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EDEXCEL A ECONOMICS: QUESTIONS BY TOPIC

Market Structures (3.4)

A Level Economics Theme 3

44 questions · 411 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
3.4.1 EFFICIENCY		6 Qs · 26 marks	3
1. Q5(a)	A Level Paper 1 June 2018	1	4
2. Q3(a)	A Level Paper 1 June 2023	1	5
3. Q5(b)	A Level Paper 1 June 2018	2	6
4. Q5	A Level Paper 1 November 2021	5	7
5. Q6(a)	A Level Paper 1 June 2025	5	10
6. Q2(c)	A Level Paper 3 October 2020	12	11
3.4.2 PERFECT COMPETITION		1 Q · 1 marks	16
7. Q5(b)	A Level Paper 1 November 2021	1	17
3.4.3 MONOPOLISTIC COMPETITION		4 Qs · 16 marks	18
8. Q3(a)	A Level Paper 1 June 2019	1	19
9. Q3	A Level Paper 1 June 2019	5	20
10. Q1(a)	A Level Paper 3 November 2021	5	21
11. Q3	A Level Paper 1 June 2023	5	24
3.4.4 OLIGOPOLY		18 Qs · 152 marks	25
12. Q4(b)	A Level Paper 1 June 2022	1	26
13. Q5(b)	A Level Paper 1 June 2024	1	27
14. Q5(c)	A Level Paper 1 June 2018	2	29
15. Q6(a)	A Level Paper 1 June 2017	5	30
16. Q5	A Level Paper 1 June 2018	5	34
17. Q1(a)	A Level Paper 3 June 2018	5	37
18. Q1(a)	A Level Paper 3 June 2019	5	42
19. Q4	A Level Paper 1 June 2022	5	46
20. Q6(a)	A Level Paper 1 June 2022	5	48
21. Q6(a)	A Level Paper 1 June 2023	5	51
22. Q5	A Level Paper 1 June 2024	5	54
23. Q6(c)	A Level Paper 1 June 2019	10	56
24. Q1(b)	A Level Paper 3 June 2018	12	62
25. Q1(c)	A Level Paper 3 June 2019	12	69
26. Q2(c)	A Level Paper 3 June 2023	12	75
27. Q1(c)	A Level Paper 3 June 2025	12	84
28. Q8	A Level Paper 1 June 2019	25	87
29. Q8	A Level Paper 1 November 2021	25	91



QUESTION	SOURCE	MARKS	PAGE
3.4.5 MONOPOLY		7 Qs · 98 marks	95
30. Q3(b)	A Level Paper 1 November 2021	1	96
31. Q3	A Level Paper 1 November 2021	5	97
32. Q6(d)	A Level Paper 1 October 2020	12	99
33. Q6(e)	A Level Paper 1 October 2020	15	104
34. Q6(e)	A Level Paper 1 June 2023	15	110
35. Q8	A Level Paper 1 June 2018	25	116
36. Q7	A Level Paper 1 June 2022	25	120
3.4.6 MONOPSONY		2 Qs · 37 marks	124
37. Q6(b)	A Level Paper 1 June 2017	12	125
38. Q8	A Level Paper 1 October 2020	25	131
3.4.7 CONTESTABILITY		6 Qs · 81 marks	135
39. Q4(b)	A Level Paper 1 June 2017	1	136
40. Q4	A Level Paper 1 June 2017	5	137
41. Q6(d)	A Level Paper 1 June 2025	10	140
42. Q6(e)	A Level Paper 1 June 2022	15	143
43. Q1(d)	A Level Paper 3 November 2021	25	149
44. Q8	A Level Paper 1 June 2024	25	155



QUESTIONS

44 questions · 411 marks · 7 sub-topics

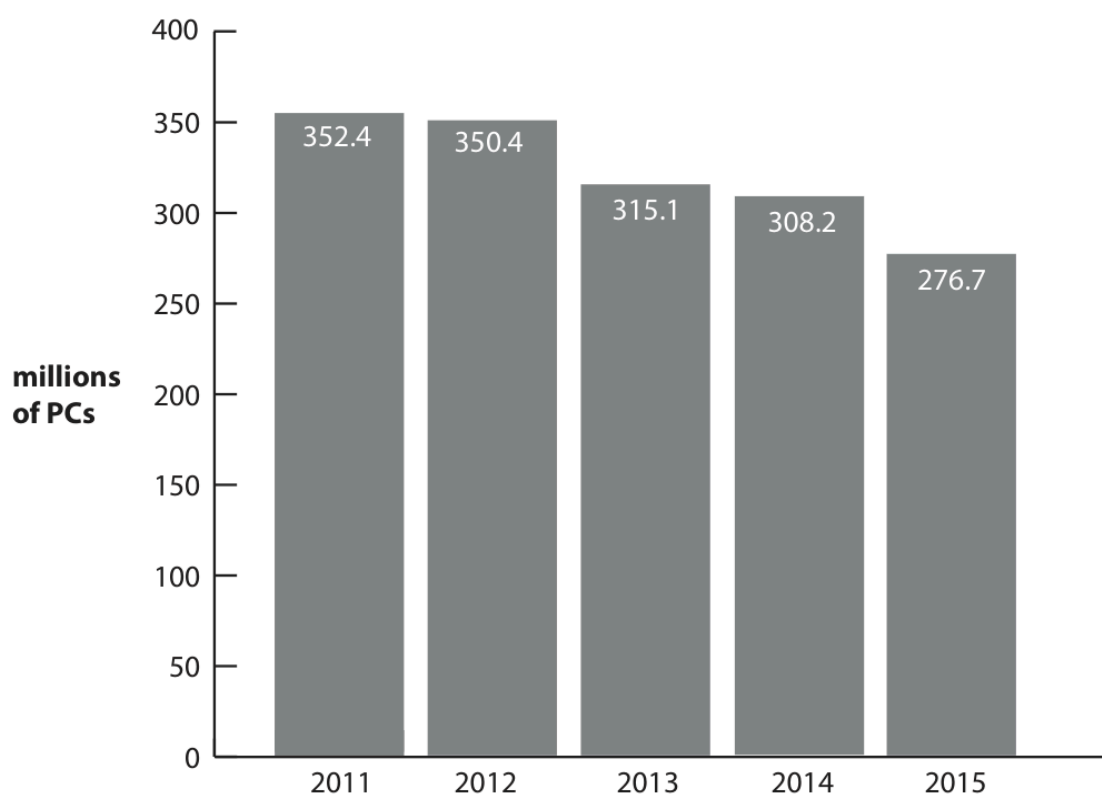
SUB-TOPIC 3.4.1

EFFICIENCY

Sub-topic 3.4.1 · 6 questions · 26 marks · lowest tariff first



- 5 The following graph shows the global sales of personal computers (PCs) between 2011 and 2015.



(Source: adapted from IDC and reported in *The Times*, 14th January 2016)

- (a) The percentage decrease in sales of PCs between 2011 and 2015 is:

(1)

- ☐ A 21.5
- ☐ B 27.3
- ☐ C 31.5
- ☐ D 75.7

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



3 A luxury brownie baker is faced with falling demand as incomes fall.

(a) The likely income elasticity of demand for a luxury good is:

(1)

- ☐ **A** -3.40
- ☐ **B** -0.74
- ☐ **C** +0.74
- ☐ **D** +3.40

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

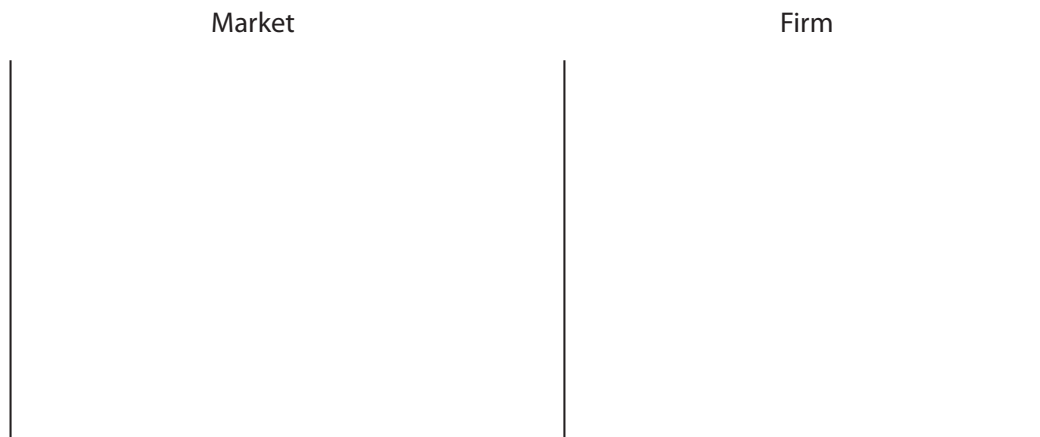


6

5 In Sicily, many households can grow lemons of the same quality as each other. Chiara decides to sell lemons at her local market, expecting to make a normal profit. She notices that all of the many lemon sellers are charging exactly the same price.

(a) Draw diagrams showing the equilibrium positions for both the lemon market and a typical firm in the long run.

(4)



(b) Which **one** of the following will exist in the **short run** if Chiara makes a loss?

(1)

- ☐ A Allocative efficiency and productive efficiency
- ☐ B Allocative efficiency and productive inefficiency
- ☐ C Allocative inefficiency and productive efficiency
- ☐ D Allocative inefficiency and productive inefficiency

(Total for Question 5 = 5 marks)

TOTAL FOR SECTION A = 25 MARKS



Sources for use with SECTION B

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

Question 6**Digital markets****Figure 1: UK sales of selected best-selling video games, 2022**

Name of game	Game publisher	Sales (quantity)	Game price
FIFA 23	Electronic Arts (EA)	2 530 510	£59.99
COD: MW II	Activision	1 675 323	£59.99
Mario Kart 8	Nintendo	426 748	£39.99
Gran Turismo 7	Sony	356 630	£69.99
Minecraft	Microsoft	219 679	£14.99

(Source: adapted from <https://www.statista.com/statistics/274072/most-popular-games-in-the-united-kingdom-uk-by-unit-sales>)

Extract A**Digital markets**

Digital markets refer to firms producing and buying information technology services. Examples include digital banking, online retailing, computer games and mobile applications (apps). The emergence of digital markets has brought about increased competition across a wide range of products and services. They have also been beneficial for consumers who now have greater choice and access to higher-quality products at lower prices, for example, fashion clothing and language tuition. But while the digital revolution has enabled greater competition, it also presents some challenges for competition law enforcement.

(Source: adapted from <https://pearsonblog.campaignserver.co.uk/digital-markets-reform-of-competition-laws/>)



Extract B**Addictive video games**

When consumers want to play a new video game, there are three payment options to access the full gaming experience. There is the price for the game (see Figure 1), the subscription fee to play online with friends (e.g. £13.99 a month) and there are many in-game purchases. For example, a Spiderman 'skin' which costs £9.99 enhances the appearance of the player. The high prices do not seem to deter many new buyers, especially in markets such as sports and multi-player action games. 40% of the world's population are online gamers. Young players spend up to 10–16 hours a day on their games due to the addictive nature of the games. 5

The video games can take up to five years to develop and cost over £150 million to produce with 200 full time employees working on the software. Starting salaries for software developers can be £100 000. However, some simple video games and apps cost as little as £23 000 to develop and take about six months. 10

All the major firms – EA, Microsoft, Nintendo and Sony – offer subscriptions that give access to new game releases. The US technology company, Microsoft, is one of the dominant firms in the market for subscription services. In October 2023, it merged with the game designer, Activision, which already owns one of the world's most popular video games (see Figure 1). The £65 billion merger is the largest in the history of the video games industry. However, Sony is concerned that the Microsoft-Activision merger may restrict access to popular video games owned by Microsoft and therefore reduce competition. 15 20

(Source: adapted from <https://www.theguardian.com/technology/2023/apr/26/what-does-uks-ban-on-microsofts-activision-blizzard-takeover-mean-for-gaming?>)

Extract C**The growth of automation**

Automation is the use of technology to perform tasks previously carried out by humans. Automation has the potential to bring great economic benefits to both consumers and firms, contributing up to £12 trillion to global GDP by 2030. This extra income will also create demand for many new jobs. However, there are also concerns that it could displace many existing workers. 5

Financial services jobs are most at risk from automation in the shorter term and transport jobs, such as train drivers, in the longer run. For example, the growth of online banking has already led to the closure of many high street bank branches. By the mid-2030s, up to 30% of all jobs could be automated, with slightly more impact on men. 10

Another form of revenue for Microsoft is the artificial intelligence (AI) program ChatGPT. The growth of AI will require highly skilled workers such as trainers and engineers. Microsoft's annual gross profit for 2023 was £146 billion, a 7.69% increase on 2022.

(Source: adapted from <https://www.economist.com/business/2023/03/26/big-tech-and-the-pursuit-of-ai-dominance>)



(5)



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).

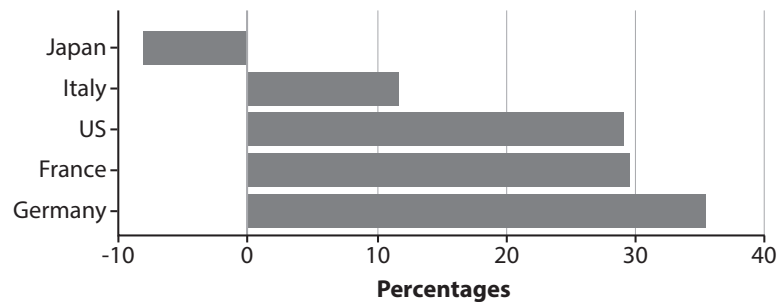
Write your answers in the spaces provided.

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)

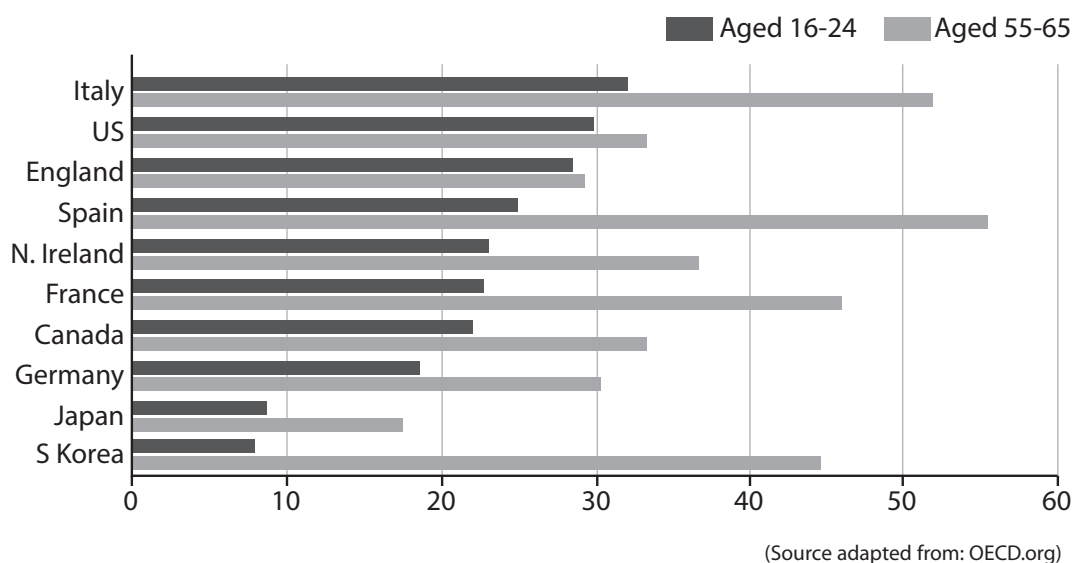
Figure 4: UK index of output per hour worked, base year 2016 = 100



(Source adapted from: ONS.gov.uk)



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



(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)



(12)

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.

114



[illegible]

SUB-TOPIC 3.4.2

PERFECT COMPETITION

Sub-topic 3.4.2 · 1 question · 1 marks · lowest tariff first



SUB-TOPIC 3.4.3

MONOPOLISTIC COMPETITION

Sub-topic 3.4.3 · 4 questions · 16 marks · lowest tariff first



- 3** According to the Royal Mail, more hair and beauty salons opened on UK high streets last year than any other type of independent business, with a net increase of 10%, representing 626 new salons.

(Source: adapted from <https://www.theguardian.com/small-business-network/2016/nov/18/beauty-boom-or-bust-uk-too-many-salons>)

- (a) The UK hair and beauty industry is an example of monopolistic competition because:

(1)

- ☐ **A** firms spend nothing on advertising and research
- ☐ **B** the industry is dominated by a few large firms
- ☐ **C** the products are homogenous
- ☐ **D** there are low barriers to entry and exit

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



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(Source: adapted from <https://www.theguardian.com/small-business-network/2016/nov/18/beauty-boom-or-bust-uk-too-many-salons>)

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- ☐ B the industry is dominated by a few large firms
- ☐ C the products are homogenous
- ☐ D there are low barriers to entry and exit

- (b) Draw a cost and revenue diagram to show the **long-run** equilibrium of a firm in monopolistic competition.

(4)



(Total for Question 3 = 5 marks)



SECTION A

Read 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

Hand car wash (HCW) firms in the UK

Extract A

What is the true human cost of your £5 hand car wash (HCW)?

The UK's hand car washes (HCWs) are extremely price competitive, but they have also been linked to modern slavery. Are they ever fair for workers?

There is little agreement about how many HCWs there are in the UK. Estimates range from 10 000 to 20 000. This lack of accurate information about the industry makes government regulation very difficult. Automated car washes, with their fierce rotating bristles, used to be the first option for drivers in a hurry. Now there is more choice. While the economy slows and incomes fail to keep up with inflation, demand for HCWs has grown. Many people see paying £5 for a car washed by someone else, rather than cleaning it at home, as a small expense which yields a high utility. But what is the true cost of a £5 car wash – and what should we be paying?

The growth of HCWs is partly the result of changes in the structure of industry in the UK. Many petrol stations have closed as drivers fill up at supermarkets. Garages and their forecourts have closed as cars become more reliable and locked into service agreements. The available sites for HCWs have therefore increased significantly and rents have fallen.

HCW entrepreneurs have identified available land and have benefitted from changes in the labour market, partly as a result of EU migration. UK drivers are now able to obtain cheap and effective hand car washing. For many migrants, car washes are a first job. "They accept car washing for a short period while they improve their language skills and move into other industries," says Ian Clark, a professor of work and employment at Nottingham Business School. "But there are also car-wash workers without networks who are in a dead end, working there for long periods."

Many drivers are only interested in getting the cheapest wash. If the price is very low, it probably means that workers are receiving less than the minimum wage and working in poor conditions. Crude calculations illustrate the problem. A £5 HCW employing five workers for 10 hours a day would need to wash 79 cars a day to just cover the wage costs. This assumes the workers are paid the minimum wage. This is one car every seven and a half minutes. Even if the profit can be higher on valet services, the price of which can be as little as £12 for a full inside-and-out clean, it's hard to see how a car wash price as low as £5 pays a living wage. This ignores all other costs which HCWs incur such as business rates and rent.

Evidence from car-wash workers is limited but Clark and others have been able to build a picture of some of the tougher conditions on drenched forecourts. "Like nail bars and small garment manufacturers, car washes are what we call 'hard-to-reach places,'" Clark

explains. As part of the research, Clark and his team spoke to workers from 45 HCWs in the Midlands.

Clark and his team met and observed workers who lacked waterproof boots or trousers, or hi-vis jackets and gloves. "They're spraying around hydrochloric acid solution for alloy wheels, breathing in the vapour and fumes," Clark says. Some workers were paid a little over half the minimum wage.

(Source adapted from: <https://www.theguardian.com/world/2018/jul/16/true-human-cost-5-pound-hand-car-wash-modern-slavery>)



Extract B**Government intervention in the HCW industry**

There are three main areas of government intervention that might impact on labour intensive firms such as HCWs:

First, there is the planning issue which focuses on the impact on the environment, for example, the disposal and recycling of waste water and chemicals. There could be planning regulations to prevent the use of tarmac rather than concrete on forecourts. Tarmac allows waste water and chemicals to seep into the sub soil. It could also be a requirement to have a sludge trap to stop the waste entering waterways. 5

Second, there is the health and safety issue for workers. Prolonged exposure to chemicals and lack of protective clothing puts the health of workers at risk. Performance targets could involve minimum levels of protective clothing and rest breaks for the workers. 10

Third, there is the issue of tax. The informal nature of the business type makes tax evasion easier.

Not all UK HCWs violate regulations. There are legitimate, regulated HCW firms as well as examples of good practice by independent outlets. One national supermarket, Tesco, has banned all independent hand car washes from its car parks. It is now in a partnership agreement with national car wash operator Waves. It uses a WashMark certificate of quality and compliance which was introduced by the industry to improve working conditions. Other major supermarkets are considering similar changes. One adviser believes £9 is a reasonable minimum price for a basic wash. Some pressure groups have developed a mobile phone app where evidence of unreasonable conditions can be reported by drivers. 15 20

Involving drivers in the issue, and making them demand fairer car washes, creates an incentive for good businesses to improve practices and come forward to get a WashMark certificate. 25

(Source adapted from: <https://www.parliament.uk/documents/commons-committees/environmental-audit/Hand-Car-Wash-evidence.pdf> research into HCWs by Professor Ian Clark, Nottingham Business School May 2018)



(5)



3 A luxury brownie baker is faced with falling demand as incomes fall.

(a) The likely income elasticity of demand for a luxury good is:

(1)

☐ A -3.40

☐ B -0.74

☐ C +0.74

☐ D +3.40

(b) Small local bakeries have many of the characteristics of monopolistic competition.

Draw the short run profit maximising equilibrium of a **loss-making** luxury brownie baker.

(4)



(Total for Question 3 = 5 marks)



SUB-TOPIC 3.4.4

OLIGOPOLY

Sub-topic 3.4.4 · 18 questions · 152 marks · lowest tariff first



- 4 Pilgrim's Pride is the second-largest chicken supplier in the US. It will pay a \$107.9 million fine for price fixing with Tyson Foods and other chicken suppliers. The firms limited production to force prices higher and harm major customers, including KFC. Pilgrim's Pride is thought to have gained at least \$361 million in total revenue from the collusion.

