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EDEXCEL A ECONOMICS: QUESTIONS BY TOPIC

Government Intervention (Microeconomic) (3.6)

A Level Economics Theme 3

15 questions · 192 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
3.6.1 GOVERNMENT INTERVENTION		12 Qs · 130 marks	2
1. Q5(a)	A Level Paper 1 June 2022	1	3
2. Q5(b)	A Level Paper 1 June 2022	2	4
3. Q5(c)	A Level Paper 1 June 2022	2	5
4. Q5	A Level Paper 1 June 2022	5	6
5. Q6(c)	A Level Paper 1 June 2017	8	7
6. Q6(c)	A Level Paper 1 June 2018	10	11
7. Q6(c)	A Level Paper 1 October 2020	10	17
8. Q6(d)	A Level Paper 1 June 2024	12	22
9. Q6(e)	A Level Paper 1 June 2017	15	27
10. Q6(e)	A Level Paper 1 June 2019	15	33
11. Q8	A Level Paper 1 June 2019	25	39
12. Q8	A Level Paper 1 October 2020	25	43
3.6.2 THE IMPACT OF GOVERNMENT INTERVENTION		3 Qs · 62 marks	47
13. Q6(b)	A Level Paper 1 June 2018	12	48
14. Q8	A Level Paper 1 June 2018	25	54
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QUESTIONS

15 questions · 192 marks · 2 sub-topics

SUB-TOPIC 3.6.1

GOVERNMENT INTERVENTION

Sub-topic 3.6.1 · 12 questions · 130 marks · lowest tariff first



- 5 The makers of Fiat cars merged with the makers of Vauxhall cars in 2021. Fiat management had aggressively sought a merger to achieve economies of scale. The competition authorities in the EU investigated the merger.

(Source: adapted from <https://www.thedrive.com/news/34856/the-merged-fiat-chrysler-and-peugeot-group-will-be-called-stellantis>)

- (a) Which **one** of the following best describes the merger of the makers of Fiat cars and Vauxhall cars?

(1)

- ☐ A Backward vertical integration
- ☐ B Forward vertical integration
- ☐ C Horizontal integration
- ☐ D Organic growth

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



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- (b) Explain **one** type of internal economies of scale that the newly merged car company may achieve.

(2)

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



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- (c) Explain **one** likely concern the EU competition authorities may have had about the merger.

(2)

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



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- (c) Explain **one** likely concern the EU competition authorities may have had about the merger.

(2)

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(Total for Question 5 = 5 marks)

TOTAL FOR SECTION A = 25 MARKS



SECTION B

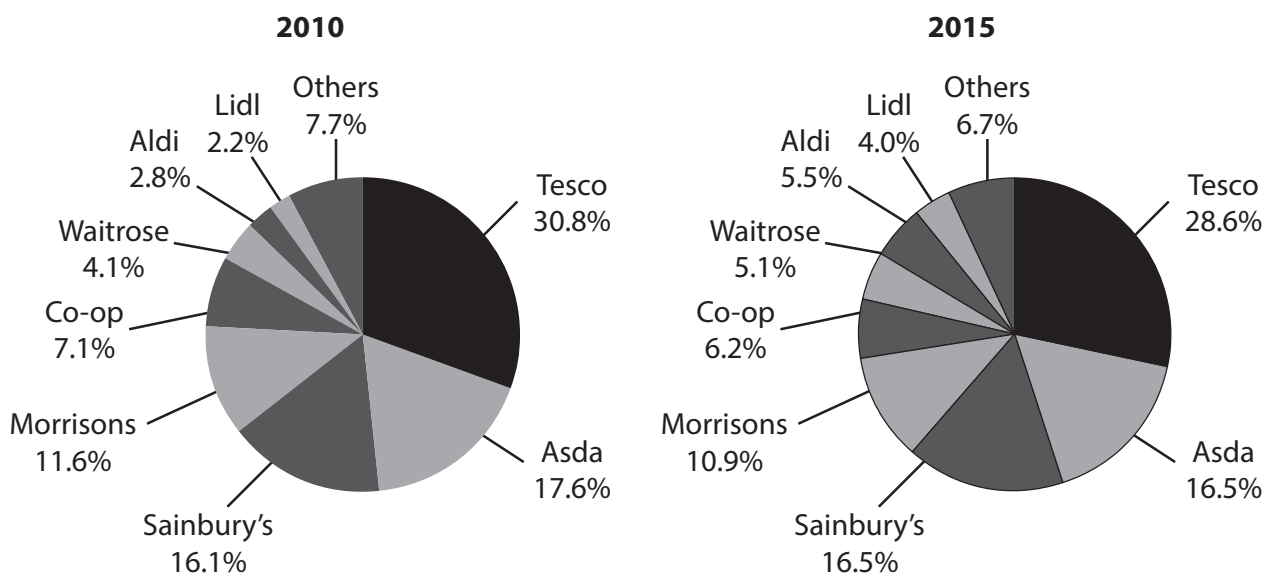
Read Figures 1 and 2 and the following extracts (A to C) before answering Question 6.

Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

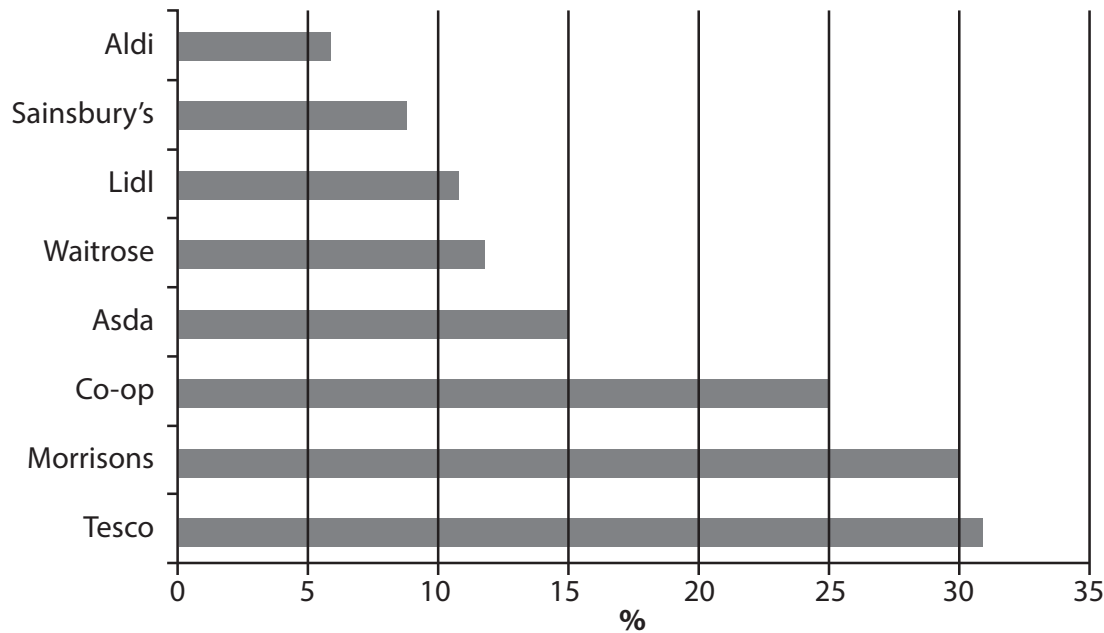
Question 6**Supermarket price war, food waste and possible mergers**

