)

Q) Evaluate the microeconomic effects of rising energy bills on the hotel industry or an industry of your choice.

(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.

[illegible]

(Total for this part = 25 marks)

31

SUB-TOPIC 3.3.3

ECONOMIES AND DISECONOMIES OF SCALE

Sub-topic 3.3.3 · 3 questions · 16 marks · lowest tariff first



4 In 2016, the insurance group Esure undertook a demerger with its GoCompare price comparison website.

(a) The most likely reason for this demerger was to:

(1)

- ☐ **A** benefit from external economies of scale
- ☐ **B** benefit from internal economies of scale
- ☐ **C** focus more on its core business
- ☐ **D** increase its market share

Following the demerger, GoCompare announced in 2017 a profit of £17.5 million, up 21.5% on 2016. Total revenue in 2017 was £75.8 million, up 4.1% on 2016.

(Source: adapted from <https://www.insuranceage.co.uk/insurer/3107496/profits-up-at-go-compare>)

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



4 In 2016, the insurance group Esure undertook a demerger with its GoCompare price comparison website.

(a) The most likely reason for this demerger was to:

(1)

- ☐ A benefit from external economies of scale
- ☐ B benefit from internal economies of scale
- ☐ C focus more on its core business
- ☐ D increase its market share

Following the demerger, GoCompare announced in 2017 a profit of £17.5 million, up 21.5% on 2016. Total revenue in 2017 was £75.8 million, up 4.1% on 2016.

(Source: adapted from <https://www.insuranceage.co.uk/insurer/3107496/profits-up-at-go-compare>)

(b) Calculate, using the information provided, the total costs of GoCompare in **2016**.

(4)

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(Total for Question 4 = 5 marks)



SECTION B

Read the following extracts (A to D) before answering Question 6.

Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 6**The electronics industry****Extract A****Rising prices of electronics devices**

Computer chips act as the “brain” in all electronic devices. Makers of electronic devices face significant increases in the price of computer chips as they try to source enough components, including games consoles, computers and smartphones. The price of some computer chips has jumped from \$0.20 each to more than \$1. The prices of electronic devices have risen for a range of reasons, including higher material costs and the growing popularity of home entertainment.

5

(Source: adapted from <https://www.ft.com/content/8c718a74-cd95-4b2d-ac0e-de0682e4e3cd>)

Extract B**Labour shortages in the electronics industry**

Every year, highly skilled and experienced employees in the electronics industry retire. The current tight labour market has made an already difficult problem of hiring suitable engineering and computing graduates worse, especially since the nature of the industry is becoming increasingly technical. As production becomes more automated, electronics jobs are more likely to require problem solving and analysis than just assembling skills. However, artificial intelligence and other new technologies can help fill some of the skills gap. In addition, by giving hazardous, repetitive, grimy work to robots, human beings can focus on more creative, analytic tasks.

5

10

(Source: adapted from <https://www.ericsson.com/en/blog/2021/12/manufacturing-problems-that-keep-ceos-awake-at-night>)



Extract C**Serious concerns over merger**

The Competition and Markets Authority (CMA) has said the takeover of the Cambridge-based computer chip designer Arm by its US rival Nvidia raises serious competition concerns. It has launched an in-depth investigation into the £29.5 billion deal. The CMA said the merger could reduce choice for firms reliant on computer chips, pushing up prices of products including cars, games consoles and mobile phones. In addition, severe global shortages of computer chips has disrupted the manufacture of a range of electronic goods pushing up costs for firms. 5

Despite this, large electronics firms benefit from economies of scale and are able to finance high-risk innovation and global advertising. 10

(Source adapted from: <https://www.theguardian.com/business/2021/aug/20/watchdog-expresses-concerns-over-nvidias-takeover-of-uk-chip-designer-arm>)

Extract D**The growing problem of electronic waste**

Electronic waste is the fastest growing element of the world's household waste problem. The problem in the UK is particularly bad. The country produces 24.9 kg a person a year – nearly 10 kg more than the EU average. In 2018, 1.2 million tonnes of electrical devices were sold in the UK, and 500 000 tonnes made it to recycling centres. Some appliances are more likely to be recycled than others. The recycling rate for big appliances, such as fridges and cookers, is about 80%. Of small appliances, barely one in five makes it to the recycling centre. As items such as toasters, hairdryers and headphones fit into household bins, they are not often taken to a recycling centre. This causes many problems, such as hazardous substances contaminating soil, water pollution and other external costs. 5 10

Policy makers have a long list of options to combat this problem including stricter regulation, environmental education, taxation and financial incentives. In some countries, for example, household rubbish is weighed and recycling initiatives are subsidised.

(Source adapted from: <https://www.ft.com/content/26e1aa74-2261-11ea-92da-f0c92e957a96>)

(10)







SUB-TOPIC 3.3.4

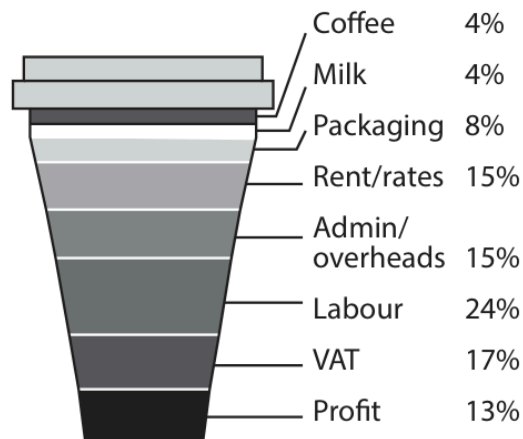
NORMAL PROFITS, SUPERNORMAL PROFITS AND LOSSES

Sub-topic 3.3.4 · 13 questions · 111 marks · lowest tariff first



- 5 Figure 1 shows the distribution of the revenue received from the sale of a Starbucks cappuccino drink priced at £2.27 in 2015.

Figure 1



(Source: adapted from Allegra strategies research and analysis, reported in The Times, 27th January 2015)

- (c) With reference to Figure 1, calculate the profit (in pence) for a cappuccino drink.
You are advised to show your working.

(2)

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

- 4** In 2015 JCB, the construction equipment manufacturer, experienced a 6% fall in revenue. This resulted from a reduction in sales of construction equipment to emerging markets.

- (a) Draw a cost and revenue diagram to show the likely impact of a reduction in sales of construction equipment on JCB's profits.

(4)

This image shows a full page of white paper with horizontal dashed lines, typical of primary school writing paper. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

- (b) In India JCB has a strong brand image and a 50% share of the market for construction equipment. This means the construction equipment market in India is likely to have a low level of:

(1)

- ☐ **A** concentration
- ☐ **B** contestability
- ☐ **C** private ownership
- ☐ **D** specialisation

☐ **B** contestability

☐ **C** private ownership

D specialisation

(Total for Question 4 = 5 marks)



SECTION B

Read Figures 4 and 5 and the following extracts (D and E) before answering Question 2.

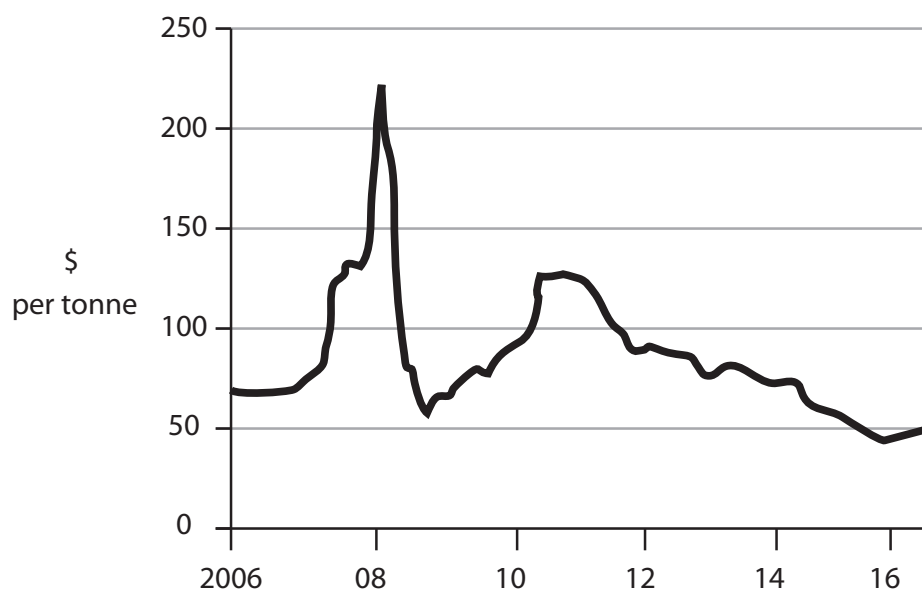
Answer ALL Questions 2(a) to 2(c), and EITHER Question 2(d) OR 2(e).

Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

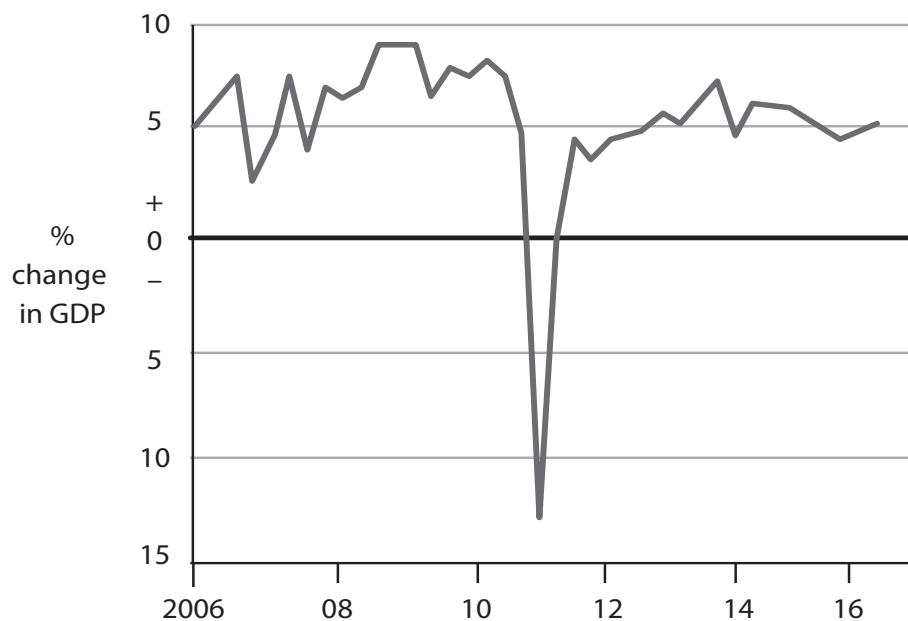
Question 2**Indonesia**

Figure 4: World coal prices, 2006–2016, US dollars per tonne



(Source: <http://www.economist.com/news/world-week/21697025-business-week>)

Figure 5: Indonesia's real GDP, annual percentage change



(Source: <http://www.economist.com/news/world-week/21697025-business-week>)



Extract D**Indonesia's economic outlook**

The Indonesian economy is expected to grow by an average of 4.8% a year between 2017 and 2021. Joko Widodo, president of Indonesia since 2014, is increasingly confident in his role and now has enough political support to pass some of his desired supply-side reforms. His government has been aggressively trying to improve the business and investment environment by easing regulations and offering tax incentives, for example to firms investing in special economic zones.

5

Indonesia receives US\$2.3 billion a year in overseas development aid, which is mainly spent on education and healthcare. There is also ongoing aid from international institutions and non-government organisations paying for restructuring after the 2004 Indian Ocean earthquake and tsunami, which led to the loss of over 170 000 lives and much damage to economic livelihood. Aid agencies have supported the Indonesian government in providing healthcare free at the point of access for 88 million of the poorest people, free schooling for 12 years for each child, and tertiary education for students accepted into university. There is a scheme to provide each of Indonesia's 15.5 million poorest households with a cash transfer of 200 000 rupiah (US\$14.37) a month. The World Bank has approved US\$800 million in infrastructure loans to Indonesia, with another US\$950 million as conditional loans. The Asian Development Bank has committed itself to lending US\$2 billion. In December Japan's development agency lent Indonesia US\$535 million to construct two power stations.