(Source: adapted from <https://www.drovers.com/news/industry/pilgrims-pride-agrees-price-fixing-fine>)

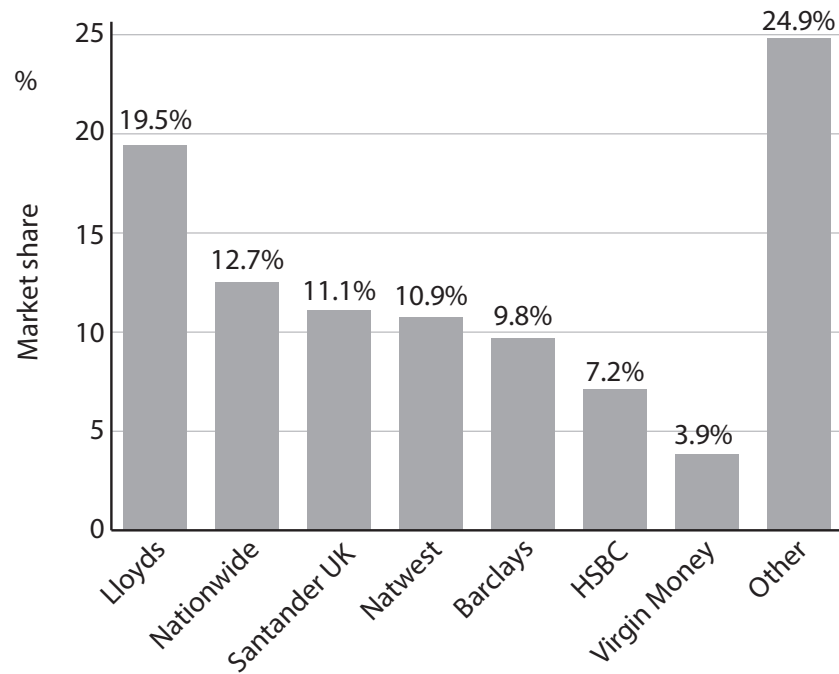
(b) Which **one** of the following is most closely associated with tacit collusion?

(1)

- ☐ A Overt sharing of information
- ☐ B Predatory pricing
- ☐ C Price wars
- ☐ D Unspoken agreements

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

- 5 The graph below shows the largest mortgage lenders in the United Kingdom (UK) in 2020, by market share.



(Source adapted from: <https://www.statista.com/statistics/727348/uk-banks-gross-lending-market-share/>)

(4)

(1)

☐	A £82 billion
☐	B £126 billion
☐	C £312 billion
☐	D £8 210 billion

TOTAL FOR SECTION A = 25 MARKS



Year	millions of PCs
2011	352.4
2012	350.4
2013	315.1
2014	308.2
2015	276.7

Company	Sales of PCs (million)
Lenovo	57 182
HP	53 534
Dell	39 049
Apple	20 794
Acer Group	19 680
Others	86 461
Total	276 700

(2)



SECTION B

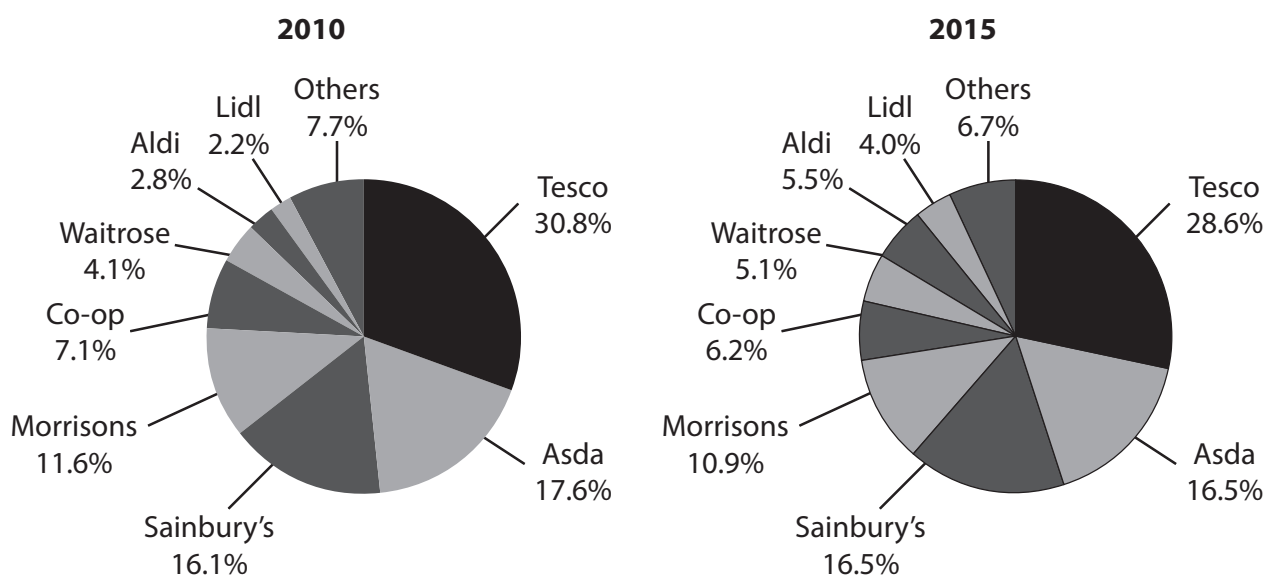
Read Figures 1 and 2 and the following extracts (A to C) before answering Question 6.

Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 6**Supermarket price war, food waste and possible mergers**

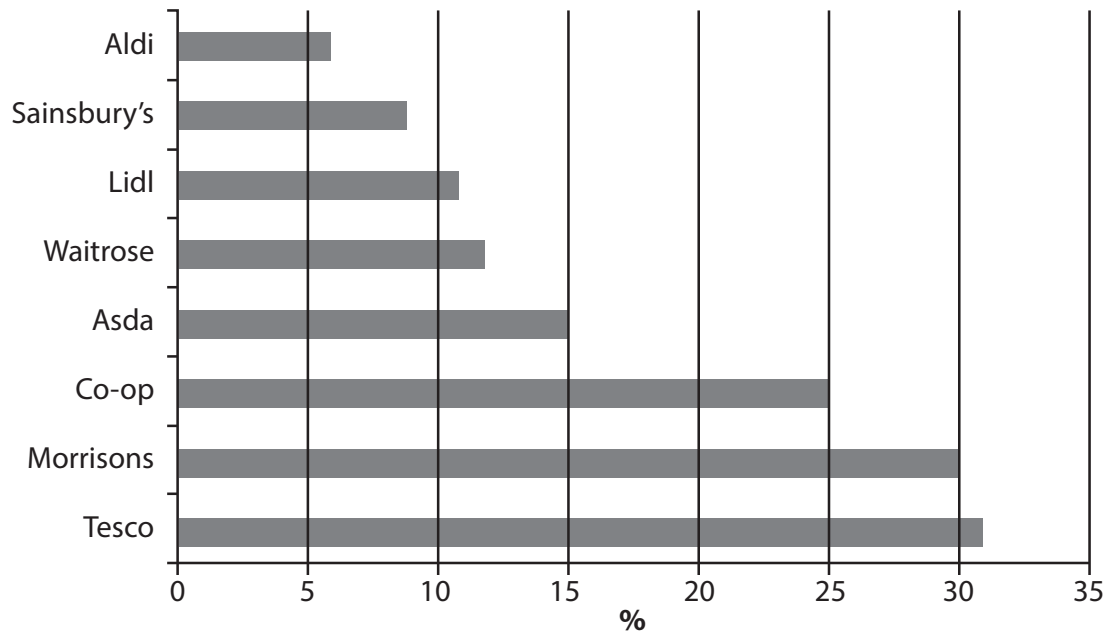
Figure 1: Market shares by total revenue in the UK supermarket sector, 2010 and 2015



(Source: Kantar worldpanel, <http://www.kantarworldpanel.com/en/grocery-market-share/great-britain/snapshot/11.10.15/>)



Figure 2: Proportion of food suppliers reporting that the following supermarkets fail to meet the Groceries Code of Conduct, 2015.



(Source: YouGov poll of more than 1100 food suppliers to supermarkets.
Reported in The Times, 23 June 2015)

Extract A

Supermarket price war puts pressure on their food suppliers

The number of food suppliers (to supermarkets) struggling to remain in business has increased by more than 50% over the past year as supermarkets engage in an intense price war. It has never been tougher for the UK's food suppliers according to a study by accountants Begbies Traynor. It blames aggressive price-cutting by the supermarkets and delays in payments to food suppliers as the main causes of the difficulties. Further problems include food suppliers being forced to pay excessive amounts for packaging specified by supermarkets and funding in-store promotions. Almost 90% of struggling food suppliers are small and medium-sized businesses.

The price war has contributed to food prices paid by consumers falling by 1.7% over the past two years.

The market shares of the big four supermarkets – Tesco, Asda, Sainsbury's and Morrisons – are under pressure as shopping habits change. Many consumers are switching from one main weekly shop to shopping more frequently at local discount stores such as Aldi and Lidl or purchasing goods online from other grocery retailers.

The big four supermarkets have responded by putting more pressure on their suppliers despite an investigation by the Groceries Code Adjudicator (GCA). The GCA has the power to fine supermarkets up to 1% of their annual sales revenue if they break the Groceries Code of Conduct. A YouGov study found considerable differences between the supermarkets in meeting the Code with Aldi performing well but Tesco badly. Despite the Groceries Code, many food suppliers are reluctant to complain for fear of losing contracts with the supermarkets.

(Source: adapted from 'Supermarket price war takes toll on UK food suppliers'. Rupert Jones, The Guardian, 20th July 2015)



Extract B**Food waste in the supply chain**

A report from the British Retail Consortium reveals that supermarkets are directly responsible for around 0.2 million tonnes of food waste every year. This is due to the expiry of use-by-dates and poor handling of stock.

However, 4.1 million tonnes of food waste occurs annually in the food supply chain before it even reaches the supermarkets, indicating the existence of information gaps. The supermarkets are cooperating with food suppliers and farmers to try to reduce this waste. This involves improving forecasts for supply and demand of food and increasing the reliability of transportation and storage. 5

Consumers, the final stage of the supply chain, waste a further 7 million tonnes of food each year. This suggests irrational behaviour. Supermarkets are also working with consumers to reduce the waste by providing advice on how to store and use leftover food. The development of packaging designs to keep food fresher for longer is one of the innovations under way to reduce waste. 10

(Source: adapted from 'Supermarkets tally up food waste bill'. Will Nicholls, in Businessgreen, 19th January 2015. <http://www.businessgreen.com/bg/news/2390792/supermarkets-tally-up-food-waste-bill>)

Extract C**Proposed merger activity in the supermarket sector**

Analysts at Société Générale, an investment bank, have recommended a merger between Sainsbury's and Morrisons. They claim it would lead to increased economies of scale and market power for the combined business. Such a merger between the third and fourth largest supermarkets in Britain would have been unrealistic a few years ago due to concerns of its impact in reducing competition. However, the chances of getting permission from the Competition and Markets Authority have increased following the growth of Aldi and Lidl. Giant mergers have been approved in other sectors such as Lloyds-HBOS (banking) and British Telecom-EE (telecommunications). 5

The suggested merger would have its challenges. There is considerable overlap between the locations of the stores and the enlarged company would require the rationalisation and co-ordination of hundreds of thousands of employees. A new expensive IT system is likely to be required and the underlying difficult market trends would remain in the food retailing industry. 10

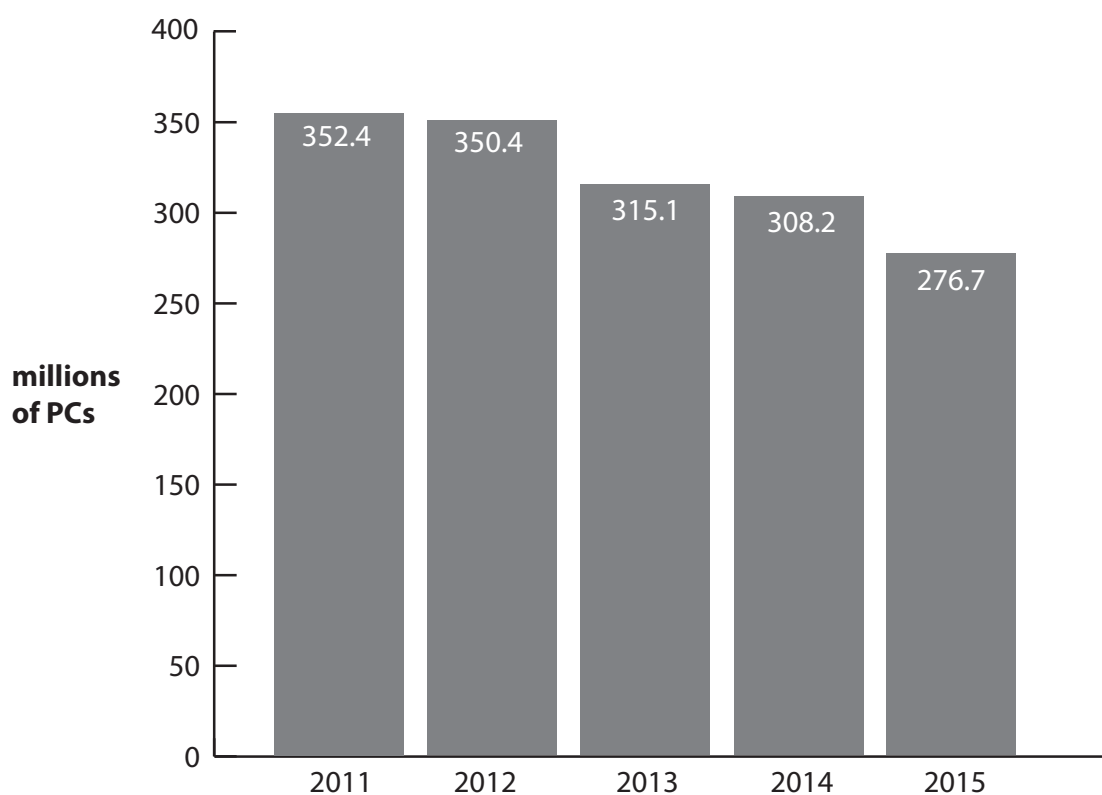
(Source: adapted from 'Tesco-bury and AS-Morrisons. Could Britain's supermarkets be about to merge?' Graham Ruddick, in The Telegraph, 16th December, 2015. <http://www.telegraph.co.uk/finance/newsbysector/retailandconsumer/11699724/Tesco-burys-and-AS-Morrisons.-Could-Britains-supermarkets-be-about-to-merge.html>)



(5)



- 5 The following graph shows the global sales of personal computers (PCs) between 2011 and 2015.



(Source: adapted from IDC and reported in *The Times*, 14th January 2016)

- (a) The percentage decrease in sales of PCs between 2011 and 2015 is:

(1)

- ☐ A 21.5
- ☐ B 27.3
- ☐ C 31.5
- ☐ D 75.7



(2)

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 practice. There are no margins, text, or other markings on the page.

Company	Sales of PCs (million)
Lenovo	57 182
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Dell	39 049
Apple	20 794
Acer Group	19 680
Others	86 461
Total	276 700

(2)

This image shows a full page of white paper with horizontal dashed lines, typical of primary-ruled notebook paper. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings present.**TOTAL FOR SECTION A = 25 MARKS**

SECTION A

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

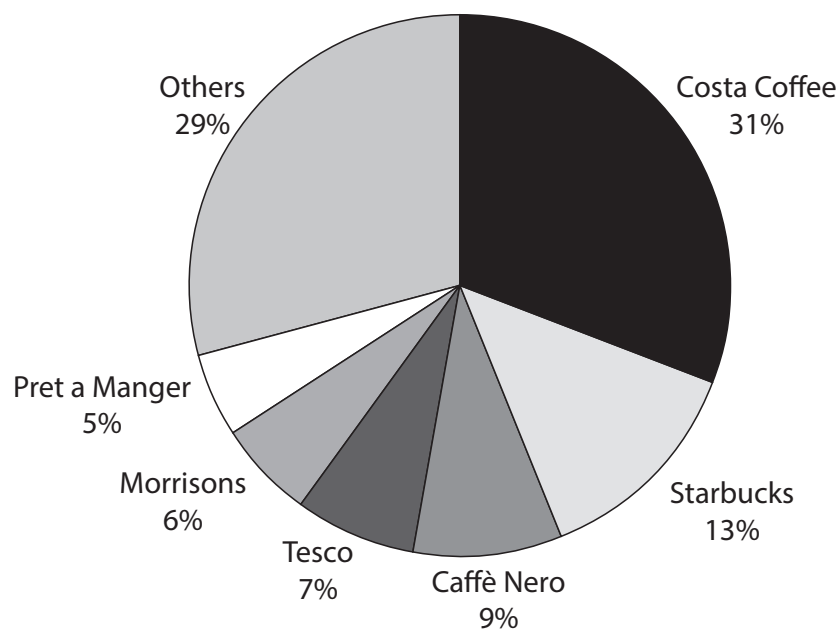
Answer ALL Questions 1(a) to 1(c), and EITHER Question 1(d) OR 1(e).

Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 1**Branded coffee shops**

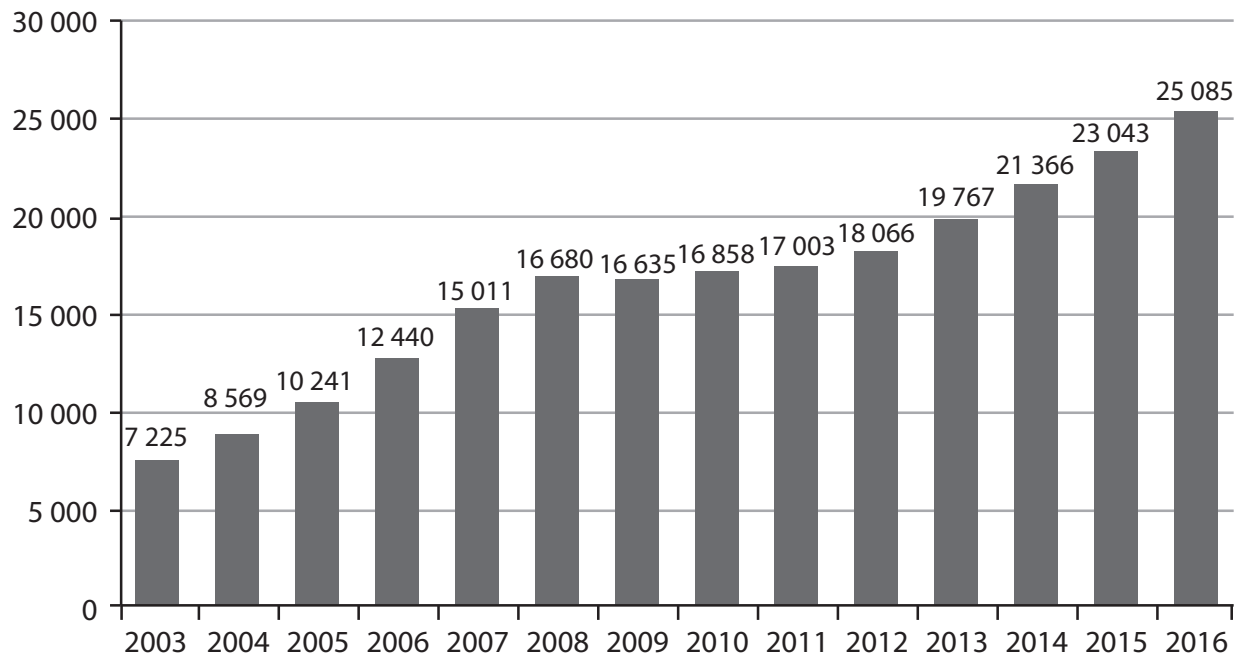
Figure 1: Market share of UK branded coffee shops, 2015, percentages



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

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

Number of
coffee shops



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

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

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

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

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

Coffee shops are among the most profitable parts of the food and drink industry, and few are doing quite as well as Starbucks, a US-based transnational company. Starbucks may be complaining of adverse global market conditions but that did not stop the world's biggest coffee chain from reporting record annual profits in 2016. It made a profit of almost US\$4.2 billion for the year, up 16% on 2015. That was mainly the result of a strong performance in its biggest market, America, where revenue rose 11%. The fastest growth was in the China and Asia Pacific region, with revenue up 23%. Howard Schultz, the CEO of Starbucks, said its Chinese coffee shops were the most efficient and profitable. While Starbucks still makes most of its profit in the US, Mr Schultz has said expansion in China will secure its future for "decades to come" and announced plans to more than double the number of shops in China to 5 000 by 2021. 5 10

However its British subsidiary, at first glance, appears to be doing less well. It has announced its first ever profit in Britain in 2015 – of just £1 million – despite opening its first coffee shop in the UK in 1998. It now has 849 UK outlets. The main reason why Starbucks has reported persistent losses in the UK is not due to a lack of demand for its coffee, but to minimise its tax bill. It is claimed that some of Starbucks' revenue earned in the UK is transferred to its Dutch subsidiary, which is charged lower rates of tax. 15

Starbucks is not finding life as easy in Britain as in the USA. It faces competition from home-grown chains such as Costa and Caffè Nero. Accusations of tax avoidance have also damaged Starbucks' sales to the benefit of its competitors. A survey found that a third less people rated Starbucks as their preferred coffee shop than they did before the tax-avoidance allegations were first published. 20

These issues have forced Starbucks to change its strategy. It has slowed down its expansion plans in the UK and has closed 67 underperforming coffee shops over the past year. It has also tried to repair its reputation by transferring its European headquarters from Amsterdam to London. 25

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



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

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

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

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

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

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

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

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

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



(5)



SECTION A

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

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

Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 1

Markets for food and drinks high in fat, salt or sugar (HFSS)

Figure 1: UK market share of potato crisps, 2017

Firm	Brand	Size	Market share of firm	Market share of product	Price (£)
Walkers	All Walkers		55.3%		
	of which: Regular Standard	35 g		28.1%	0.45
	Regular Max	50 g		7.4%	0.63
	Sensations	40 g		2.0%	0.59
	Doritos	40 g		4.7%	0.45
	Other			13.1%	
KP	KP	50 g	22.7%		0.52
Tayto	Golden Wonder		4.2%		
		<40g		3.1%	0.38
		40g+		1.1%	0.72
Other	Other		17.8%		

(Source: adapted from <https://academic.oup.com/restud/article/3108825/The-Effects-of-Banning-Advertising-in-Junk-Food> 6 April 2017)



Extract A**The effects of a total ban on advertising of HFSS foods**

Food and drinks which are high in fat, salt or sugar (HFSS) tend to be sold in highly concentrated markets. Tough new rules banning advertisements for HFSS products, such as those for confectionery, fizzy drinks and potato crisps, come into effect in July 2017 as a means to reduce consumption. The rules apply to media targeted at under-16s and will mean a major reduction in the number of advertisements children see for HFSS products in posters near schools, in films targeted at children, on catch-up television and in social media if it is directed at children. 5

There are three main factors that will determine the effectiveness of the intervention: first, whether advertising acts to expand the market share or steal rivals' market share. Secondly, how firms in the market adapt their behaviour in response to the ban. Thirdly, what substitute products do consumers turn to if they opted out of the targeted market. 10

Results from a recent survey in the UK suggest that the total quantity of crisps sold would fall by around 15% in the presence of an advertising ban, or by 10% if firms respond with price cuts, since the ban acts to make the market more competitive and firms respond to the ban by, on average, lowering their prices. 15

The survey showed that following a ban, consumers are more likely to switch to another junk food than to a healthy food, which (in addition to the pricing response of firms) acts to partially offset any health gains from the policy.