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>)

(8)



SECTION B

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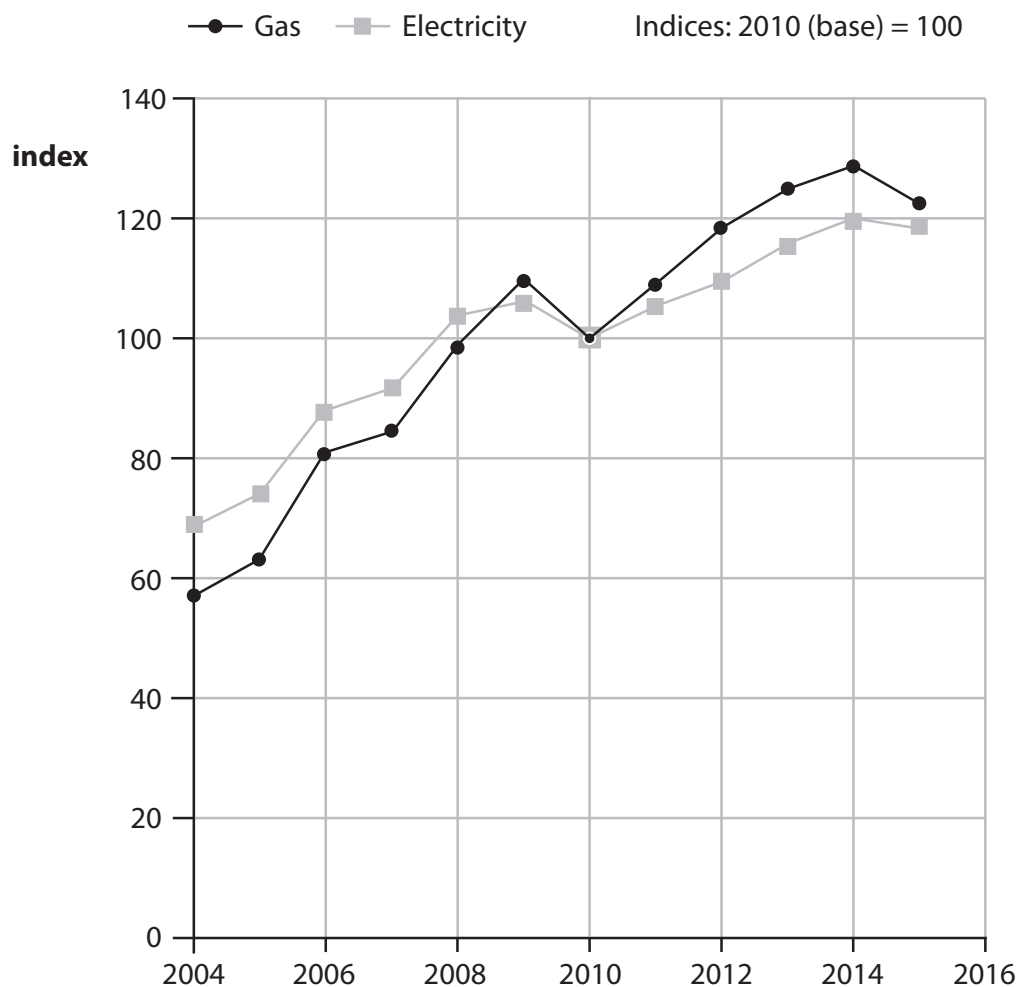
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 6

The UK energy market

Figure 1: UK retail electricity and gas real price indices, 2004–2015



(Source: <https://assets.publishing.service.gov.uk/media/5773de34e5274a0da3000113/final-report-energy-market-investigation.pdf>)

Figure 2: UK retail electricity and gas supply: market share by company, 2016

Company	Electricity %	Gas %
British Gas	23	36
EON	16	13
SSE	16	13
EDF	12	8
Scottish Power	11	9
RWE (nPower)	10	9
Other companies	12	12
Total	100	100

(Sources: <https://www.ofgem.gov.uk/chart/electricity-supply-market-shares-company-domestic-gb> and <https://www.ofgem.gov.uk/data-portal/retail-market-indicators>)

Extract A**Competition and Markets Authority (CMA) report into the UK energy market**

An investigation into the UK energy market by the CMA concluded that customers have been paying £1.4 billion a year more than they would in a fully competitive market. It found that 70% of domestic customers of the six largest energy firms were on an expensive standard rate. These customers could each save over £300 a year by switching to a cheaper deal but appear reluctant to do so.

5

However, the CMA investigation found no evidence of anti-competitive practices by firms. There has even been an increase in new entrant energy suppliers over recent years and their combined market share has reached 12% in both gas and electricity supply.

To protect consumers, the CMA has introduced various measures to open up and increase competition in the UK energy market. These include:

10

- the creation of a database designed to help consumers switch energy suppliers – rival suppliers can directly contact these customers
- the conversion of all homes to smart energy meters making it easier for customers to measure energy consumption and switch supplier
- new rules to protect the four million vulnerable customers using prepaid meters – this includes a temporary price cap until smart meters have been installed.

15

(Source: adapted from 'Competition and Markets Authority Final report into Energy Market Investigation' <https://www.gov.uk/government/news/cma-publishes-final-energy-report-in-full>)



Extract B**Proposals to regulate profits in the UK energy market**

Currently energy retail companies make an average profit of 7% of total revenue. The Chairman of the Competition and Markets Authority (CMA) suggested that these profits are as much as five times higher than they should be, given the companies' limited role in marketing, metering and billing customers. He recommended a profit cap of 1.25% of total revenue. 5

However, Scottish Power criticised proposals for regulating profits saying that it would reduce investment in the energy industry and undermine long-term energy provision. The firm claimed that such a low rate of return is below the profit margin made by supermarkets. 10

All six large energy firms are vertically integrated – producing as well as distributing gas and electricity. This can provide efficiency benefits but also harm competition.