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(Sources: adapted from <http://country.eiu.com/Indonesia> and <http://www.economist.com/news/special-report/21693404-after-decades-underinvestment-infrastructure-spending-picking-up-last>)



Extract E**Indonesia's economic policies as commodity prices collapse**

Indonesia is the world's fourth largest exporter of coal and the raw material accounts for 11% of its exports. Its other main exports are crude oil, palm oil, rubber and tin. Its main commodity exports tripled in value between 2000 and 2010, and as exports boomed, so did the economy. But the value of commodity exports has fallen by more than half from its peak. Coal now sells for just US\$50 per tonne, against US\$125 in 2011. 5

In the decade to 2014, Indonesia's real GDP grew by an annual average of 6%, but the collapse in commodity prices has slowed the economy. In 2015 growth was 4.8%, the slowest rate since 2009. But compared with many other commodity exporters, Indonesia is getting off lightly. 10

The value of the rupiah, Indonesia's currency, against the US dollar has fallen by 30% since 2013, but has since stabilised. Other emerging market currencies have depreciated even more steeply over that period. Despite the weak exchange rate, Indonesia's inflation rate has mostly remained within the central bank's target range of 3-5%. The main impact of the rupiah's fall has been to curb imports, helping limit Indonesia's current account deficit to around 2% of GDP despite weaker export earnings. A cautious fiscal policy during the boom years has allowed for a modest fiscal expansion to offset the effects of weak exports and investment. The national debt is just 26% of GDP. 15

Mr Widodo knows that Indonesia cannot raise its long-term growth rate if the economy remains reliant on coal. It needs a broader range of manufacturing and service industries. If new enterprise is to flourish, Indonesia must support local entrepreneurship. The labour market is inflexible. To start a business takes an average of 47 days, compared with four in Malaysia and two in Singapore. The President's supply-side policies are improving the business climate. The average number of days needed to approve a new power plant has declined from 900 to 200. The government recently revised its "negative investment list" of sectors in which foreign ownership is banned or restricted, fully opening up the rubber, film and restaurant sectors, among others. In 2015 he launched a series of measures to try to reduce government failure, including easing some regulations, streamlining licensing procedures for firms on industrial estates and providing tax incentives to invest in special economic zones. 20
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The government has used savings from cutting fuel subsidies, worth over 4% of GDP, to fund extra capital spending. But the budget deficit still widened to 2.8% of GDP, very close to the legal limit of 3%. If public expenditure is to increase further, the government will need to raise more revenue. That will not be easy. Most workers and employers pay little or no tax. Only 27 million of Indonesia's 255 million people are registered taxpayers, and in 2014 just 900 000 of them paid what they owed, leaving it with a tax revenue to GDP ratio of around 10%. Big companies say that they are being squeezed harder by the tax authorities because they are an easier target. 35

Infrastructure spending will help bring foreign investment and good jobs to Indonesia as well as encouraging exports. Indonesia's infrastructure problem can be summed up as too few roads and congested ports. In the short term, infrastructure spending puts people to work and boosts demand for raw materials. In the longer term this spending offers the chance to make up for decades of neglect and underinvestment. Indonesia has plans for 65 dams, 16 of which are already under construction. In 2015 work started on the Keureuto Dam, designed to boost agricultural productivity in Aceh. Recently fields 40
45

were flooded for the massive Jatigede Dam in West Java, after 20 years of delays. Once complete, the dam will irrigate 90 000 hectares of rice paddy, increasing efficiency by giving farmers two harvests a year instead of one.

(Sources: adapted from <http://www.economist.com/news/special-report/21693405-secure-growth-it-needs-indonesia-must-resist-its-protectionist-urges-roll-out> and <http://www.economist.com/news/special-report/21693404-after-decades-underinvestment-infrastructure-spending-picking-up-last>)

- 2 (a) Using the data in Figure 4 and other information provided, explain the likely change to Indonesia's terms of trade since 2011. (5)
- (b) Examine the likely effects on the profitability of Indonesian rice farmers of the government's increased investment in dams (Extract E, lines 43-48). Use a cost and revenue diagram to support your answer. (8)
- (c) Discuss the benefits of aid to Indonesia. (12)

EITHER

- (d) With reference to the information provided and your own knowledge, evaluate the microeconomic and macroeconomic effects on Indonesia of the volatility of prices of commodities such as coal. (25)

OR

- (e) Evaluate the likely microeconomic and macroeconomic effects of the supply-side policies recently introduced in Indonesia. (25)



(b) Examine the likely effects on the profitability of Indonesian rice farmers of the government's increased investment in dams (Extract E, lines 43-48). Use a cost and revenue diagram to support your answer.

(8)



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SECTION B

Read Figures 1 to 4 and extracts C and D before answering Question 2.

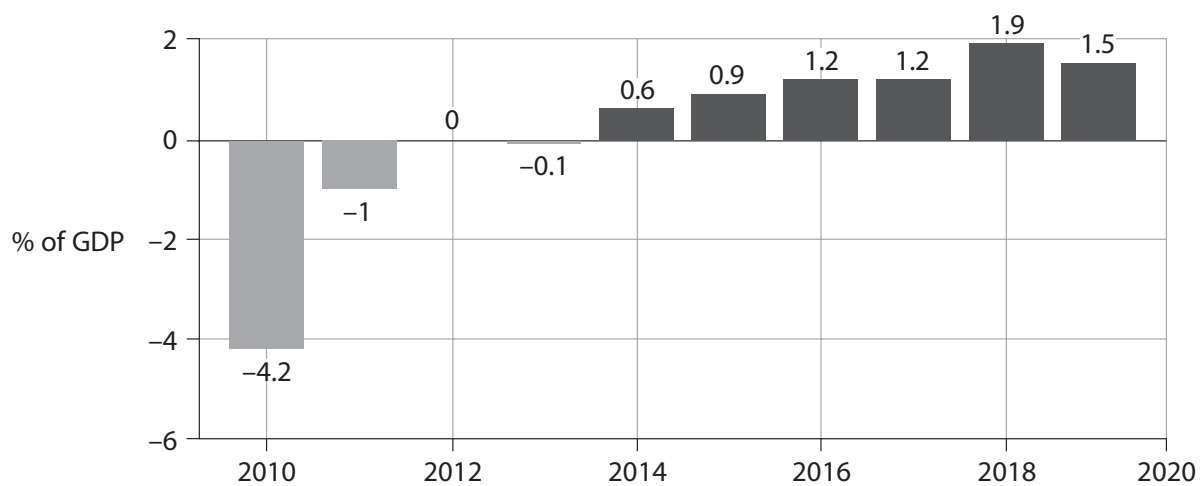
Answer ALL Questions 2(a) to 2(c), and EITHER Question 2(d) OR 2(e).

Write your answers in the spaces provided.

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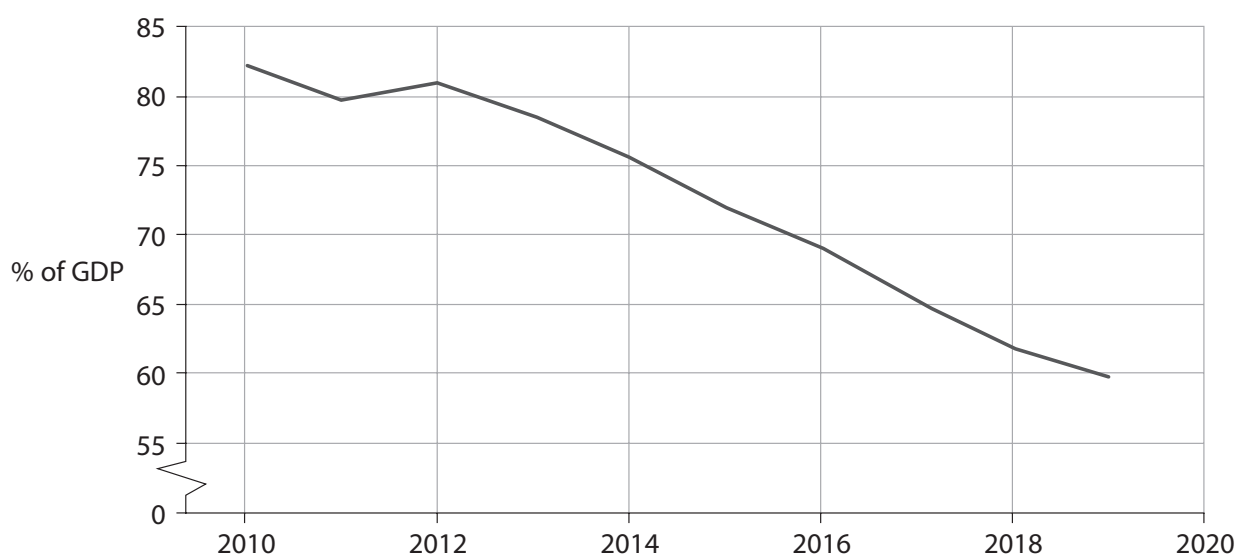
Question 2**The German economy**

Figure 1: German government budget balance, percentage of GDP, 2010 to 2019



(Source adapted from: The Economist Nov 14th 2019)

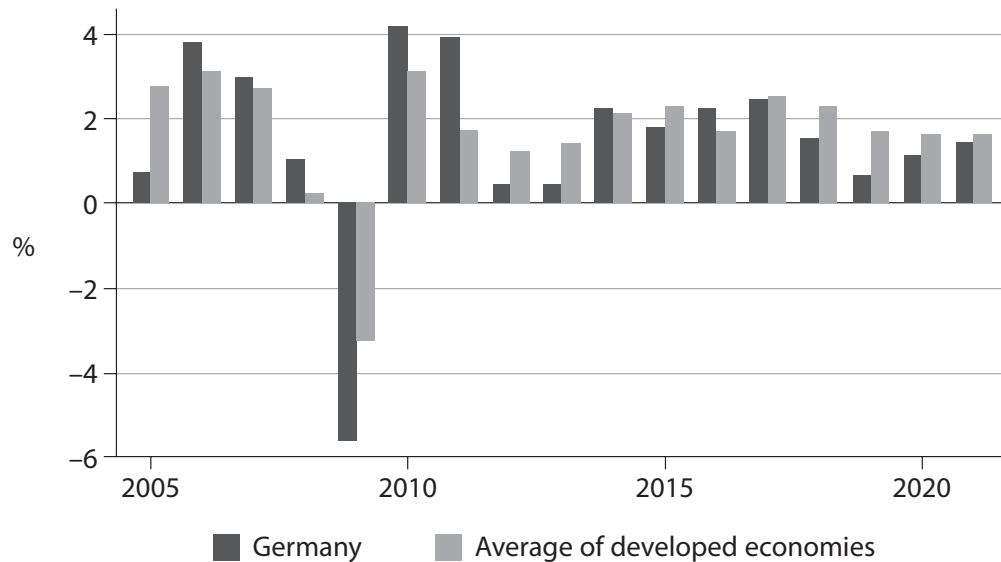
Figure 2: German national debt, percentage of GDP, 2010 to 2019



(Source adapted from: The Economist Nov 14th 2019)

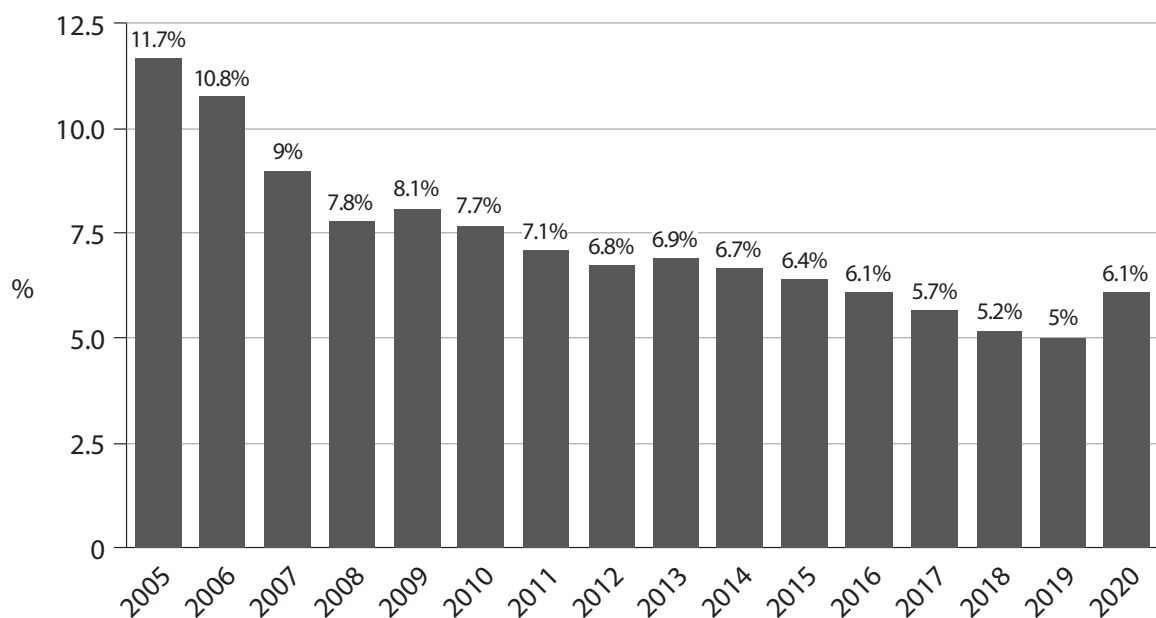


Figure 3: Annual percentage change in real GDP, Germany and average of developed economies, 2005 to 2021 (forecasted data for 2020 and 2021)



(Source adapted from: IMF and German Federal Statistical Office)

Figure 4: Unemployment rate in Germany, percentage of labour force, 2005 to 2020 (2020 figure is forecasted)



(Source adapted from: bundesagentur für arbeit.de and <https://www.ft.com/content/5486b247-c73e-4887-a2b2-528b23e301a6>)

Extract C**Why Germany keeps to budget rules despite a slowdown in growth**

Germany's economic boom is over, as it has entered recession. During the last ten years of economic growth well over 4 million jobs were created.

The fear of recession has revived a debate in Germany: should the government spend more to stimulate growth? It is written into the German constitution that the fiscal deficit cannot be greater than 0.35% of GDP, once the effects of the economic cycle have been removed. Germany's budget has been in surplus since 2014 and the government is always reluctant to increase spending which would create a deficit. In 2018, aided by booming employment and low interest costs on existing debt, the budget ran to a surplus 1.9% of GDP. 5
10

Germany's main trading partners have long been angered by German fiscal policy. The French President criticised Germany's budget and current account surpluses that "always occur at the expense of others".