(Source: adapted from The Effects of Banning Advertising in Junk Food Markets, Dubois, Pierre; Griffith, Rachel, Review of Economic Studies Copyright © 2017, Oxford University Press <https://academic.oup.com/restud/article/3108825/The-Effects-of-Banning-Advertising-in-Junk-Food> 6 April 2017 and <https://www.asa.org.uk/news/tougher-new-food-and-drink-rules-come-into-effect-in-children-s-media.html> 30 June 2017)



Extract B**Taxing HFSS foods and subsidising healthy eating widens inequality**

Since low-income groups spend a higher proportion of their income on food and tend to eat less healthily, they are the main targets of taxes on products that are high in fat, salt or sugar (HFSS). Subsidies on healthy food are seen as an alternative policy approach to encourage healthy eating. While data on the impact of such policies are scarce, a recent study on the distributional impacts of HFSS taxes and healthy food subsidies found that these actually widened health and fiscal inequalities. The policies tend to be regressive and favour higher-income consumers. Taxes on unhealthy food increase prices which have a greater impact on low income groups rather than higher income groups. Lower income groups prefer to buy HFSS food.

Subsidies encouraged all income groups to buy more fruit and vegetables. However, those on higher incomes proved more responsive and the average share of budget spent on healthy food actually increased for the higher income groups who were more likely to buy the subsidised healthy food and then spend the savings they had enjoyed on yet more healthy food. The diets of the higher income groups before the subsidy tended to be healthier. The choices of the higher income groups are more responsive to price changes. By contrast, lower income groups, if they responded to lower prices, often used the money saved to buy unhealthy items or something else entirely. The long-term benefits of a healthier diet are harder to grasp for consumers when information gaps exist. Often the immediate boost of a tasty treat is more appealing. Taxes and subsidies do not change that. Other strategies are needed to promote healthy eating, especially education.

(Source: adapted from Economist 5 October 2017 <https://www.economist.com/news/finance-and-economics/21730033-study-suggests-lower-income-families-end-up-paying-more-their-food-taxing-fat> and https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3031005 The Economic Journal September 2017 Vol 127 Issue 604)

Extract C**Tax on fatty foods in Denmark is an economic disaster**

Denmark introduced a specific tax on saturated fat in October 2011. Recognised as a world-leading public health policy, it was abandoned just 15 months later having been both an economic and political disaster.

Indirect taxes of this sort are invariably regressive, disproportionately affecting the elderly and the poor. The specific tax led to prices rising on average 15% for highest-fat products, yielding a total decrease of 5% in the intake of saturated fat from products such as minced beef and cream. 80% of Danish consumers did not change their shopping habits at all. The behavioural change was economically damaging as consumers switched to cheaper brands and crossed the border to Sweden and Germany to do their shopping. Danish tax revenue fell as a result.

(Source: adapted from <https://iea.org.uk/in-the-media/press-release/evidence-shows-a-fat-tax-would-hit-poorest-the-hardest> 25 May 2013 and <https://www.cambridge.org/core/journals/public-health-nutrition/article/effects-of-the-danish-saturated-fat-tax-on-the-demand-for-meat-and-dairy-products/984CF03634C819D50E66C7B5DC5209DA/core-reader>)



(5)



- 4 Pilgrim's Pride is the second-largest chicken supplier in the US. It will pay a \$107.9 million fine for price fixing with Tyson Foods and other chicken suppliers. The firms limited production to force prices higher and harm major customers, including KFC. Pilgrim's Pride is thought to have gained at least \$361 million in total revenue from the collusion.

(Source: adapted from <https://www.drovers.com/news/industry/pilgrims-pride-agrees-price-fixing-fine>)

- (a) Draw a simple two firm/two outcome game theory model to show why the chicken suppliers may have colluded.

(4)



(b) Which **one** of the following is most closely associated with tacit collusion?

(1)

- ☐ **A** Overt sharing of information
- ☐ **B** Predatory pricing
- ☐ **C** Price wars
- ☐ **D** Unspoken agreements

(Total for Question 4 = 5 marks)



SECTION B

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

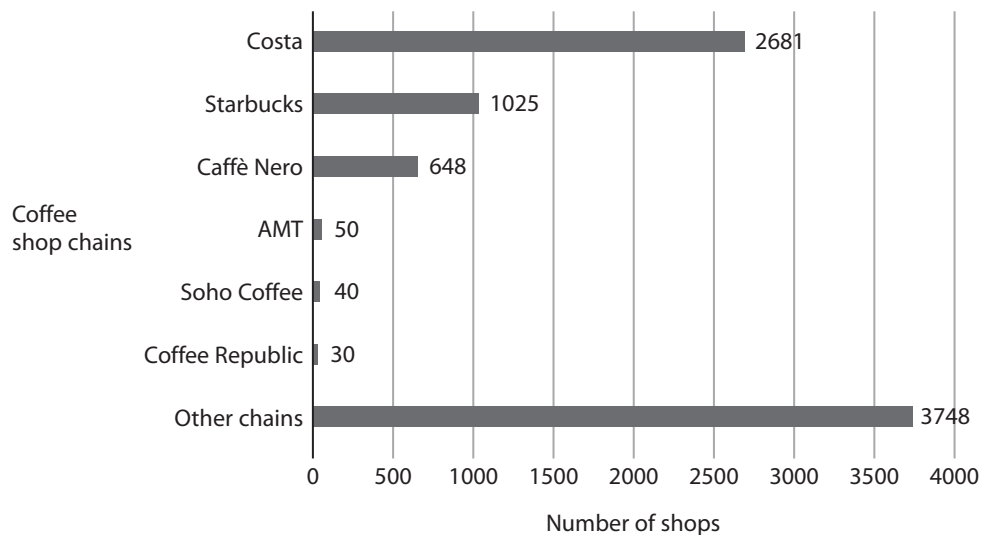
Write your answers in the spaces provided.

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>)

(5)



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 UK online streaming services market****Figure 1: Market share of UK online streaming services**

	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022
Amazon Prime Video	37.9%	41.1%	45.0%	27.1%	25.9%
Disney+	16.0%	17.7%	19.3%	14.1%	21.5%
Netflix	15.0%	10.5%	5.0%	9.4%	4.5%
NOW	11.3%	11.2%	5.6%	11.0%	11.1%
AppleTV+	4.0%	5.5%	7.3%	9.2%	9.9%
BritBox	4.0%	3.0%	5.7%	6.0%	5.9%
Others	11.8	11.0%	12.1%	23.2%	21.2%

(Source adapted from: Kantar, Worldpanel Division Geotech 2022)

Figure 2: UK online streaming services – monthly fees

Streaming service provider	September 2022
Netflix premium (4 users/ultra HD*)	£15.99
Netflix standard (2 users/HD)	£10.99
Netflix basic (single user/non HD**)	£6.99
Amazon Prime Video	£8.99
Amazon Prime Video – Student price	£4.49
Disney+	£7.99
AppleTV+	£4.99

*This is the highest quality picture currently available

** This is the basic quality picture

(Source adapted from: <https://www.radiotimes.com/tv/what-to-watch-tv/best-streaming-service-uk/>)

Extract A**How Netflix makes use of behavioural science**

In the last few years, companies have been trying to find ways to attract the attention of customers. Various streaming platforms such as Netflix, Amazon, and YouTube use 'nudges' to influence consumer behaviour. The 'next-up' feature on Netflix or 'auto-play' on YouTube has been subject to research that relates it to binge-watching. Binge-watching is the practice of viewing for a prolonged period, multiple episodes of a TV show or several films in rapid succession. 5

Similarly, the policy of offering a one-month free subscription under the label of 'free trial' requires credit card information to turn the forgetful subscriber into a potential paying one. Following this strategy, Netflix has expanded to 190 countries in just seven years and according to the Wall Street Journal, the company generated total revenue of over \$5.2 billion in 2019, which was an increase from 2018 of around \$4 billion. 10

However, 2022 data shows that consumers, increasingly worried about the rising cost of living, are turning their back on Netflix. With a reported cancellation of over 200 000 subscriptions in the first quarter and another two million forecast to leave by the end of the year. Subscribers are rethinking their commitment to the streaming services that grew their numbers sharply during the home-based months of the global health crisis. Netflix subscribers have also quoted a decline in value for money and satisfaction with the quality of the shows as key motives for cancellation. 15

Disney now see higher satisfaction rankings than Netflix across the quality of shows, amount of original content, number of new-release films, variety of classic films and amount of kids' content. Forecast cancellation rates for Disney+ fell to an all-time low of 3.2%. 20

(Source adapted from: <https://www.novanudge.com/post/sludge-on-demand-how-netflix-makes-use-of-behavioural-science>
<https://www.theguardian.com/media/2022/apr/20/netflix-shares-fall-losing-subscribers>)

Extract B**The economics of price discrimination**

Throughout 2022, Netflix, a 100-billion-dollar company, increased prices in the US, Canada, the UK and Ireland (most of which saw similar price increases in 2021, too). In sharp contrast, Netflix recently announced it was reducing its prices in India (standard/2-user 499 rupees a month, equivalent to £5.42) in a bid to compete with Disney+ and Prime. 5

UK students currently enrolled in a college or university who have a valid student email address can join Prime Student through the Amazon website. This gives them nearly 50% off a standard Prime membership and many other exclusive benefits.

(Source adapted from: <https://help.netflix.com/en/node/24926/in>)

Extract C**Educational Website and TV Programmes**

BBC Bitesize is a learning platform created by the BBC in 1998. The online study resource allows parents to teach their children from home, using ready-made lesson plans and study guides with questions for all ages. The revision sessions are free to watch and they are available for children aged five up to their late teens. The guides are written by teachers and subject experts, so they are reliable and follow the National Curriculum. Last year Bitesize attracted around two million weekly unique browsers with a peak week of 3.3 million in the GCSE exam period. 5

Oak National Academy is a freely available learning resource website created for pupils aged four to sixteen. Launched in 2020, as a response to the global health crisis, the website includes lesson slides, video lessons, worksheets, and quizzes conforming to the national curriculum in England. Ministers have set aside £43 million to fund the Oak National Academy over the next three years. 10

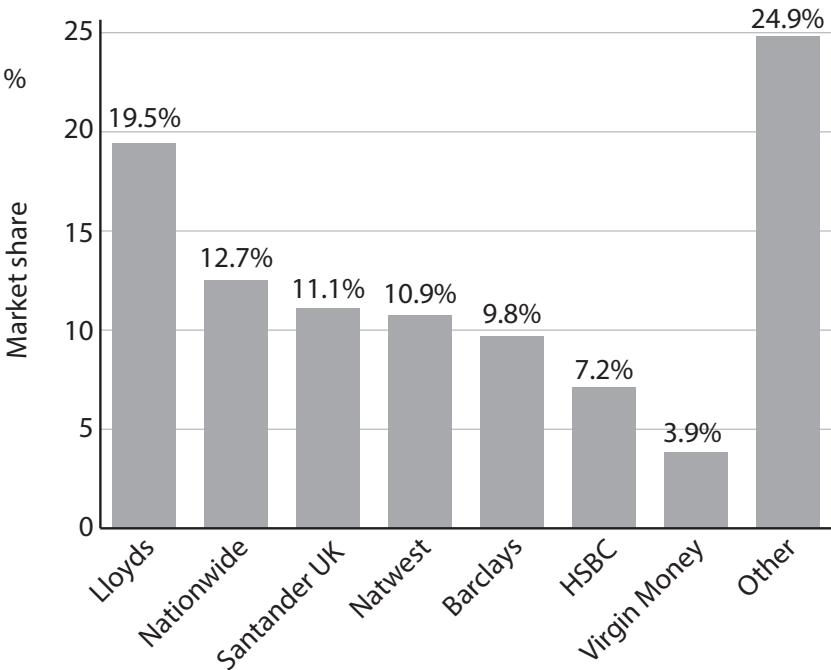
(Source adapted from: <https://www.bbc.co.uk/bitesize/articles/zmjdhbk>
<https://www.structural-learning.com/post/oak-academy-a-teachers-guide#:~:text=Oak%20National%20Academy%20is%20a,the%20national%20curriculum%20of%20England>)



(5)



5 The graph below shows the largest mortgage lenders in the United Kingdom (UK) in 2020, by market share.



(Source adapted from: <https://www.statista.com/statistics/727348/uk-banks-gross-lending-market-share/>)

(4)

(1)

☐	A £82 billion
☐	B £126 billion
☐	C £312 billion
☐	D £8 210 billion

TOTAL FOR SECTION A = 25 MARKS

SECTION B

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

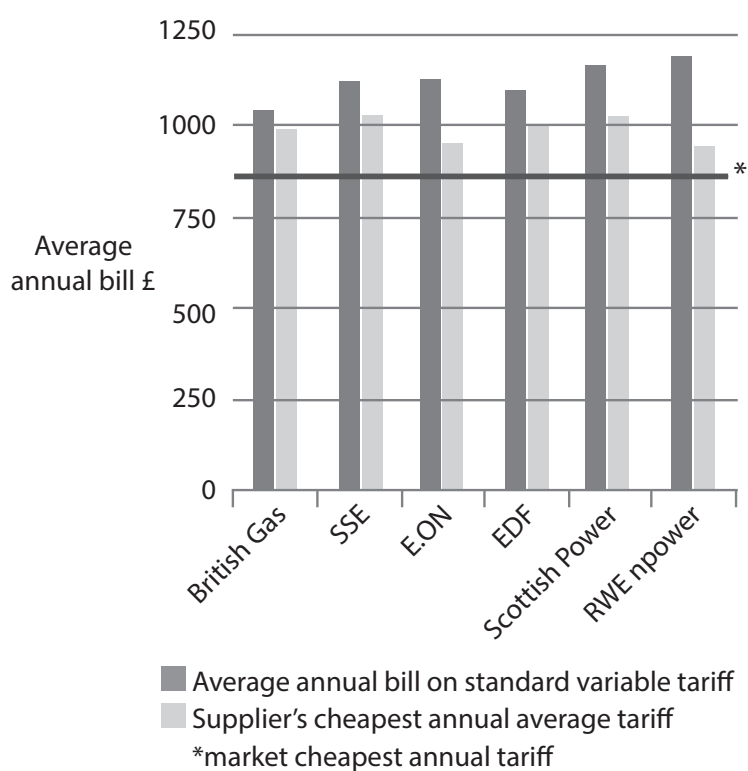
Write your answers in the spaces provided.

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>)



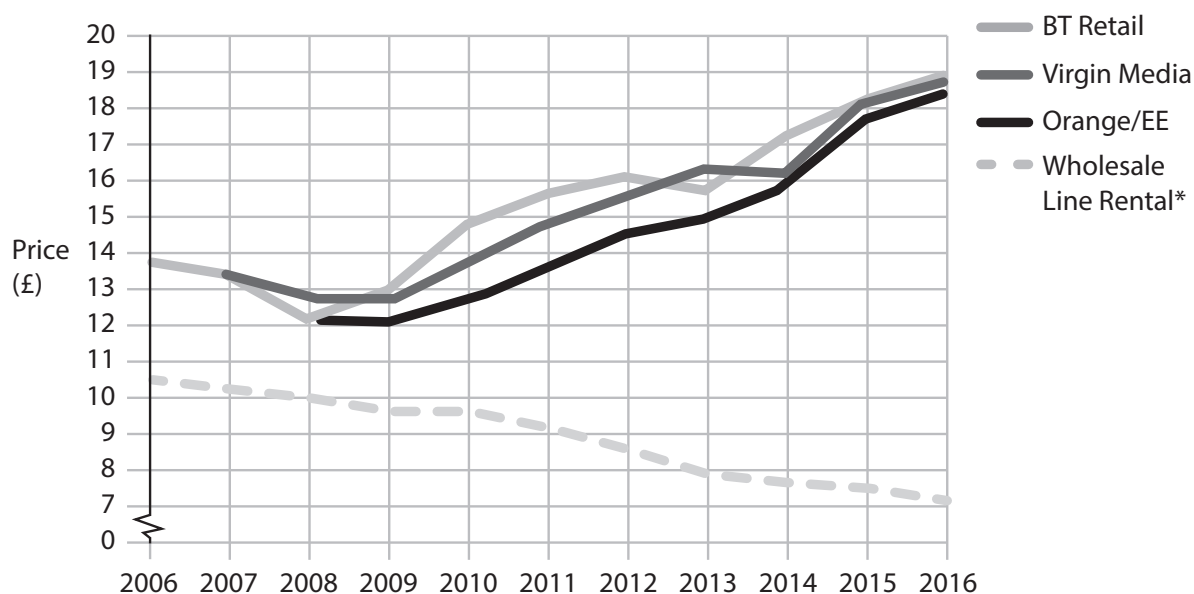
Extract A**Energy price cap to fix 'broken' market in UK**

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>)



(10)



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.



SECTION A

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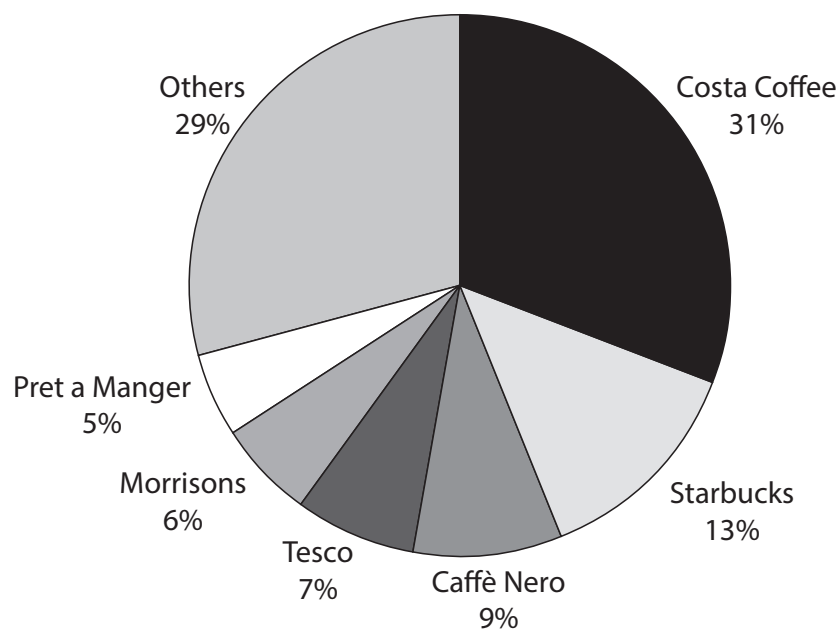
Answer ALL Questions 1(a) to 1(c), and EITHER Question 1(d) OR 1(e).

Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 1**Branded coffee shops**

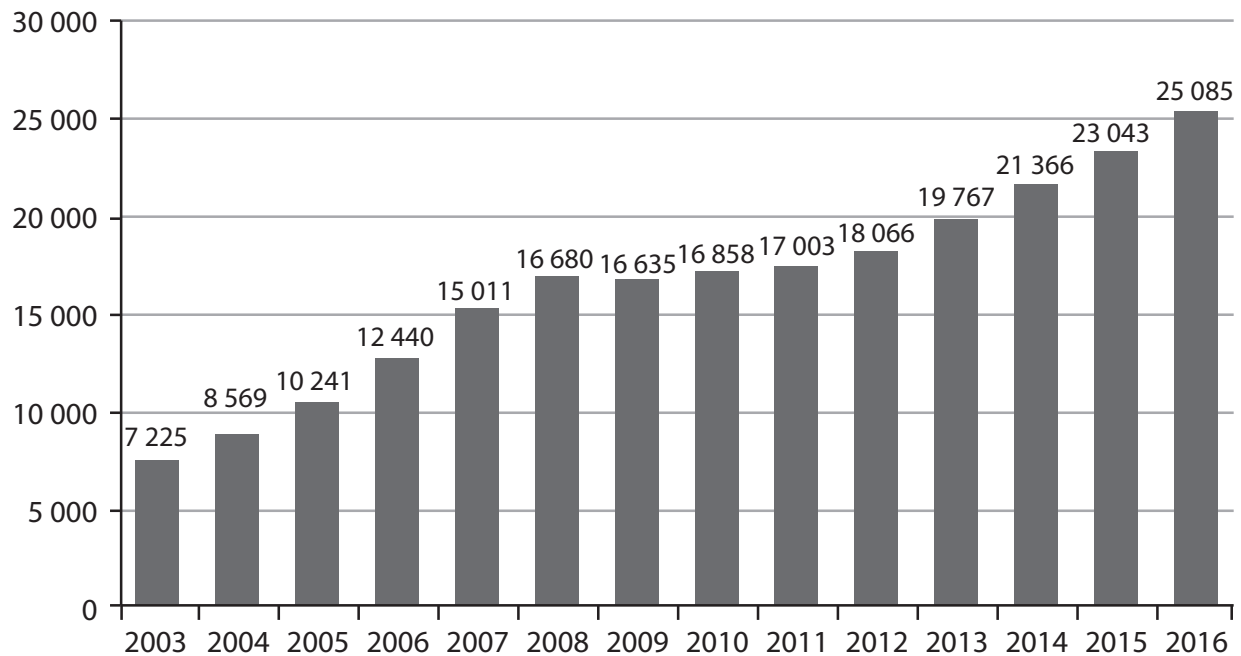
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(Source: <http://metro.co.uk/2015/12/14/the-uks-most-popular-coffee-shop-has-been-revealed-5564569/>)

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coffee shops



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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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



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SECTION A

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

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

Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 1

Markets for food and drinks high in fat, salt or sugar (HFSS)

Figure 1: UK market share of potato crisps, 2017

Firm	Brand	Size	Market share of firm	Market share of product	Price (£)
Walkers	All Walkers		55.3%		
	of which: Regular Standard	35 g		28.1%	0.45
	Regular Max	50 g		7.4%	0.63
	Sensations	40 g		2.0%	0.59
	Doritos	40 g		4.7%	0.45
	Other			13.1%	
KP	KP	50 g	22.7%		0.52
Tayto	Golden Wonder		4.2%		
		<40g		3.1%	0.38
		40g+		1.1%	0.72
Other	Other		17.8%		

(Source: adapted from <https://academic.oup.com/restud/article/3108825/The-Effects-of-Banning-Advertising-in-Junk-Food> 6 April 2017)



Extract A**The effects of a total ban on advertising of HFSS foods**

Food and drinks which are high in fat, salt or sugar (HFSS) tend to be sold in highly concentrated markets. Tough new rules banning advertisements for HFSS products, such as those for confectionery, fizzy drinks and potato crisps, come into effect in July 2017 as a means to reduce consumption. The rules apply to media targeted at under-16s and will mean a major reduction in the number of advertisements children see for HFSS products in posters near schools, in films targeted at children, on catch-up television and in social media if it is directed at children. 5

There are three main factors that will determine the effectiveness of the intervention: first, whether advertising acts to expand the market share or steal rivals' market share. Secondly, how firms in the market adapt their behaviour in response to the ban. Thirdly, what substitute products do consumers turn to if they opted out of the targeted market. 10

Results from a recent survey in the UK suggest that the total quantity of crisps sold would fall by around 15% in the presence of an advertising ban, or by 10% if firms respond with price cuts, since the ban acts to make the market more competitive and firms respond to the ban by, on average, lowering their prices. 15

The survey showed that following a ban, consumers are more likely to switch to another junk food than to a healthy food, which (in addition to the pricing response of firms) acts to partially offset any health gains from the policy.

(Source: adapted from The Effects of Banning Advertising in Junk Food Markets, Dubois, Pierre; Griffith, Rachel, Review of Economic Studies Copyright © 2017, Oxford University Press <https://academic.oup.com/restud/article/3108825/The-Effects-of-Banning-Advertising-in-Junk-Food> 6 April 2017 and <https://www.asa.org.uk/news/tougher-new-food-and-drink-rules-come-into-effect-in-children-s-media.html> 30 June 2017)



Extract B**Taxing HFSS foods and subsidising healthy eating widens inequality**

Since low-income groups spend a higher proportion of their income on food and tend to eat less healthily, they are the main targets of taxes on products that are high in fat, salt or sugar (HFSS). Subsidies on healthy food are seen as an alternative policy approach to encourage healthy eating. While data on the impact of such policies are scarce, a recent study on the distributional impacts of HFSS taxes and healthy food subsidies found that these actually widened health and fiscal inequalities. The policies tend to be regressive and favour higher-income consumers. Taxes on unhealthy food increase prices which have a greater impact on low income groups rather than higher income groups. Lower income groups prefer to buy HFSS food.

Subsidies encouraged all income groups to buy more fruit and vegetables. However, those on higher incomes proved more responsive and the average share of budget spent on healthy food actually increased for the higher income groups who were more likely to buy the subsidised healthy food and then spend the savings they had enjoyed on yet more healthy food. The diets of the higher income groups before the subsidy tended to be healthier. The choices of the higher income groups are more responsive to price changes. By contrast, lower income groups, if they responded to lower prices, often used the money saved to buy unhealthy items or something else entirely. The long-term benefits of a healthier diet are harder to grasp for consumers when information gaps exist. Often the immediate boost of a tasty treat is more appealing. Taxes and subsidies do not change that. Other strategies are needed to promote healthy eating, especially education.

(Source: adapted from Economist 5 October 2017 <https://www.economist.com/news/finance-and-economics/21730033-study-suggests-lower-income-families-end-up-paying-more-their-food-taxing-fat> and https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3031005 The Economic Journal September 2017 Vol 127 Issue 604)

Extract C**Tax on fatty foods in Denmark is an economic disaster**

Denmark introduced a specific tax on saturated fat in October 2011. Recognised as a world-leading public health policy, it was abandoned just 15 months later having been both an economic and political disaster.

Indirect taxes of this sort are invariably regressive, disproportionately affecting the elderly and the poor. The specific tax led to prices rising on average 15% for highest-fat products, yielding a total decrease of 5% in the intake of saturated fat from products such as minced beef and cream. 80% of Danish consumers did not change their shopping habits at all. The behavioural change was economically damaging as consumers switched to cheaper brands and crossed the border to Sweden and Germany to do their shopping. Danish tax revenue fell as a result.

(Source: adapted from <https://iea.org.uk/in-the-media/press-release/evidence-shows-a-fat-tax-would-hit-poorest-the-hardest> 25 May 2013 and <https://www.cambridge.org/core/journals/public-health-nutrition/article/effects-of-the-danish-saturated-fat-tax-on-the-demand-for-meat-and-dairy-products/984CF03634C819D50E66C7B5DC5209DA/core-reader>)



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SECTION B

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

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

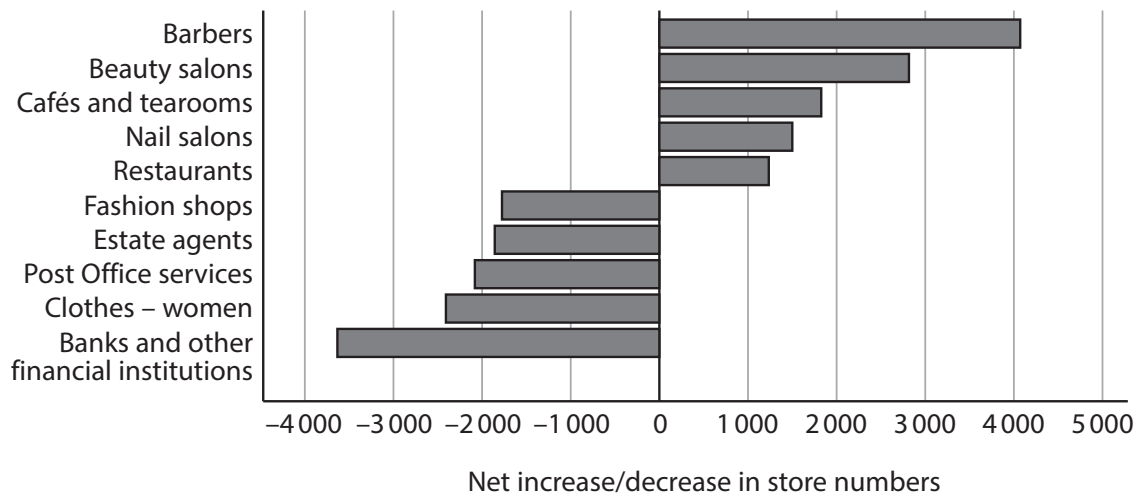
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 2

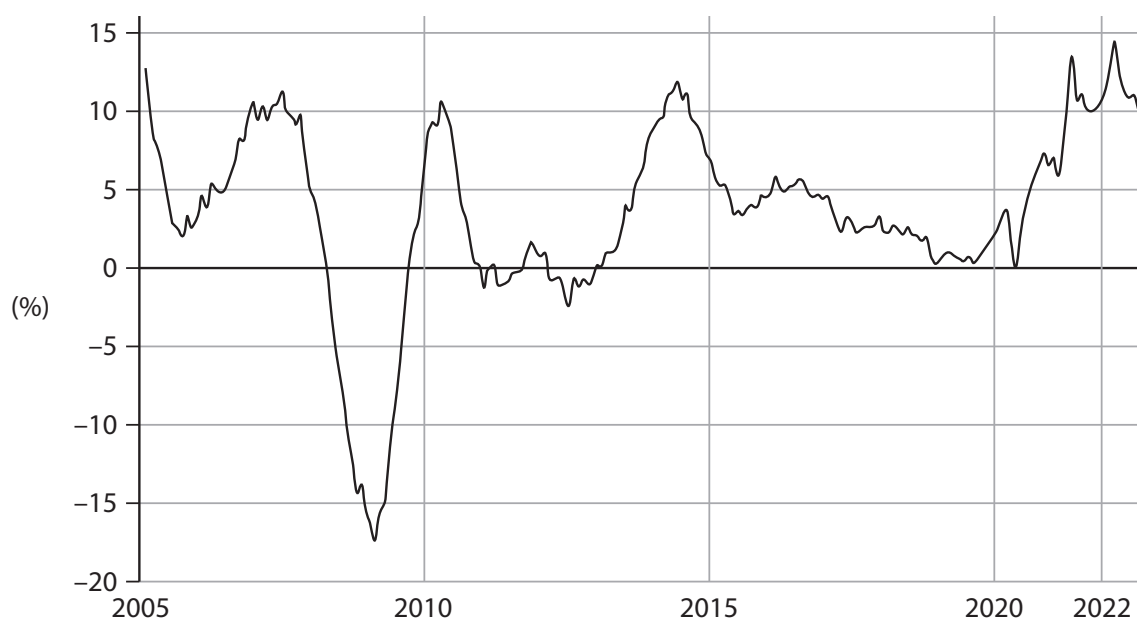
Changes in the nature of UK towns and cities

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



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

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



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



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

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

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

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

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

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

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

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

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

5

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

10

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

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

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

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

5

10

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

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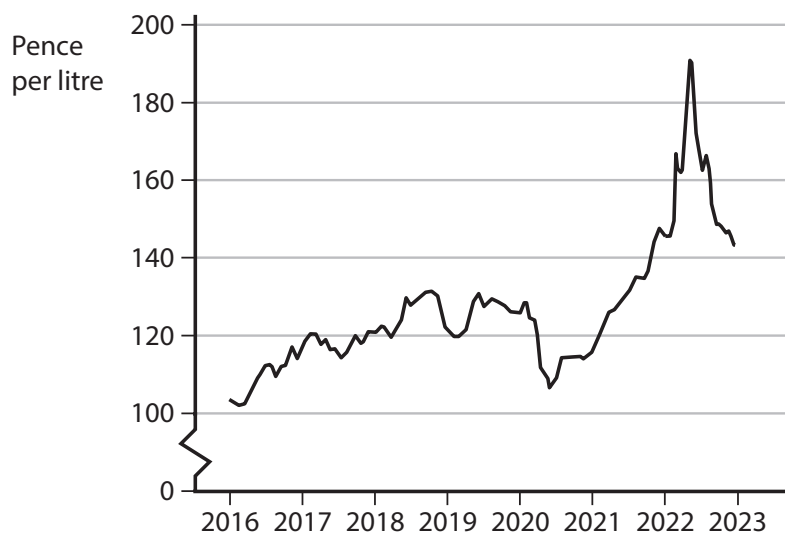
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Sources for use with SECTION A

Read Figures 1 and 2 and the following Extracts A, B, C and D before answering Question 1.

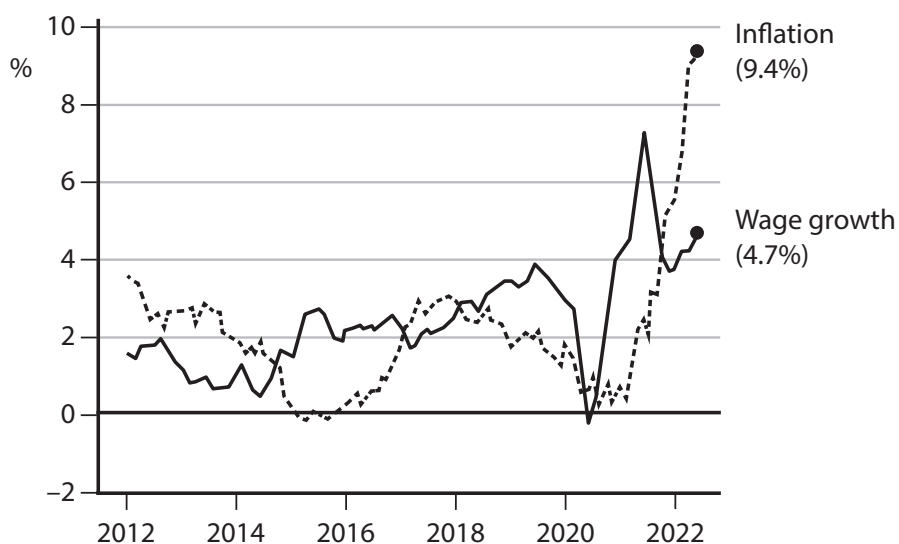
The cost of living in the UK

Figure 1: The price per litre of unleaded petrol in the UK, in pence, 2016–2023



(Source adapted from: RAC)

Figure 2: UK inflation, as measured by CPI, and wage growth (excluding bonuses), 3-month averages, 2012–2022



(Source adapted from: ONS)

Extract A**Supermarket restrictions on multibuy deals and advertising**

Government rules limiting the location of unhealthy foods in shops began in 2022. Less healthy products are no longer promoted in key locations, such as checkouts, store entrances, aisle ends and their online equivalents. Rules banning multibuy deals on foods and drinks high in fat, salt or sugar (HFSS) – including buy one get one free (BOGOF), '3 for 2', and restrictions on free refills for soft drinks – were due in October 2023. The restrictions banning HFSS adverts on TV before 9pm and paid-for adverts online were set for January 2024. 5

(Source adapted from: <https://www.gov.uk/government/news/government-delays-restrictions-on-multibuy-deals-and-advertising-on-tv-and-online>)

Extract B**Supermarket pay in 2023**

Supermarkets have been increasing their hourly pay rates and most now pay significantly more than the National Minimum Wage, which was set at £10.42 in April 2023.

Tesco made its biggest ever investment in employee pay in 2023, spending £230 million to finance an increase in its basic hourly rate of pay, to £11.02 per hour, rising to £11.95 in London. 5

The pay increase is the latest boost in employment benefits as supermarkets continue to compete for in-store workers, with Sainsbury's and Asda both increasing pay to above £11 per hour in July 2023, while Aldi pays £11.40 an hour. 10

Supermarkets have found themselves facing criticism over pay that did not rise in line with inflation. Some workers are taking industrial action, such as strikes, working closely with trade unions.

(Source adapted from: <https://www.grocerygazette.co.uk/2023/02/22/supermarket-pay-rate-2023/>)



Extract C**Supermarket petrol pricing**

In 2023 David Potts, the boss of Morrisons, admitted that supermarkets increased profits at the petrol pumps as he was questioned in a parliamentary committee alongside executives from Tesco, Sainsbury's and Asda who denied they were making more profit from keeping petrol prices high.

5

A Competition and Markets Authority (CMA) report indicates that supermarkets' profits have doubled to 8% on fuel since 2017. It is expected to recommend that supermarkets must share local fuel prices on a comparison website in order to increase transparency and help bring down prices – a strategy tried successfully in Northern Ireland. All the supermarkets said they would welcome such a move.

10

In 2023, the RAC motoring group said that a price checker would be welcome but blamed high prices on the domination of petrol retailing in the UK by a few large supermarkets. "When the wholesale price of diesel fell this spring, we saw average retailer margin reach 22p a litre which was more than three times the long-term margin of 7p. This cannot be allowed to continue when households are having to contend with a cost of living crisis," an RAC spokesperson said.

15

At the committee, one politician, Jane Hunt, said: "In 1978 there were many more supermarkets. Now there are very few...are you in fact a cartel?"

(Source adapted from: <https://www.theguardian.com/business/2023/jun/27/morrisons-boss-admits-supermarket-chains-have-hiked-profits-on-petrol>)

Extract D**EU trade relations with the UK**

The Trade and Cooperation Agreement 2021 between the EU and the UK means that there are no tariffs or quotas on goods moving between the EU and UK, provided those goods meet the 'rules of origin' of a good, based on where the products or materials used in their production come from. They prevent goods manufactured in outside countries being transported through the UK (or the EU) to avoid paying tariffs.

5

To benefit from the zero tariff, businesses must show the origin of their goods. A product qualifies as 'originating' if it is 'wholly obtained' in the UK and EU or has been substantially transformed in one or both markets. That is why UK businesses that re-export goods from outside countries with little or no further processing, may still face tariffs when trading with EU member states.

10

'Rules of origin' can be time consuming and complex. Some businesses cannot or do not wish to claim zero tariff because of the excessive administrative costs to firms.

(Source adapted from: <https://commonslibrary.parliament.uk/new-customs-rules-for-trade-with-the-eu/>)



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(Total for this part = 25 marks)



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(Total for this part = 25 marks)



SUB-TOPIC 3.4.5

MONOPOLY

Sub-topic 3.4.5 · 7 questions · 98 marks · lowest tariff first



3 River Island is a clothing retailer. Students are offered a River Island student discount code to benefit from a 10% price reduction as an attempt by the firm to increase profit.

(b) Which **one** of the following is necessary for a firm to be able to practise price discrimination?

(1)

- ☐ **A** It has some degree of market power
- ☐ **B** It is able to store its product
- ☐ **C** Its product has different features in different markets
- ☐ **D** The costs of supplying some customers are higher

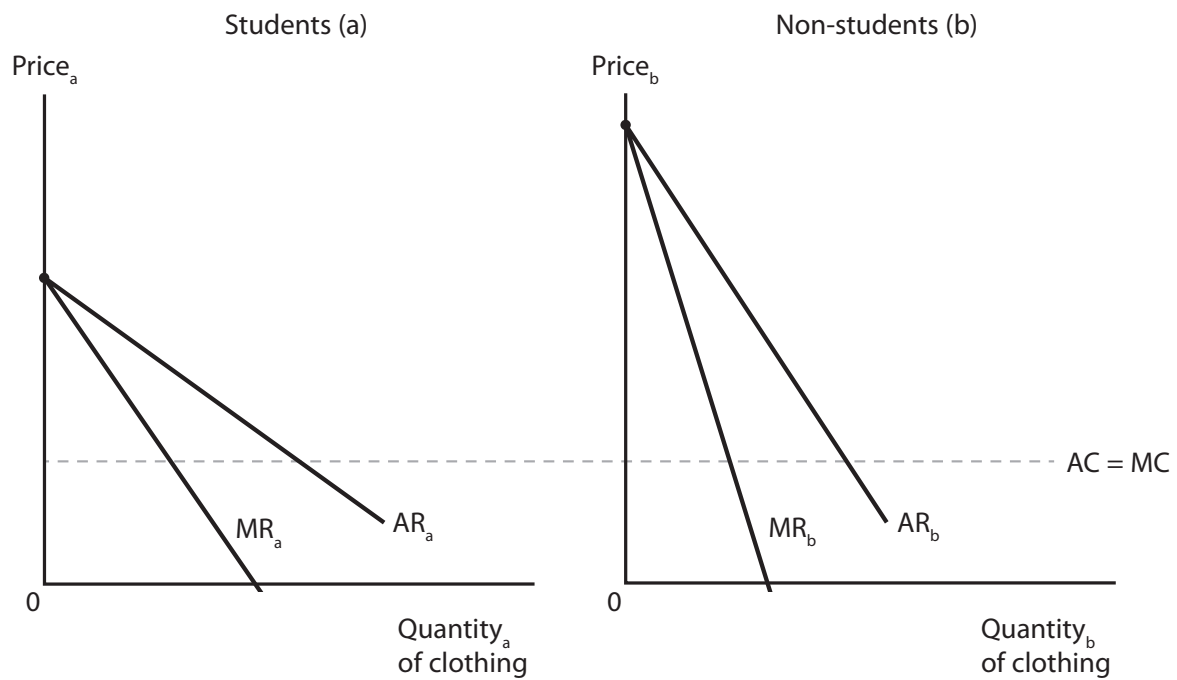
(Total for Question 3(b) = 1 mark)



- 3 River Island is a clothing retailer. Students are offered a River Island student discount code to benefit from a 10% price reduction as an attempt by the firm to increase profit.

(a) Complete the third-degree price discrimination diagram below. Draw the impact on each sub-market by showing the price and profit.

(4)



(b) Which **one** of the following is necessary for a firm to be able to practise price discrimination?