(Source: adapted from 'Profit cap doesn't fit with new investment, energy boss warns', by Robin Pagnamenta, *The Times*, 19th September 2016)

Extract C**Skills shortages in the UK energy sector**

The energy sector is facing a skills shortage of engineers and technicians. Some 29% of employers in the gas and electricity industries report unfilled job vacancies compared with an average of 18% across all industries.

A lack of information and advice on career prospects for young people is partly to blame - many graduates have a negative image of the work involved. There is also a lack of students taking science, technology, engineering and maths-based subjects at school and university. Less than one-fifth of the energy sector's workforce are women. 5

The energy sector is characterised by an ageing workforce - data from the UK Labour Force Survey reveal that around two-thirds of workers are aged over 50. These cannot easily be replaced as a long time period is required for training and developing workers' skills in a highly regulated industry. 10

Urgent action is required by businesses and the government to reduce labour immobility to benefit the energy sector. This action could include policies to increase investment in training programmes, recruit skilled workers from overseas, change the industry image and deal with its ageing workforce. 15

(Source: adapted from 'Sector insights: skills and performance challenges in the energy sector', by the UK Commission for Employment and Skills, March 2015; https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/416998/15.03.25_Energy_SLMl_-_evidence_report.pdf)

(10)



Handwriting practice area with 25 horizontal dotted lines.





SECTION B

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

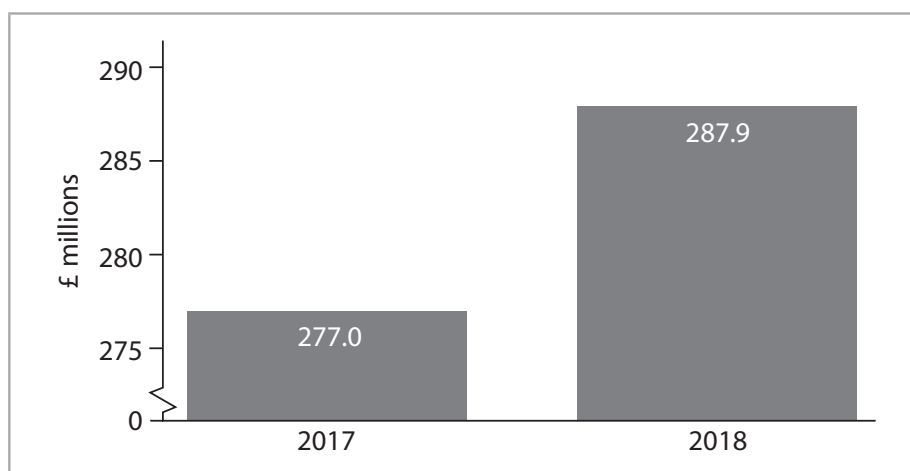
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Question 6

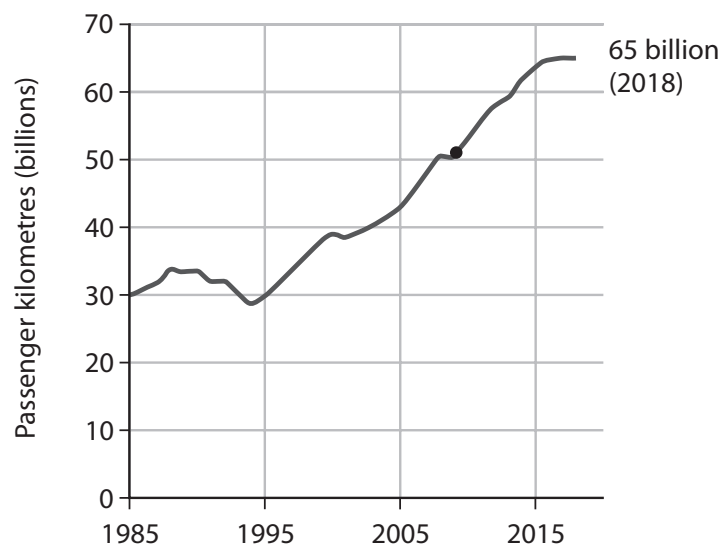
The UK Rail Industry

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>)







This image shows a blank 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 B

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

Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

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

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

5

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

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

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

5

10

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



Extract C**Serious concerns over merger**

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

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

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

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

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

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

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

(d) Discuss the likely concerns of the competition authorities regarding the proposed merger of the two companies referred to in Extract C.

(12)



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114



SECTION B

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

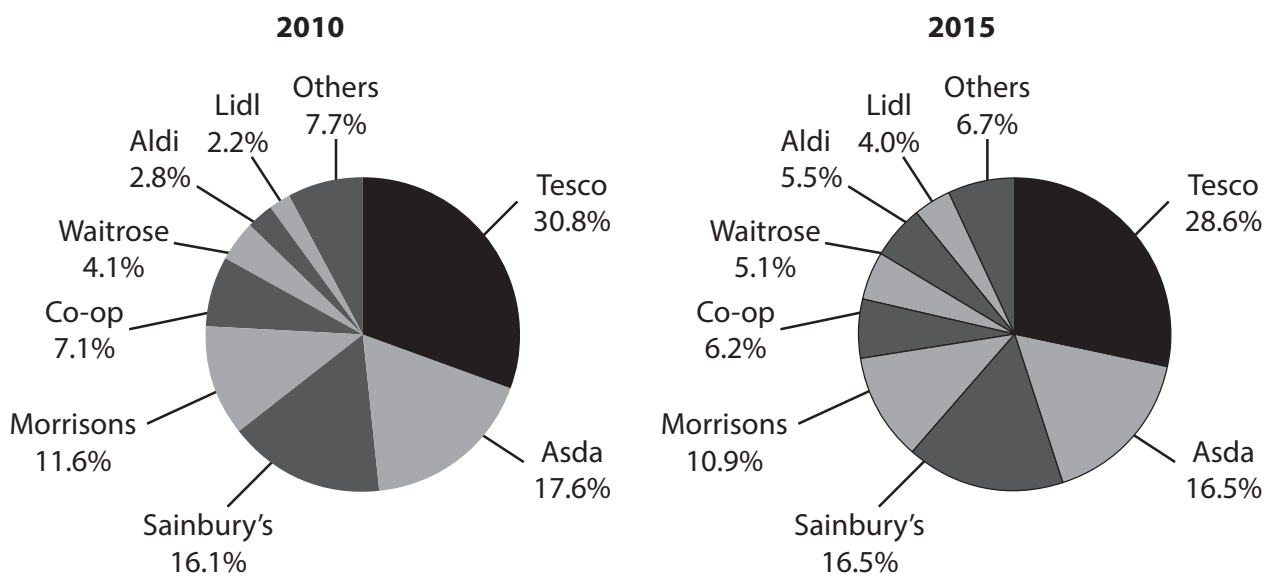
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Question 6