Large parts of Germany's infrastructure need significant investment. As the economy has slowed, a decision to run a balanced-budget policy has become harder to defend. In wealthy regions of Germany, crumbling schools have been closed for fear of collapse, and information and mobile technology on a wide scale needs to be modernised. The World Economic Forum reported that accessibility of fibre optic broadband also "remains the privilege of the few". However, private sector firms, such as major motor manufacturers, are still willing to invest in new technology and the profitability of some of these firms, in the long run, benefits as a result. 15
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The state development bank puts Germany's investment shortfall at €138 billion (£120 billion). Arguments for a much more expansionary fiscal policy have failed to influence government policy. Big government programmes, such as a recent package to reduce Germany's carbon emissions, are only implemented when they satisfy fiscal rules. 25

(Source adapted from: The Economist Nov 14th 2019
and <https://www.ft.com/content/3cec4908-d164-11e9-8367-807ebd53ab77> 7th September 2019
and <https://www.ft.com/content/198f072e-4e42-11ea-95a0-43d18ec715f5> and
<https://www.ft.com/content/d89d9404-c586-11e9-a8e9-296ca66511c9> and
<https://www.ft.com/content/8f87c03c-93dc-11e8-b67b-b8205561c3fe>)

Extract D**Germany drops to number 7 in the Global Competitiveness Index**

Despite being the largest economy in the European Union, Germany's competitiveness is declining, according to the World Economic Forum (WEF). Germany dropped four places in the WEF's Global Competitiveness Index, coming in as the seventh-most competitive economy. Out of the 103 indicators used in the report, Germany received lower scores in 53 areas in 2019. 5

(Source: <https://www.dw.com/en/germany-falls-in-global-competitiveness-ranking/a-50745071> 8 October 2019)



(b) Examine **two** likely effects of the forecast change in the rate of unemployment between 2019 to 2020, on firms in Germany. Refer to Figure 4 in your answer.

(8)



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SECTION B

Read Figures 4 to 6 and the following extracts (C and D) before answering Question 2.

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

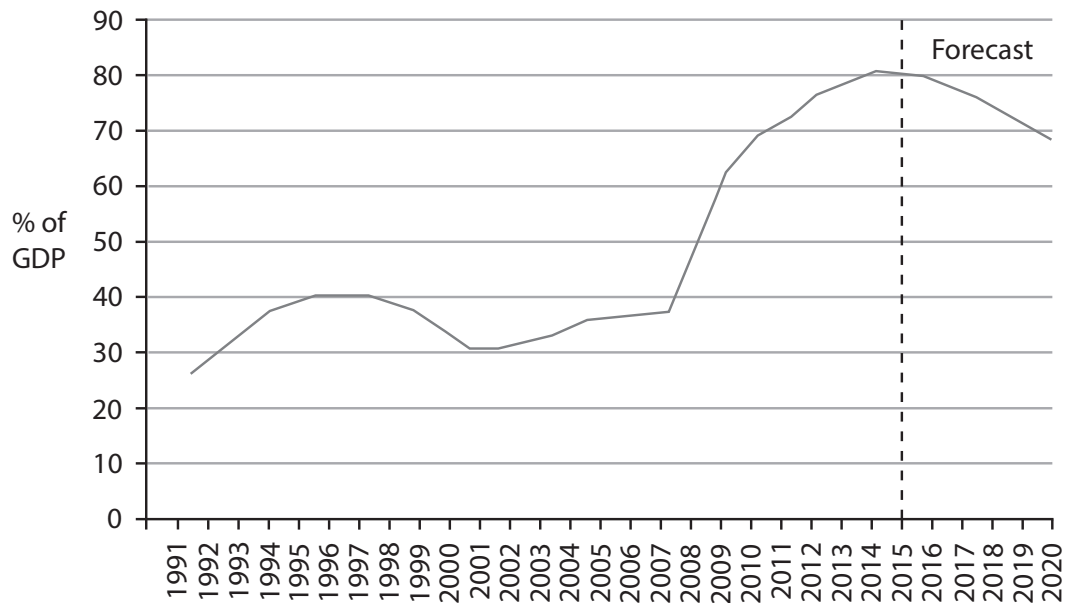
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 2

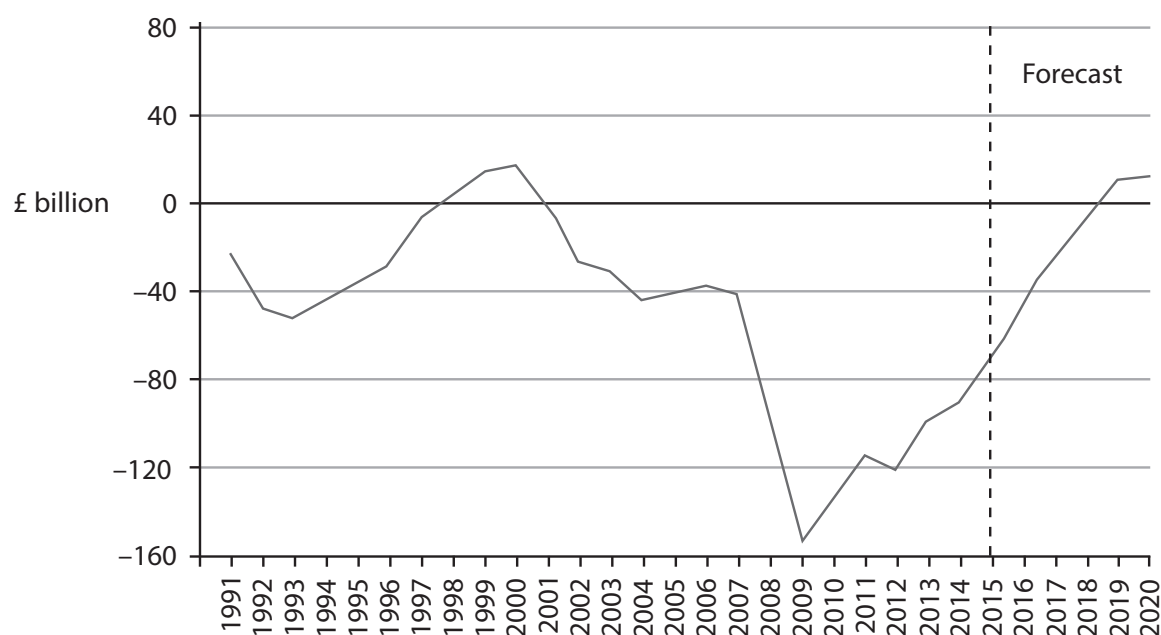
The UK economy

Figure 4: UK national debt as a percentage of GDP



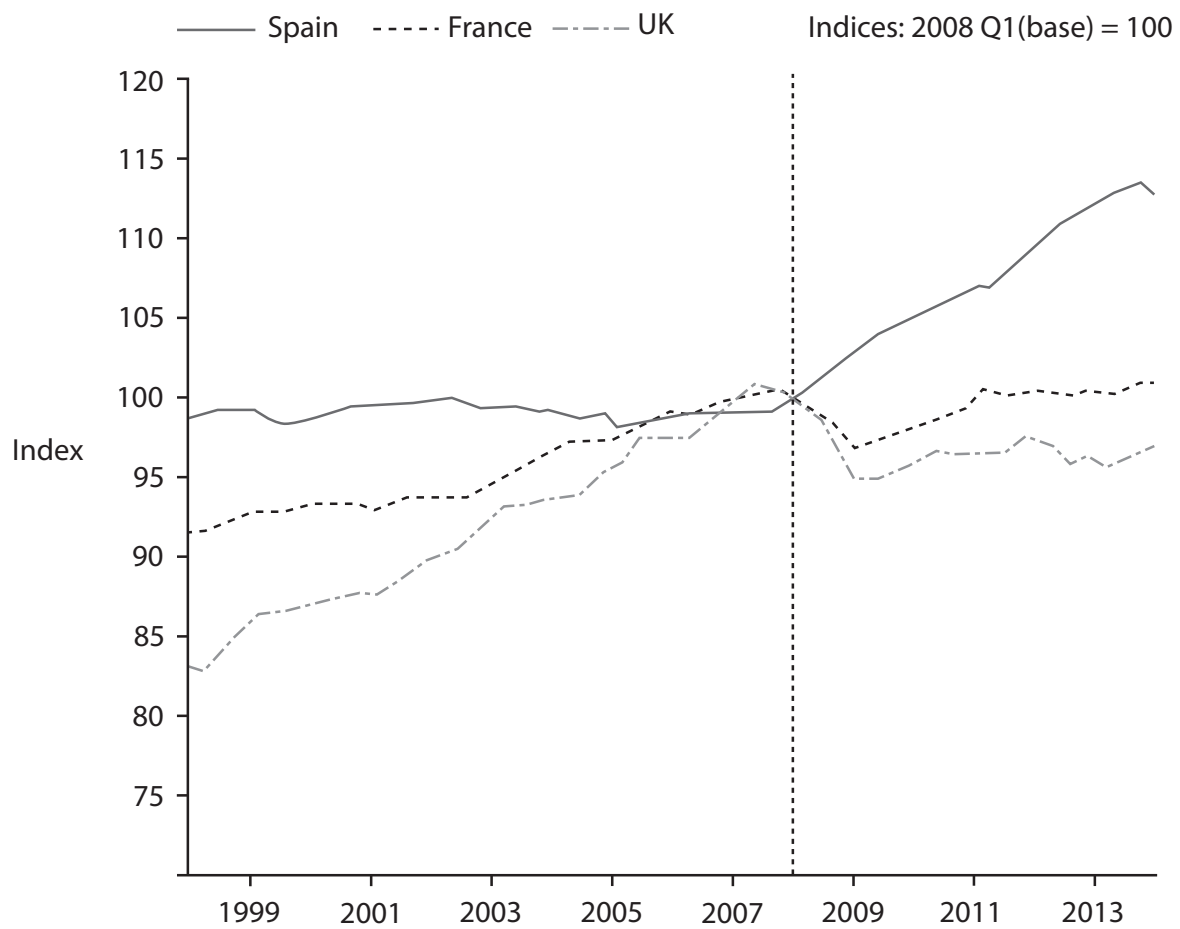
(Source: http://budgetresponsibility.org.uk/docs/dlm_uploads/BriefGuide_020511.pdf)

Figure 5: UK fiscal deficit, public sector net borrowing (PSNB)



(Source: http://budgetresponsibility.org.uk/docs/dlm_uploads/BriefGuide_020511.pdf)



Figure 6: Labour productivity per head, selected countries

(Source: <http://www.bankofengland.co.uk/publications/Documents/quarterlybulletin/2014/qb14q201.pdf>)

Extract C**The National Living Wage (NLW)**

The Government has announced that from 2016 it will introduce a Living Wage Premium that will apply on top of the National Minimum Wage (NMW) for employees aged 25 and over to deliver a National Living Wage (NLW) for those people. The main NMW will continue to be set for all employees aged 21 and over, so that those aged 21 to 24 will continue to be subject only to that rate. 5

The effective minimum wage for the 25+ age group will therefore be over 13% higher in 2020 than would otherwise have been the case, and result in a 0.3% increase in wage costs overall. Further impacts on real GDP are estimated to be higher productivity (+0.3%) but lower average hours worked (-0.2%) and higher unemployment. Overall real GDP is forecast to fall by 0.1% as a result of the NLW. However these forecasts depend on estimates of the likely elasticity of demand for labour. 10

Academic evidence suggests that changes to the NMW since 1999 have led to only limited effects on demand for labour in the UK. The types of work that will be affected are relatively labour intensive, which may limit the scope for firms to substitute towards using capital. Firms may also be expected to shift demand in favour of the under-25s given that they will not be subject to the NLW, which all else being equal would lead to a smaller reduction in overall labour demand. Some of the reduction in employees could also be partially offset by a rise in self-employment. But increasing the NLW to a higher proportion of median earnings may lead to bigger effects than have been experienced in the past. 15 20

(Sources: adapted from <http://cdn.budgetresponsibility.independent.gov.uk/July-2015-EFO-234224.pdf> and <http://budgetresponsibility.independent.gov.uk/>)

Extract D**The productivity puzzle in the UK**

Since the onset of the 2007–2008 financial crisis, labour productivity growth in the UK has been exceptionally weak. Despite some modest improvements in 2013, whole-economy output per hour remains around 16% below the level implied by its pre-crisis trend. Even taking into account possible measurement issues and changes in the size of the service sector, this shortfall is large and is often referred to as the 'productivity puzzle'. 5

Measures of productivity can be used to inform estimates of an economy's ability to grow without generating excessive inflationary pressure, which makes understanding recent movements important for the conduct of monetary policy. During the initial phases of the recession, companies appear to have acted flexibly by holding on to labour and lowering levels of capacity utilisation in response to weak demand conditions. But the protracted weakness in productivity and the strength in employment growth over the past two years suggest that other factors are likely to be having a more persistent impact on the level of productivity. These factors are reduced investment in both physical and intangible capital, such as innovation and training, and failings in the labour market such as immobility of labour and under-employment of skilled workers. Some economists explain this by using the concept of an output gap. 10 15

(Source: adapted from <http://www.bankofengland.co.uk/publications/Documents/quarterlybulletin/2014/qb14q201.pdf>)



(c) Discuss the likely impact of the National Living Wage on the profitability of firms. Use a cost and revenue diagram in your answer.