(1)

- ☐ **A** It has some degree of market power
- ☐ **B** It is able to store its product
- ☐ **C** Its product has different features in different markets
- ☐ **D** The costs of supplying some customers are higher

(Total for Question 3 = 5 marks)



SECTION B

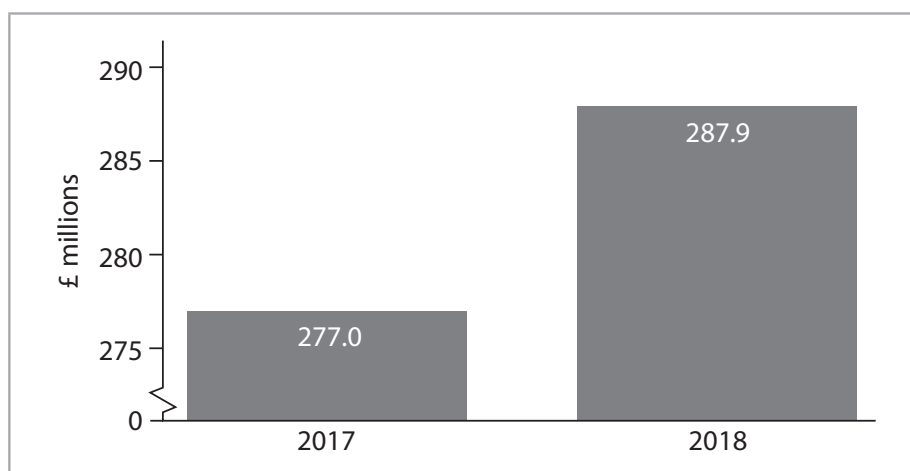
Read Figures 1, 2 and 3 and the following extracts (A and B) before answering Question 6.

Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

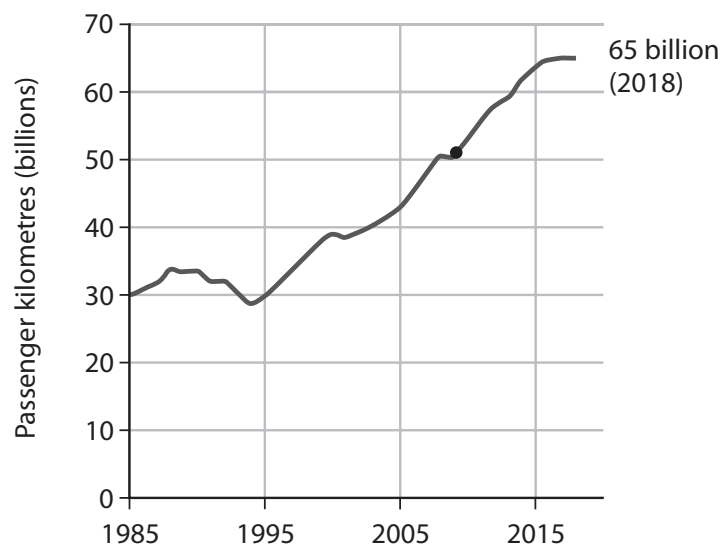
Question 6**The UK Rail Industry**

Figure 1: UK government subsidy to Northern, a train operating company in Northern England



(Source adapted from: <https://www.theyworkforyou.com/wrans/?id=2018-10-18.181280.h>)

Figure 2: Rail passenger kilometres travelled per year in the UK, billions



(Source adapted from: fullfact.org)



Figure 3: Price of a single off-peak train journey, Edinburgh to Leeds Saturday 22nd December 2018 19:00 hours

Adult	Young Persons (16–25) Railcard
£105.30	£69.50

(Source: <https://www.lner.co.uk/buy-tickets/booking-engine>)

Extract A

The case for nationalisation

Privatisation has not made the rail industry cheaper to operate, despite the promise from one government source that it would see private companies bringing: “more competition, greater efficiency and a wider choice of services”.

One reason, suggest the critics, is fragmentation. Instead of pushing British Rail into the private sector as a single supplier the government chose to break it into three components of track, train operators and rolling stock i.e. the trains and carriages. This has encouraged each part of the rail industry to prioritise its own profits rather than collaborating to improve the system. 5

Privatisation, meanwhile, never really worked. The rail network of 2 500 stations and 32 000 km of tracks was renationalised in 2001. This has encouraged the government’s transport secretary, a supporter of private sector involvement, to argue that the state Network Rail monopoly should be removed so that companies can bid to build new rail lines to upgrade the railway. 10

The privately-owned train operators are now the subject of fierce criticism, due to overcrowding and cancelled services. Private companies are supposed to compete to win a bid to be the train operator for a region for a short number of years. However in recent years the number of private companies bidding or renewing their contract as rail operators has fallen. In May 2018 the government rescued the East Coast line by renationalising it. The line had been run by the private rail operator Virgin Rail, which was suffering lower passenger numbers and revenue than forecast. 15 20

Some argue that there is a simple solution: reunite track and train in the only feasible manner, nationalisation.

(Source adapted from: <https://www.ft.com/content/d82848ca-f7ba-11e7-88f7-5465a6ce1a00>)

Extract B

Southern Rail boss paid £495 000

The Chief Executive of Southern Rail, the private-sector train operator that has become associated with delays, losses, cancellations and strikes, was paid £495 000 last year. This increased calls for nationalisation and a maximum wage for executives at companies with government contracts. In contrast the average base pay for a train driver in the UK is £47 705, although they can earn up to £63 000. 5

Nearly a third of Southern Rail trains were late in 2016 as it tried to deal with a labour dispute that involved extensive strike action. The rail trade unions are opposed to planned changes to the role of train guards, which they claim will put passenger safety at risk. 10

(Source adapted from: Rob Davies, The Guardian 10 April 2017
<https://www.theguardian.com/business/2017/apr/10/southern-rail-boss-double-pay-rise>)



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SECTION B

Read Figures 1, 2 and 3 and the following extracts (A and B) before answering Question 6.

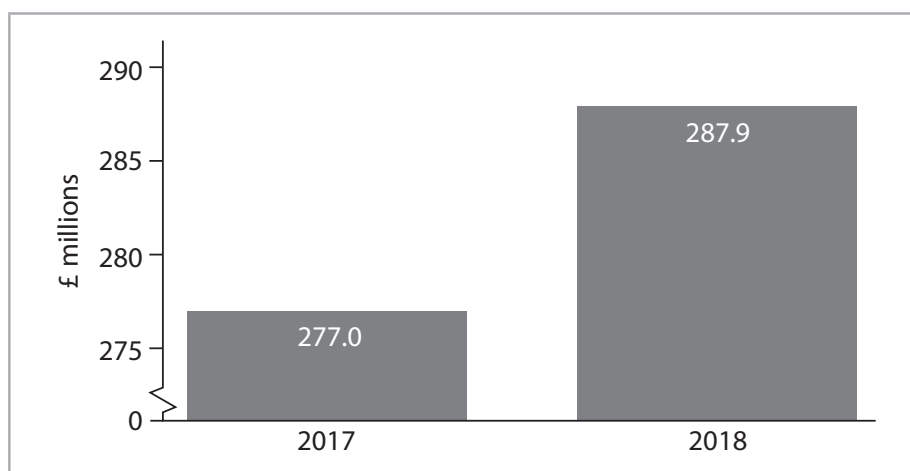
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 6

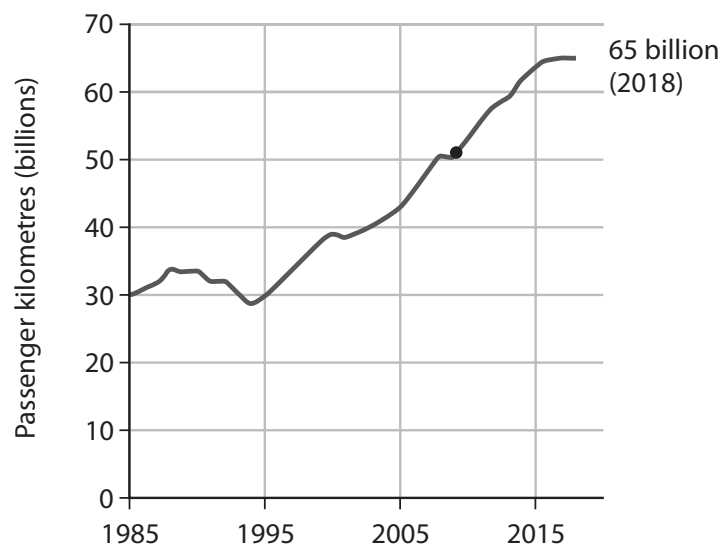
The UK Rail Industry

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The case for nationalisation

Privatisation has not made the rail industry cheaper to operate, despite the promise from one government source that it would see private companies bringing: “more competition, greater efficiency and a wider choice of services”.

One reason, suggest the critics, is fragmentation. Instead of pushing British Rail into the private sector as a single supplier the government chose to break it into three components of track, train operators and rolling stock i.e. the trains and carriages. This has encouraged each part of the rail industry to prioritise its own profits rather than collaborating to improve the system. 5

Privatisation, meanwhile, never really worked. The rail network of 2 500 stations and 32 000 km of tracks was renationalised in 2001. This has encouraged the government’s transport secretary, a supporter of private sector involvement, to argue that the state Network Rail monopoly should be removed so that companies can bid to build new rail lines to upgrade the railway. 10

The privately-owned train operators are now the subject of fierce criticism, due to overcrowding and cancelled services. Private companies are supposed to compete to win a bid to be the train operator for a region for a short number of years. However in recent years the number of private companies bidding or renewing their contract as rail operators has fallen. In May 2018 the government rescued the East Coast line by renationalising it. The line had been run by the private rail operator Virgin Rail, which was suffering lower passenger numbers and revenue than forecast. 15 20

Some argue that there is a simple solution: reunite track and train in the only feasible manner, nationalisation.

(Source adapted from: <https://www.ft.com/content/d82848ca-f7ba-11e7-88f7-5465a6ce1a00>)

Extract B

Southern Rail boss paid £495 000

The Chief Executive of Southern Rail, the private-sector train operator that has become associated with delays, losses, cancellations and strikes, was paid £495 000 last year. This increased calls for nationalisation and a maximum wage for executives at companies with government contracts. In contrast the average base pay for a train driver in the UK is £47 705, although they can earn up to £63 000. 5

Nearly a third of Southern Rail trains were late in 2016 as it tried to deal with a labour dispute that involved extensive strike action. The rail trade unions are opposed to planned changes to the role of train guards, which they claim will put passenger safety at risk. 10

(Source adapted from: Rob Davies, The Guardian 10 April 2017
<https://www.theguardian.com/business/2017/apr/10/southern-rail-boss-double-pay-rise>)



(15)



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 or other markings on the paper.

[illegible]

(Total for Question 6 = 50 marks)



SECTION B

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

Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 6**The UK online streaming services market****Figure 1: Market share of UK online streaming services**

	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022
Amazon Prime Video	37.9%	41.1%	45.0%	27.1%	25.9%
Disney+	16.0%	17.7%	19.3%	14.1%	21.5%
Netflix	15.0%	10.5%	5.0%	9.4%	4.5%
NOW	11.3%	11.2%	5.6%	11.0%	11.1%
AppleTV+	4.0%	5.5%	7.3%	9.2%	9.9%
BritBox	4.0%	3.0%	5.7%	6.0%	5.9%
Others	11.8	11.0%	12.1%	23.2%	21.2%

(Source adapted from: Kantar, Worldpanel Division Geotech 2022)

Figure 2: UK online streaming services – monthly fees

Streaming service provider	September 2022
Netflix premium (4 users/ultra HD*)	£15.99
Netflix standard (2 users/HD)	£10.99
Netflix basic (single user/non HD**)	£6.99
Amazon Prime Video	£8.99
Amazon Prime Video – Student price	£4.49
Disney+	£7.99
AppleTV+	£4.99

*This is the highest quality picture currently available

** This is the basic quality picture

(Source adapted from: <https://www.radiotimes.com/tv/what-to-watch-tv/best-streaming-service-uk/>)



Extract A**How Netflix makes use of behavioural science**

In the last few years, companies have been trying to find ways to attract the attention of customers. Various streaming platforms such as Netflix, Amazon, and YouTube use 'nudges' to influence consumer behaviour. The 'next-up' feature on Netflix or 'auto-play' on YouTube has been subject to research that relates it to binge-watching. Binge-watching is the practice of viewing for a prolonged period, multiple episodes of a TV show or several films in rapid succession. 5

Similarly, the policy of offering a one-month free subscription under the label of 'free trial' requires credit card information to turn the forgetful subscriber into a potential paying one. Following this strategy, Netflix has expanded to 190 countries in just seven years and according to the Wall Street Journal, the company generated total revenue of over \$5.2 billion in 2019, which was an increase from 2018 of around \$4 billion. 10

However, 2022 data shows that consumers, increasingly worried about the rising cost of living, are turning their back on Netflix. With a reported cancellation of over 200 000 subscriptions in the first quarter and another two million forecast to leave by the end of the year. Subscribers are rethinking their commitment to the streaming services that grew their numbers sharply during the home-based months of the global health crisis. Netflix subscribers have also quoted a decline in value for money and satisfaction with the quality of the shows as key motives for cancellation. 15

Disney now see higher satisfaction rankings than Netflix across the quality of shows, amount of original content, number of new-release films, variety of classic films and amount of kids' content. Forecast cancellation rates for Disney+ fell to an all-time low of 3.2%. 20

(Source adapted from: <https://www.novanudge.com/post/sludge-on-demand-how-netflix-makes-use-of-behavioural-science>
<https://www.theguardian.com/media/2022/apr/20/netflix-shares-fall-losing-subscribers>)

Extract B**The economics of price discrimination**

Throughout 2022, Netflix, a 100-billion-dollar company, increased prices in the US, Canada, the UK and Ireland (most of which saw similar price increases in 2021, too). In sharp contrast, Netflix recently announced it was reducing its prices in India (standard/2-user 499 rupees a month, equivalent to £5.42) in a bid to compete with Disney+ and Prime. 5

UK students currently enrolled in a college or university who have a valid student email address can join Prime Student through the Amazon website. This gives them nearly 50% off a standard Prime membership and many other exclusive benefits.

(Source adapted from: <https://help.netflix.com/en/node/24926/in>)

Extract C**Educational Website and TV Programmes**

BBC Bitesize is a learning platform created by the BBC in 1998. The online study resource allows parents to teach their children from home, using ready-made lesson plans and study guides with questions for all ages. The revision sessions are free to watch and they are available for children aged five up to their late teens. The guides are written by teachers and subject experts, so they are reliable and follow the National Curriculum. Last year Bitesize attracted around two million weekly unique browsers with a peak week of 3.3 million in the GCSE exam period. 5

Oak National Academy is a freely available learning resource website created for pupils aged four to sixteen. Launched in 2020, as a response to the global health crisis, the website includes lesson slides, video lessons, worksheets, and quizzes conforming to the national curriculum in England. Ministers have set aside £43 million to fund the Oak National Academy over the next three years. 10

(Source adapted from: <https://www.bbc.co.uk/bitesize/articles/zmjdhbk>
<https://www.structural-learning.com/post/oak-academy-a-teachers-guide#:~:text=Oak%20National%20Academy%20is%20a,the%20national%20curriculum%20of%20England>)



(15)



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TOTAL FOR SECTION B = 50 MARKS



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Continue on separate paper if required.



(Source: adapted from <https://electrek.co/2020/08/21/tesla-holds-us-ev-market-losing-federal-tax-credit/>)

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SUB-TOPIC 3.4.6

MONOPSONY

Sub-topic 3.4.6 · 2 questions · 37 marks · lowest tariff first



SECTION B

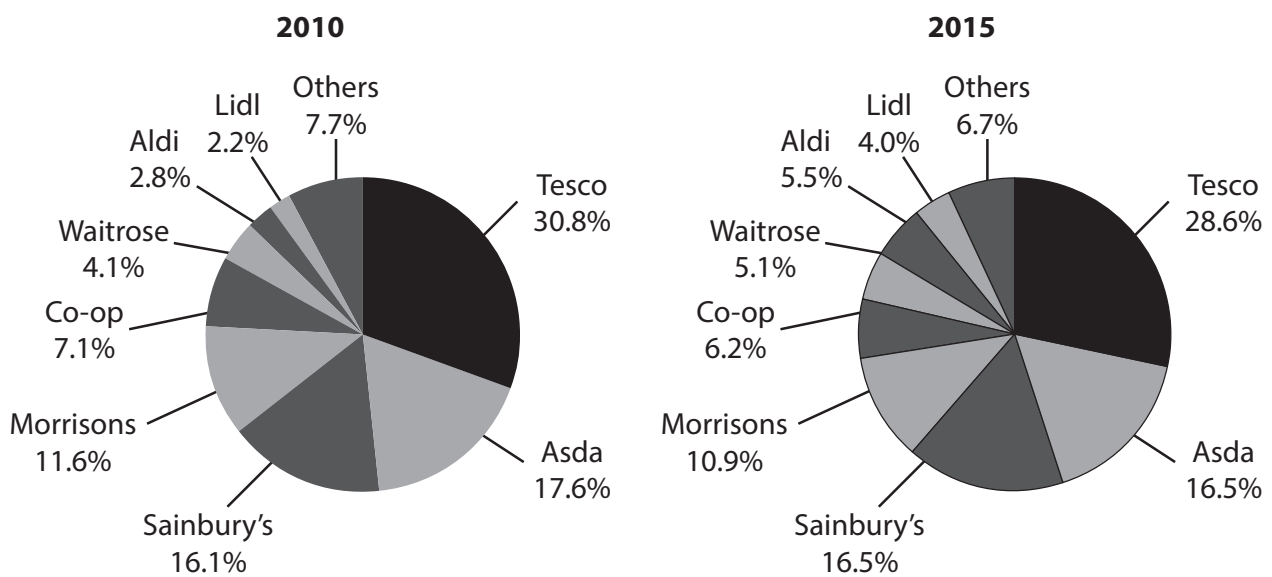
Read Figures 1 and 2 and the following extracts (A to C) before answering Question 6.

Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

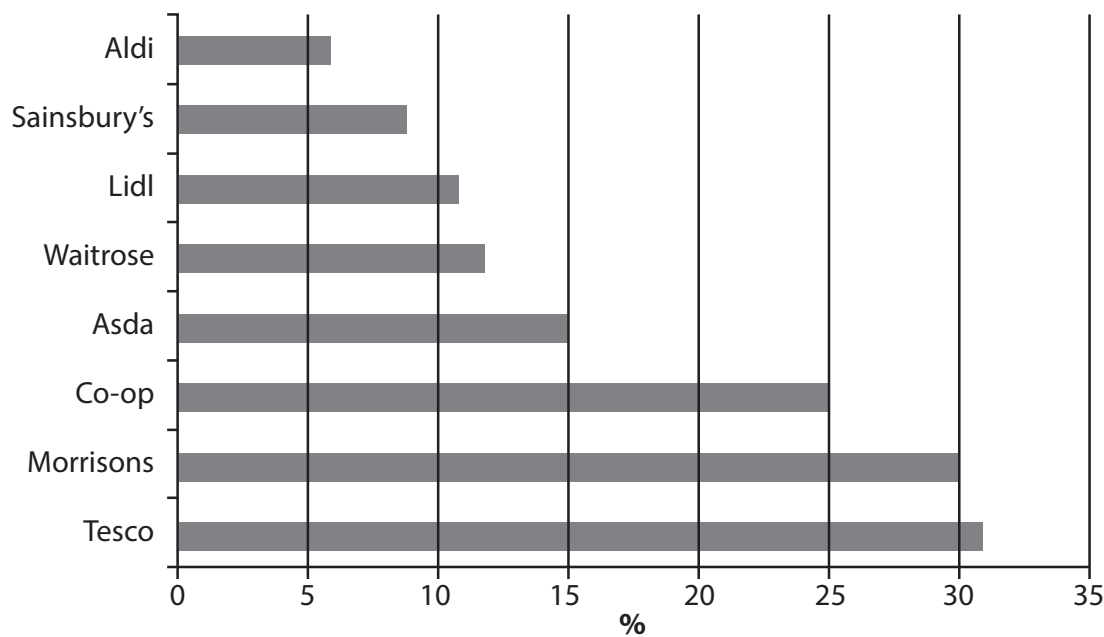
Question 6**Supermarket price war, food waste and possible mergers**

Figure 1: Market shares by total revenue in the UK supermarket sector, 2010 and 2015



(Source: Kantar worldpanel, <http://www.kantarworldpanel.com/en/grocery-market-share/great-britain/snapshot/11.10.15/>)

Figure 2: Proportion of food suppliers reporting that the following supermarkets fail to meet the Groceries Code of Conduct, 2015.



(Source: YouGov poll of more than 1100 food suppliers to supermarkets.
Reported in The Times, 23 June 2015)

Extract A

Supermarket price war puts pressure on their food suppliers

The number of food suppliers (to supermarkets) struggling to remain in business has increased by more than 50% over the past year as supermarkets engage in an intense price war. It has never been tougher for the UK's food suppliers according to a study by accountants Begbies Traynor. It blames aggressive price-cutting by the supermarkets and delays in payments to food suppliers as the main causes of the difficulties. Further problems include food suppliers being forced to pay excessive amounts for packaging specified by supermarkets and funding in-store promotions. Almost 90% of struggling food suppliers are small and medium-sized businesses.

The price war has contributed to food prices paid by consumers falling by 1.7% over the past two years.

The market shares of the big four supermarkets – Tesco, Asda, Sainsbury's and Morrisons – are under pressure as shopping habits change. Many consumers are switching from one main weekly shop to shopping more frequently at local discount stores such as Aldi and Lidl or purchasing goods online from other grocery retailers.

The big four supermarkets have responded by putting more pressure on their suppliers despite an investigation by the Groceries Code Adjudicator (GCA). The GCA has the power to fine supermarkets up to 1% of their annual sales revenue if they break the Groceries Code of Conduct. A YouGov study found considerable differences between the supermarkets in meeting the Code with Aldi performing well but Tesco badly. Despite the Groceries Code, many food suppliers are reluctant to complain for fear of losing contracts with the supermarkets.

(Source: adapted from 'Supermarket price war takes toll on UK food suppliers'. Rupert Jones, The Guardian, 20th July 2015)

Extract B**Food waste in the supply chain**

A report from the British Retail Consortium reveals that supermarkets are directly responsible for around 0.2 million tonnes of food waste every year. This is due to the expiry of use-by-dates and poor handling of stock.