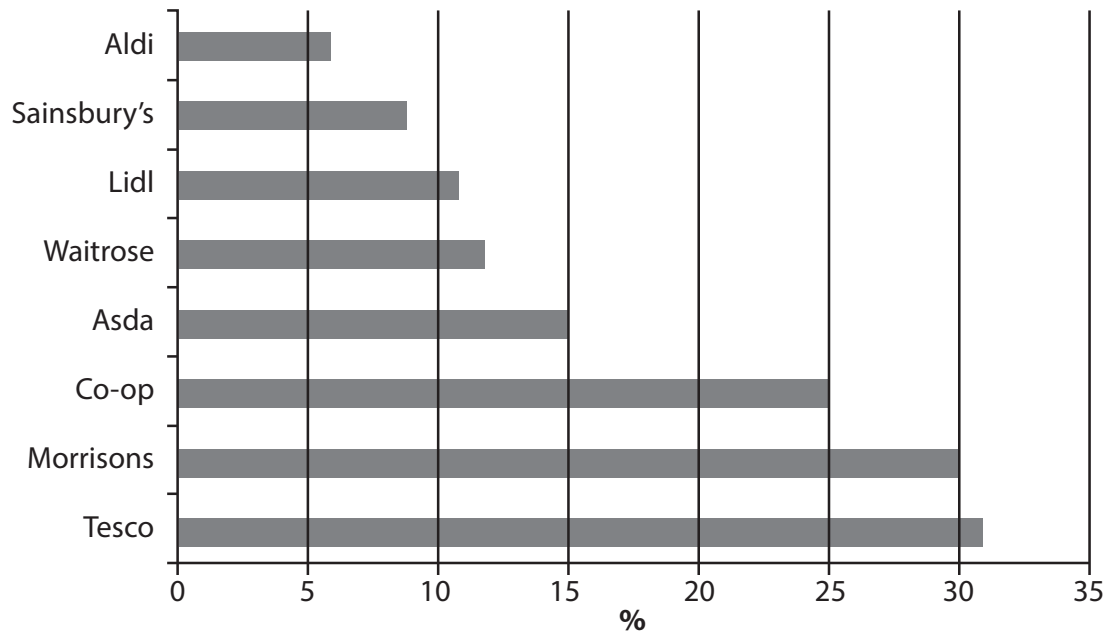
Supermarket price war, food waste and possible mergers

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



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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

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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.

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(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>)

(15)



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(Total for Question 6 = 50 marks)

TOTAL FOR SECTION B = 50 MARKS



SECTION B

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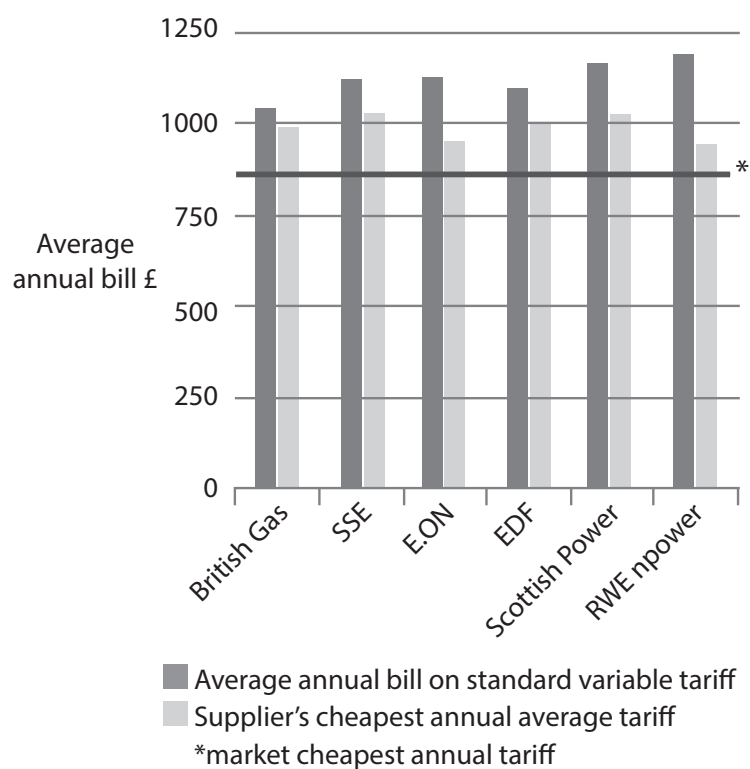
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 6