(12)



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SECTION B

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

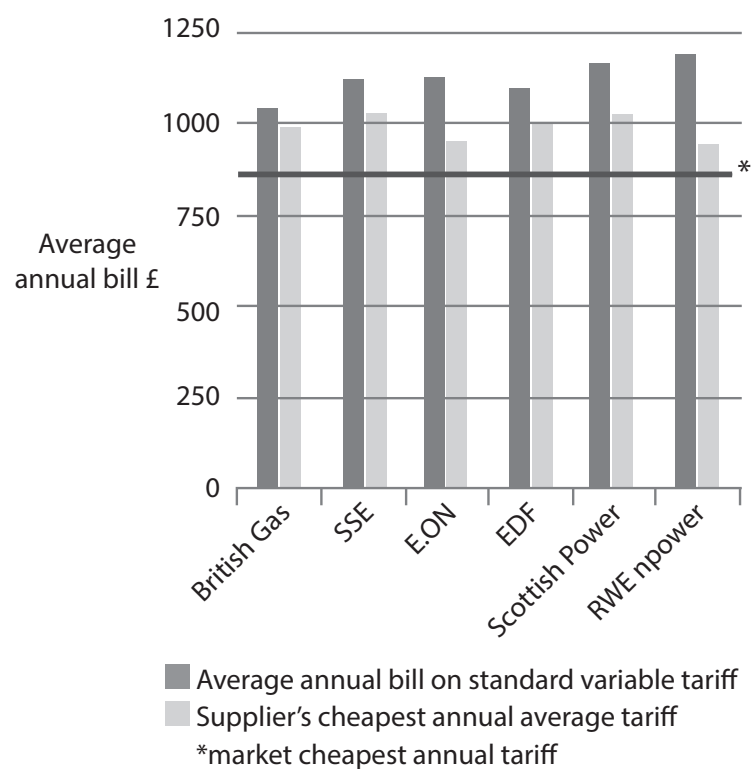
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 6

Energy and telecommunication markets in the UK

Figure 1: Average annual household bill from the Big Six UK energy suppliers, 2017



(Source: <https://www.lovemoney.com/news/67298/standard-variable-tariff-compared-cheapest-deal-provider-savings>)



Extract A**Energy price cap to fix 'broken' market in UK**

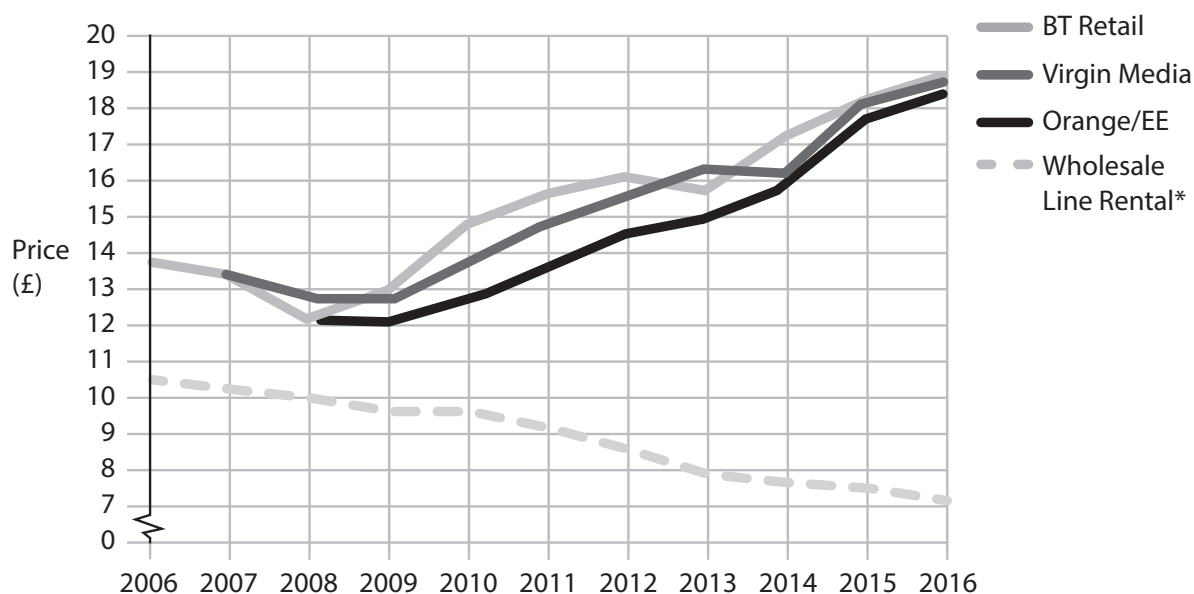
The Prime Minister recently said that the regulator Ofgem (Office of Gas and Electricity Markets) should limit electricity and gas suppliers' most expensive tariffs.

Under the planned new legislation, the energy bills of 11 million households will be capped for as long as five years. The government claimed this cap could save households up to £100 a year. This legislation would force Ofgem to change the licence conditions for energy suppliers so that they are required to cap electricity and gas prices. The measure will apply to anyone on a standard variable tariff, the expensive plans that customers are moved to when cheaper, fixed-price deals end. Ofgem will need to consult energy companies on how the cap is calculated, the government said. The Prime Minister repeated her claim that she had to act because the 'market is broken', a charge the big energy companies reject. "I have been clear that our broken energy market has to change – it has to offer fairer prices for millions of loyal customers who have been paying hundreds of pounds too much," she said.

However, Michael Lewis, chief executive of E.ON said "the government must guard against any unintended consequences that undermine customer service and push up prices as a whole. A price cap will not be good for customers. It will reduce competition and innovation". Smaller suppliers such as First Utility said the Big Six had only themselves to blame for the cap, because they had kept millions of people on standard variable tariffs.

(Source: adapted from 'UK puts energy efficiency at heart of climate change strategy'; Adam Vaughan, Copyright Guardian News & Media Ltd 2017 <https://www.theguardian.com/money/2017/oct/12/may-energy-price-cap-ofgem-electricity-gas-tariffs>)

Figure 2: The monthly rental cost of a telephone landline



*Wholesale line rental – the rental price BT Openreach charges telephone service providers

(Source: <https://www.ofcom.org.uk/about-ofcom/latest/features-and-news/landline-prices-review>)



Extract B**BT profit rises**

BT Group, which includes BT Openreach and BT Retail, reported a rise in profit as revenue increased following the integration of the consumer mobile business, EE. BT finalised the takeover of EE in August 2016, and the integration has resulted in BT controlling 35% of the mobile consumer market. The profit of the UK-based telecommunication group in its second quarter 2017 rose to £566 million. 5

BT Group chief executive Gavin Patterson said: “We will operate a multi-brand strategy with UK customers being able to choose a mix of BT, EE or Plusnet services, depending on which suits them best. The acquisition enables us to offer great value bundles of services and customers are set to be the winners as we compete for their business”. 10

(Source: adapted from www.marketwatch.com (Oct 27 – 2016) and <http://home.bt.com/news/bt-life/bt-to-retain-ee-brand-as-acquisition-confirmed-11364037422234>)

Extract C**BT to slash landline charges for 1 million customers**

Rental charges for landline-only customers – households with a telephone-only contract but no BT broadband – will fall from £18.99 to £11.99 per month after the regulator attacked existing deals as ‘poor value for money’. This rental reduction will save a million landline-only customers £84 a year. 5

The regulator Ofcom (Office of Communications) said it stepped in because these bills for landline-only customers – nearly two-thirds of whom are over 65 – have “soared” in recent years. This is despite BT and other landline providers benefiting from significant cuts in the wholesale line rental cost of providing the service by BT Openreach. Many landline-only customers are elderly, and have been with BT for decades. Ofcom has focused on BT because it accounts for two-thirds of the UK’s 1.5m landline-only customers. 10

A spokesperson for Ofcom said “This position [of dominance] has allowed BT to increase prices without much risk of losing customers, and other providers have followed BT’s pricing lead. We expect BT’s price cut to mean other providers will follow suit”. Ofcom said that over three-quarters of BT’s landline-only customers have never switched provider, which has left them a prime target for price rises. The regulator said that all major landline providers have increased their line rental charges by between 23% and 47% in recent years, while their own costs for providing the service have fallen about 27%. Ofcom said it is also looking at measures to help people shop around for better deals with more confidence. 20

(Source: adapted from ‘BT to slash landline charges for 1m customers’, Mark Sweney, Copyright Guardian News & Media Ltd 2017 <https://www.theguardian.com/business/2017/oct/26/bt-to-slash-landline-charges-for-1m-customers>)



(d) Discuss **one** likely reason for the rise in BT's profit (Figure 2, Extracts B and C). Use a cost and revenue diagram to support your answer.

(12)



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SECTION B

Read Figures 3 to 5 and the following extract (D) before answering Question 2.

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

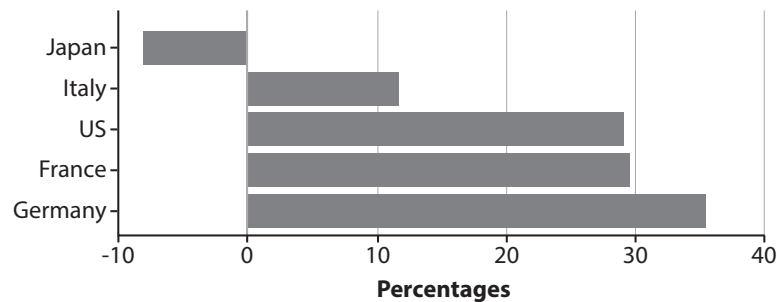
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 2

The UK economy

Figure 3: GDP per hour worked, nominal values at PPPs, percentage above or below UK level, 2018



(Source adapted from: ONS.gov.uk)

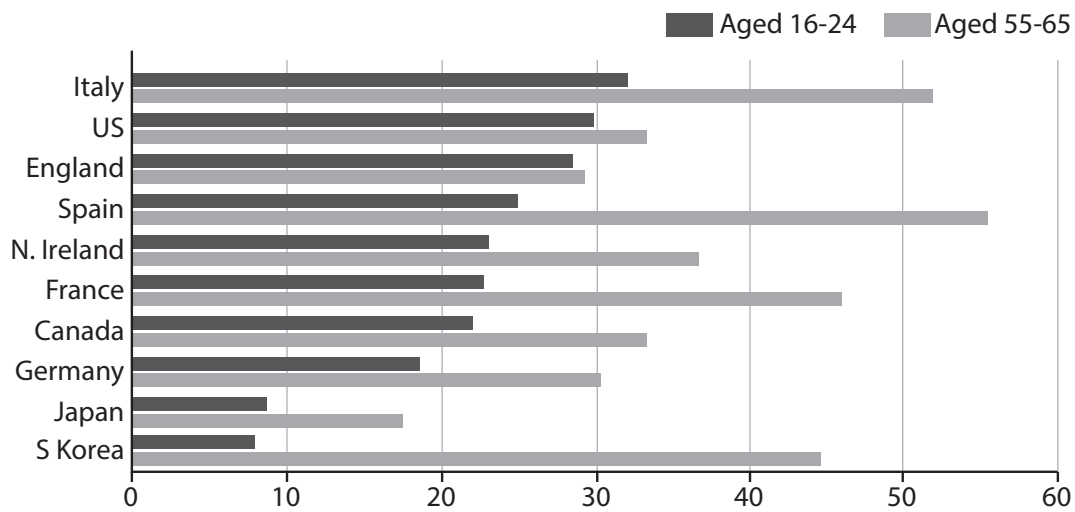
Figure 4: UK index of output per hour worked, base year 2016 = 100



(Source adapted from: ONS.gov.uk)



Figure 5: Proportion of adults with low literacy and/or numeracy skills, by age, selected countries



(Source adapted from: OECD.org)

(Figures 3, 4 and 5 Source: FT.com 2016 data published <https://www.ft.com/content/6ada0002-9a57-11e8-9702-5946bae86e6d> 2018)

Extract D

The end of the High Street?

Homebase, the UK's second-largest do-it-yourself (DIY) retailer, made £20–40 million a year profit up to 2016. The Australian conglomerate Wesfarmers bought Homebase for £340 million in 2016, and began to rebrand 24 stores under its own name. It scaled back on curtain, cushion and other homeware sales in favour of power tools and building materials. In 2018 Wesfarmers sold the DIY chain for £1, in the face of "extremely challenging" market conditions and excess store space. The chain was bought by restructuring specialist Hilco, which had also rescued the music chain HMV in 2013, and the stores have gone back to using the Homebase name. Over 70% of Homebase stores are currently losing money and the new owner wants to exit loss-making stores and agree to rent reductions, as sales fell 10% in 2018. Homebase has gone back to popular products and brands dropped by its previous owner Wesfarmers. 5

The closures will add to the mounting job losses on Britain's high streets. About 25 000 jobs have gone in the first seven months of 2018, according to analysis by an economics thinktank. A further 8 300 jobs are under threat at suppliers, with the multiplier effect meaning that GDP is £1.5 billion less than projected. 10

Several Marks & Spencer clothing stores closed their doors for the last time as the high-street chain pushes ahead with a transformation plan. It plans to close 100 stores by 2022. Toys R Us, Poundworld and Maplin have shut down completely, while New Look, Mothercare and Carpetright have plans to close hundreds of stores as losses rise sharply. Increasing rents and higher business rates have occurred at the same time as falling consumer confidence. Meanwhile, House of Fraser employees and pensioners are nervously awaiting more details about their future. The £90 million rescue deal by Sports Direct, the sportswear chain controlled by Mike Ashley, will protect 16 000 jobs for the time being. 20

(Source adapted from: <https://www.ft.com/content/00d0bb9e-a6ee-11e8-8ecf-a7ae1beff35b> 24 August 2018 and <https://www.theguardian.com/business/2018/aug/13/homebase-close-80-stores-high-street-job-losses-mount> Patrick Collinson 13 Aug 2018)

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SECTION B

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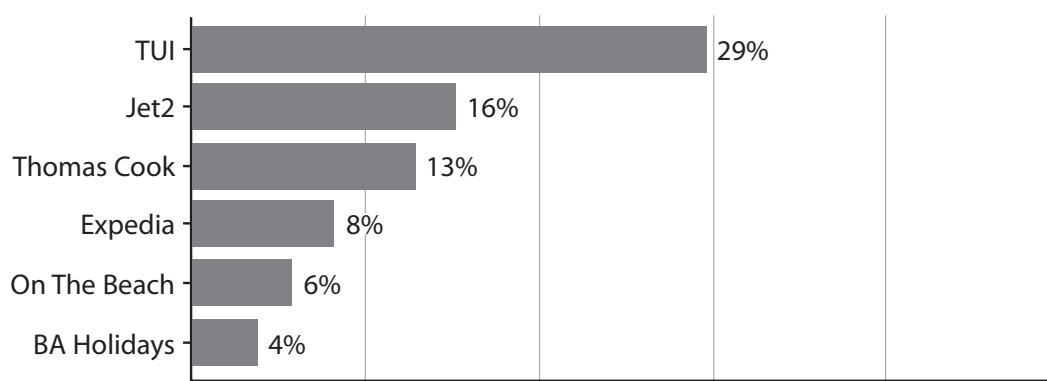
Write your answers in the spaces provided.