However, 4.1 million tonnes of food waste occurs annually in the food supply chain before it even reaches the supermarkets, indicating the existence of information gaps. The supermarkets are cooperating with food suppliers and farmers to try to reduce this waste. This involves improving forecasts for supply and demand of food and increasing the reliability of transportation and storage. 5

Consumers, the final stage of the supply chain, waste a further 7 million tonnes of food each year. This suggests irrational behaviour. Supermarkets are also working with consumers to reduce the waste by providing advice on how to store and use leftover food. The development of packaging designs to keep food fresher for longer is one of the innovations under way to reduce waste. 10

(Source: adapted from 'Supermarkets tally up food waste bill'. Will Nicholls, in Businessgreen, 19th January 2015. <http://www.businessgreen.com/bg/news/2390792/supermarkets-tally-up-food-waste-bill>)

Extract C**Proposed merger activity in the supermarket sector**

Analysts at Société Générale, an investment bank, have recommended a merger between Sainsbury's and Morrisons. They claim it would lead to increased economies of scale and market power for the combined business. Such a merger between the third and fourth largest supermarkets in Britain would have been unrealistic a few years ago due to concerns of its impact in reducing competition. However, the chances of getting permission from the Competition and Markets Authority have increased following the growth of Aldi and Lidl. Giant mergers have been approved in other sectors such as Lloyds-HBOS (banking) and British Telecom-EE (telecommunications). 5

The suggested merger would have its challenges. There is considerable overlap between the locations of the stores and the enlarged company would require the rationalisation and co-ordination of hundreds of thousands of employees. A new expensive IT system is likely to be required and the underlying difficult market trends would remain in the food retailing industry. 10

(Source: adapted from 'Tesco-bury and AS-Morrisons. Could Britain's supermarkets be about to merge?' Graham Ruddick, in The Telegraph, 16th December, 2015. <http://www.telegraph.co.uk/finance/newsbysector/retailandconsumer/11699724/Tesco-burys-and-AS-Morrisons.-Could-Britains-supermarkets-be-about-to-merge.html>)

(12)



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8 'Amazon.com, the giant online retailer, has too much power.' It uses its market power to put a squeeze on publishers, in effect driving down the prices it pays for books. If a publisher refuses, Amazon may take action by 'delaying their delivery, raising their prices, and steering customers to other publishers'.

(Source adapted from: <https://www.nytimes.com>)

Q) Evaluate the likely costs of a monopsony operating in a market such as book retailing.

(25)

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(Total for this part = 25 marks)



SUB-TOPIC 3.4.7

CONTESTABILITY

Sub-topic 3.4.7 · 6 questions · 81 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 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)

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(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 = 5 marks)

Sources for use with SECTION B

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

Question 6**Digital markets****Figure 1: UK sales of selected best-selling video games, 2022**

Name of game	Game publisher	Sales (quantity)	Game price
FIFA 23	Electronic Arts (EA)	2 530 510	£59.99
COD: MW II	Activision	1 675 323	£59.99
Mario Kart 8	Nintendo	426 748	£39.99
Gran Turismo 7	Sony	356 630	£69.99
Minecraft	Microsoft	219 679	£14.99

(Source: adapted from <https://www.statista.com/statistics/274072/most-popular-games-in-the-united-kingdom-uk-by-unit-sales>)

Extract A**Digital markets**

Digital markets refer to firms producing and buying information technology services. Examples include digital banking, online retailing, computer games and mobile applications (apps). The emergence of digital markets has brought about increased competition across a wide range of products and services. They have also been beneficial for consumers who now have greater choice and access to higher-quality products at lower prices, for example, fashion clothing and language tuition. But while the digital revolution has enabled greater competition, it also presents some challenges for competition law enforcement.

5

(Source: adapted from <https://pearsonblog.campaignserver.co.uk/digital-markets-reform-of-competition-laws/>)



Extract B**Addictive video games**

When consumers want to play a new video game, there are three payment options to access the full gaming experience. There is the price for the game (see Figure 1), the subscription fee to play online with friends (e.g. £13.99 a month) and there are many in-game purchases. For example, a Spiderman 'skin' which costs £9.99 enhances the appearance of the player. The high prices do not seem to deter many new buyers, especially in markets such as sports and multi-player action games. 40% of the world's population are online gamers. Young players spend up to 10–16 hours a day on their games due to the addictive nature of the games. 5

The video games can take up to five years to develop and cost over £150 million to produce with 200 full time employees working on the software. Starting salaries for software developers can be £100 000. However, some simple video games and apps cost as little as £23 000 to develop and take about six months. 10

All the major firms – EA, Microsoft, Nintendo and Sony – offer subscriptions that give access to new game releases. The US technology company, Microsoft, is one of the dominant firms in the market for subscription services. In October 2023, it merged with the game designer, Activision, which already owns one of the world's most popular video games (see Figure 1). The £65 billion merger is the largest in the history of the video games industry. However, Sony is concerned that the Microsoft-Activision merger may restrict access to popular video games owned by Microsoft and therefore reduce competition. 15 20

(Source: adapted from <https://www.theguardian.com/technology/2023/apr/26/what-does-uks-ban-on-microsofts-activision-blizzard-takeover-mean-for-gaming?>)

Extract C**The growth of automation**

Automation is the use of technology to perform tasks previously carried out by humans. Automation has the potential to bring great economic benefits to both consumers and firms, contributing up to £12 trillion to global GDP by 2030. This extra income will also create demand for many new jobs. However, there are also concerns that it could displace many existing workers. 5

Financial services jobs are most at risk from automation in the shorter term and transport jobs, such as train drivers, in the longer run. For example, the growth of online banking has already led to the closure of many high street bank branches. By the mid-2030s, up to 30% of all jobs could be automated, with slightly more impact on men. 10

Another form of revenue for Microsoft is the artificial intelligence (AI) program ChatGPT. The growth of AI will require highly skilled workers such as trainers and engineers. Microsoft's annual gross profit for 2023 was £146 billion, a 7.69% increase on 2022.

(Source: adapted from <https://www.economist.com/business/2023/03/26/big-tech-and-the-pursuit-of-ai-dominance>)



(10)



[illegible]



SECTION B

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

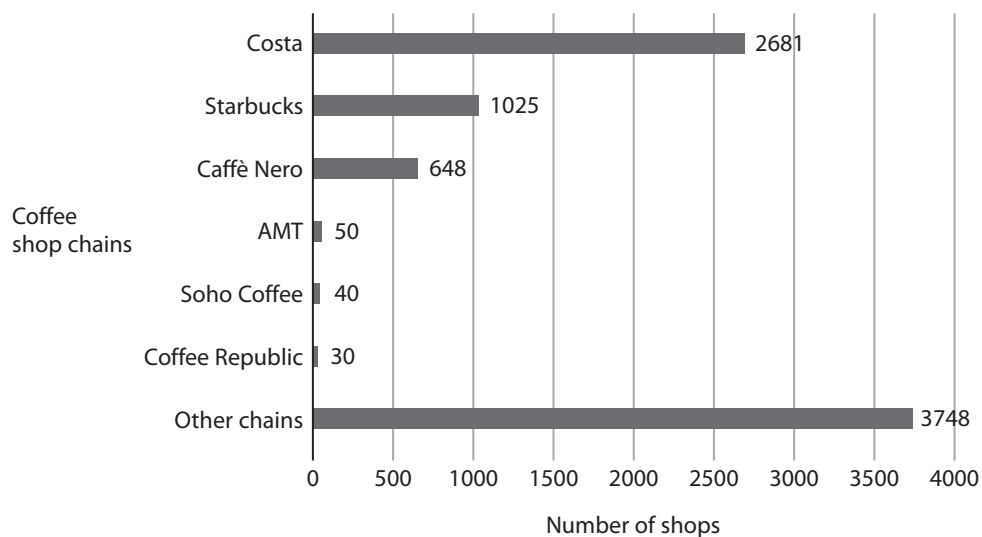
Write your answers in the spaces provided.

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>)



(15)





(Total for Question 6 = 50 marks)



SECTION A

Read 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

Hand car wash (HCW) firms in the UK

Extract A

What is the true human cost of your £5 hand car wash (HCW)?

The UK's hand car washes (HCWs) are extremely price competitive, but they have also been linked to modern slavery. Are they ever fair for workers?

There is little agreement about how many HCWs there are in the UK. Estimates range from 10 000 to 20 000. This lack of accurate information about the industry makes government regulation very difficult. Automated car washes, with their fierce rotating bristles, used to be the first option for drivers in a hurry. Now there is more choice. While the economy slows and incomes fail to keep up with inflation, demand for HCWs has grown. Many people see paying £5 for a car washed by someone else, rather than cleaning it at home, as a small expense which yields a high utility. But what is the true cost of a £5 car wash – and what should we be paying?

The growth of HCWs is partly the result of changes in the structure of industry in the UK. Many petrol stations have closed as drivers fill up at supermarkets. Garages and their forecourts have closed as cars become more reliable and locked into service agreements. The available sites for HCWs have therefore increased significantly and rents have fallen.

HCW entrepreneurs have identified available land and have benefitted from changes in the labour market, partly as a result of EU migration. UK drivers are now able to obtain cheap and effective hand car washing. For many migrants, car washes are a first job. "They accept car washing for a short period while they improve their language skills and move into other industries," says Ian Clark, a professor of work and employment at Nottingham Business School. "But there are also car-wash workers without networks who are in a dead end, working there for long periods."

Many drivers are only interested in getting the cheapest wash. If the price is very low, it probably means that workers are receiving less than the minimum wage and working in poor conditions. Crude calculations illustrate the problem. A £5 HCW employing five workers for 10 hours a day would need to wash 79 cars a day to just cover the wage costs. This assumes the workers are paid the minimum wage. This is one car every seven and a half minutes. Even if the profit can be higher on valet services, the price of which can be as little as £12 for a full inside-and-out clean, it's hard to see how a car wash price as low as £5 pays a living wage. This ignores all other costs which HCWs incur such as business rates and rent.

Evidence from car-wash workers is limited but Clark and others have been able to build a picture of some of the tougher conditions on drenched forecourts. "Like nail bars and small garment manufacturers, car washes are what we call 'hard-to-reach places,'" Clark

explains. As part of the research, Clark and his team spoke to workers from 45 HCWs in the Midlands.

Clark and his team met and observed workers who lacked waterproof boots or trousers, or hi-vis jackets and gloves. "They're spraying around hydrochloric acid solution for alloy wheels, breathing in the vapour and fumes," Clark says. Some workers were paid a little over half the minimum wage.

(Source adapted from: <https://www.theguardian.com/world/2018/jul/16/true-human-cost-5-pound-hand-car-wash-modern-slavery>)



Extract B**Government intervention in the HCW industry**

There are three main areas of government intervention that might impact on labour intensive firms such as HCWs:

First, there is the planning issue which focuses on the impact on the environment, for example, the disposal and recycling of waste water and chemicals. There could be planning regulations to prevent the use of tarmac rather than concrete on forecourts. Tarmac allows waste water and chemicals to seep into the sub soil. It could also be a requirement to have a sludge trap to stop the waste entering waterways. 5

Second, there is the health and safety issue for workers. Prolonged exposure to chemicals and lack of protective clothing puts the health of workers at risk. Performance targets could involve minimum levels of protective clothing and rest breaks for the workers. 10

Third, there is the issue of tax. The informal nature of the business type makes tax evasion easier.

Not all UK HCWs violate regulations. There are legitimate, regulated HCW firms as well as examples of good practice by independent outlets. One national supermarket, Tesco, has banned all independent hand car washes from its car parks. It is now in a partnership agreement with national car wash operator Waves. It uses a WashMark certificate of quality and compliance which was introduced by the industry to improve working conditions. Other major supermarkets are considering similar changes. One adviser believes £9 is a reasonable minimum price for a basic wash. Some pressure groups have developed a mobile phone app where evidence of unreasonable conditions can be reported by drivers. 15 20

Involving drivers in the issue, and making them demand fairer car washes, creates an incentive for good businesses to improve practices and come forward to get a WashMark certificate. 25

(Source adapted from: <https://www.parliament.uk/documents/commons-committees/environmental-audit/Hand-Car-Wash-evidence.pdf> research into HCWs by Professor Ian Clark, Nottingham Business School May 2018)



Q) 1 (d) Evaluate the microeconomic and macroeconomic factors which determine the number of firms in an industry. Refer to HCWs or another industry of your choice.

(25)



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(Total for this part = 25 marks)

8 Bytedance, which owns TikTok, has launched its own fragrance 'Emotif'. The Beijing-based social media giant has already entered the food and drink markets.

(Source adapted from: <https://www.businessoffashion.com/news/china/tiktoks-parent-company-enters-chinas-perfume-market/>)

Q) Evaluate the level of contestability in the fragrance industry or another industry of your choice.

(25)

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Continue on separate paper if required.



MARK SCHEMES

official mark schemes



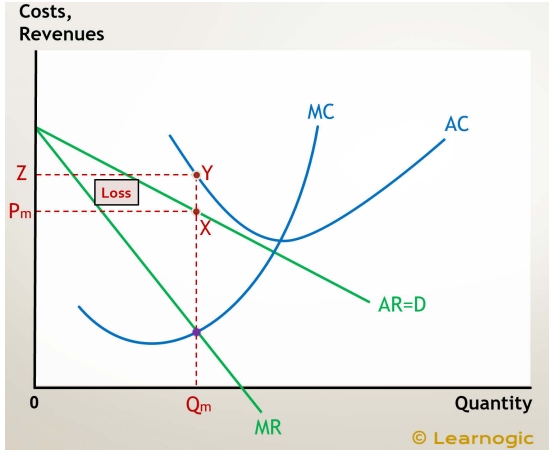
Question Number	Answer	Mark
5(a)	The only correct answer is A B is not correct because the candidate has divided by the new year rather than the original year C is not correct because the candidate has looked at the difference in quantity sold between 2014 and 2015 rather than answering the question between 2011 and 2015 D is not correct because the candidate has looked at the decrease in the quantity of PC's not the percentage decrease	(1)

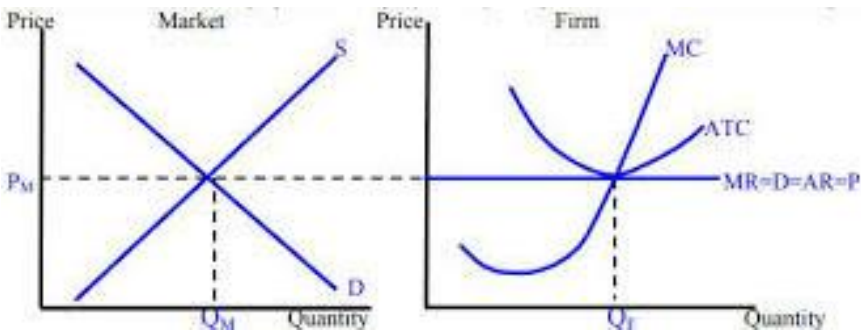
Question Number	Answer	Mark
5(b)	Knowledge 1, Analysis 1 Knowledge: 1 mark for likely reason in the decrease in sales of PCs e.g. • Development of substitutes such as Tablets or iPads or iPhones (1) • Fall in global real incomes (1) • Fall in price of substitutes (1) Analysis: 1 mark for linked development e.g. • Tablets are more convenient to carry round (1) • New technology in other personal devices so becoming more powerful in their functions (1) • Fall in global incomes means that consumers are less likely to buy normal goods such as PCs (1)	(2)

Question Number	Answer	Mark
5(c)	Application 2 Application 2 1 mark for appropriate calculation /formula e.g. the sum of 5 largest figures = 190 239 (1) $\frac{190\,239 \text{ (million)}}{276\,700 \text{ (million)}} \times 100$ Answer = 68.8% (Accept between 68% and 69%) Award 2 marks for correct answer (68.8)	(2)



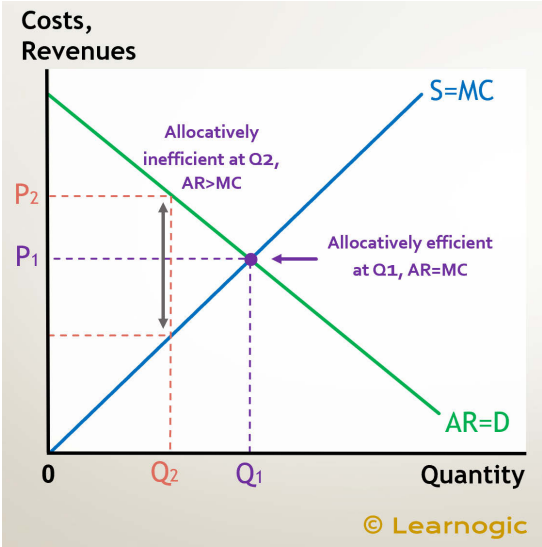
Question Number	Answer	Mark
3(a)	Application 1 The only correct answer is D A is not correct because -3.4 suggests an inferior good B is not correct because -0.74 suggests an inferior good C is not correct because $+0.74$ suggests a normal good which is a necessity	(1)

Question Number	Answer	Mark
3(b)	Knowledge 2, Application 2  Identification of profit maximising equilibrium where: ○ Downward sloping AR and MR (1) ○ AC above AR (1) ○ $MC=MR$ (1) ○ Area of loss (1)	(4)

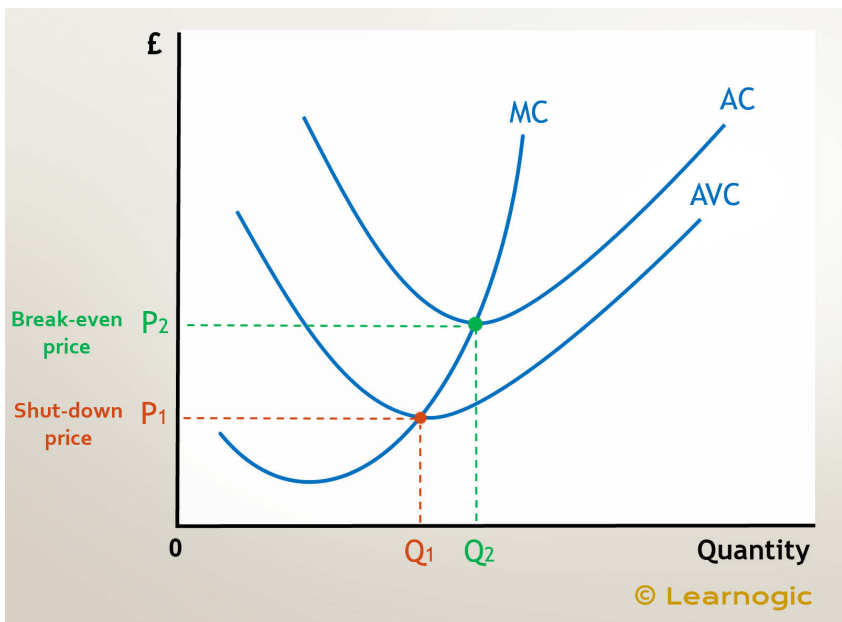
Question Number	Answer	Mark
5(a)	Knowledge 2, Application 2 Knowledge - Market equilibrium price (1) - Horizontal demand for the firm, taking the market equilibrium price (1) Application - Profit maximisation output and price for the firm (1) - Normal profit identified at the profit maximising output/(ATC=AR) (1) 	(4)

Question Number	Answer	Mark
5(b)	Analysis 1 The only correct answer is B <i>A is not correct because the firm is not operating at its minimum point on the AC curve</i> <i>C is not correct because $P=MC$ so the firm is allocatively efficient</i> <i>D is not correct because of the reasons given in A and C.</i>	(1)

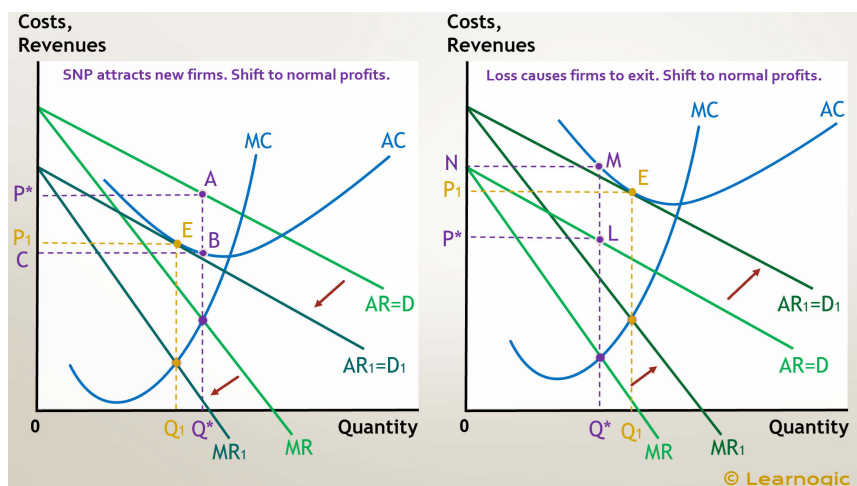


Question Number	Answer	Mark
6(a)	Knowledge 1, Application 2, Analysis 2 Knowledge and Analysis: (up to 3 marks) - Allocative efficiency is when the goods and services produced are those that consumers most desire - Occurs when the marginal utility to consumers of consuming a good or service equals the marginal cost of producing it - It is likely to improve - Achieved where price/AR equals MC - More optimal distribution of resources is achieved - Maximisation of consumer welfare - Increased competition in market - Increased concentration in some digital markets may worsen allocative efficiency - Reward a relevant diagram e.g.  Application: up to 2 marks for e.g. - Consumers now have greater choice - Access to higher quality products - Lower prices - E.g. fashion clothing, language tuition, digital banking, online retailing, computer games, mobile apps - Time saved by online banking compared to going to a branch	(5)



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.
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 • 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	Answer	Mark
3(a)	Analysis 1 The only correct answer is D A is not correct because there is some differentiation in monopolistic competition aided by advertising and research B is not correct because there are many firms in a monopolistic competition market C is not correct because goods are not necessarily homogenous in monopolistic competition and some degree of products being heterogeneous is likely to be evident	(1)