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**

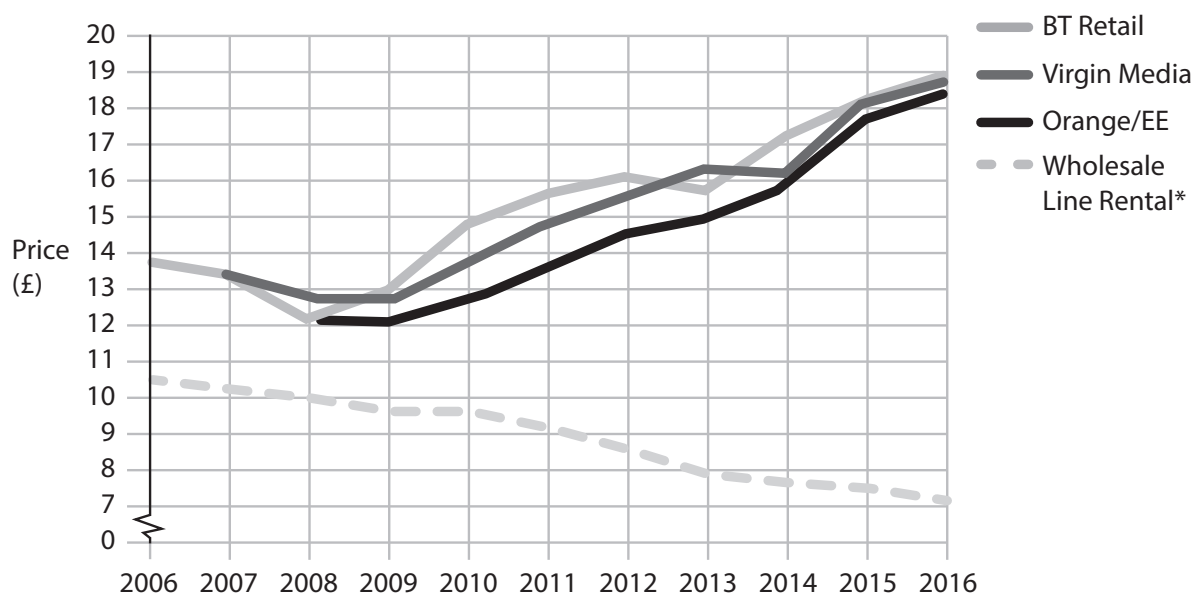
The Prime Minister recently said that the regulator Ofgem (Office of Gas and Electricity Markets) should limit electricity and gas suppliers' most expensive tariffs.

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>)



(15)





TOTAL FOR SECTION B = 50 MARKS

Q) 8 In October 2017 Scania, the Volkswagen-owned truck maker, was fined .880 million (£771 million) by the European Commission for colluding with five other truck manufacturers over a 14-year period. The firms had agreed to coordinate prices after experiencing additional costs of meeting emission regulations. With reference to an industry of your choice, evaluate why some firms engage in collusive behaviour.

(25)







(Total for this part = 25 marks)

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)

[illegible]





(Total for this part = 25 marks)

SUB-TOPIC 3.6.2

THE IMPACT OF GOVERNMENT INTERVENTION

Sub-topic 3.6.2 · 3 questions · 62 marks · lowest tariff first



SECTION B

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

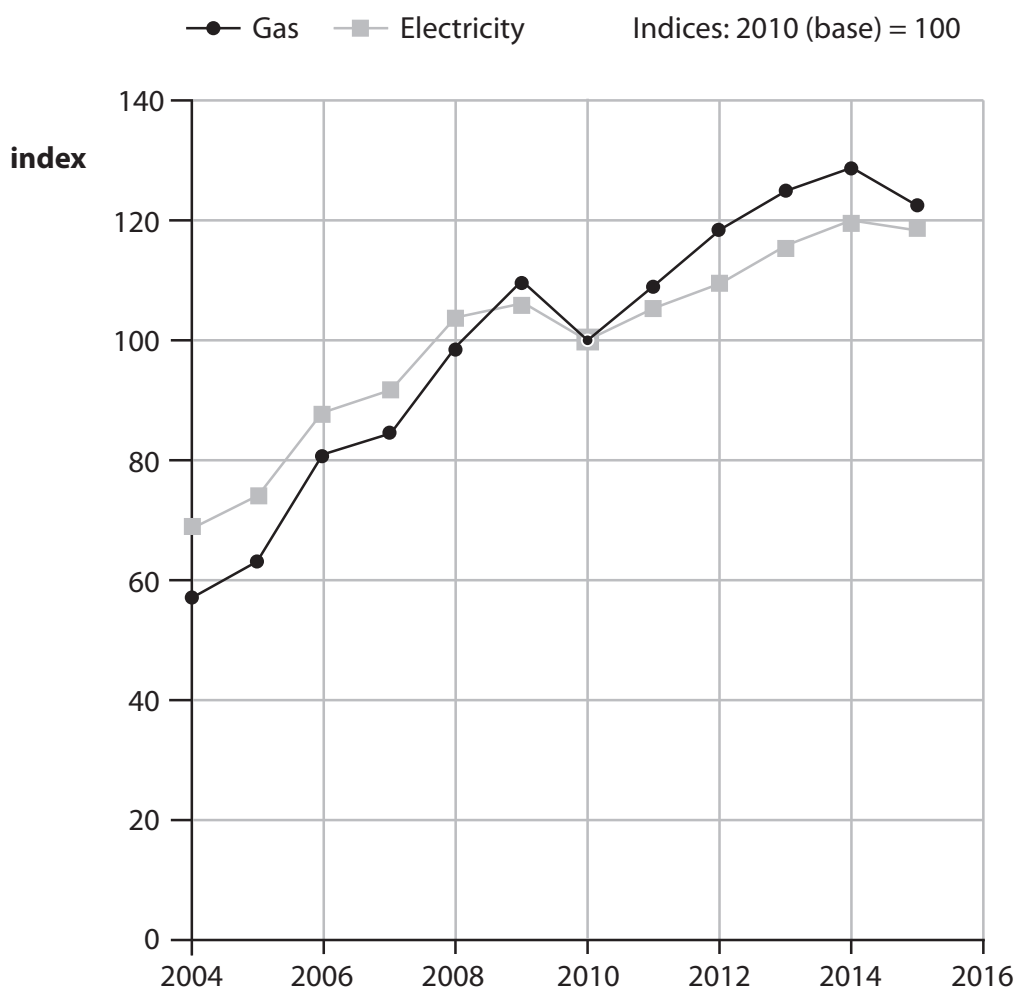
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 6

The UK energy market

Figure 1: UK retail electricity and gas real price indices, 2004–2015



(Source: <https://assets.publishing.service.gov.uk/media/5773de34e5274a0da3000113/final-report-energy-market-investigation.pdf>)

Figure 2: UK retail electricity and gas supply: market share by company, 2016

Company	Electricity %	Gas %
British Gas	23	36
EON	16	13
SSE	16	13
EDF	12	8
Scottish Power	11	9
RWE (nPower)	10	9
Other companies	12	12
Total	100	100

(Sources: <https://www.ofgem.gov.uk/chart/electricity-supply-market-shares-company-domestic-gb> and <https://www.ofgem.gov.uk/data-portal/retail-market-indicators>)

Extract A**Competition and Markets Authority (CMA) report into the UK energy market**

An investigation into the UK energy market by the CMA concluded that customers have been paying £1.4 billion a year more than they would in a fully competitive market. It found that 70% of domestic customers of the six largest energy firms were on an expensive standard rate. These customers could each save over £300 a year by switching to a cheaper deal but appear reluctant to do so.