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>)

(12)





SECTION B

Read Figures 1 to 4 and extracts C and D before answering Question 2.

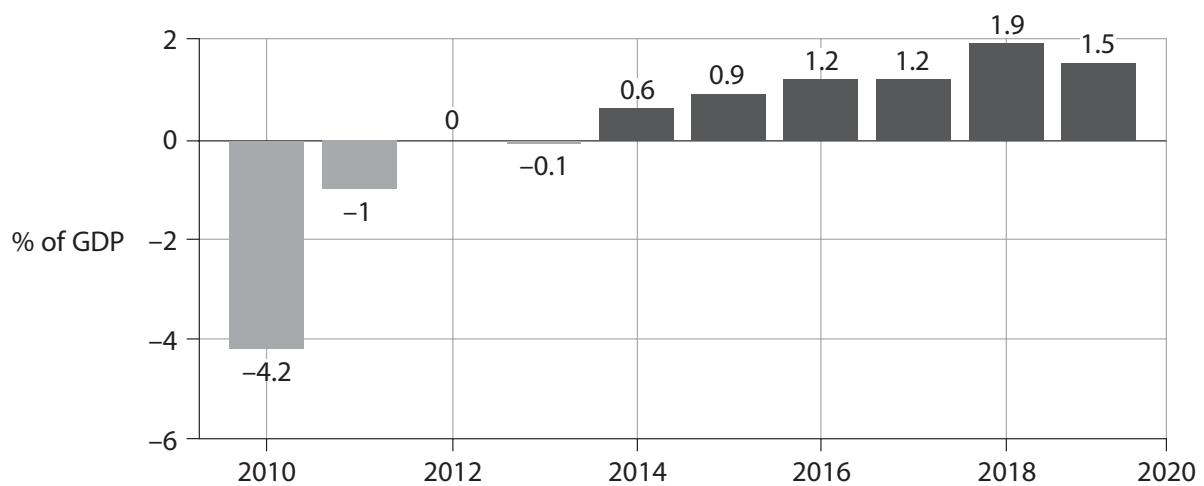
Answer ALL Questions 2(a) to 2(c), and EITHER Question 2(d) OR 2(e).

Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

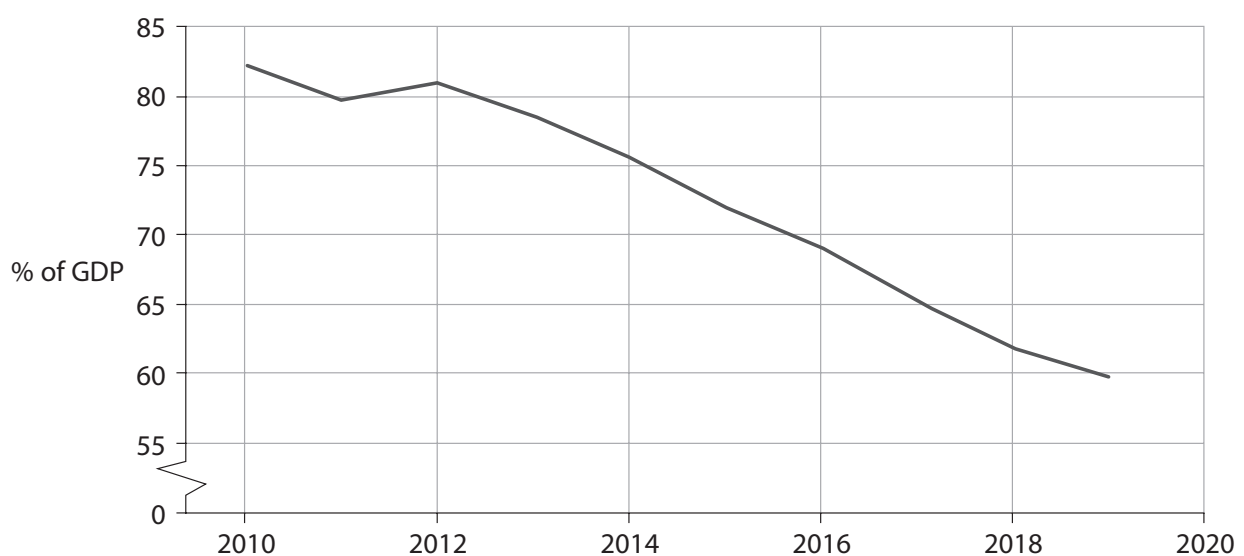
Question 2**The German economy**

Figure 1: German government budget balance, percentage of GDP, 2010 to 2019



(Source adapted from: The Economist Nov 14th 2019)

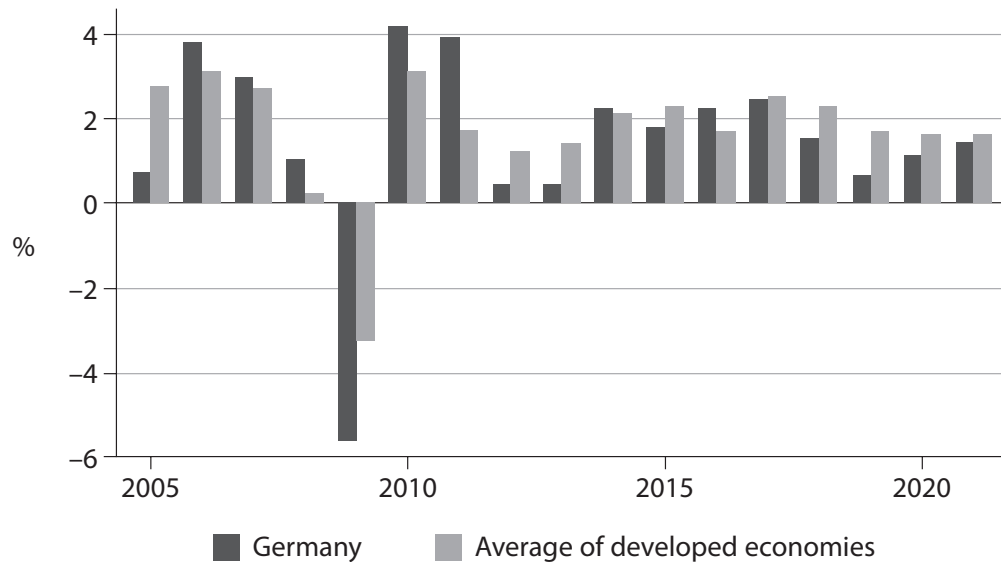
Figure 2: German national debt, percentage of GDP, 2010 to 2019



(Source adapted from: The Economist Nov 14th 2019)

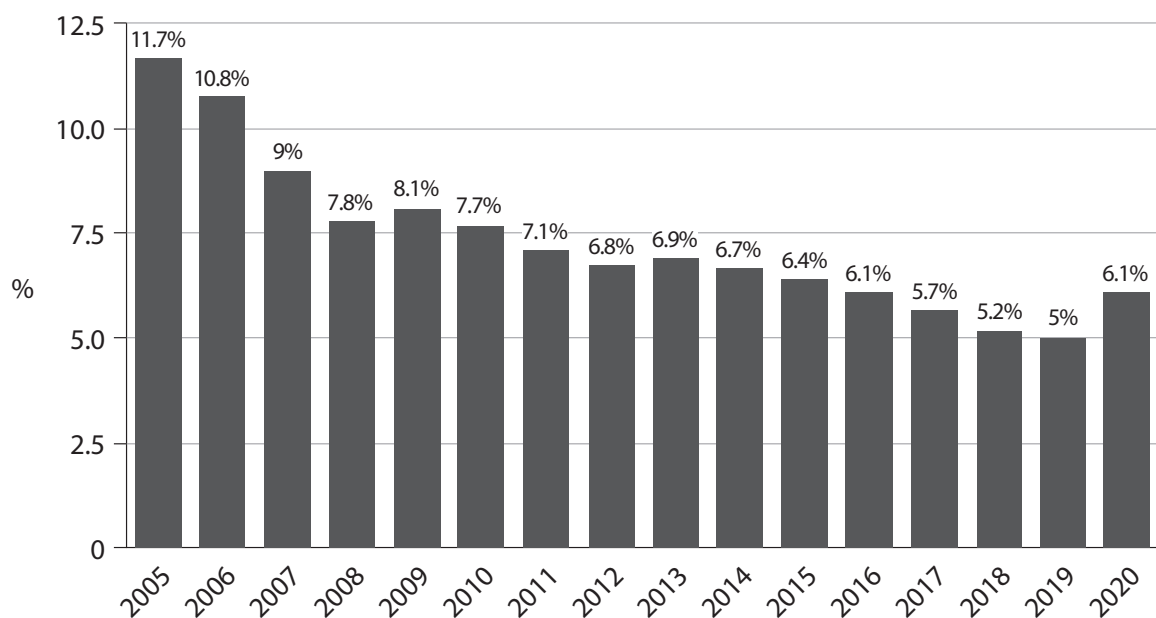


Figure 3: Annual percentage change in real GDP, Germany and average of developed economies, 2005 to 2021 (forecasted data for 2020 and 2021)



(Source adapted from: IMF and German Federal Statistical Office)

Figure 4: Unemployment rate in Germany, percentage of labour force, 2005 to 2020 (2020 figure is forecasted)



(Source adapted from: bundesagentur für arbeit.de and <https://www.ft.com/content/5486b247-c73e-4887-a2b2-528b23e301a6>)

Extract C**Why Germany keeps to budget rules despite a slowdown in growth**

Germany's economic boom is over, as it has entered recession. During the last ten years of economic growth well over 4 million jobs were created.

The fear of recession has revived a debate in Germany: should the government spend more to stimulate growth? It is written into the German constitution that the fiscal deficit cannot be greater than 0.35% of GDP, once the effects of the economic cycle have been removed. Germany's budget has been in surplus since 2014 and the government is always reluctant to increase spending which would create a deficit. In 2018, aided by booming employment and low interest costs on existing debt, the budget ran to a surplus 1.9% of GDP. 5
10

Germany's main trading partners have long been angered by German fiscal policy. The French President criticised Germany's budget and current account surpluses that "always occur at the expense of others".

Large parts of Germany's infrastructure need significant investment. As the economy has slowed, a decision to run a balanced-budget policy has become harder to defend. In wealthy regions of Germany, crumbling schools have been closed for fear of collapse, and information and mobile technology on a wide scale needs to be modernised. The World Economic Forum reported that accessibility of fibre optic broadband also "remains the privilege of the few". However, private sector firms, such as major motor manufacturers, are still willing to invest in new technology and the profitability of some of these firms, in the long run, benefits as a result. 15
20

The state development bank puts Germany's investment shortfall at €138 billion (£120 billion). Arguments for a much more expansionary fiscal policy have failed to influence government policy. Big government programmes, such as a recent package to reduce Germany's carbon emissions, are only implemented when they satisfy fiscal rules. 25

(Source adapted from: The Economist Nov 14th 2019
and <https://www.ft.com/content/3cec4908-d164-11e9-8367-807ebd53ab77> 7th September 2019
and <https://www.ft.com/content/198f072e-4e42-11ea-95a0-43d18ec715f5> and
<https://www.ft.com/content/d89d9404-c586-11e9-a8e9-296ca66511c9> and
<https://www.ft.com/content/8f87c03c-93dc-11e8-b67b-b8205561c3fe>)

Extract D**Germany drops to number 7 in the Global Competitiveness Index**

Despite being the largest economy in the European Union, Germany's competitiveness is declining, according to the World Economic Forum (WEF). Germany dropped four places in the WEF's Global Competitiveness Index, coming in as the seventh-most competitive economy. Out of the 103 indicators used in the report, Germany received lower scores in 53 areas in 2019. 5

(Source: <https://www.dw.com/en/germany-falls-in-global-competitiveness-ranking/a-50745071> 8 October 2019)



(c) Discuss the likely impact of investment in new technology on the profitability of firms in Germany, as described in Extract C line 20. Use a cost and revenue diagram to support your answer.