Question Number	Answer	Mark
3(b)	Knowledge 2 Application 2 AC shown tangential to downward sloping AR curve (2) followed by: Identification of the profit maximising equilibrium price and output where $MC=MR$ (1) AC=AR shown at the profit maximising equilibrium (1)	(4)

Question Number	Answer	Mark
1(a)	Knowledge 2, Application 2, Analysis 1 Knowledge and analysis 3 marks for identifying market structure and relevant features. Points might include: • Monopolistic competition or highly competitive (1) • Many small sellers in the market (1) • Low price setting power (1) • Firms sell differentiated goods (1) • Normal profit/low profit margins as a sign (1) of low barriers to entry/exit (1) • Allow up to 2 marks for diagrammatic analysis Application: 2 marks for data (1+1 or 2): point might include: • there are many firms 10 000 to 20 000 (1) • cheap, low skill labour are possibly migrants (1) • low level of capital required (1) • everyone paying the same £5 (1) • some offering inside and out washes (1) / similar car washing at each provider (1) • Availability of cheap premises make market entry easier (1)	(5)



Question Number	Answer	Mark													
4(a)	Knowledge 2 Application 2 1 mark for the Pilgrim’s revenue gain of e.g. \$361 million for charging a collusive high price with Tyson (High Price/High Price) 1 mark for Low Price/Low Price revenue gain being lower than High Price/High Price e.g. Pilgrim’s \$300 million<\$361 million 1 mark for first mover revenue gain being higher than High Price/High Price or Low Price/Low Price e.g. \$500 million > \$361 million 1 mark for second mover revenue being less than High Price/High Price and Low Price/Low Price e.g. Tyson’s \$200 million Diagram required e.g. <table><tr><th colspan="2" rowspan="2">Revenue \$ million</th><th colspan="2">Pilgrim’s</th></tr><tr><th>High price</th><th>Low price</th></tr><tr><th rowspan="2">Tyson</th><th>High price</th><td>361 361</td><td>500 200</td></tr><tr><th>Low price</th><td>200 500</td><td>300 300</td></tr></table> © Learnogic	Revenue \$ million		Pilgrim’s		High price	Low price	Tyson	High price	361 361	500 200	Low price	200 500	300 300	(4)
Revenue \$ million				Pilgrim’s											
		High price	Low price												
Tyson	High price	361 361	500 200												
	Low price	200 500	300 300												
N.B Valid alternative figures or responses can be used, including profit. N.B. award a maximum of three marks if the rationale for the second mover is inconsistent															



Question Number	Answer	Mark
4(b)	Analysis 1 The only correct answer is D <i>A is incorrect as tacit is the opposite to overt</i> <i>B predatory pricing aims to price below AVC to destroy a competitor rather than cooperate with them</i> <i>C Price war aims to steal customers from a competitor rather than cooperate with them.</i>	(1)

Question Number	Answer	Mark
5(a)	Knowledge 1 The only correct answer is C <i>A is not correct because this would involve merging with a supplier</i> <i>B is not correct because this would involve merging with a consumer</i> <i>D is not correct because this is external not internal growth</i>	(1)



Question Number	Answer	Mark												
5(a)	Knowledge 2 Application 1 Analysis 1 The market structure is oligopoly (1) • Few dominant firms (1) • High concentration ratio (1) • Four/five firms more than 50% (1) • High barriers to entry (1) • Interdependence (1) • Lloyds is market leader (19.5%) (1) • Two marks for a correct calculation of the concentration ratio: <table><tr><td>Two firm</td><td>32.2%</td></tr><tr><td>Three firm</td><td>43.3%</td></tr><tr><td>Four firm</td><td>54.2%</td></tr><tr><td>Five firm</td><td>64%</td></tr><tr><td>Six firm</td><td>71.2</td></tr><tr><td>Seven firm</td><td>75.1</td></tr></table>	Two firm	32.2%	Three firm	43.3%	Four firm	54.2%	Five firm	64%	Six firm	71.2	Seven firm	75.1	
Two firm	32.2%													
Three firm	43.3%													
Four firm	54.2%													
Five firm	64%													
Six firm	71.2													
Seven firm	75.1													
		(4)												

Question Number	Answer	Mark
5(b)	The only correct answer is C A is not correct because they have miscalculated by using $1601/19.5$ B is not correct because they have selected the wrong market share thus calculating $1601/12.7$ and wrong miscalculation D is not correct because they have miscalculated using $1601/0.195$	(1)

Question Number	Answer	Mark
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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		Mark
1(a)	Knowledge 2, Application 2, Analysis 1 Knowledge/understanding and analysis: Oligopoly (1) OR Legal monopoly (1) OR Monopoly only if monopoly POWER is implied e.g. using CR calculation (1) OR Duopoly only if duopoly POWER is implied e.g. using CR calculation (1) AND Understanding of market structure identified, e.g. a market <i>dominated by</i> a few firms, or <i>interdependent</i> (1) Explanation of the process linking to the market structure to the action of firms e.g. high concentration means that firms may exhibit collusion, price rigidity, use of non-price competition, profits are not competed away (1) Application (1+1): 2 marks for data references from Figure 1 and other sources (at least 1 mark must be related to Figure 1) e.g. Others 29% • Concentration ratio calculation e.g. 2 firm CR is 44% 3 firm CR is 53% 4 firm CR is 60% 5 firm CR is 66% 6 firm CR is 71% (2) • Costa (31%) is >25% market share (2) • Strong brand names, brand logos e.g. Caffè Nero and Costa (1) have been dominating the UK market Fig. 1/Extract A (1) • Market power is likely to be high (1) with reason e.g. consumer loyalty (1) shown in Figure 3 as price differences tolerates/illustrate market power (1) coffee has price inelastic demand (1) so people are prepared to pay more (1)	(5)



Question Number	Answer	Mark
1(a)	Knowledge 2, Application 2, Analysis 1 NB an answer which sees highly concentrated as having a large number of firms will not earn knowledge or analysis marks Knowledge and analysis: 3 marks for e.g. • Identification of high concentration - high market share of some firms (1) few large firms dominate (1) uncompetitive (1) • Identification of market structure - there is a <i>legal</i> monopoly (Walkers) OR oligopoly OR duopoly (1) • Firms can set prices (1) control output (1) / monopoly power (1) • Interdependent (1) • High barriers to entry/exit (1) low contestability (1) Application: 2 marks for data references e.g. • Walkers have over 50% of market share (1) • Use of concentration ratio e.g. 2 firm CR 78.0% (2), 3 firm CR 82.2% (2) • Extract A refers to ban making market more competitive (1) implying prices are currently uncompetitive/high (1) • Extract A – high levels of advertising (1) • common features: they tend to be dominated by a small number of firms that sell multiple brands and that heavily advertise their products (1) NB Concentration ratio calculation can be awarded as analysis or application Award a maximum of 1 application mark if there is no reference to Figure 1 or Extract A	(5)



Question Number	Answer	Mark
6(a)	Knowledge 1, Application 2, Analysis 2 Three-firm concentration ratio is the sum of the largest market share of the biggest three firms as a proportion of the whole market (1) Calculations e.g. • $2681+1025+648 = 4354$ (1) • $50+40+30+3748 = 3868$ (1) • 8222 (1) • $4354/8222$ (1) = 0.53 Answer = 52.96% Award 5 marks for correct answer (52.96) N.B. allow 52-53 or 0.53:1 (5) N.B. Maximum of 4 marks if no correct answer given e.g. 0.53 (4)	(5)



Question Number	Answer	Mark																																				
6(a)	Knowledge 1, Application 2, Analysis 2 Knowledge 1 mark for identification of market structure - oligopoly (1) - monopoly/legal monopoly (1) Application - up to 2 marks for calculation of the concentration ratio using any e.g. <table><tr><td></td><td>Q2 2021</td><td>Q3 2021</td><td>Q4 2021</td><td>Q1 2022</td><td>Q2 2022</td></tr><tr><td>2-firm</td><td>53.9</td><td>58.8</td><td>64.3</td><td>41.2</td><td>47.4</td></tr><tr><td>3-firm</td><td>68.9</td><td>70</td><td>71.6</td><td>52.2</td><td>58.5</td></tr><tr><td>4-firm</td><td>80.2</td><td>80.5</td><td>77.3</td><td>61.6</td><td>68.4</td></tr><tr><td>5-firm</td><td>84.2</td><td>86</td><td>82.9</td><td>70.8</td><td>74.3</td></tr><tr><td>6-firm</td><td>88.2</td><td>89</td><td>87.9</td><td>76.8</td><td>78.8</td></tr></table> - Prime Video (1) in Q2 2022 was 25.9% (1) Analysis 2 marks for a linked explanation (1+1) e.g. - Market dominated by a few large firms (1) - Interdependence (1) - High barriers to entry (1) - Non-price competition (1) - Large price setting power (1) - Market share in excess of 25% (1)		Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	2-firm	53.9	58.8	64.3	41.2	47.4	3-firm	68.9	70	71.6	52.2	58.5	4-firm	80.2	80.5	77.3	61.6	68.4	5-firm	84.2	86	82.9	70.8	74.3	6-firm	88.2	89	87.9	76.8	78.8	(5)
	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022																																	
2-firm	53.9	58.8	64.3	41.2	47.4																																	
3-firm	68.9	70	71.6	52.2	58.5																																	
4-firm	80.2	80.5	77.3	61.6	68.4																																	
5-firm	84.2	86	82.9	70.8	74.3																																	
6-firm	88.2	89	87.9	76.8	78.8																																	



Question Number	Indicative content	Mark
6(c)	Knowledge 2, Application 2, Analysis 2 Information gaps as main cause of consumers failing to switch ➤ Consumers lack market information on the price of their landline bill in relation to other providers ➤ Main target audience (the elderly) lacks the knowledge to shop around online and use price comparison sites ➤ Switch to online billing and direct debit payments means many households are unaware ➤ Automatic price changes made by BT ➤ Hard to compare prices as all bundles comprise of different services ➤ Lack of awareness of competitor prices and packages Irrational behaviour as main cause of consumers failing to switch ➤ Computation issues e.g. consumers do not understand their pricing structure ➤ Habitual behaviour/status quo bias/brand loyalty e.g. consumers may have a tendency to purchase the same service over time ➤ Consumers do not have the time to shop around or look for better deals ➤ Consumers want to avoid the disruption of changing provider ➤ Strong brand of BT leading to an inelastic demand Other factors could be causing this: ➤ Misleading advertising or price plans ➤ Lack of provision in all areas e.g. fibre optic or bundles ➤ Tie in contracts & automatic renewals ➤ Information overload ➤ Size of savings may not be significant enough to go through switching ➤ Line quality may vary so not similar packages/non-price considerations make BT offer the best. NB For Level 3 response candidates need at least two reasons but are not required to use both 'information gaps' and 'irrational behaviour'. NB There may be overlap between information gaps and irrational behaviour as reasons.	(6)



Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no link between causes and consequences.
Level 2	3–4	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or the answer may lack balance.
Level 3	5–6	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are applied appropriately to the broad elements of the question.

Question Number	Indicative content		Mark
6(c) continued	Evaluation 4 - Counter arguments made to the reasons raised - Significance of the reasons provided - Consideration of whether it is rational to assume that consumers seek to maximise utility in allocating their expenditure - Long run information gaps may narrow and irrational behaviour may reduce e.g. improved price plan information & actions of the regulator		(4)
Level	Mark	Descriptor	
	0	No evaluative comments.	
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/ reference to context. No evidence of a logical chain of reasoning.	
Level 2	3–4	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.	

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



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



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

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



Question Number	Indicative content		Mark
1(c)	Knowledge 2, Application 2, Analysis 4 - Firms are interdependent so they will respond in the face of what other firms might do - Firms may not reach the same outcome as if they operated alone - Firms are cutting prices because they want to expand market share/steal other firms' markets - All firms responding in this way means that firms make less profit overall - Effects of advertising ban may make market more contestable, with possible effects on entrant - Price cuts could be a form of limit pricing, i.e. reducing contestability (effects on possible entrants may be shown) Game theory e.g. a payoff matrix or kinked demand curve to illustrate behaviour, for example cartel-like or collusive behaviour, price leadership NB to access Level 3 there must be correct use of game theory and application to the data.		(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 - Firms such as Walkers have significant market share and brand loyalty, even if competition lower price they may not switch - Use of context to show that firms are cutting prices because of a regulation and not because of the actions of other firms. No sign of interdependence. - Size of market shrinking overall so behaviour more aggressive - Firms setting low prices in a long run equilibrium might not be the best option for the firms or other stakeholders. - Advertising ban affects children mainly - so price competition less needed for older target audiences that can still be targeted. - Reference to only 10% loss in sales compared to 15% - still a large impact on firms (Extract A).		(4)
Level	Mark	Descriptor	
	0	No evaluative comments.	
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.	
Level 2	3–4	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.	



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



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



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

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



Question Number	Indicative content	Mark													
1(c)	Knowledge 2, Application 2, Analysis 4 Points might include: Evidence of collusion: • Acting as a cartel • Signs of price fixing • High prices being charged • Increasing prices faster than the rate of inflation • Similar trends/patterns in when changing prices (tacit/price leadership) • Higher profits (8%) on fuel for supermarkets • High margins (22p a litre) when whole prices fall • Few large supermarkets/high concentration ratio • Figure 1: price per litre of unleaded petrol increased • Morrisons admitted, others denied (Extract C) • CMA investigation and report • Large amounts of non-price competition between supermarkets e.g. loyalty cards • Game theory e.g. payoff matrix applied to context, e.g. <table border="1"><tr><th colspan="2" rowspan="2">Payoff matrix (profits)</th><th colspan="2">Tesco</th></tr><tr><th>High price</th><th>Low price</th></tr><tr><th rowspan="2">Asda</th><th>High price</th><td>£90m / £90m</td><td>£120m / £40m</td></tr><tr><th>Low price</th><td>£40m / £120m</td><td>£60m / £60m</td></tr></table> © Learnogic Allow kinked demand, <i>although not required</i> NB an answer which does not include reference or evidence of game theory is limited to Level 2. The diagram/matrix must show evidence of collusion NB KAA could be evidence there is collusion, and EV as not collusion, or vice versa	Payoff matrix (profits)		Tesco		High price	Low price	Asda	High price	£90m / £90m	£120m / £40m	Low price	£40m / £120m	£60m / £60m	(8)
Payoff matrix (profits)				Tesco											
		High price	Low price												
Asda	High price	£90m / £90m	£120m / £40m												
	Low price	£40m / £120m	£60m / £60m												



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 No evidence of collusion: • A price comparison checker might solve the issue as it could transparency: seen as a success in NI • CMA investigation might lead to changes resulting in greater competition and a fall in petrol prices • Figure 1: Falling oil prices might show that these supermarkets are not fixing prices • Not collusion - might be price leadership or sticky prices • Not collusion - just affected by same costs and trends e.g. wholesale prices and inflation • Not collusion - more just the nature of competition, ensuring they are competitive against rivals • CMA action/fines is too big a deterrent, so unlikely to be collusion	(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.



Question Number	Indicative content	Mark													
8	Knowledge 4, Application 4, Analysis 8, Evaluation 9 • Definition of collusion • Recognition of the concept of interdependence likely to exist in an oligopolistic market structure • Identification of the format in which collusion may take Likely reasons: • Reduce the level of competition & the cost of direct competition e.g. – marketing or price wars • Increase revenue and joint profit maximisation • Use of game theory and pay off matrix to show the benefits of collusion v competition, e.g <table><tr><th colspan="2" rowspan="2">Payoff matrix (Revenue)</th><th colspan="2">Firm A</th></tr><tr><th>High price</th><th>Low price</th></tr><tr><th rowspan="2">Firm B</th><th>High price</th><td> £7bn£7bn </td><td> £9bn£2bn </td></tr><tr><th>Low price</th><td> £2bn£9bn </td><td> £5bn£5bn </td></tr></table> © Learnogic • To restrict choice and increase price setting power • To enable the cost of regulations & taxation to more easily be passed on to the consumer • To protect market share/dominance against new entrants and rivals • To reduce uncertainty within the market • To control supply • Higher producer surplus and shareholder value • Market rigging to allocate work between contractors • Anti-competitive practices to restrict access to the supply chain • Poor regulation/asymmetric information/regulatory capture so lack of detection/difficult to find evidence of tacit collusion. NB for a Level 4 response, candidates must refer to a specific INDUSTRY in their answer.	Payoff matrix (Revenue)		Firm A		High price	Low price	Firm B	High price	£7bn£7bn	£9bn£2bn	Low price	£2bn£9bn	£5bn£5bn	
Payoff matrix (Revenue)				Firm A											
		High price	Low price												
Firm B	High price	£7bn£7bn	£9bn£2bn												
	Low price	£2bn£9bn	£5bn£5bn												



	Evaluation • Likely problems that may occur: Illegal nature of collusion – risk of fines & criminal prosecution Impact on brand image Risk of cheating/breakdown of the agreement Risk of complacency and a lack of innovation – leading to x inefficiency/lack of competitiveness/threat from new entrant • Effectiveness of the collusion will depend on: Number of firms involved Relative size of firms Degree of trust Levels of barriers to entry PED of product demand Chances of whistleblower behaviour Level and effectiveness of regulation • Debate over whether it is collusion or simply the nature of oligopoly markets e.g. airline industry share safety features and check-in desks • Relative significance of arguments made • Use of contrasting examples to highlight significance • Collusive behaviour often breaks down, using pay-off matrix. • Non-collusive reasons for price stability e.g. price leadership • Arguments that it could bring benefits e.g. – the survival of a declining industry/benefits to consumers and others - This point can count as KAA	(25)
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Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	5–8	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two stage chains of reasoning only.
Level 3	9–12	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	13–16	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.
Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
Level 3	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.



Question Number	Indicative content	Mark
8	Knowledge 4, Application 4, Analysis 8, Evaluation 9 • High concentration ratio – Oligopoly market structure/Monopoly power/Monopsony power • Decisions to erect/maintain high barriers to entry and exit • Interdependence of firms – use of game theory in decision making • Price leadership • Collusive and non-collusive behaviour • Product differentiation • Types of price competition – predatory pricing, limit pricing • Types of non-price competition • Monopoly power – limiting choice, profit maximising, price discrimination • Monopsony power – reducing producer surplus of suppliers The role of competition in business decision making • Profit maximisation • Alternative business objectives • Mergers and take-overs • Revenue, Costs and Profits in different market structures • Pricing and output decisions of firms in different contexts Evaluation • Fines/Regulations by Government/Regulatory bodies curtails business decision making • Regulatory capture • Asymmetric information • Price wars/limit pricing acts as a surrogate for competition • Non-price competition acts in consumer interest – technological advances/customer service. • Wider benefits from new industry giants e.g. Amazon/Google – tax revenue, employment, market for SME's, re-investing profits • Loss of dynamic efficiency gains from incumbent dominant firms • CMA/EC preventing mergers/forcing demergers NB a diagram is not required NB KAA may be used as EV and vice-versa NB for Level 4 the candidate must refer to a specific industries.	(25)



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.
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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.

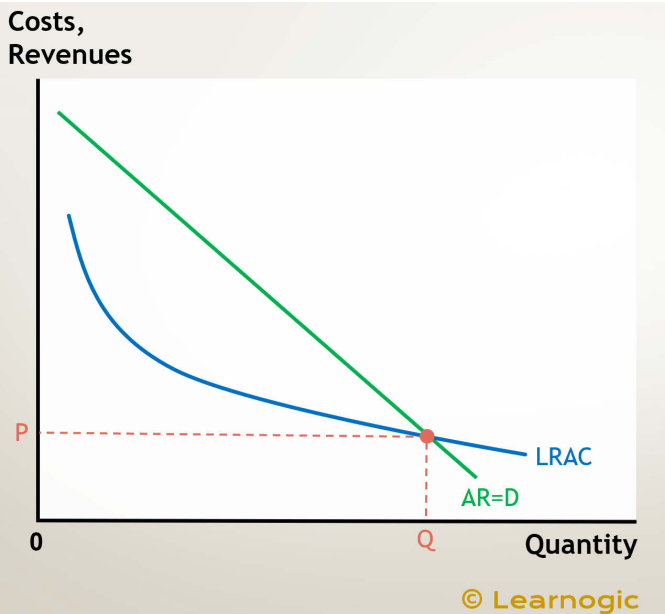


Question Number	Answer	Mark
3 (a)	Knowledge 2, Application 2 Knowledge - Profit maximisation price identified for students (P_a) (1) - Profit maximisation price identified for non-students (P_b) (1) Application - Profit identified for students (1) - Profit identified for non-students (1)	(4)

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	Indicative content	Mark
6(d)	Knowledge 2, Application 2, Analysis 4 Case for rail network being a natural monopoly - Define natural monopoly - Application – rail network was renationalised in 2001 after privatisation in 1993 promised competition. Need for integrated national rail network of 32 000km for 2 500 stations, requires enormous investment. - Large infrastructure cost means adding one more passenger or one more train means AC continues to fall. - Little additional costs associated with an additional customer or train running. - Operating one rail track minimises average costs, rail network's LRAC continues to fall as high fixed costs associated with laying track and building new stations. - Allocative efficiency is met at close to large share of market demand. Minimum efficiency scale will require large subsidies to fund off peak services and cover losses. - Average cost would be very high for having two or more rail companies with wasteful duplication of multiple tracks – resulting in higher rail fares. - Allow relevant diagram e.g. 	