5

However, the CMA investigation found no evidence of anti-competitive practices by firms. There has even been an increase in new entrant energy suppliers over recent years and their combined market share has reached 12% in both gas and electricity supply.

To protect consumers, the CMA has introduced various measures to open up and increase competition in the UK energy market. These include:

10

- the creation of a database designed to help consumers switch energy suppliers – rival suppliers can directly contact these customers
- the conversion of all homes to smart energy meters making it easier for customers to measure energy consumption and switch supplier
- new rules to protect the four million vulnerable customers using prepaid meters – this includes a temporary price cap until smart meters have been installed.

15

(Source: adapted from 'Competition and Markets Authority Final report into Energy Market Investigation' <https://www.gov.uk/government/news/cma-publishes-final-energy-report-in-full>)



Extract B**Proposals to regulate profits in the UK energy market**

Currently energy retail companies make an average profit of 7% of total revenue. The Chairman of the Competition and Markets Authority (CMA) suggested that these profits are as much as five times higher than they should be, given the companies' limited role in marketing, metering and billing customers. He recommended a profit cap of 1.25% of total revenue. 5

However, Scottish Power criticised proposals for regulating profits saying that it would reduce investment in the energy industry and undermine long-term energy provision. The firm claimed that such a low rate of return is below the profit margin made by supermarkets. 10

All six large energy firms are vertically integrated – producing as well as distributing gas and electricity. This can provide efficiency benefits but also harm competition.

(Source: adapted from 'Profit cap doesn't fit with new investment, energy boss warns', by Robin Pagnamenta, *The Times*, 19th September 2016)

Extract C**Skills shortages in the UK energy sector**

The energy sector is facing a skills shortage of engineers and technicians. Some 29% of employers in the gas and electricity industries report unfilled job vacancies compared with an average of 18% across all industries.

A lack of information and advice on career prospects for young people is partly to blame - many graduates have a negative image of the work involved. There is also a lack of students taking science, technology, engineering and maths-based subjects at school and university. Less than one-fifth of the energy sector's workforce are women. 5

The energy sector is characterised by an ageing workforce - data from the UK Labour Force Survey reveal that around two-thirds of workers are aged over 50. These cannot easily be replaced as a long time period is required for training and developing workers' skills in a highly regulated industry. 10

Urgent action is required by businesses and the government to reduce labour immobility to benefit the energy sector. This action could include policies to increase investment in training programmes, recruit skilled workers from overseas, change the industry image and deal with its ageing workforce. 15

(Source: adapted from 'Sector insights: skills and performance challenges in the energy sector', by the UK Commission for Employment and Skills, March 2015; https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/416998/15.03.25_Energy_SLMl_-_evidence_report.pdf)

(12)



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Continue on separate paper if required.



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)



(25)

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(Total for this part = 25 marks)

63

MARK SCHEMES

official mark schemes



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(b)	Knowledge 1 Analysis 1 Knowledge e.g. - Commercial/purchasing/ bulk buying (1) - Technical (1) - Financial (1) - Managerial (1) - Marketing (1) Analysis e.g. - Lower LRAC (1) - Cheaper steel /monopsony buying power (1) - Larger factory space/delivery vehicles/robots (1) - Lower interest charge on larger loans to fund car factory expansion (1) - New e-car design director/specialist managers (1) - Discounted advertising (1)	(2)

Question Number	Answer	Mark
5(c)	Knowledge 1 Analysis 1 Knowledge Concerns e.g. - Against consumer (1) - Against national economic interests (1) - Increased monopoly power/reduction in competition/increased market share (1) Analysis Linked development e.g. - Lack of choice for consumers/loss of consumer surplus/force competitors out (1) - Increased prices/exploit consumers (1) - X-inefficiency – lack of investment (1)	(2)



Question Number	Answer	Mark
6(c)	Knowledge 2, Analysis 2, Application 2, Evaluation 2 Knowledge/understanding: 2 marks for identification of two measures (1+1) Analysis: 2 marks for linked explanation of these measures (1+1) Application: 2 marks for reference to data (1+1), e.g. • Fines - GCA can fine supermarkets up to 1% of annual revenue (1) • Regulation to ensure payments made within standard time (1) • Price regulation e.g. minimum pricing – to ensure fair prices are paid for supplies (1) /relevant diagram (1) • Promote new entrants and further competition in supermarket sector (1) • Block mergers if it leads to increased monopsony power (1) Evaluation: 2 marks for two evaluative comments, OR 2 marks for identification and linked development e.g. • Asymmetric information may lead to regulator making incorrect decisions (1) e.g. too lenient or too harsh on supermarkets (1) • Regulatory capture may arise (1) • Regulator may lack resources to investigate supermarket sector thoroughly (1) • Problems of gaining accurate information from suppliers (1) as they are reluctant to complain (1) • CMA may allow mergers (1) which increase monopsony power of supermarkets (1) • Government may counteract monopsony power by protecting farmers' income e.g. subsidies (1+1) • Problems of minimum price e.g. excess supply/food waste (1)	(8)



Question Number	Indicative content	Mark
6(c)	Knowledge 2, Application 2, Analysis 2 - Understanding of profit cap (a limit on profits as a percentage of total revenue). Linked development: profit cap is usually introduced in industries where supernormal profits are regarded as excessive / profit cap may be necessary where little competition exists or where collusion is possible. - Chair of CMA recommended 1.25% profit cap against industry return of 7%. Linked development: profit cap is proposed in the retail sector of the energy industry which involves just marketing, billing and metering energy. - Impact on consumers: lower energy bills and so households may be better off in real terms / may increase energy consumption / domestic firms that consume energy may become more competitive due to lower costs of production / rising consumer surplus. - Impact on energy producers: lower revenue and so lower profits / less funds for investment and so risk of energy supplies in future / falling share prices and dividends / change in objective e.g. from profit maximisation to sales maximisation. NB: For Level 3 response candidates must refer to consumers and supplies NB: Negative effects on consumers and producers may be seen as KAA and positive effects as evaluation or vice versa	(6)