(12)





SECTION B

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

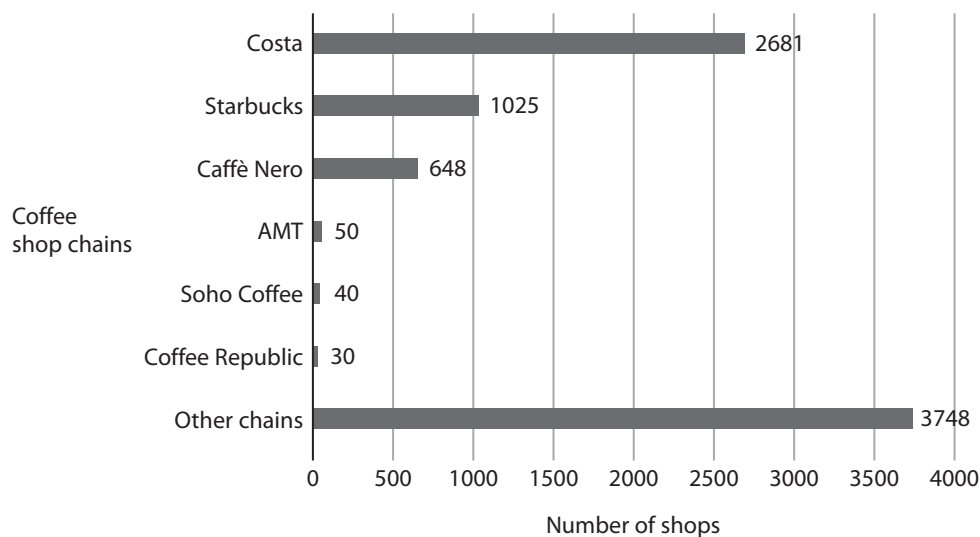
Write your answers in the spaces provided.

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>)



(12)



[illegible]

[illegible]

SECTION A

Read Figures 1 and 2 and the following extracts (A and B) 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

The UK economy

Figure 1: UK gas prices in pence per therm, August 2002 to August 2022

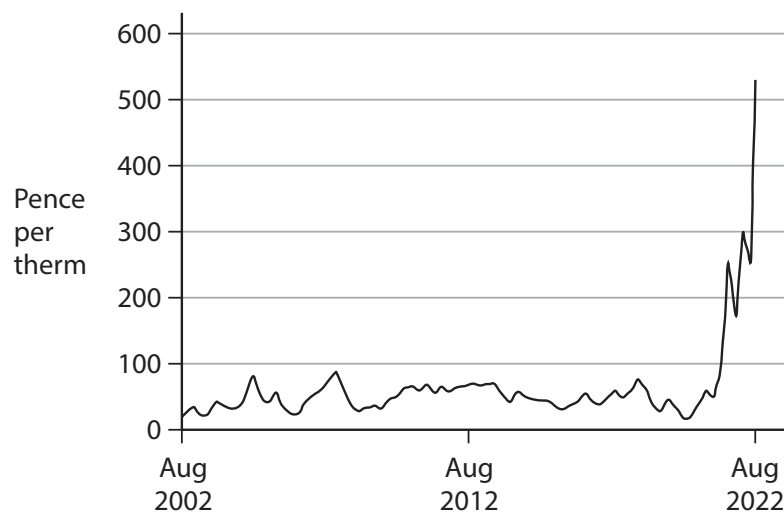
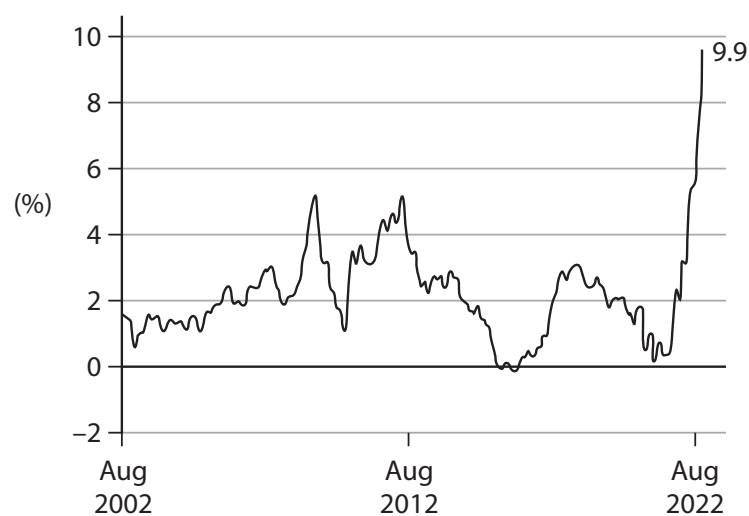


Figure 2: UK inflation, CPI, August 2002 to August 2022



Extract A**Fiscal policy changes in the UK, Autumn 2022**

After many changes in policy, people earning above £150 000 will now no longer benefit from the tax cut in the September 2022 mini-budget, which proposed the removal of the 45% tax band. The proposed change in the main 20% standard rate of income tax moving to 19% has been postponed.

5

In April 2022, a 1.25% rise in national insurance contributions was implemented, labelled as a health and social care levy. It was cancelled in Autumn 2022. Britain's poorest households would have lost £7.56 a year from the national insurance rise. The richest 10% of households, earning an average of £108 000, would have lost £1 800.

Another measure in the Truss Government's £30 billion tax cut proposals that would have benefitted the rich, was the removal of the 2023 planned rise in corporation tax from 19% to 25%. The former chancellor wanted to cut the tax to 15% but this was the wrong time to do this. The former chancellor also removed the 2014 cap on bankers' bonuses, clearly an unfair decision at the time when public sector workers were told to accept pay caps to keep inflation under control.

10

15

The reflationary fiscal policy triggered warnings that the Monetary Policy Committee of the Bank of England would raise interest rates further – having already raised them from 0.1% in 2021 to 2.25% in September 2022. This meant an end to the fiscal rules set by the government in the recent past: debt to be falling as a share of national income by 2024 and no borrowing for day-to-day spending.

20

(Source: adapted from 'Tax cuts benefit high income earners the most' R Merrick The Independent: 19 September 2022 and FT Source: adapted from Sebastian Payne and Chris Giles in London 29 August 2022)

Extract B**Inequality to rise in the UK**

The rising cost of living is expected to affect low-income families the most. Inflation in Autumn 2022 is expected to hit 14% for families in the poorest tenth of the income distribution, compared with 8% for families in the richest tenth, driven in large part by rising energy costs and food prices. Around half of the food consumed in the UK is imported, and the 20% fall in the value of the pound in 2022 has affected lower income groups more because food is a higher proportion of their spending. The government's decision to freeze benefits, rather than allowing them to rise in line with current inflation, means that the support provided is a real terms cut for families currently receiving high levels of benefits. A two-year freeze on energy price caps will now only last until April 2023, which would have kept the average energy bill at £2 500 rather than £3 500.

5

10

(Source: adapted from IFS Report: Living standards, poverty and inequality in the UK: July 2022 and <https://www.ft.com/content/6de5b52e-64c8-4997-8939-e1c59172daa7?shareType=nongift>)

(c) Discuss the likely impact of a rise in gas prices on a firm that uses a large amount of gas in its production process. Use a cost and revenue diagram to support your answer.

(12)



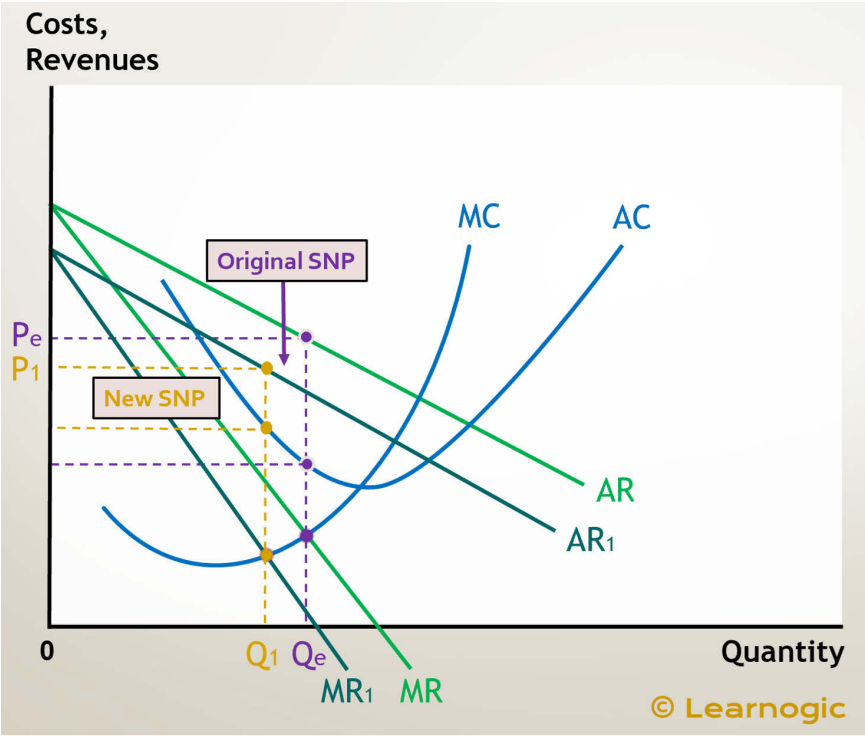
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This image shows a single sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

MARK SCHEMES

official mark schemes



Question Number	Answer	Mark
4(a)	Knowledge 2, Application 2 1 mark for: profits are likely to fall (this may be shown on the diagram) 1 mark for the decrease in the average revenue and marginal revenue curves (accept a pivotal movement of the AR and MR curves) 1 mark for the new equilibrium output and price positions at new $MC = MR$ 1 mark for the original area of supernormal profit. 1 mark for the new smaller area of supernormal profit/loss. Diagram required e.g.  Accept alternative diagram, e.g.: Total revenue and total costs diagram	(4)



Question Number	Answer	Mark
4(b)	B	(1)

Question Number	Answer	Mark
5(a)	D	(1)

Question Number	Answer	Mark
5(b)	Knowledge 1, Analysis 1 Fixed costs remain the same as output increases or decreases (1) Variable costs vary directly with output. (1)	(2)



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
3(b)	Analysis 1 The only correct answer is A <i>B is not correct because the price elasticity of supply does not influence price discrimination</i> <i>C is not correct because for it to be third-degree price discrimination the same product is being bought; it is homogenous</i> <i>D is not correct because price discrimination is not associated with costs of production reasons</i>	(1)

Question Number	Answer	Mark
4(a)	Application 2 Application: 1 mark for likely understanding e.g. • \$40 x 300 seats (1) OR • \$12 000 per show (1) OR • \$12 000 x 5 (1) Answer = \$60 000 Award 2 marks for correct answer (60 000)	(2)



Question Number	Answer	Mark
4(b)	Application 2 Application: 1 mark for understanding e.g. - Subsidy is 57.5% (1) OR 100% - 30% (tickets sales) – 12.5% (charitable donations) OR 57.5% x \$ 200 000 (1) OR 0.575 x 200 000 (1) Answer = \$115 000 Award 2 marks for correct answer accept a range (114 000 – 116 000)	(2)

Question Number	Answer	Mark
4(c)	Analysis 1 The only correct answer is D <i>A is not correct because this is sales maximisation</i> <i>B is not correct because this is identifying allocative efficiency</i> <i>C is not correct because this is describing perfect competition market structure.</i>	(1)



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	Answer	Mark
4(b)	B	(1)

Question Number	Answer	Mark
5(a)	D	(1)

Question Number	Answer	Mark
5(b)	Knowledge 1, Analysis 1 Fixed costs remain the same as output increases or decreases (1) Variable costs vary directly with output. (1)	(2)



Question Number	Answer	Mark
5(c)	Application 2 Application: 1 mark for applying the formula 1 mark for workings: e.g. $13 \times 227 \div 100$, 13% of 227 (1) Award 2 marks for correct answer 29.5 (accept answer between 29 and 30)	(2)

Question Number	Answer	Mark
6(a)	Knowledge 1, Application 1, Analysis 3 Knowledge/Understanding: 1 mark for: Understanding or definition of a concentration ratio (1) Application: 1 mark for reason e.g. Change in shopping habits which has led to consumers shopping more frequently in discount stores/online shopping from other retailers (1) OR The smaller discount stores such as Aldi and Lidl have increased their market share (1) Analysis: Award further marks for linked developments e.g. because Aldi and Lidl focus on low prices so their sales have risen faster than those of the big four (1) more convenient to shop at local stores (1) The four firm concentration ratio has decreased by 3.6 percentage points (2) OR Calculation of the four firm concentration ratio in 2010 $(30.8 + 17.6 + 16.1 + 11.6 = 76.1\%)$ (1) Calculation of the four firm concentration ratio in 2015 $(28.6 + 16.5 + 16.5 + 10.9 = 72.5\%)$ (1)	(5)



Question Number	Answer	Mark
3 (b)	Analysis 1 The only correct answer is B <i>A is not correct because regulation may cause the distortion of price signals as a problem</i> <i>C is not correct because regulation may result in the problem of information gaps</i> <i>D is not correct as regulation may result in the problem of excessive administrative costs</i>	(1)

Question Number	Answer	Mark
4 (a)	Knowledge 1, Analysis 1 Knowledge / understanding and Analysis e.g : • Total cost rises (1) at an increasing rate (1) • Total costs continue to rise (1) but more steeply (1) • $MC > AC$, therefore AC rises (1) • $MC > AC$ (1) therefore TC increases at a faster rate (1) candidates may draw the TC curve to show it rising more rapidly NB : responses may be shown on the diagram beyond point Z.	(2)