	Only one rail network company can fully exploit large internal economies of scale – technical, commercial, managerial. NB: Case for can be seen as KAA and positive case against 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.
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 Case for rail network not being a natural monopoly • Government support for competition: “companies can bid to build new rail lines to upgrade the railway.” • Train operating companies already compete to run trains on lines • Rail lines and stations could be leased out to competing firms • Potential diseconomies of scale in rail infrastructure – managerial slack, closure of rail lines. • Technological advances may result in competing rail lines. NB: Case for can be seen as KAA and positive case against as evaluation or vice versa.	(4)

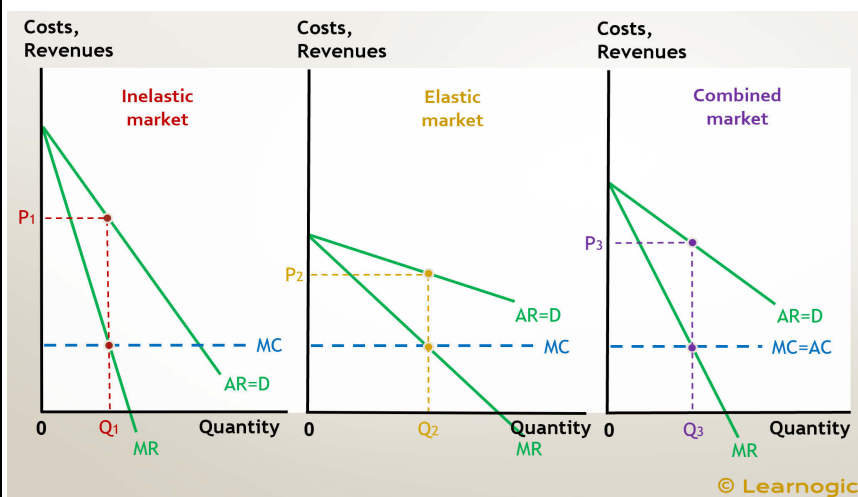
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evaluative comments supported by relevant reasoning and appropriate reference to context.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



Question Number	Indicative content	Mark
6(e)	Knowledge 3, Application 3, Analysis 3 Price discrimination – charging different prices to different groups of consumers for the same service e.g. 16-25 railcard users vs adult fare users. Allow peak and off-peak as service from A to B is the same, price discrimination just provides an incentive to travel slightly later. Lower rail fares for 16-25 year olds Young persons' may increase their consumer surplus as a result – prices may move towards being more allocatively efficient $P=MC$. May find bargain fares - £35.80 cheaper as in Figure 3. Allows lower income groups to consume service – seek employment. More choice for rail travellers: Price discrimination enables TOCs to make more revenue so they can cross subsidise and provide discount fares for seats that would not have been taken. In some cases without price discrimination rail operators may go out of business – preventing rail travel. Avoids overcrowding Rail operators can use price discrimination to manage demand, preventing overcrowded train in peak travel times and encouraging rail travel by 16-25 year olds in less popular times off peak. Improved customer service Rail travellers receive a better-quality travelling experience thanks to additional revenue raised through price discrimination. Investment in new trains, station services, online ticketing, customer information, Improved food and drink service, Wi-Fi access, seating and storage space.	



- **Price discrimination diagram** showing, for example: Market profit maximising price and output P_3 and Q_3 . At which no service would be provided for 16-25 year old customers. Price discrimination enables a lower price of P_2 (£69.50) for young persons' – so consumer surplus increases for consumers with relatively more price elastic demand



NB: Other correct diagrams accepted.

NB: For Level 3 a valid diagram such as above is required. Analysis must link to benefits to consumers. Allow other types of rail fare price discrimination e.g advance booking, Senior Railcard, 16-17 year olds half price travel.

(9)

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



Question Number	Indicative content	Mark
6(e) continued	Evaluation 6 • Rail operators are price regulated so not pure price makers • Cuts in number of guards may mean adults travel illegally. • Higher rail fares for adults £105.30 in Figure 3 (£35.80 more than 16-25 year olds) resulting in fall in consumer surplus and less allocatively efficient pricing. Overall consumer surplus may be lower. • Despite price discrimination consumers are suffering train cancellations and government is having to rescue rail operators making large losses. • Overcrowding happens on off peak trains – so government/rail operators have no incentive to continue offering young persons' discount. • Deteriorating customer service despite price discrimination. Rail operators using additional revenue to pay out dividends or executive pay rises. • Are rail operators/government aware of PEDs for different groups of consumers.	(6)

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



Question Number	Indicative Content	Mark
6(e)	Knowledge 3, Application 3, Analysis 3 - Understanding of price discrimination - Use of data - same online streaming service but at a different price - Student v Adult prices at Amazon - Different countries charged different prices at Netflix e.g. India (lower prices) v UK (higher prices) - Conditions necessary for price discrimination to operate - Explanation of increased revenue following identification of different PED given same cost structure leads to higher profit - Adults/UK - demand is more inelastic so willing to pay more and respond less to price rises - Students/India - demand is elastic and more responsive to change in prices/will pay a lower price - Netflix became a 100 billion dollar company in 20 years - Identification of higher profit areas on diagram - Comparison of firm's total SNP with and without price discrimination Diagram e.g. (NB a 2 sub-market elastic/inelastic diagram is acceptable) NB For level 3 KAA answers must include a relevant diagram and reference to online streaming services NB Analysis must link to impact on firm's profits NB Other correct diagrams accepted e.g. with kink	(9)



	for combined market AR and MR	
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Level	Mark	Descriptor
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Question Number	Answer	Mark
8	Knowledge 4, Application 4, Analysis 8, Evaluation 9 - Understanding of monopoly (may be implicit). This may include natural monopoly or state imposed monopoly - Use of data e.g. Apple has 38% market share which exceeds CMA definition of 25% market share. - Understanding of operating in consumer interest: for example, impact on price, choice, product quality, customer service, improves allocative efficiency and investment. - Market structure diagram made relevant to argument presented: this is most likely to be a monopoly diagram. Costs, Revenues One firm may operate in consumer interest since: - Limit pricing/may act as a surrogate for competitive pricing. Revenue/sales maximisation may move closer to allocative efficient pricing and output. - Super normal profits may result in dynamic efficiency gains e.g. choice, product quality, customer service and investment.	

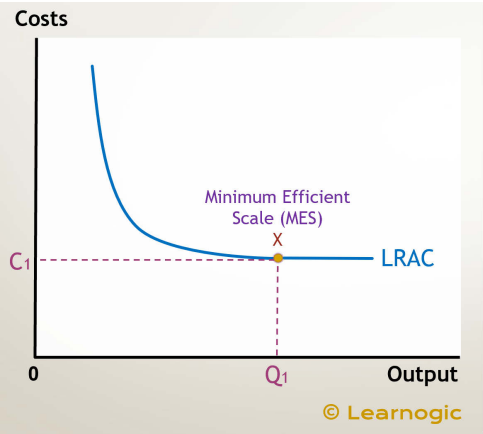
	- Economies of scale resulting in lower cost passed on as lower prices One firm may operate against consumer interest since: - Consideration of profit maximisation pricing strategy as opposed to lower prices set in a competitive market. - There may be greater possibility of collusion (overt or tacit) due to the high market share. - One firm may use its market power to increase entry barriers e.g. for Apple by locking their phones and thus, reduce consumer choice. - Consideration of product quality or customer service. No significant innovation, quality updates or features added, but price has risen. Loss of consumer surplus/dead weight loss of monopoly argument. - X inefficiency resulting in higher costs and higher prices. NB: For a Level 4 response, candidates must include an accurate diagram NB: Candidates can argue that one company acts in the consumer interest as KAA, and against consumer interest as evaluation or vice versa. Evaluation - Real price increases of products may be due to higher wholesale costs / production costs or an increased global demand. - It depends on how powerful the other firms are in the market. E.g. competition may make firm compete effectively even in a oligopoly or duopoly. - Depends on the effectiveness of regulation by CMA. - Depends on the objective of the firm.	
	- Depends on how contestable the market is e.g. New entrant such as China's Huawei has recently joined the smartphone market and is expected to gain a large market share, offering new consumer choice. - Higher market share can benefit the consumers via lower prices (efficiency savings / scale economies can be passed on). - Higher profits could lead to higher investment producing innovative and high quality products	(25)



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.



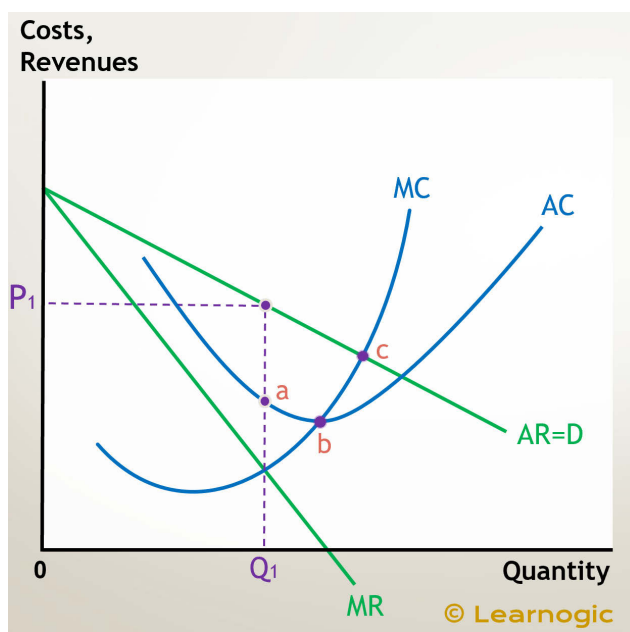
Question Number	Indicative content	Mark
7	Knowledge 4, Application 4, Analysis 8, Evaluation 9 Definitions of efficiency: • Productive (lowest point of AC) • Allocative ($P=MC$) • Dynamic (technical – LRAC shifting down) • X-inefficiency (organisational slack – higher AC) • Social efficiency ($MSC=MSB$) Case For • Productive efficiency – larger economies of scale, types of economies of scale e.g. purchasing, monopsony power to reduce costs, minimum efficient scale, natural monopoly Diagram e.g.  • Allocative efficiency - Lower prices (limit pricing) and good customer care deter potential entrants, acts as a surrogate for competition • Dynamic Efficiency - profits re-invested into cost-lowering investment, product innovation may increase AR NB a diagram is not required for Level 4 NB For Level 4 the candidate must refer to at least one monopoly.	(25)

Evaluation

Case against

- X-inefficiency –organisational slack due to managerial complacency as a result of lower competition
- Allocative inefficiency –monopoly power that makes them price makers and allows them to charge higher prices (less welfare max)
- Productive inefficiency – profit maximising,
- Dynamic inefficiency might not reinvest but give profits to shareholders in the firm on higher dividends, principal agent problem
- Degree of monopoly power – ability of consumers to switch to alternatives
- Government intervention – price caps, tax
- Government intervention damages efficiency, regulatory capture, strength of regulator

Diagram e.g.



Monopoly price P_1 is not productively efficient as output is at point a and not the lowest point on the AC curve, point b. Monopoly price P_1 is not allocatively efficient as the price is not equal to MC (point c) resulting in a dead weight welfare loss.

NB Monopoly not operating efficiently can be seen as KAA and efficiently as evaluation or vice versa. Diagram not required.



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.
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Evaluation		
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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
6(b)	Knowledge 2, Application 2, Analysis 4 • Definition of monopsony • Food prices likely to fall Effects on food suppliers might include: • Financial problems from delays in receiving payments from supermarkets (Extract A) • Lower prices mean a reduction in revenue and profits • Increased costs due to paying excessive amounts for packaging and promotions. • Losses may even be made • Pressure on suppliers to cut costs • Fall in employment • Some food suppliers may exit the industry • Less funds for investment • Risk that suppliers will reduce product quality • Figure 2 indicates some supermarkets abused their market power e.g. Tesco and Morrisons. Effects on consumers might include: • Lower prices mean higher consumer surplus • Impact on food waste • Impact of cost cutting measures on quality of food and consumer choice. NB for a Level 3 response, candidates must consider both food suppliers and consumers in their answer. Answers must refer to the context.	(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	Answer	Mark
6(b) continued	Evaluation 4 • Food suppliers may be able to increase efficiency and so remain profitable and stay in the industry. • Supermarkets may be reluctant to use their monopsony power for fear of GCA, government investigation and possible fines up to 1% of sales revenue. • Consumers may not benefit since supermarkets may not pass on lower costs in the form of lower prices. • Supermarket sector may not be a monopsony as there is more than one buyer –so perhaps less power over food suppliers. • According to Figure 2 some supermarkets may not abuse their position e.g. Aldi and Sainsbury. • Long term implications: exit of firms may risk supplies to consumers. • Consideration of bilateral monopoly e.g. large food supply firms or cooperatives. • Food suppliers may diversify e.g. farm shops. • Food suppliers may undertake vertical integration.	(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.



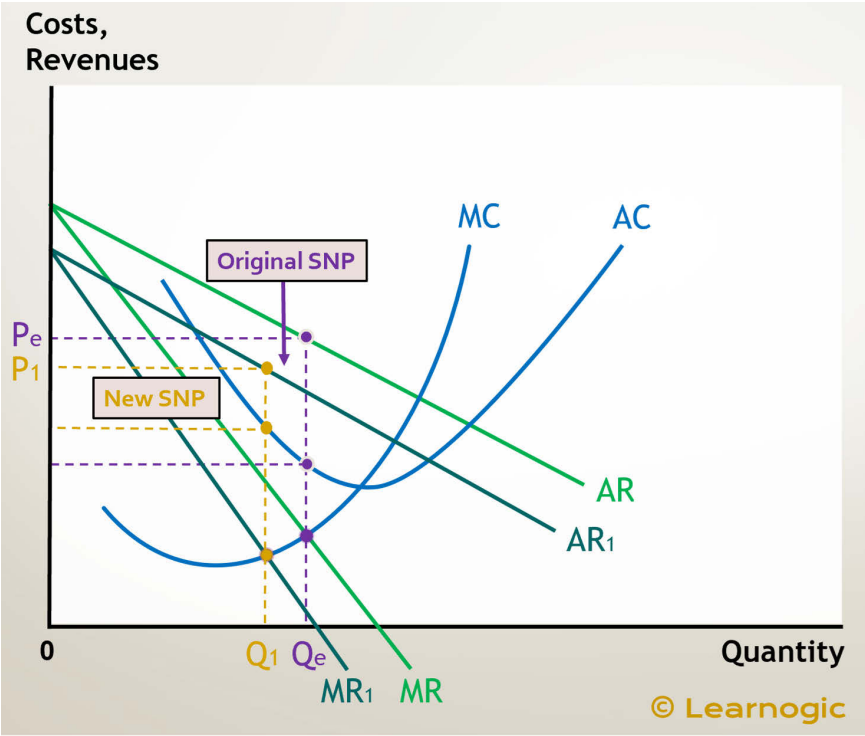
Question Number	Indicative content	Mark
8	Knowledge 4, Application 4, Analysis 8, Evaluation 9 • Definition of monopsony – single dominant buyer or bargaining power in their market • Identification of monopsony abuse • Explain the reason why suppliers will receive a lower price and/or lower sales • Cost to supplier – lower price, less revenue, less abnormal profit, reaching shut down point, less producer surplus, less finance for investment, 'delaying their delivery, raising their prices, and steering customers to other publishers' in the case of book publishers facing Amazon. • Cost to consumers – less choice, monopsony power may result in monopoly power so consumers do not benefit from lower prices passed on. • Cost to employees at supplier firms - wage cuts, job losses. NB: for a Level 4 response, candidates must refer to a specific MARKET in their answer. Evaluation • Difficult to assess the strength of monopsony power – buyers may make strategic partnerships with suppliers/other dominant buyers may exist or emerge/suppliers may work to establish their own monopoly power/bi-lateral negotiations. • Counterarguments made to the points raised • Lower prices for consumers, increased consumer surplus and choice. Monopsony acts as a counter-weight to the selling power of a monopolist. • Suppliers have a major buyer improving revenue, long term investment decisions, profit. • Monopsony firm benefits • Supplier and monopsony firm employees benefit • Government intervention to protect suppliers and employees	
	• Government intervention to promote competition and contestability • Monopsony might be buying books from large publishers so creates a bilateral monopoly.	(25)



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.

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	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	Indicative content	Mark
6(d)	Knowledge 2, Application 2, Analysis 2 • Understanding of contestability ○ Not the number of firms in the market but how they behave ○ The ease with which new firms can enter and exit the market ○ Threat of potential competition becoming actual ○ Hit-and-run competition ○ Potential threat of new entrants can drive existing firms to improve efficiency and offer better products or service • Market is unlikely to be contestable • Hard for new firms to enter • Examples of high barriers to entry and exit in the market e.g. ○ Brand loyalty e.g. EA and Sony ○ Sunk costs - 'video games can take up to five years to develop and cost over £150 million to produce' ○ High start-up costs - 'with 200 full-time employees working on the software' ○ Advertising/marketing costs ○ Legal barriers/intellectual property ○ Economies of scale of large firms ○ Specialist staff required (in shortage/high wage area) - 'Starting salaries for software developers can be £100 000' ○ High supernormal profits in market - 'Microsoft annual gross profit for 2023 was £146 billion, a 7.69% increase on 2022' ○ Distribution problems ○ Limit pricing • Use of data from Figure 1 to show dominance of large firms e.g. EA and Sony • Subscription model could be appealing giving access to all new releases. However, a smaller company may struggle to have enough games to be able to compete NB: candidates could argue why the market is unlikely to be contestable as KAA and why the market is contestable as evaluation (or vice versa)	(6)
Level	Mark	



Question Number	Indicative content	Mark
6(e)	Knowledge 3, Application 3, Analysis 3 Contestable meaning e.g. low barriers to entry or exit or low sunk costs The market is contestable because: • low barriers to entry e.g. - low start-ups costs as it is cheaper to rent shop floor - renting machines needed to make coffee rather than buying them - increasing threat of competition from independent coffee shops (Extract A line 11) - Greggs entry shows they just added chairs and menu range (Extract B line 5) • low sunk costs e.g. training baristas requires less expenditure • Coca-Cola takeover of Costa NB Coffee shop not being contestable can be seen as KAA and contestable as evaluation or vice versa NB for a Level 3 response there must be reference to the context of coffee shop market.	(9)

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



Question Number	Indicative content	Mark
6(e) continued	Evaluation 6 The market is not contestable because: • high barriers to entry e.g. - highly concentrated market with 3-firm CR nearly 53% implying strong brand image, - collusion and economies of scale making it difficult for small independents to enter and grow • some firms may face high rent costs if they are seeking a larger shop floor/central location • high sunk costs - big chains have finance to spend on promotion and advertising that smaller independent coffee shops won't be able to	(6)

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



Question Number	Indicative content	Mark
1 (d)	Knowledge 4, Application 4, Analysis 8, Evaluation 9 16 marks for KAA, for causes of the number of firms in an industry to change. Microeconomic causes may include: • nationalisation • privatisation • contestability • market power • economies of scale – natural monopoly • regulation and deregulation • oligopoly behaviour • barriers to entry e.g. factors linked to demand- tastes- preference for HCW over automatic, income, availability of substitutes- decline in automatics Macroeconomic causes may include: • economic growth – e.g. a growing market means more firms will enter • trade patterns • level of protectionism • government policies e.g. supply side policies • TNCs and FDI • unemployment (especially given recent events) • inflation- if inflation is high, costs rise and if unable to increase prices, then firms may exit the market • Level of environmental protection- adds to the costs and may reduce the number of firms. • Exchange rates - if appreciated - costs to import lower and export higher - exporters may exit the market • Relative poverty high and rising - more demand low costs HCW increasing demand and market size - more firms NB for a Level 4 response there must be micro and macro cause(s). Foreign direct investment, role of TNCs, or regulation could be seen micro or macroeconomics NB for a Level 4 response there must be reference to an industry	



	9 marks for evaluation – points might include: • Depends on the nature of the business. Another industry could be used as a contrast, e.g. a capital intensive industry • Depends on the LRAC and the minimum efficient scale in the current situation • Changes over time – barriers to entry or exit are likely to change e.g. in the face of new technology in car wash industry or other industry • Exchange rates go up and down so could equally depreciate • Environmental protection may create more demand as it is a more ethical service and not cause the number of firms to fall	(25)
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Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays ability to apply knowledge in context but will focus on small range of elements. Demonstrates understanding by identifying relevant information. Demonstrates knowledge and understanding of terms, concepts, theories and models.
Level 2	5–8	Shows ability to apply economic ideas and relate them to economic problems in context. Displays knowledge and understanding of economic principles, concepts and theories to make limited analysis or narrow analysis.
Level 3	9–12	Analysis is clear and coherent with evidence well integrated, although may focus on some of the broad elements of the question more than others. Shows ability to apply economic ideas and relate them directly to the broad elements in the question.
Level 4	13–16	Analysis is relevant, clear and coherent with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic effects. A clear understanding of economic principles, concepts, theories and arguments.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of evaluative comments without explanation.
Level 2	4–6	Evaluative comments with limited explanations. Evidence of evaluation of alternative approaches which is generic or unbalanced leading to limited judgements.
Level 3	7–9	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.



8	Knowledge 4, Application 4, Analysis 8, Evaluation 9 An industry is contestable when there is freedom of entry and exit into it. It is not the number of firms that is important, but the ease with which new firms can enter the market. This alters the behaviour of incumbent firms Not contestable – definition/understanding • High barriers to entry • Collusion • Highly concentrated market implies high barriers to entry • Strong brand names imply high sunk costs (advertising/ social media platform) to reach mass market • Entry only by well-established firms with finance to invest • High start-up mass production costs – large economies of scale • Profit maximising firm(s) dominate the market – abuse of monopoly/monopsony practices • Use of limit pricing/collusive practices by incumbents • Barriers to exit – sunk costs Evaluation Contestable – definition/understanding • Barriers to entry lowered – technological advances • Limit pricing suggestive of contestability • Products more homogenous – compete on price • Market more competitive – consumers prepared to switch, demand more relatively price elastic • Small scale production - may secure niche market/different market segments • Large incumbents making losses – vulnerable to new entrants • Barriers to exit lowered – rent land, capital, temporary labour contracts • Degree of contestability • Extent of hit-and-run competition • Easily available information on industry • Regulators may intervene to increase contestability N.B. KAA may be used as Evaluation and vice-versa N.B. For Level 4 KAA candidates must refer to a specific industry	(25)
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Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
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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.