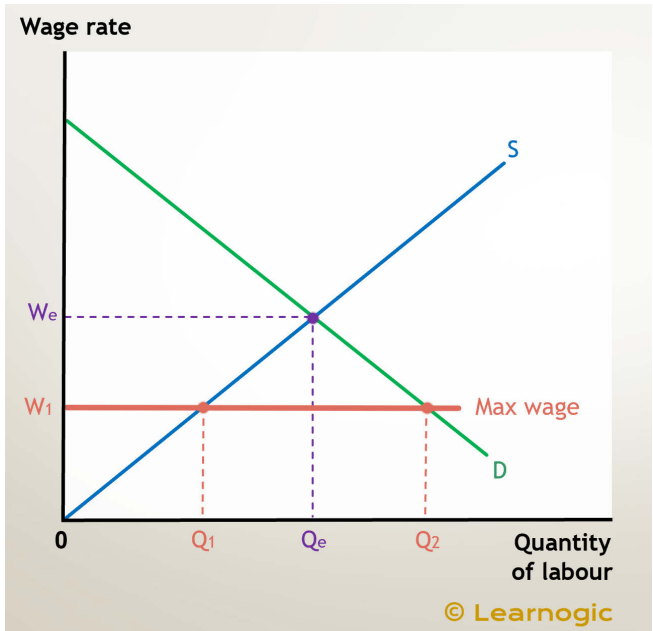
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no link between causes and consequences.
Level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



Question Number	Indicative content	Mark
6(c) continued	Evaluation 4 • There may be upward effects on price for consumers as firms become more x-inefficient or reduce total investment. • Depends on the level of profit cap on energy firms / how long it may be applied: if it is 1.25% it may be too harsh compared to other industries such as supermarkets. • It is a vertically integrated industry – so energy companies can make profits in the generation of electricity and gas. • Energy firms appear to have made huge profits over previous years and so may be able to cope with lower profits. • Energy firms may increase sales revenue and so profit values may still be high. • Energy suppliers experience low levels of risk in their retail operations so necessary rewards are lower. • Unintended consequences such as a reduction in new entrants to the industry and less competition, risk of power shortages due to under investment or excess demand. • Multinational owners may use transfer pricing to avoid profit cap.	(4)

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



Question Number	Indicative content	Mark
6(c)	Knowledge 2, Application 2, Analysis 2 Positive effect on protection of employees: • Safety of employees maybe better protected • Trade unions will succeed in securing higher wages in negotiations with government rather than private firms. Rail employees become subject to public sector wage setting. Extension in supply of labour. • Greater job security • Improved integration between state owned rail network and rail operators resulting in rail expansion. • Reduced inequality in pay between employees. • Private sector firms may cut less profitable route whereas government will continue these routes protecting employees Negative effect on protection of employees: • 'Maximum wage on executive managers pay may be implemented – causing shortages with specialist managers • Nationalisation may not 'provide a wider choice'/quality resulting in lower levels of employment • Lack of funds for investment from the government may reduce the long-term attractiveness of railways causing service to be cut in future NB: Allow relevant diagram e.g. 	

	NB: Negative effects can be seen as KAA and positive effects as evaluation or vice versa. NB: for a Level 3 response there must be reference to the context of nationalisation of the rail industry. NB: for a Level 3 response there must be reference to the effect on employees.	(6)
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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 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 - Limited effect since many train operators such as East Coast now in the public sector - Rail usage which increased under privatisation may decline causing suppliers profits and employees wages to decline - Public or private sector ownership may make no difference to executive managers pay - Wages may not increase faster under state ownership compared to private sector. - Level of personnel could be cut substantially under nationalisation if the government has to make spending cuts. - Wages may not increase faster under state ownership compared to private sector. NB: Negative effects can be seen as KAA and positive effects as evaluation or vice versa. NB: for a Level 2 response there must be reference to employees in context.	(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.



6(d)	Knowledge 2, Application 2, Analysis 4 • CMA role/concerns/rejects merger • Reference to Nvidia and Arm Concerns might include: • Greater monopoly power/higher prices/lowering consumer surplus/less allocative efficiency • Lower output/choice • Lower quality/customer service • X-inefficiency or diseconomies of scale resulting in less innovation/higher prices • Less competition/higher barriers to entry • Collusion/other anti-competitive practices • Shareholders put before consumers N.B. A diagram may be used to illustrate some of these concerns e.g. higher supernormal profits or a lack of allocative efficiency N.B. Two concerns required for KL3 N.B. KAA may be used as Evaluation and viceversa	(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 • Economies of scale from horizontal merger - lower prices/increased output • Improved customer service – being closer to the consumer due to vertical integration • ‘Finance high-risk innovation and global advertising’ • Increased global market share/sales • Dynamic efficiency/synergy – profits reinvested into innovation/higher quality • Investment deal of £29.5bn funds innovation/quality /choice • The CMA investigation itself may prevent merger/ there may be fines if the firm exploits consumers • Imposition of price caps • The merger may not reduce competition		(4)
Level	Mark	Descriptor	
	0	No evaluative comments.	
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.	
Level 2	3–4	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.	

Question Number	Indicative content	Mark
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Question Number	Answer	Mark
6(e)	Knowledge 3, Application 3, Analysis 3 Problems of merger include: • CMA may block this horizontal merger since the combined firm has 27.4% market share/ exceeds the 25% legal monopoly figure. • Costs to the firms: possible diseconomies of scale such as overlap between location of stores/ co-ordination of staff/ redundancies/ implementation of new IT system (different types of diseconomies of scale may be awarded separately). • Impact of merger on consumer loyalty: the new store may not deliver consumer loyalty, for example, different brands between stores. • Lack of synergies and cultural clash • Underlying market conditions remain: consumers changing their shopping habits and merger does not address this issue. • Impact on food suppliers: increased monopsony pressure on suppliers may lead to reduced choice of food suppliers. An increased risk of GCA investigation. • Consideration of problems of other mergers and acquisitions: for example, BT takeover of EE. NB for a Level 3 response there must be reference to the context e.g. Figure 1 or Extract C.	(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.