Question Number	Answer	Mark
4 (b)	Application 1 The only correct answer is B <i>A is not correct because AVC does not fall</i> <i>C is not correct because AFC falls as fixed costs are spread out over a larger output</i> <i>D is not correct because AFC falls as fixed costs are spread out over a larger output</i>	(1)

Question Number	Answer	Mark
4 (c)	Application 2 Application: (up to 2 marks) Calculate total cost: Average variable cost = $2 \times 0.4 = 0.8$ (1) Total variable cost = $0.8 \times 400 = \text{£}320$ (1) $\text{£}320 + \text{£}300$ (1) Award 2 marks for correct answer = £620 (accept 620) Award maximum 1 mark for partially correct answer	(2)



Question Number	Answer	Mark
6(a)	Knowledge 1, Application 2, Analysis 2 Knowledge and Analysis: up to 3 marks for e.g. • Staffing levels fall (1) • Diminishing marginal productivity means for an additional unit of labour the additional increase in productivity declines (1) so the additional cost of hiring more labour (1) needs to be set against the additional productivity gained (1) • As marginal productivity declines/diminishing returns set in (1) marginal cost increases at a faster rate (1) given labour is homogenous (1) • In the short run labour is variable (1) all other factors of production are held constant (1) so an additional unit of labour will result in less additional output (1) • An additional unit of labour results in: marginal product declines (1) average product declines (1) total product increases at a slower rate (1) total cost rises at a faster rate (1) marginal cost increases (1) average cost rises (1) Application: up to 2 marks for e.g. • lower marginal productivity of an additional crew member (1) explains why American Airlines are reducing staffing levels (1) • The first cabin crew member serves 50 passengers, the second serves 60 additional passengers, the third serves 30 more, the fourth serves 20 (1+1) • The number of additional meals served will decline per additional crew member (1) as crew members start to get in each other's way (1) • The available space on the plane is fixed (1) and seating/trolley/meals/doors available (1) • Lower cost per passenger (1) cheaper tickets (1)	(5)

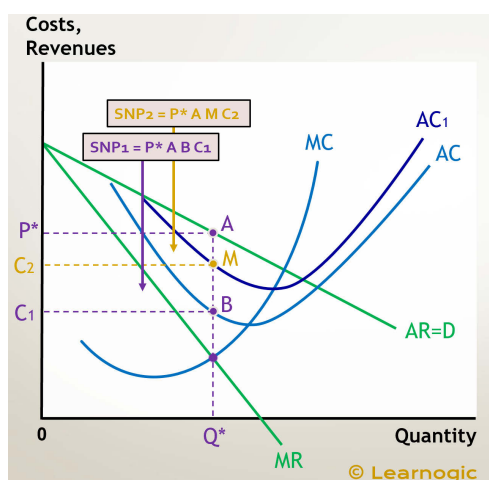


7

Knowledge 4, Application 4, Analysis 8, Evaluation 9

- Increase in energy bills (Fixed Cost) shifts AC upwards OR Variable Costs increase shifting AC and MC upwards
- Loss area/smaller profit connected with $MC=MR$
- Short-term (AVC) or long-term (AC) shut down point reached for firms in industry
- Cost and Revenue/Supply and Demand analysis - higher prices and lower output
- Industry energy intensive
- Cut in costs – wages/redundancies/investment/impact on hotel guests/customers
- Wider impacts on employees and suppliers
- Reduction in the level of competition/contestability in the industry as smaller firms are forced to exit

Diagram (showing fixed costs changing) e.g.



- Change in business objective e.g. to sales maximisation
- Incentive to put in place energy saving devices, insulation, solar panels to reduce energy use

N.B. For Level 4 response a diagram is not required

N.B. For Level 4 KAA candidates must refer to a specific industry

Evaluation

- Energy prices are very volatile
- Energy bill as proportion of total cost
- Cover AVC in short run – contribute to energy bills • Cover AC in long run

(25)

- Long-term changes e.g. energy price falls
- Industry/market structure – monopsony power - larger companies can negotiate better deals
- Information/education campaigns to encourage customers to reduce energy consumption e.g. reminders to turn the heating down and turn lights off
- Reward magnitude arguments e.g. the size of the increase in energy costs
- Extent to which costs can be offset by energy saving measures/or increase in demand for hotel rooms
- Government intervention to support businesses with higher bills
- Impact depends on size of the hotel e.g. Premier Inn
- Candidates can use PED as impact on revenue



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.

Question Number	Indicative content	Mark
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Question Number	Answer	Mark
4(a)	Analysis 1 The only correct answer is C A is not correct because the external economies of scale being the most likely reason would indicate that the market contains mostly small firms in a perfectly competitive market which is not evident in the stem. B is not correct because companies merging are more likely to benefit from internal economies of scale D is not correct because a demerger will usually reduce market share and it could be argued in this case that the two businesses are unrelated.	(1)

Question Number	Answer	Mark
4(b)	Knowledge 2 Application 2 Profit = TR – TC or TC = TR – Profit OR 72.8 million – 14.4 million (1) Calculation of profit in 2016 17.5 million/1.215 = 14.4 million (1) Calculation of total revenue in 2016 75.8 million/1.041 = 72.8 million (1) Award full marks for the answer = £58.4 million NB – simply stating 58.4 million is 4 marks simply stating 58.4 is 3 marks	(4)



Question Number	Indicative content		Mark
6(c)	Knowledge 2, Application 2, Analysis 2 Definition or understanding of economies of scale Economies of scale may include: • Purchasing economies – bulk buying computer chips • Financial economies – accessing loans at low rates of interest from commercial banks • Managerial economies – Arm and Nvidia removing middle managers; greater specialisation and division of labour • Technical economies – greater investment in R&D and innovation, larger warehouses etc. • Marketing economies – ease of access to many effective media outlets, discounts on advertising space etc. • External economies – information sharing on selling products into emerging markets Removing wasteful duplication e.g. research into AI advances in games consoles, data centres and smartphones NB A diagram may be used to illustrate economies of scale/diseconomies of scale NB For KAA level 3, candidates should refer to electronics industry		(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.
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Question Number	Indicative content		Mark
6(c) continued	Evaluation 4 • Diseconomies of scale and types – communication, coordination issues • Buyer has some monopsony power over electronics firms • Benefits may not be realised if buying from a monopoly supplier e.g. global supply chain issues • Limited benefits from global advertising, language and cultural barriers require adaptations • X-inefficiency for incumbent firms • Dynamic efficiency more significant than economies of scale • Consideration of size of firms – many firms in the industry are small-scale, so economies of scale may not be achievable to the same extent		(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
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Question Number		Mark
2(b)	Knowledge 2, Application 2, Analysis 2 Evaluation 2 Diagram (2) Reserve 2 marks for costs and revenue diagram. This can be awarded as 2 application marks or 1AN + 1AP. Knowledge and analysis (1+1): e.g. - Increasing efficiency resulting from investment lowers costs for firms (K) which means AC falls – might also show fall in MC (A) - Profit increases (K) with new area shown on diagram linking the new MC=MR with the AR and new AC (A) Application (2 or 1+1): answer relates to the output of farmers increasing relative to input, e.g. Productivity of each farm increases (1) as rice output doubles (1); Plans for 65 dams, 16 already under construction (1) Or: 'two harvests a year' (1) means more output from same fixed land/factor (1) Diagram e.g. shows a decrease in AC (if fixed costs) or decrease in AC and MC (if variable costs) e.g. as shown below. The diagram must be consistent with the description, although shift/non shift in MC might be implicit. © Learnogic	

	• 1 mark for correct shift in cost (relevant to answer given) and • 1 mark for new correct profit area shown. Diagram may show a fall in costs and/or an increase in revenue if linked to double the number of harvests, or a decrease in revenue if linked to falling worldwide prices, more firms entering the market. Diagram may be perfect competition. Evaluation (2 marks for any relevant point, or two points 1+1) • The investment is taking many years and may not be completed • Governments might increase tax on farmers to compensate for increased costs of dam investment • The farmers might face other increased costs as output rises e.g. law of diminishing returns • There may be more efficient and effective ways of increasing output, e.g. better technology, fertiliser • Increased world supply could lower the price per unit, and with low PED the revenue and therefore profit could fall.	(8)
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Question Number	Indicative content	Mark
2(b)	Knowledge 2, Application 2, Analysis 2 Evaluation 2 Knowledge/implicit understanding of two effects (1 + 1) e.g. • Consumers demand falls • Firms may pay lower wages • Lower labour turnover • Easier to recruit staff • Reduction in skills, efficiency • Deterioration of public sector finances further reducing spending on infrastructure Application: (2 marks for any relevant point, or two points 1 +1): e.g. • Unemployment is forecast to rise (1) to 6.1 percent from 5 percent (1) / 1.1 percentage points (2) • This comes after several years of a declining rate of unemployment (1) Analysis (1+1) • Development of points made Evaluation (2 marks for any relevant point, or two points 1 +1): e.g. • Demand might rise for inferior goods • Wages may be sticky downwards • This is only a forecast and given events at the beginning of 2020 might end up worse. • Firms exporting goods may not be affected as demand from abroad may remain strong if unemployment does not fall there • The rise in unemployment is small and is still below 11.7% 2005. So, the impact will be relatively small	(8)



Question Number	Indicative content	Mark
2(c)	Knowledge 2, Application 2, Analysis 4 • Increase in wages implies increased variable costs for firms (average cost or total cost) so profit falls • Diagram showing upwards movement of AC and MC (allow AC-only shift if clearly related to fixed costs of labour) • Allow TC/TR diagram OR • For normal goods there is likely to be an increase in demand (average revenue or total revenue) • Diagram showing rightward/outward shift in AR and MR as demand increases Diagram, e.g. NB an answer which does not include an accurate diagram is limited to Level 2. Diagram must show impact on firms. NB for a Level 3 answer diagram must show change in profit and can involve a change in FC or VC, and should explicitly link type of cost to type of wage change	(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 • Depends on the proportion of costs made up by (low skilled) labour • Depends on the elasticity of demand for labour, e.g. the substitutability of capital for labour • Effect on profitability will depend on the ability of firms to pass on increased costs • Answers might consider the counterbalancing effects of changes in both revenues and costs • Increased wages have in the past led to increased value of output • In the long run firms might employ younger (under 25) workers, and other possible changes implied in Extract C • Demand might fall if the firm is selling inferior goods when incomes rise. • Real vs. nominal changes in wages • Depends on whether other costs remain the same, or if demand rises as result of increased incomes • Contrast between fixed and variable cost diagrams • Discussion of the supply of labour/opportunity cost of labour as wages rise	(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.

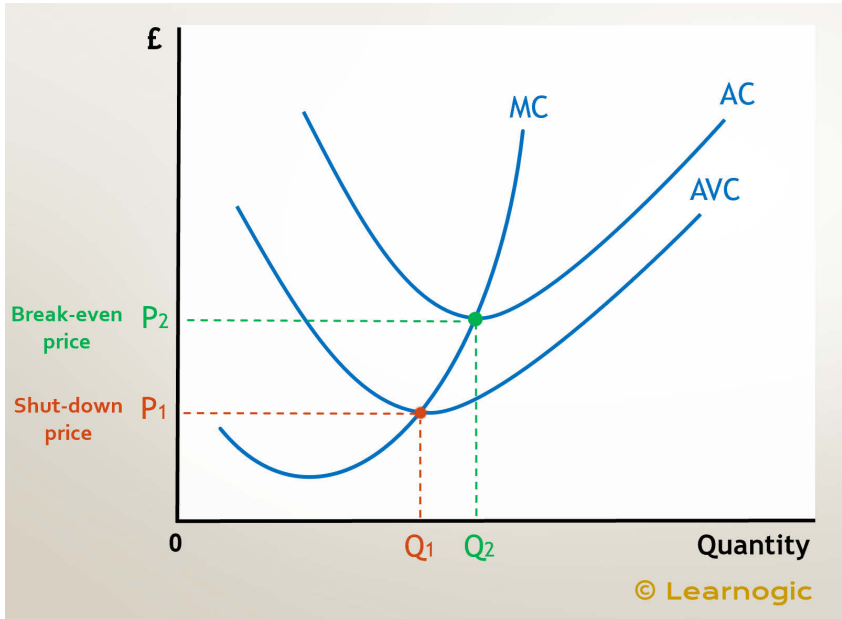


Question Number	Indicative content	Mark
6(d)	Knowledge 2, Application 2, Analysis 4 BT profit levels have risen to £3.03 billion • Higher revenue due to, e.g.: - Higher rental price for landline - Price increases of 15% - Broadband calls up in price - Customers paying a higher price for setting up landline with BT - Integration with EE increasing mobile revenues - Increase in market share to 35% - Inelastic PED subject to monopoly abuse • Lower costs - Approximately 27% fall in the cost of providing the landline service - Economies of scale - Fall in fixed costs of providing extensive 'landline' network - Dynamic efficiency gains/synergy/patents acquired from merger - Fall in variable cost • Other potential reasons explained: - Exploitation of certain consumer groups - Effective use of price discrimination - Collusion with other landline providers Costs and revenue diagram showing: - Original profit maximising output level - Outward shift in AR and MR - And/or – fall in AC and MC - And/or – fall in AC if FC lower - And/or Changes shown on Monopoly diagram e.g. from limit pricing to profit maximisation - Original SNP and larger new SNP area NB – For Level 3 an accurate costs and revenue diagram must be included.	(8)