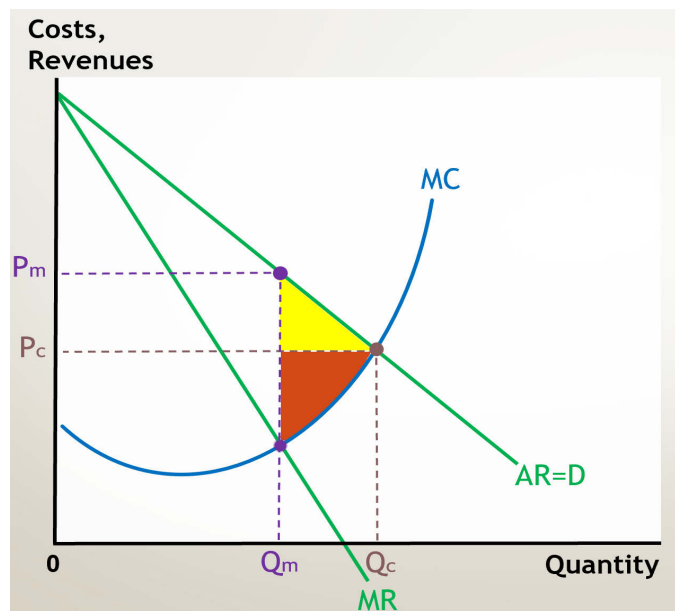
Question Number	Indicative content	Mark
6(e) continued	Evaluation 6 • There may be benefits which offset the problems, such as ◦ different types of economies of scale e.g. bulk purchase ◦ rationalisation of stores and employees could lead to increased efficiency and profitability ◦ increased market power • CMA could permit merger as sufficient competition still exists in the sector from online shopping and the growth of discount stores. • Prioritisation of problems with justification, for example, a lot of money could be spent on the proposed merger which is then blocked by CMA. • Short-run and long run implications: enormous upheaval in short run but sufficient cost savings could be made in long run to make it worthwhile.	(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 Methods of government intervention include: • Price regulation • Profit regulation • Renationalisation of industry • Performance targets • Quality standards • Providing information to enable switching • Policies to enhance competition between firms e.g. start-up grants • Policies to improve contestability and help small firms • Work of the Competition & Markets Authority regarding abuse of dominant position, anti-competitive agreements or intervening on mergers. NB for a Level 3 response there must be reference to the context of utilities. (Do not award Level 3 if no reference to the data provided or utility industries) NB for a Level 3 response there must be reference to more than one policy and the policy must refer to how it protects consumers. NB for a Level 3 response a diagram is not required but may include for example Consumer surplus increases (A-B)	

Improved allocative efficiency for consumers, surrogate for competition.



(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 • Criticisms of the likely effectiveness of the policies • Awareness of the problems surrounding their implementation • Recognition that a combinations of approaches may be needed • Different industries may need differing approaches • SR v LR implications • Regulatory capture • Asymmetric information • Regulatory lag • Irrational consumer behaviour • Unintended consequences of government failure e.g lack of innovation, price increases, deteriorating customer service. NB for a Level 3 response there must be reference to the context of utilities.		(6)
Level	Mark	Descriptor	
	0	No evaluative comments.	
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.	
Level 2	3–4	Evidence of evaluation of alternative approaches which is unbalanced. Evaluative comments with supporting evidence/reference to context and a partially-developed chain of reasoning.	
Level 3	5–6	Evaluative comments supported by relevant chain of reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.	



Question Number	Indicative content	Mark													
8	Knowledge 4, Application 4, Analysis 8, 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 • 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	Indicative content	Mark
6(b)	Knowledge 2, Application 2, Analysis 4 • Measures referred to will increase competitiveness by removing imperfect information, addressing asymmetric information, reducing barriers to entry and exit. • Customer database will help producers to directly contact consumers to offer better deals. <i>It may encourage firms to enter the market – the extract refers to recent new entrants having a combined market share of 12% for gas and electricity. Firms may enter as they have more market knowledge of customers for each energy supplier and are permitted to contact them directly offering their service.</i> • Smart meters will increase market information for consumers on their electricity consumption so may seek better deals. <i>Scope exists to enter as 70% of domestic customers of the six largest energy firms on an expensive standard tariff. Smart meters provide more information to customers on energy usage and price / reduce issue of asymmetric information / forcing energy suppliers to become more price competitive.</i> • Price cap for vulnerable customers on pre-paid meters will help limit increases in energy bills and so offer some protection as a surrogate for competition. <i>Price cap may offer some degree of certainty over the price firms could charge / encouraging market entry.</i> • Other evidence from Extract A demonstrates that measures have been successful in the past e.g. new entrants in the market NB: Answers must relate to effectiveness of measures NB: Arguments that the measures are successful may be seen as KAA and unsuccessful as evaluation or vice versa	(8)



Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	3–5	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
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(b) continued	Evaluation 4 - Some consumers may still not switch to cheaper energy tariffs / due to problem of computation, inertia or habit. - Customer database may lead to unintended consequences e.g. customer annoyance at telephone calls so they ignore calls, information overload resulting in making it harder to compute to make a decision. - Significant barriers to entry exist in the domestic energy market: large economies of scale/established firms have some customer loyalty / advertising costs / licences required to supply energy. - Price cap is only temporary and covers just 4 million customers / energy prices through pre-paid meters already exceed standard bills. - Price cap may discourage firms from entering the market / as less profit incentive. - Price cap may automatically become the price each company sets and so reduces competition and may increase prices. - CMA found no evidence of anti-competitive practice.	(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	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 © Learnogic 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
1 (e)	Knowledge 4, Application 4, Analysis 8, Evaluation 9 16 marks for KAA, for effects of increased government intervention. Microeconomic effects may include: • Minimum price, living wage enforced, planning issues, tax, health and safety • Rise in wages (if wage floors introduced) will have a large impact on costs. Might be shown on increasing NMW diagram • Effect on price of car washes – consumer surplus falls, output falls, price increases • Impact on quantity of labour/marginal revenue productivity • Impact on productivity • Diagram to show the effect of the intervention approach, e.g. of minimum price as solution to market failure • Price of a car wash might be passed on to higher wages Macroeconomic effects may include: • Income equality improvements – may use Gini coefficient or Lorenz curve • Prices rise – inflationary effects • reduction in levels of poverty • effects on growth – inflexibility in markets can reduce I or FDI • might improve environmental standards • Reduced employment NB for a Level 4 response there must be micro and macro effect (s). Employment or welfare issues could be seen as micro or macro, for example, can be used as either micro or macroeconomics NB for a Level 4 response there must be reference to an industry	



	9 marks for evaluation – points might include: • Government failure, e.g. regulatory capture, asymmetric information • depends on impact of other events such as UK leaving the EU, high unemployment from recent Global Health Crisis • effect on workforce of employment regulation depends on elasticity for demand for labour, and degree with which it can be replaced with capital • depends on PED of HCW market as a whole • consumers might also have increases in wages • some firms will face decreased demand and go out of business. Loss of jobs and other economic activity • depends on the PED and PES in factor market and product market as a whole • Wash Mark Certificates not government regulation may have more of an impact in improving quality and conditions for workers and reducing pollution than government action	(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.