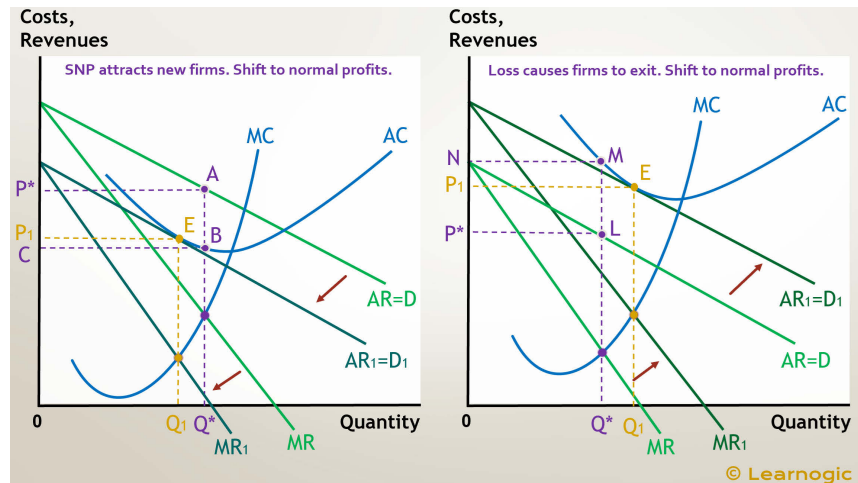


Level	Mark	Descriptor	
	0	A completely inaccurate response.	
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes 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
6(d) continued	Evaluation 4 • Profits levels are likely to fall in the future due to the actions of the regulator and prices falling • Profits levels are likely to fall in the future as more competition enters the markets • Relative significance of points • Significance - both factors are working together to increase the extent of their profits • Not possible to say for certain due to a lack of information and data • Magnitude – 27% fall in costs likely to have a significant contribution.		(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 • Changing consumer trends • Higher business rates and other costs • Use of diagram to show shut down point • Explanation of diagram to explain why firms leave, e.g. $P < AVC$ • X-inefficiency in shops • Low value added shops have to compete with online Application • Competition from online • Use of Extract to give examples, e.g. Maplin could not compete with online similar products • Inflation has reduced the amount you can buy with £1 – Poundworld was not viable • These are saturated market with many new entrants • Large rental bills and higher business rates cannot be met and banks are unwilling to lend/ provide extensions to overdrafts • Falling consumer confidence Example of costs diagram (can use AC or ATC) 	

Example of revenue diagram:



NB for a level 3 response there must be at least one valid diagram. The diagram can show either a fall in AR/MR or a rise in costs, or both. The diagram also earns credit as a static diagram, but explanation of changes is still required.

(8)

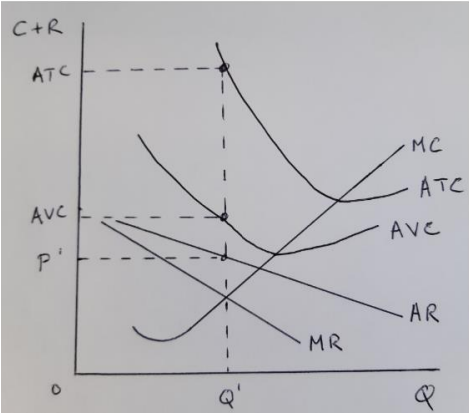
Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
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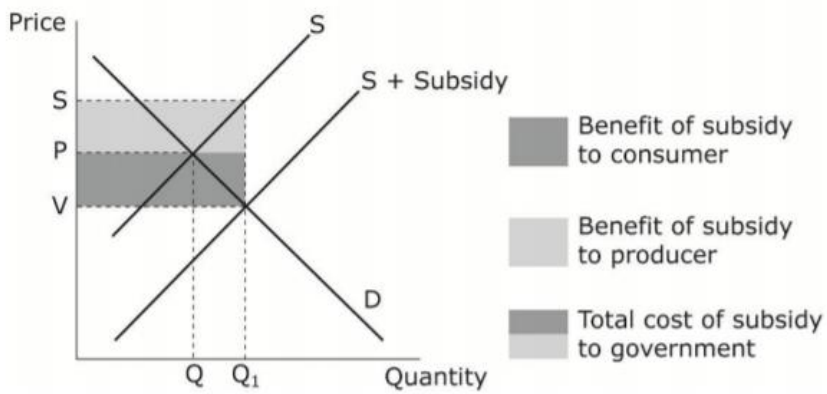


Question Number	Indicative content	Mark
2 (c) continued	Evaluation 4 • Some high street stores are doing well, e.g. coffee shops and cafes • Other regeneration of the high street is possible • Many companies are responding to threats from online by extending their online presence • Diagram might be used as part of evaluation, e.g. it depends on whether costs also fall as demand falls. Homebase is seeking lower rents (fixed costs fall). • Firms will stay in business in the short run if they are making a contribution towards fixed costs, i.e. $P > AVC$. This might be illustrated with a diagram e.g.	(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.



Question Number	Indicative content	Mark
6(d)	Knowledge 2, Application 2, Analysis 4 Case for subsidy: • Subsidy is financial aid, grant • In long run required more to cover AC • Subsidy may have lowered AC, may be shown as shift on diagram • Benefit of subsidy to producer may cover their AVC in short-run or AC in long-run. • Avoid government rescuing 600 000 travellers • Avoid government paying benefits to up to 21 000 employees and those losing jobs in related industries e.g. hotels • Subsidy may have leveraged help from banks and shareholders • Thomas Cook may have recovered - Package holidays may have come back into fashion – aging population. Recession may have seen a rise in demand for package holidays as an inferior good, YED negative • Diagram may be used, for example:  OR	

	Incidence of a Subsidy  NB a diagram is not required NB case against subsidy may be seen as KAA and case for as evaluation or vice versa.	(8)
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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.
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Question Number	Indicative content	Mark
6(d) continued	Evaluation 4 Case against subsidy Lack of finance • £150 million not enough - £1.5 billion loss. • Needed help from bank loan (zombie-firm), shareholders or another company taking over Thomas Cook. Not willing to help. • £1.5 billion loss in May 2017, already in long-run • Cheaper and more effective to nationalise to rescue employees and suppliers Merger with MyTravel • Diseconomies of scale, $LRAC > AR$ • Lack of synergy • Loss making business Falling demand for Package holidays • AR shifting in • Booking online through competitors rather than Thomas Cook high street outlets • Package holiday inferior good, YED negative. • Climate change – stay at home. Opportunity cost Dependency Government lacks funds- budget deficit Moral hazard No consequences for the failings of management will teach other businesses who get into commercial difficulties that government will pick up the pieces NB: Case against subsidy may be seen as KAA and case for as evaluation or vice versa.	(4)



Question Number	Indicative content	Mark
2(c)	Knowledge 2, Application 2, Analysis 4 Knowledge and analysis • Might mean costs rise in the short run and/or • Costs fall in the long term – fixed or variable • Demand for products might increase as firms improve product quality and choice Application • Some firms in Germany are expecting higher long-term profits from the investment (Extract C) • Germany still far behind other countries in the area of technology especially broadband (Extract C) Analysis Example of diagram (can use AC or ATC or not shift MC): The first graph shows a parallel shift in demand from $AR=D$ to $AR_1=D_1$. The initial equilibrium is at Q^* and P^*, where $MR=MC$ and $AR=D$. The new equilibrium is at Q_1 and P_1, where $MR_1=MC$ and $AR_1=D_1$. The area of supernormal profit initially is $SNP_1 = P^* A B C$, and after the shift, it is $SNP_2 = P_1 K J H$. The second graph shows a non-parallel shift in demand. The initial equilibrium is at Q^* and P^*. The new equilibrium is at Q_1 and P_1. The area of supernormal profit initially is $SNP_1 = P^* A B C$, and after the shift, it is $SNP_2 = P_1 E F G$.	



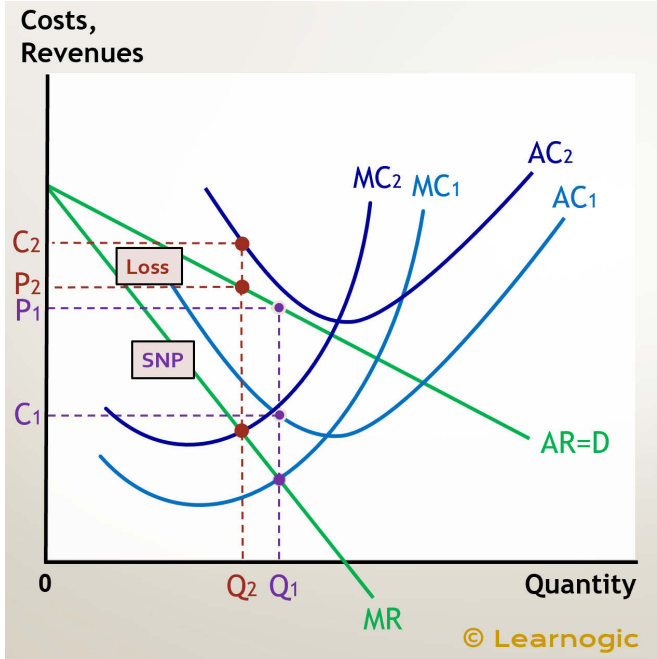
	NB for a level 3 response there must be at least one valid diagram. The diagram can show either a rise in AR/MR or a fall in costs, or both.	(8)
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Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
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Question Number	Indicative content	Mark
2(c) continued	Evaluation 4 • Discussion of whether costs would rise (short term) or fall if successful (long term) • It depends on how labour intensive the production is • It depends on what competitor countries are doing • New technology needs highly skilled labour and cannot be discussed in isolation	(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.



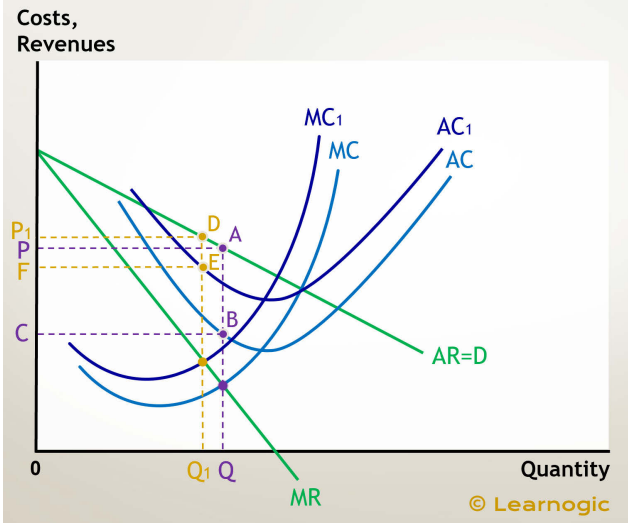
Question Number	Indicative content	Mark
6(d)	Knowledge 2, Application 2, Analysis 4 Profitability definition Profitability decreases • Increase in advertising/rent/wages (Fixed Cost) shifts AC upwards • Increase in price of coffee beans/wages (Variable Cost) shifts AC and MC upwards • Loss area/smaller profit connected with $MC=MR$ • Slow-down opening new outlets in 2020 • Short-term (AVC) or long-term (AC) shut down point • Coffee shops labour intensive • Diagram e.g.  NB: For Level 3 response candidates must refer to coffee shops. Must have an accurate diagram. NB Allow diagrams showing e.g. rise in fixed costs only, constant returns to scale. NB Profitability not decreasing can be seen as EV and decreases as evaluation or vice versa	(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.
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Question Number	Indicative content	Mark
6(d) continued	Evaluation 4 Profitability does not decrease • Coffee bean costs very volatile • Coffee small proportion of total cost • Rent/labour high proportion of total cost • Profit also determined by revenue • Insufficient information • Prioritisation of reasons • 2020 closures due to external factors • Long-term changes e.g. price of property falls • Absorb costs • Change in market structure – firms exit • Collude/inter-dependence • Change in revenue • Diversify into new product or geographical markets e.g. US	(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(c)	Knowledge 2, Application 2, Analysis 4 Points might include: • use of Figure 1 to refer to the gas price increases • rising production costs (allow fixed or variable cost arguments) • lower SNP/loss/reduction in producer surplus • forced to pass on higher prices to the consumer, reducing sales • reduction in planned investment • cost cutting in other areas of the business • forced to switch to alternative energy sources • may decide to leave the market/shut down/switch to more profitable business activities • fall in profits might reduce dynamic efficiency <i>Diagrammatic analysis:</i> Shift in AC and MC upwards/left Shifts must correlate with explanation of either FC or VC changes New price/output shown New profit area/change in profit  © Learnogic • NB an answer which does not include an accurate diagram is limited to Level 2. Diagram must show impact on firms. • NB One fully explained impact with a correct diagram can achieve Level 3.	(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(c) continued	Evaluation 4 • it depends on what % gas comprises of their total costs/revenues • it depends if the rise in gas is sustained (short run long run arguments) • it depends on how long it will take to develop alternative sources of fuel • it depends on whether firms can become more energy efficient • it might be that demand falls and/or firms go out of business (shut down) • it depends on if they have reached their shut down point - they may continue to stay in business and make a loss in the short run • it depends on the PED of the product they sell and if they can pass price rises on to the consumer • it depends on the nature of competition within the market • magnitude / volatility arguments	(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 the 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.

